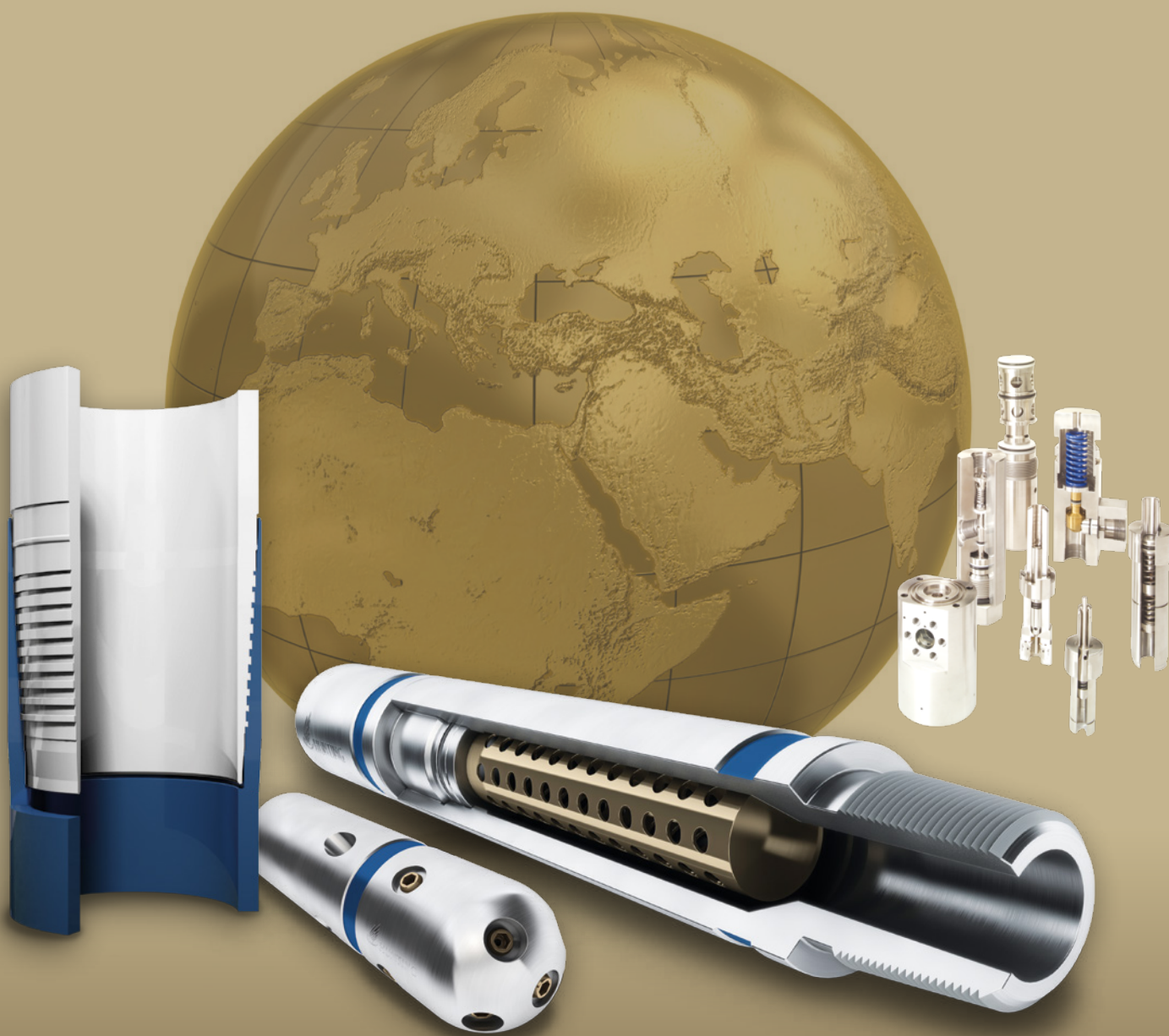






# 2014

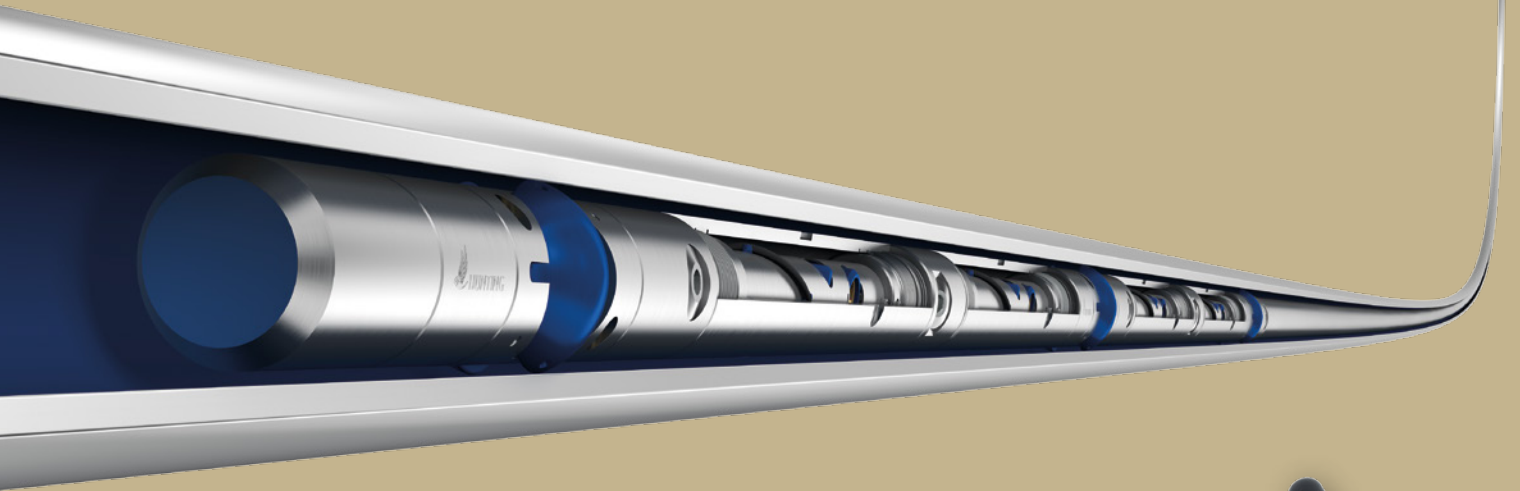


## GLOBAL PRESENCE

Hunting PLC  
2014 Annual Report and Accounts

## INTRODUCTION

WELCOME TO HUNTING  
THE UPSTREAM ENERGY SERVICES COMPANY  
WHICH MANUFACTURES, SUPPLIES AND  
DISTRIBUTES EQUIPMENT TO ENABLE THE  
EXTRACTION OF OIL AND GAS.



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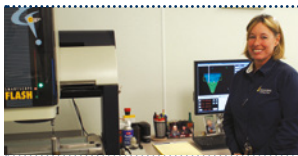
## STRATEGIC REPORT

GROUP PERFORMANCE  
AND DEVELOPMENT

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QUALITY

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## OPERATIONAL AND FINANCIAL HIGHLIGHTS\* 2014

### Continued development of global footprint

#### Americas

- Completion of expansion at Houma, Louisiana, to service Gulf of Mexico activity – total operating footprint 281,000 sq ft;
- New premium connections facility to service North America commenced in Houston, Texas – operating footprint 155,000 sq ft;
- Expansion of Hunting Dearborn to increase precision machining capabilities – total operating footprint 214,000 sq ft.

#### Africa

- New threading, accessories and storage facility at Cape Town, South Africa, to serve Sub-Sahara customers nearing completion – operating footprint 52,000 sq ft;
- Satellite service and repair facility in Mombasa, Kenya – operating footprint 16,000 sq ft.

#### Europe

- Sales and storage presence established in Norway;
- Perforating systems distribution centre being established in Scotland.

#### Asia Pacific

- New slickline manufacturing facility secured in Singapore.

### Investment in product research and development

- SEAL-LOCK XD™ premium connection products commercialised, with first customer orders secured;
- WEDGE-LOCK™ premium connection product suite rolled out to customers in 2014;
- New connections test and certification facility under construction in Houston, Texas;
- New ControlFire™ switch system launched to customers.

### Employee numbers – year end

**4,003**

(2013 – 3,821)

### Facilities footprint (developed) – sq footage

**2.8M**

(2013 – 2.8m)

### Facilities footprint (in development) – sq footage

**0.5M**

\* 2013 results restated for the designation of Gibson Shipbrokers as a discontinued operation.

**Strong underlying performance across the Group**

- Revenue \$1,386.5m (2013 – \$1,293.6m)
- Underlying profit from operations \$217.8m (2013 – \$200.0m)
- Underlying profit before tax \$212.4m (2013 – \$197.5m)
- Underlying profit for the year \$155.2m (2013 – \$145.4m)
- Underlying diluted earnings per share 100.0 cents (2013 – 94.5 cents)

**Reported performance impacted by impairments**

- Reported profit from operations \$113.9m (2013 – \$138.9m)
- Reported profit before tax \$108.5m (2013 – \$136.4m)
- Reported profit for the year \$71.8m (2013 – \$107.6m)
- Reported diluted earnings per share 44.8 cents (2013 – 69.4 cents)

**Strong cash generation across the Group reducing net debt**

- Free cash flow \$182.3m (2013 – \$145.6m)
- Net debt \$131.0m (2013 – \$205.8m)
- Gearing 9% (2013 – 15%)

**Consistent shareholder distributions**

- Final dividend of 22.9 cents proposed to be paid on 26 May 2015 to shareholders on the register on 1 May 2015 (2013 – 21.8 cents)

Revenue  
**\$1,386.5M** <sup>Up 7.2%</sup>  
 (2013 – \$1,293.6m)

Underlying profit from operations  
**\$217.8M** <sup>Up 8.9%</sup>  
 (2013 – \$200.0m)

Underlying profit before tax  
**\$212.4M** <sup>Up 7.5%</sup>  
 (2013 – \$197.5m)

Underlying diluted EPS  
**100.0 cents** <sup>Up 5.8%</sup>  
 (2013 – 94.5 cents)

Underlying – continuing results for the year before amortisation and exceptional items.

Reported – results for the year under IFRS.



## CHAIRMAN'S STATEMENT\*

"HUNTING HAD A GOOD YEAR IN 2014, GENERATING SUBSTANTIAL CASH AND PROFITS IN MARKETS WHICH WERE STRONG, PARTICULARLY IN THE SECOND HALF. ACTIVITY WAS HIGH IN OUR CORE MARKETS IN BOTH THE OFFSHORE AND ONSHORE SECTORS."



**Richard Hunting, C.B.E.**  
Chairman



Hunting had a good year in 2014, once again generating substantial cash and profits in markets which were strong, particularly in the second half. It continued to implement its policy of establishing new and enhanced manufacturing and distribution facilities in areas of high demand, and internationalising product lines through its wide geographic network.

Well Construction, reporting an underlying profit from operations of \$53.0m (2013 – \$58.6m), remained profitable and successful across certain of its business lines, however, slow trading and competition issues within the Hunting Electronics and Drilling Tools business units curtailed profits and growth in this segment during the year. Offsetting these, our Premium Connections business continued to take advantage of its strong technical offering, reporting growth following the introduction of new Premium Connection product lines.

Well Completion, reporting an underlying profit from operations of \$140.8m (2013 – \$124.5m), had an excellent year, aided by a particularly strong performance from Hunting Titan with its perforating systems which are utilised in both conventional and unconventional well environments.

Well Intervention, reporting an underlying profit from operations of \$23.8m (2013 – \$15.7m), and the smallest of our three core operating segments grew rapidly, thanks to strong international demand, particularly in the Middle East and in South East Asia. Hunting Subsea performed very well in its offshore well sector.

During most of the year, activity was high in our core markets, in both the offshore and onshore sectors. This environment allowed a rise in profits, with underlying profit before tax from continuing operations being \$212.4m (2013 – \$197.5m). Reported profit before tax from continuing operations was \$108.5m (2013 – \$136.4m), following a \$49.6m impairment to the value of the goodwill held by the Hunting Electronics and Drilling Tools business units, together with a further impairment of \$11.3m to the carrying value of the Group's exploration and production assets.

The sharp reduction in the global price of crude oil did not affect our trading results during 2014, however, we continue to monitor our customer activity levels closely going into 2015.

Dividend per share for the year  
**31.0 cents** Up 5.1%  
 (2013 – 29.5 cents)

Capital investment  
**\$123.5M** Up 30.3%  
 (2013 – \$94.8m)

Capital investment was \$123.5m (2013 – \$94.8m), with major expenditure on facilities in Texas, Louisiana, Maine and South Africa. These new facilities will be commissioned during the coming year.

Underlying diluted earnings per share from continuing operations were 100.0 cents (2013 – 94.5 cents), an increase of 5.8% on the previous year. Reported diluted earnings per share from continuing operations were 44.8 cents (2013 – 69.4 cents).

Despite the current market environment, and with confidence in the longer term fundamentals of our industry, the Board is recommending a final dividend for 2014 of 22.9 cents per share (2013 – 21.8 cents). The final dividend is payable on 26 May 2015 to shareholders on the register on 1 May 2015, giving a total of 31.0 cents for the year (2013 – 29.5 cents), a 5.1% increase. Though declared in US dollars, dividends will continue to be paid in Sterling.

The Board has continued to ensure that its governance processes are appropriate. Andrew Szescila retired from the Board in September 2014 after three years as a non-executive Director. We thank him for his wisdom and for sharing his knowledge of the industry with us. During the current year, following a rigorous search, we have appointed Annell Bay and John ("Jay") Glick to the Board as non-executive Directors. Both are US citizens and have extensive knowledge of the industries and markets we serve.

I thank all of our people for their considerable contribution which has left us in sound operational and financial health.

**Richard Hunting, C.B.E.**  
 Chairman  
 5 March 2015

#### Underlying profit from continuing operations



\* Underlying – continuing results for the year before amortisation and exceptional items.



## HUNTING AND OUR BUSINESS MODEL

THE HUNTING GROUP COMPRISES OF HUNTING ENERGY SERVICES, ITS PRIMARY OPERATING DIVISION, AND ITS NON-CORE OIL AND GAS PRODUCTION UNIT. HUNTING ENERGY SERVICES MANUFACTURES AND DISTRIBUTES PRODUCTS AND PROVIDES RELATED SERVICES, INCLUDING EQUIPMENT RENTAL TO THE UPSTREAM ENERGY SECTOR. HUNTING ENERGY SERVICES WORKS WITH INTERNATIONAL AND NATIONAL OIL COMPANIES AS WELL AS MAJOR ENERGY SERVICE COMPANIES AND INDEPENDENT OPERATORS. TO SUPPORT THESE CUSTOMER RELATIONSHIPS, HUNTING ENERGY SERVICES OPERATES ON A GLOBAL LEVEL.

Manufacturing facilities

43

Service and distribution points

34

Total number of facilities

77

### WELL CONSTRUCTION

Hunting has a world leading Premium Connections platform, which manufactures and distributes precision engineered technologies and products for the wellbore. We source Oil Country Tubular Goods ("OCTG") from steel mills and apply proprietary or licensed technology to these tubular products for onward supply to international, national and independent oil and gas companies.

In order to monitor the well construction environment, precision machined parts are manufactured together with associated electronic components, which provide sophisticated measurement and logging equipment.

The segment is an innovator in the design, manufacture and rental of mud motors and associated drilling tools such as non-magnetic collars which improve drilling time in certain geological conditions. It also machines drill rods for trenchless drilling within the utilities industry. The global manufacturing base is supported by a growing network of distribution centres.



Revenue

**\$378.3M**  
(2013 – \$380.9m)

### GLOBAL FOOTPRINT



HUNTING ENERGY SERVICES OPERATES ACROSS THREE SEGMENTS WHICH COVER THE LIFE-CYCLE OF THE WELLBORE: WELL CONSTRUCTION, WELL COMPLETION AND WELL INTERVENTION.

## WELL COMPLETION

This segment manufactures accessories and completion equipment for use below the wellhead. It provides tailored OCTG supply and pipe management options to the regional operator, with high specification tubing and connections supplied to global markets. Advanced manufacturing techniques offer an associated range of tubular accessories designed to suit the particular specifications of each well.

To initiate the flow of oil and gas back to the surface, the segment, through its Hunting Titan brand, manufactures perforating guns, energetics, instrumentation and accessories. These are delivered by wireline or coiled tubing operators to the oil and gas target, to perforate the casing at predetermined points. Instrumentation to monitor and switchgear to manage firing sequencing have been developed in-house. The growth of a worldwide manufacturing capability supports the regional distribution centres sought by the customer.



Revenue

**\$862.6M**  
(2013 – \$796.1m)

GLOBAL FOOTPRINT



## WELL INTERVENTION

Once a well begins production, various maintenance and intervention programmes are needed to manage it safely and ensure it produces to its full potential, whether on land or offshore. The wellbore is re-entered regularly so that a wide range of remedial and enhancement work can be completed.

This segment manufactures and supplies equipment and tools to meet these demands, often engineered to a client's specific needs geared to offshore or onshore environments. The work ranges from pressure control equipment to allow access, logging tools to monitor integrity and intervention tools to perform specific tasks. Hydraulic subsea equipment is also a core expertise.

This specialisation allows for the integration of an extensive range of well intervention technologies, delivered by wireline, slickline or coiled tubing. These can be assembled into unique self-contained packages and are frequently supplied to remote locations around the world.



Revenue

**\$135.5M**  
(2013 – \$108.6m)

GLOBAL FOOTPRINT



# HUNTING AND OUR BUSINESS MODEL

CONTINUED

OUR BUSINESS MODEL TO  
ACHIEVE OUR STRATEGIC OBJECTIVES IS:

## TO TRAIN AND DEVELOP OUR PEOPLE

Hunting's broad product portfolio demands experienced engineering and production staff crossing many manufacturing disciplines. Hunting has established Regional Training Centres in North America and Asia Pacific to ensure our workforce is at the forefront of new industry developments.

## TO OPERATE A DECENTRALISED MANAGEMENT STRUCTURE

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

Each business unit assesses future customer needs and internal product development programmes are guided by evolving industry technologies and practices.

## TO UNIFY STANDARDS AND PROCEDURES

Demanding quality, safety and efficiency procedures are embodied in our business systems to monitor, adjust and raise our operating standards. Unified practices are developed and implemented at every Hunting facility, with training of employees at the heart of our continued commitment and success.

## TO MAINTAIN A STRONG GOVERNANCE FRAMEWORK

The Group's leaders and their teams operate their businesses within a tight framework of controls, monitored and directed by central management functions under direction of the Board.



Total employee hours  
worked

8.5M

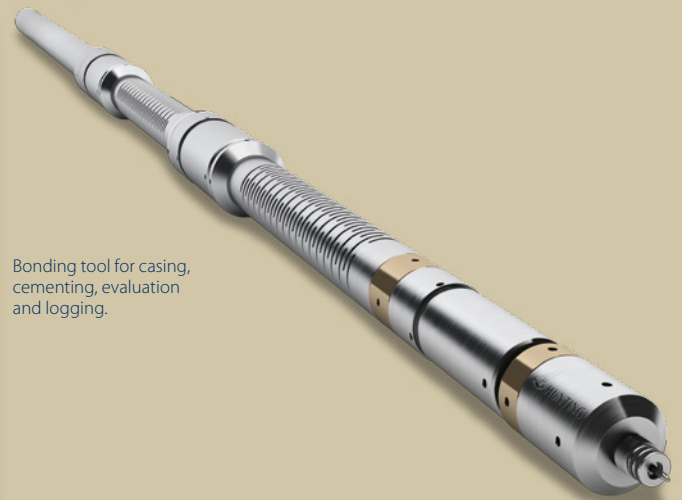


Recordable injuries  
to employees within  
our facilities

81

CORE COMPETENCE

# QUALITY



Bonding tool for casing, cementing, evaluation and logging.



## Quality

A rigorous Quality Management System embraces all products and processes that form Hunting's range of goods and services throughout the Group's worldwide operations. Every component, assembly and shipment is designed and manufactured to conform to the agreed customer specifications meeting the clients' needs and expectations.

## HS&E

The Group's commitment to increasing HS&E awareness is communicated to all employees. In 2014, 40 facilities had zero reportable incidents.



A statistically driven lean manufacturing programme underpins all performance analysis.

Parts machined

**13.5M**

## BUSINESS STRATEGY

HUNTING'S STRATEGY IS TO BE A KEY GLOBAL PROVIDER OF COMPONENTS AND TOOLS TO COMPANIES WHO EXPLORE, DEVELOP AND PRODUCE OIL AND GAS RESOURCES AND THOSE PRIMARY SERVICE COMPANIES WHO SUPPORT THEM. THE GROUP SEEKS TO DELIVER GROWTH IN LONG TERM SHAREHOLDER VALUE BY PROGRESSING THE FOLLOWING OBJECTIVES:

### STRATEGIC OBJECTIVE

**DEVELOP LEADING PROPRIETARY PRODUCTS AND SERVICES**

**ACQUIRE COMPLEMENTARY BUSINESSES**

**CAPTURE PRODUCT SALES SYNERGIES**

### STRATEGIC DRIVER

The energy industry is a competitive market where best in class products, manufacturing know-how and intellectual property contribute to market leadership and increases barriers to entry.

In some circumstances it is more cost effective to purchase companies which have already developed successful products than develop these in-house. Hunting therefore expects to continue to grow by acquisition, adding products and services that complement the existing portfolio.

Hunting's market leverage can be enhanced by ensuring many of our products are available in all geographic regions. These revenue based synergies are the driving force behind our sales efforts to maximise our market position.

### OUR APPROACH

Hunting is investing in a portfolio of leading proprietary technologies aligned to increasingly complex customer requirements.

Hunting offers enhanced end-to-end services which integrate into the customer supply chain and offers customers the highest level of quality and service which are critical to our sector.

Our approach to acquisitions follows a strict discipline. We acquire businesses with a strong technology offering and market share, often with clearly identified synergies with our existing business lines to achieve further pricing leverage. Each acquisition is also highly dependent on customer needs and the nature of new products.

We target to manufacture and sell Hunting's complete product offering across our global manufacturing hubs, in every relevant geographic region.

Often our technology is developed and introduced into the North American energy market and adopted into other geographic regions.

UNDERLYING THESE OBJECTIVES IS A COMMITMENT TO MANUFACTURE AND DELIVER THE HIGHEST QUALITY PRODUCTS AND SERVICES WHILE MAINTAINING A REPUTATION FOR RELIABILITY AND ON TIME DELIVERY UNDER THE HUNTING BRAND.

| DEVELOP A GLOBAL PRESENCE  | BUILD CLOSE RELATIONSHIPS WITH CUSTOMERS AND SUPPLIERS   | MARKET THE HUNTING BRAND GLOBALLY   | TARGET A HIGH MARKET SHARE FOR OUR HIGH VALUE PRODUCTS   |
|--|--|---|--|
| <p>Exploration and production ("E&amp;P") of oil and gas is undertaken globally, requiring an appropriate geographic manufacturing footprint. E&amp;P spend and drilling activity is occurring in more diverse and challenging environments. Our customer base increasingly demands close manufacturing proximity to key areas of E&amp;P activity.</p>  | <p>Hunting supplies products and tools to many tiers of the upstream industry.</p> <p>The energy industry is evolving, both in the complexity of its activities and regulatory environment. This means that trusted relationships with business partners are critical to success.</p>  | <p>Hunting has a long established pedigree and reputation in its core base of operations.</p> <p>As the business develops, the brand is used in new markets and exploited as acquired businesses and product lines are integrated into the Hunting Group.</p> | <p>A key success factor in the energy supply chain is achieving critical mass within a product or service line. Having flexible and adaptive manufacturing capacity provides our customer base with the confidence that Hunting will meet their product delivery requirements.</p> |
| <p>The commitment to our customers is on time delivery of quality assured products to their locations.</p> <p>Hunting is targeting further expansion of capacity to meet expected customer demand providing there is a sound business case. Hunting's expansion strategy includes developing a presence in fiscally and politically stable countries to ensure our investment is protected in the long term.</p> | <p>Our aim is to engage closely with our customer base, supported by our key suppliers.</p> <p>Our focus remains on building and deepening these relationships to maintain our competitive edge.</p> <p>We seek to acquire knowledge and respond rapidly to local needs by becoming an integral part of our customers supply chain and thereby increase our market presence.</p> | <p>Hunting continues to develop its global brand through the standardisation of production, quality, employment and HS&amp;E practices throughout its operations.</p>   | <p>Hunting targets to be the supplier of choice for its key product lines and to achieve this we aim to secure a meaningful market share to give our customers confidence in our technology offering and the ability to supply into any global region.</p>                         |



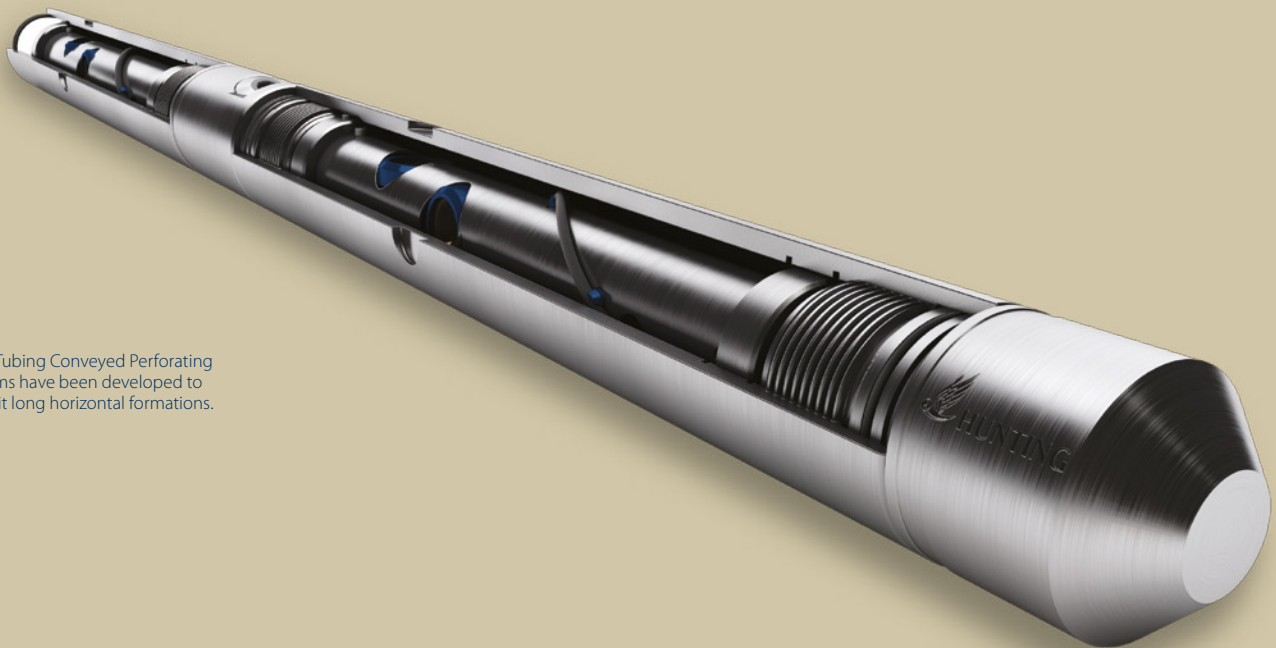
# BUSINESS STRATEGY

## CONTINUED

| Project Progress   | Related Strategic Objective  |
|--|--|
| During the year, Hunting continued to roll out new product lines to its global customer base including its SEAL-LOCK XD™ and WEDGE-LOCK™ premium connections and ControlFire™ switch systems.  | <ul style="list-style-type: none"> <li>• Proprietary products and services</li> </ul>  |
| In 2014, Hunting progressed with partnerships in Saudi Arabia and Kenya to enhance the distribution of the Group's products into these territories.  | <ul style="list-style-type: none"> <li>• Global presence</li> </ul>  |
| The new premium connections development and test facility in Houston is under construction with commissioning targeted for late 2015.  | <ul style="list-style-type: none"> <li>• Proprietary products and services</li> </ul>  |
| The expansion at Houma, Louisiana, to enhance Hunting's presence in the Gulf of Mexico, was completed in Q4 2014, with machinery being delivered and commissioned throughout Q1 2015. The facility is targeted to be operational by Q2 2015.   | <ul style="list-style-type: none"> <li>• Global presence</li> </ul>  |
| The expansion of Hunting Dearborn will complete in Q4 2015 which will add 44% to the operational footprint of that facility.   | <ul style="list-style-type: none"> <li>• Global presence</li> </ul>  |
| Hunting Titan continues to manufacture its range of products in the US, Canada, Mexico and China. The business is broadening its global distribution network, with new facilities planned in Scotland – UK, Colorado and Illinois – US and Brisbane – Australia. A new distribution centre was opened in Dubai – UAE, during the year. | <ul style="list-style-type: none"> <li>• Proprietary products and services</li> <li>• Product sales synergies</li> <li>• Global presence</li> </ul>          |
| Hunting's investment in South Africa has progressed during the year and in January 2015 construction of the facility was completed. Machinery will be delivered throughout the first half of 2015, with the facility operational by mid 2015.  | <ul style="list-style-type: none"> <li>• Product sales synergies</li> <li>• Relationships with customers and suppliers</li> <li>• Global presence</li> </ul> |
| Hunting's Advanced Manufacturing Group is building its international sales presence in Asia Pacific and is now progressing plans for a manufacturing capability in the region.   | <ul style="list-style-type: none"> <li>• Product sales synergies</li> <li>• Relationships with customers and suppliers</li> <li>• Global presence</li> </ul> |

NEW PRODUCT SYNERGY

# DELIVERY



New Tubing Conveyed Perforating systems have been developed to exploit long horizontal formations.



Newly installed perforating gun manufacturing cell at the Hunting facility in Calgary, Canada.



## Synergy and new product development

Hunting develops innovative and collaborative solutions between its business units that can be introduced to different market segments with added customer value.

Examples of product areas benefiting from this combined approach include Thru-Tubing tools that include Varibal™ delivered perforating gun strings and pressure control equipment.

Many product test facilities can be reconfigured at low cost to accept a wider selection of the Group's tools, joints and assemblies; synergies are assured through a global Quality Management System.

Manufacturing centres have been re-fitted to accommodate other divisional product lines, where and as appropriate, with the relevant machining capability and staff trained to a common high standard.

## PERFORMANCE INDICATORS

KPIs ARE USED TO COMPARE THE DEVELOPMENT, BUSINESS PERFORMANCE AND POSITION OF THE GROUP AND ITS BUSINESS SEGMENTS. PERFORMANCE MEASURES ARE LOOKED AT FOR CONTINUING OPERATIONS ON AN UNDERLYING BASIS AND ARE REGULARLY REVIEWED TO ENSURE THEY REMAIN APPROPRIATE AND MEANINGFUL MONITORS OF THE GROUP'S PERFORMANCE.

### EXTERNAL KPIs

#### Industry E&P spend (\$bn)

|             |   |              |
|-------------|---|--------------|
| <b>2014</b> |  | <b>679.5</b> |
| 2013        |  | 642.1        |
| 2012        |  | 617.0        |

Estimated global exploration and production expenditure.

Source: Barclays Global 2015 Spending Outlook.

#### US E&P spend (\$bn)

|             |   |              |
|-------------|---|--------------|
| <b>2014</b> |  | <b>196.1</b> |
| 2013        |  | 179.2        |
| 2012        |  | 141.0        |

Estimated US exploration and production expenditure.

Source: Barclays Global 2015 Spending Outlook.

#### Industry footage drilled (m ft)

|             |   |              |
|-------------|---|--------------|
| <b>2014</b> |  | <b>877.5</b> |
| 2013        |  | 819.7        |
| 2012        |  | 818.1        |

Estimated global footage drilled onshore and offshore.

Source: Spears and Associates, Inc. – Drilling and Production Outlook, December 2014 and January 2015.

#### US footage drilled (m ft)

|             |  |              |
|-------------|--|--------------|
| <b>2014</b> |  | <b>405.0</b> |
| 2013        |  | 369.2        |
| 2012        |  | 367.2        |

Estimated US footage drilled onshore and offshore.

Source: Spears and Associates, Inc. – Drilling and Production Outlook, December 2014 and January 2015.

#### Average oil price (\$/barrel)

|             |  |              |
|-------------|--|--------------|
| <b>2014</b> |  | <b>92.91</b> |
| 2013        |  | 97.61        |
| 2012        |  | 94.05        |

US dollar price per barrel based on WTI.

Source: Bloomberg.

#### Average natural gas price (\$/mmBtu)

|             |  |             |
|-------------|--|-------------|
| <b>2014</b> |  | <b>4.26</b> |
| 2013        |  | 3.73        |
| 2012        |  | 2.83        |

US dollar price per million Btu based on Henry Hub.

Source: Bloomberg.

## INTERNAL KPIS\*

## Revenue (\$m)

|      |   |         |
|------|---|---------|
| 2014 |  | 1,386.5 |
| 2013 |  | 1,293.6 |
| 2012 |  | 1,265.4 |

Revenue is earned from products and services sold to customers from the Group's activities from continuing operations.

## EBITDA (\$m)

|      |   |       |
|------|---|-------|
| 2014 |  | 269.8 |
| 2013 |  | 244.0 |
| 2012 |  | 240.7 |

EBITDA is defined as profit from continuing operations before interest, tax, depreciation, amortisation and exceptional items.

## Profit from operations (\$m)

|      |   |       |
|------|---|-------|
| 2014 |  | 217.8 |
| 2013 |  | 200.0 |
| 2012 |  | 200.6 |

Profit from operations is defined as profit from continuing operations before interest, tax, amortisation and exceptional items.

## Operating margin (%)

|      |   |    |
|------|---|----|
| 2014 |  | 16 |
| 2013 |  | 15 |
| 2012 |  | 16 |

Profit from continuing operations as a percentage of revenue.

## Profit before tax (\$m)

|      |   |       |
|------|---|-------|
| 2014 |  | 212.4 |
| 2013 |  | 197.5 |
| 2012 |  | 193.4 |

Profit before tax comprises profit from continuing operations, less net finance expense plus the Group's share of associates' post-tax (losses) profits.

## Diluted earnings per share (cents)

|      |  |       |
|------|--|-------|
| 2014 |  | 100.0 |
| 2013 |  | 94.5  |
| 2012 |  | 90.0  |

Earnings from continuing operations, attributable to ordinary shareholders, divided by the weighted average number of ordinary shares in issue during the year, adjusted for all potentially dilutive ordinary shares.

## ROCE (%)

|      |  |    |
|------|--|----|
| 2014 |  | 13 |
| 2013 |  | 12 |
| 2012 |  | 13 |

Return on average capital employed measures profit from continuing operations as a percentage of average gross capital employed. Gross capital employed comprises total equity plus net debt.

## Capital investment (\$m)

|      |  |       |
|------|--|-------|
| 2014 |  | 123.5 |
| 2013 |  | 94.8  |
| 2012 |  | 97.2  |

Cash spend on property, plant and equipment.

## Free cash flow (\$m)

|      |  |       |
|------|--|-------|
| 2014 |  | 182.3 |
| 2013 |  | 145.6 |
| 2012 |  | 137.1 |

Profit from continuing operations adjusted for working capital, tax, replacement capital investment and interest.

\* KPIs are calculated using underlying results for the year i.e. continuing before amortisation and exceptional items. Prior years have been restated for the designation of Gibson Shipbrokers as a discontinued operation. KPIs other than revenue are non-GAAP measures.

## PERFORMANCE INDICATORS

### CONTINUED

SUPPLEMENTARY INDICATORS ARE USED TO PROVIDE ADDITIONAL INFORMATION ON THE DEVELOPMENT, BUSINESS PERFORMANCE AND POSITION OF THE GROUP AND ITS BUSINESS SEGMENTS.

PERFORMANCE MEASURES ARE LOOKED AT FOR CONTINUING OPERATIONS ON AN UNDERLYING BASIS AND ARE REGULARLY REVIEWED TO ENSURE THEY REMAIN APPROPRIATE AND MEANINGFUL MONITORS OF THE GROUP'S PERFORMANCE.

|  | Unit  | 2014    | 2013**  |
|--|-------|---------|---------|
| <b>Financial:</b>                                      |       |         |         |
| Gross profit*  | \$m   | 443.9   | 394.7   |
| Gross margin*  | %     | 32      | 31      |
| Inventory days   | days  | 101     | 109     |
| Trade receivable days                                  | days  | 67      | 61      |
| Effective tax rate*                                    | %     | 27      | 26      |
| Dividend per share – declared in respect of the year   | cents | 31.0    | 29.5    |
| Year end net debt                                      | \$m   | 131.0   | 205.8   |
| Gearing ratio  | %     | 9       | 15      |
| <b>Health and Safety:</b>                              |       |         |         |
| Year end employees                                     |       | 4,003   | 3,821   |
| Injuries to employees:                                 |       |         |         |
| Number of recordable incidents                         |       | 81      | 63      |
| Incident rate – based on OSHA method                   |       | 1.92    | 1.54    |
| <b>Average rig count<sup>1</sup>:</b>                  |       |         |         |
| US   |       | 1,862   | 1,762   |
| Canada   |       | 382     | 353     |
| Far East, Central Asia and China                       |       | 1,506   | 1,493   |
| EMEA (Europe, Middle East and Africa)                  |       | 662     | 612     |
| Other  |       | 1,385   | 1,374   |
| Total  |       | 5,797   | 5,594   |
| <b>Wells drilled<sup>1</sup>:</b>                      |       |         |         |
| US   |       | 48,500  | 44,917  |
| Canada   |       | 11,517  | 10,878  |
| Far East, Central Asia and China                       |       | 28,814  | 28,238  |
| EMEA (Europe, Middle East and Africa)                  |       | 6,413   | 5,922   |
| Other  |       | 12,474  | 12,201  |
| Total  |       | 107,718 | 102,156 |
| <b>Footage drilled<sup>1</sup> (millions of feet):</b> |       |         |         |
| US   | m ft  | 405.0   | 369.2   |
| Canada   | m ft  | 84.9    | 74.8    |
| Far East, Central Asia and China                       | m ft  | 223.6   | 218.1   |
| EMEA (Europe, Middle East and Africa)                  | m ft  | 56.7    | 52.0    |
| Other  | m ft  | 107.3   | 105.6   |
| Total  | m ft  | 877.5   | 819.7   |

1. Source: Spears and Associates, Inc – Drilling and Production Outlook, December 2014 and January 2015.

\* Continuing operations before amortisation and exceptional items.

\*\* Restated for the designation of Gibson Shipbrokers as a discontinued operation.

# SYSTEMS



Complete Perforating Systems



## Perforating Systems

Hunting provides complete perforating systems or individual line items through its regional sales network, ensuring a rapid and flexible response to in field requirements. These packages are optimised to give the wireline operator, or Thru-Tubing service company, the equipment where and when they need it. From logging tools, electronic control systems, RF safe switchgear, perforating guns and the precise energetics configuration and loading to perform a successful perforating programme.

Regional Distribution Centres are located strategically throughout North America, Europe, the Middle East, Africa and Asia Pacific.



The essential equipment for every successful perforating operation from hardware, to switchgear and software.



## MARKET REVIEW

WHILE THE OIL PRICE DROPPED TOWARDS THE END OF 2014,  
BUSINESS MOMENTUM WAS MAINTAINED TO ACHIEVE A RECORD YEAR.



### Average oil price (\$/barrel)

|             |              |
|-------------|--------------|
| <b>2014</b> | <b>92.91</b> |
| 2013        | 97.61        |
| 2012        | 94.05        |

US dollar price per barrel based on WTI.  
Source: Bloomberg.

### Industry footage drilled (m ft)

|             |              |
|-------------|--------------|
| <b>2014</b> | <b>877.5</b> |
| 2013        | 819.7        |
| 2012        | 818.1        |

Estimated global footage drilled onshore and offshore.  
Source: Spears and Associates, Inc. – Drilling and Production  
Outlook December 2014 and January 2015.

### Introduction

2014 has been a record year for Hunting as industry investment continued throughout the period leading to year-on-year growth in a number of the Group's key business lines.

During the year, the average price of crude oil, based on the WTI benchmark, was \$92.91 per barrel compared to \$97.61 per barrel in 2013. The average price of natural gas, based on the Henry Hub benchmark was \$4.26/mmBtu compared to \$3.73/mmBtu in the prior year. These average prices enabled operators to invest in existing and new projects, leading to continued equipment and service demand supporting Hunting's global operations during the year.

While the oil price dropped from \$95.44 per barrel at the start of the year to \$53.27 per barrel at its close, business momentum was maintained due to the drilling commitments of Hunting's key customers throughout the latter part of Q3 2014 and into the final quarter of the year, leading to the reported year-on-year growth of the Group.

Hunting's growth during 2014 reflects data reported by the industry. Worldwide industry E&P spend in 2014 increased by approximately 5.8% in the year to c.\$679bn compared to 2013. Worldwide drilling activity also reported mid-single digit growth in the year with the number of active rigs increasing 3.6% in 2014, the number of wells drilled increasing 5.4% compared to the prior year and the commensurate worldwide footage drilled increasing 7.1% in the year to 877.5 million feet.

### Regional Commentary

#### The Americas

In the US and Canada, industry expenditure increased approximately 9.4% to c.\$196bn, with the average number of active rigs operating in the year increasing 5.7% from 1,762 in 2013 to 1,862 in 2014 as activity in the Gulf of Mexico was sustained and increased numbers of onshore rigs were recorded. US footage drilled, another external key performance indicator monitored by management, showed a robust increase during 2014 to 405.0 million feet, or a year-on-year increase of 9.7% compared to 2013, with the majority of this increase attributed to onshore activity.

While a number of businesses were impacted by the severe weather reported in the region during Q1, increases in activity in other key drilling basins across the US offset the slowdown seen in the early parts of the year.

In Canada, the improvement in industry activity has also been reflected in Hunting's performance during the year.

#### Europe

In the UK and across Europe industry expenditure decreased marginally from 2013 levels, along with the number of wells drilled during the year as activity on the UK Continental Shelf suffered from ongoing political and fiscal uncertainty. While the rig count numbers were generally flat in the year as a whole, the movement by global operators out of the region created further operating challenges which are likely to continue for the foreseeable future.

### Middle East

In the Middle East, activity levels increased as investment across the region continued, despite the ongoing political instability in countries such as Syria and Iraq, with Hunting's global operations continuing to capture growth opportunities.

### Asia Pacific

Hunting's operations in Asia Pacific cover many of the Group's customers in the eastern hemisphere, including Africa and the Middle East. While activity levels in the region showed a marginal decrease in the year, opportunities in other geographic regions assisted delivery of good activity growth for Hunting's regional unit.

2014 Global Industry E&P Spend  
**\$679.5BN** Up 5.8%

### Looking Ahead

Given the recent decline in the oil price, Hunting is anticipating lower levels of drilling activity throughout 2015 as operators conserve capital while focusing on higher margin projects.

The Group also notes the industry consolidation in the US, with the proposed acquisition of Baker Hughes by Halliburton. Both companies are significant customers of Hunting and therefore the Group continues to monitor the progress of this proposed transaction.

Activity in the Gulf of Mexico is forecast to be marginally insulated from the industry downturn due to the longer timescales deep water projects operate to, with the majority of the reduction in industry activity being seen with onshore operators. Hunting has a broad mix of customers operating onshore and offshore, with a number of the Group's businesses likely to track this market split during the year ahead.

The Group also has a broad range of products and services which are focused on the well intervention and maintenance schedules of the global industry, which are less impacted by exploration drilling programmes and budgets.

Sources: Bloomberg, Barclays, Baker Hughes and Spears and Associates.

HUNTING IS A WORLD LEADER IN DEVELOPING PREMIUM CONNECTIONS TO MEET THE EVER INCREASING DEMANDS OF THE WORLD'S OIL AND GAS INDUSTRY. BY DEVELOPING PROPRIETARY THREAD FORMS TO COVER A COMPREHENSIVE RANGE OF THE MOST SEVERE APPLICATIONS AND ENVIRONMENTS, HUNTING IS COMFORTABLY POSITIONED AS A LEADING INDUSTRY MANUFACTURER.

# PRECISION



New WEDGE-LOCK™ family of premium threaded connections.



A new addition to the SEAL-LOCK™ family of connections is the WEDGE-LOCK™ which is being run by customers who require superior performance in highly deviated and directional wells. This new thread form comprises a wedge shaped groove for full engagement and dual metal to metal radial seals. It is uniquely qualified to CAL III and IV certification and to the latest ISO 13697:2011 standard.

Precision machining is a common theme running across Hunting units and is embodied in the Hunting Dearborn product range. Hunting Dearborn undertakes unique deep bore drilling in high performance materials and alloys. This specialised manufacturing capability allows high tolerance drilling to be achieved.



2014 saw the full commercialisation of new SEAL-LOCK™ and WEDGE-LOCK™ proprietary products.



New thread forms are CAL III and IV certified.





## GROUP PERFORMANCE AND DEVELOPMENT

"THE GROUP HAS CAPITALISED ON HIGH LEVELS OF ACTIVITY WITHIN THE INDUSTRY DURING 2014, WITH MANY OF OUR OPERATIONS RUNNING AT HIGH UTILISATION, TO DELIVER RECORD FINANCIAL RESULTS FOR SHAREHOLDERS. WHILE THE SHORT TERM OUTLOOK FOR THE GROUP IS DIFFICULT TO FULLY EVALUATE, THE COMPANY IS WELL EQUIPPED FOR THE ANTICIPATED RECOVERY."



**Peter Rose**  
Finance Director



**Dennis Proctor**  
Chief Executive



### Introduction

The Group has capitalised on high levels of activity within the industry during 2014, with many of our operations running at high utilisation to deliver record financial results for shareholders.

This success has been supported by our strategy to increase our customer base, deepen our business partner relationships, increase market share in key product lines, while continuing to provide products of high quality and reliability, positioning Hunting as a key partner in the complex energy services supply chain.

While long term indicators for energy demand remain robust, 2014 has also been a reminder that our businesses are impacted by volatility in short term supply and demand dynamics. As the year closed, key oil price benchmarks were showing a 44% decrease compared to the start of the year and therefore Group-wide initiatives have been implemented to respond to the lower levels of activity anticipated across the industry during 2015.

Despite the current economic environment in the sector, Hunting remains focused on the longer term outlook for the industry, with commentators forecasting daily global oil demand to exceed 109 million barrels by 2035. To support the levels of activity required to achieve this demand, Hunting has continued to invest in new manufacturing capacity during 2014. Our major capital projects in the US and South Africa are scheduled to be commissioned during 2015, which will support regional activity levels across the Americas and Africa, while increasing efficiencies and accelerating the development of new product lines. On completion of these growth projects, Hunting will have a more efficient manufacturing capability, strategically located across the key regions of global drilling activity, positioning the Group to compete for growth opportunities, once the supply/demand balance has been restored across the industry.

While the short term outlook for the Group is difficult to fully evaluate, the Company is well equipped for the anticipated recovery with 2.8 million square feet of global manufacturing capacity, with 1,176 machines contained across 43 facilities and 34 distribution centres in 13 countries.

When existing development programmes are completed a further two operating sites and an additional 0.5 million square feet of operating and distribution capacity will be available.

### Overview

Hunting's key activity indicators all reported growth during 2014, with global drilling spend increasing 5.8% compared to 2013, drilling footage in the US increasing 9.7% in the year and strong activity in the Gulf of Mexico driving a number of key businesses within the Group.

Across the Group's US operations, Hunting's Premium Connections, Manufacturing and Accessories, Hunting Dearborn and Hunting Specialty businesses reported excellent results in the year. Hunting Titan had an exceptionally strong year, delivering profits well ahead of management's expectations as it captured market share in key drilling basins and in new regions throughout Hunting's international network. Hunting's Subsea activities also reported excellent year-on-year growth as international activity remained strong, particularly in the Gulf of Mexico. Hunting's pressure control products also saw good demand across the Middle East and Asia Pacific. The Group's operations in Canada reported a return to profitability during the year, as new customers were secured, supported by good levels of drilling activity.

Offsetting the strong growth in these businesses, Hunting's Drilling Tools business reported a disappointing year, as weather-related problems and operational issues led to a reduction in anticipated profits. In addition, Hunting Electronics continued to report subdued trading due to customer destocking, coupled with increasing competition particularly from Far Eastern suppliers. As a result of these issues, goodwill held in respect of these business units has been impaired by \$49.6m.

In Europe, Hunting's operations reported a challenging market environment with political and fiscal uncertainty in the UK leading to lower investment and near record lows of drilling activity. Hunting's Asia Pacific operations reported further profit growth, supported by new customer initiatives and continued drilling throughout the region.

During 2014, the employees of Gibson Shipbrokers began negotiations to purchase the business from Hunting through an employee trust with a target completion date of 31 March 2015. An agreement has been reached and approved by the Board. As a result, the business has been reported as a discontinued operation, with appropriate restatements of prior year financial information.



Robotics increasingly release staff from repetitive to more value added tasks.

### Group Summary Income Statement

|  | Underlying**  |              |            | Reported     |              |             |
|--|---------------|--------------|------------|--------------|--------------|-------------|
|  | 2014<br>\$m   | 2013*<br>\$m | Change     | 2014<br>\$m  | 2013*<br>\$m | Change      |
| <b>Continuing operations:</b>              |               |              |            |              |              |             |
| Revenue                                    | 1,386.5       | 1,293.6      | +7%        | 1,386.5      | 1,293.6      | +7%         |
| EBITDA                                     | 269.8         | 244.0        | +11%       | 269.6        | 236.8        | +14%        |
| Profit from operations                     | 217.8         | 200.0        | +9%        | 113.9        | 138.9        | -18%        |
| Profit before taxation                     | 212.4         | 197.5        | +8%        | 108.5        | 136.4        | -20%        |
| Profit for the year                        | 155.2         | 145.4        | +7%        | 71.8         | 107.6        | -33%        |
| <b>Discontinued operations:</b>            |               |              |            |              |              |             |
| Profit (loss) for the year                 | 0.3           | (1.4)        |            | 1.4          | 14.0         |             |
| <b>Total profit for the year</b>           | <b>155.5</b>  | <b>144.0</b> |            | <b>73.2</b>  | <b>121.6</b> |             |
| <b>Diluted EPS – continuing operations</b> | <b>100.0c</b> | <b>94.5c</b> | <b>+6%</b> | <b>44.8c</b> | <b>69.4c</b> | <b>-35%</b> |

\* Restated following the designation of Gibson Shipbrokers as a discontinued operation.

\*\* Results for the year before amortisation and exceptional items.



## GROUP PERFORMANCE AND DEVELOPMENT

### CONTINUED

Hunting has focused on internal investment and growth throughout the year, with major capital investments being made within a number of regions and business platforms providing the Group with its longer term capacity needs to meet customer requirements. All key projects are scheduled to complete in 2015.

#### **Premium Connections Manufacturing and Testing Facility** *Houston, Texas, US*

The Group's Premium Connections business is investing in a new 155,000 square feet facility in Texas, US, to support anticipated long term growth. The \$48.6m facility will have Premium Connection manufacturing capability to meet global customer requirements and is scheduled to be commissioned in late 2015.

As part of Hunting's long term development programme for new connection products, an \$11.8m testing and certification facility will be incorporated into the new site which will help develop new product lines and new thread forms for longer term commercialisation.

#### **Premium Threading and Accessories Manufacturing Facility** *Cape Town, South Africa*

As part of the Group's strategic plan to be located in regions of major drilling activity, Hunting is investing \$20.0m in a new threading and accessories facility in Cape Town to support business development across Sub-Saharan Africa. The facility will be commissioned over the coming months as engineers are hired and trained.

#### **Manufacturing and Accessories Facility** *Houma, Louisiana, US*

Hunting's Gulf of Mexico business has grown strongly over the past two years and as part of the Group's efforts to consolidate its facilities and provide customers with a stronger regional presence the \$36.4m final expansion at Houma, Louisiana, is now complete, bringing the total site to a 281,000 operational square feet facility.

#### **High Precision Machining Facility** *Fryeburg, Maine, US*

Hunting Dearborn's \$18.8m expansion of its Fryeburg facility is advancing and will provide an additional 65,000 square feet of manufacturing capacity. The facility is scheduled to be operational in Q4 2015.

#### **Results from Continuing Operations**

The Group reported revenue of \$1,386.5m in 2014, an increase of 7% over 2013, driven by the continued level of industry growth throughout the year. As a consequence of this, underlying EBITDA increased 11% to \$269.8m (2013 – \$244.0m). EBITDA margin remained unchanged from the prior year at 19%.

Underlying profit from continuing operations was \$217.8m (2013 – \$200.0m), leading to an underlying profit margin in 2014 of 16% compared to 15% in 2013.

Amortisation and exceptional items totalled \$103.9m in the year (2013 – \$61.1m) which comprised the amortisation of intangible assets totalling \$42.8m (2013 – \$43.4m); impairments to goodwill of \$49.6m (2013 – \$nil); an impairment to the value of the Group's oil and gas reserves totalling \$11.3m (2013 – \$10.5m); a charge of \$4.8m (2013 – \$nil) relating to the release of foreign exchange reserves arising on company liquidations; and a credit of \$4.6m (2013 – \$nil) on the release of excess property provisions. Exceptional charges incurred in 2013 for retention bonuses of \$2.9m and inventory fair value adjustments of \$4.3m did not recur in 2014.

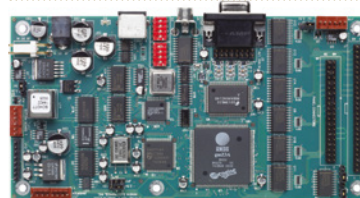
Reported profit from continuing operations therefore reduced 18% compared to the prior year to \$113.9m (2013 – \$138.9m).

Net finance costs during the year were \$4.9m (2013 – \$2.9m) with the Group continuing to pay down borrowings and benefiting from the low interest rates attached to the Group's revolving credit facility. Adverse movements in foreign exchange and other net finance costs did, however, give rise to an increase.

Underlying profit before taxation was \$212.4m (2013 – \$197.5m) reflected by the increase in activity across the Group compared to 2013. Reported profit before taxation was \$108.5m (2013 – \$136.4m).

The underlying tax charge for the year was \$57.2m (2013 – \$52.1m). The Group's underlying tax rate was 27% (2013 – 26%) as the mix of profits from the Group's global operations were relatively unchanged during the year compared to 2013. As a consequence of the lower reported profit from operations following the charges for amortisation and exceptional items, the reported tax charge for the year was \$36.7m (2013 – \$28.8m) and the reported tax rate was 34% (2013 – 21%).

Underlying diluted EPS increased 6% to 100.0 cents (2013 – 94.5 cents) and reported diluted EPS decreased by 35% to 44.8 cents (2013 – 69.4 cents).



The Advanced Manufacturing Group undertakes intricate machining of components and manufacture of Printed Circuit Boards for MWD/LWD.

#### **Results from Discontinued Operations**

Following the designation of Gibson Shipbrokers as a discontinued operation, the results from discontinued activities comprise the trading results of Gibson Shipbrokers in addition to legacy matters from the disposals of Gibson Energy in 2008 and Field Aviation in 2012.

Gibson Shipbrokers reported a return to profit in the year compared to 2013, with a profit from operations of \$0.5m (2013 – loss of \$1.5m) as the global shipbroking industry saw an improving market environment.

In October 2014, the Group received \$3.9m after costs from Field Aviation in settlement of the promissory note owed to Hunting and the repayment of balances held in an environmental escrow account. Following the receipt of these funds, all outstanding matters relating to the sale of Field Aviation have now been completed and a profit of \$0.9m has been recorded.

Other matters relating to discontinued operations totalled a credit of \$0.2m during the year.

For 2014, the total reported profit from discontinued operations was \$1.4m (2013 – \$14.0m).

## NEW REGIONAL PRESENCE

HUNTING'S NEW COMPLETION AND STORAGE FACILITY IN CAPE TOWN SOUTH AFRICA  
WILL SHORTLY BE COMMISSIONED TO SERVICE SUB-SAHARA AFRICA.



With a 52,000 square feet manufacturing facility, the Cape Town hub will service customers in West and East Africa. A 16,000 square feet Kenyan satellite service and repair operation is also being commissioned.

Capital Investment in South Africa  
**\$20.0M**

# GROUP PERFORMANCE AND DEVELOPMENT

## CONTINUED

### Segmental Trading Review

#### Hunting Energy Services

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

In 2014, Hunting Energy Services reported revenue of \$1,376.4m (2013 – \$1,285.6m), a 7% increase compared to 2013. Underlying profit from operations increased 9% in the year to \$217.6m (2013 – \$198.8m). This performance has been driven by strong results from the Well Completion and Well Intervention segments, offset by lower trading results within the Well Construction segment. Reported profit from continuing operations was \$125.0m compared to \$148.2m in 2013.

#### Well Construction

|  |     | 2014  | 2013  | Change |
|--|-----|-------|-------|--------|
| Revenue                                | \$m | 378.3 | 380.9 | –1%    |
| Underlying profit from operations      | \$m | 53.0  | 58.6  | –10%   |
| Underlying operating profit margin     | %   | 14    | 15    |        |
| Reported (loss) profit from operations | \$m | (4.1) | 51.2  |        |
| Capital investment                     | \$m | 69.0  | 43.3  |        |
| Average employees                      |     | 1,081 | 1,186 |        |
| Year end employees                     |     | 1,122 | 1,121 |        |

The Well Construction segment includes Hunting's Premium Connections, Drilling Tools, Construction OCTG, Advanced Manufacturing Group, Hunting Specialty and the Hunting Trenchless business platforms. In 2014 revenue was marginally below the prior year at \$378.3m (2013 – \$380.9m) following continued subdued trading within the Hunting Electronics platform and issues within the Drilling Tools business which persisted throughout the year. Underlying profit from operations reduced by 10% compared to the 2013 result at \$53.0m (2013 – \$58.6m). As a consequence of the continued lower trading levels within the Hunting Electronics and Drilling Tools business units, and following a detailed analysis of future trading trends, a \$49.6m impairment has been recorded against the goodwill held within these businesses, which has been presented as an exceptional item in the consolidated income statement. Reported loss from operations was \$4.1m in 2014 compared to a profit of \$51.2m in 2013.

#### Premium Connections

Hunting's major connection product lines centre on the SEAL-LOCK™ range of premium connection technologies and in the year the SEAL-LOCK™ semi-flush and high torque connections were the top performing product groups within the business platform, primarily driven by strong international demand for deep water drilling applications.

During 2014, the Group continued to commercialise two new premium connection product groups, including the SEAL-LOCK XD™ connection for use in heavy oil extraction and the WEDGE-LOCK™ connection. Both lines moved from final development and testing at the start of the year to secure first sales and delivery to Hunting's global customer base during the year.

The development of new premium connections for use across the diverse segments of the energy sector is a key strategy of the Group and during 2014, design and construction of a new premium connections manufacturing facility at Houston, Texas, continued. As part of the facility's

design, an \$11.8m development and testing laboratory to accelerate the commercialisation of the Group's new premium connections has been constructed, which will be operational towards the end of 2015.

New, more efficient, manufacturing equipment has been added during the year enabling the platform to improve productivity and delivery times, utilising lean manufacturing principles.

#### Drilling Tools

The Drilling Tools platform reported disappointing results during 2014 due to the severe weather reported across North America earlier in the year and higher levels of tool repair and refurbishment costs in the latter part of the year. Remedial initiatives have been undertaken, including changes to the management team, which is improving operating efficiency and business focus.

Hunting's business is driven by the rental of mud motors to customers drilling across the onshore basins in North America and throughout 2014 the platform remained the preferred supplier of mud motors within the Williston basin, with other opportunities pursued in the Permian basin in West Texas.

This business is sensitive to drilling activity declines and is likely to face difficult market conditions in 2015, which has led to the \$9.6m impairment to goodwill.



Drilling tools are typically rented rather than sold and are refurbished between operations.

#### Construction OCTG

Hunting's construction OCTG business platform reported good activity levels throughout 2014, supported by improving margins and a robust order book. The platform has focused on optimising its inventory during the year, and given the current oil price environment and in anticipation of lower levels of trading activity during 2015 has accelerated its programme to further reduce its global inventories.

#### Advanced Manufacturing Group

The Advanced Manufacturing Group ("AMG") comprises the Hunting Dearborn and Hunting Electronics business platforms. The Hunting AMG single-source supply initiative for Measurement-While-Drilling and Logging-While-Drilling ("MWD/LWD") tools has continued to report favourable progress within the Group's customer base during the year.

During the year Hunting Dearborn performed well, delivering results ahead of management's expectations and the business has maintained a strong order book throughout the whole of the year, which is forecast to extend into the first part of 2015. The unit has benefited from strong demand from customers within and outside of the energy industry, with the overall outlook remaining positive for the near future. The expansion of the manufacturing facility is progressing and will assist in reducing the order times for key customers to more acceptable levels.

Within the Hunting Electronics business, results remained below expectations resulting from customer destocking programmes reported previously, coupled with increased competitive pressures, particularly from Asian suppliers. While management anticipates that trading momentum will improve in the medium term, the Group has assessed the carrying value of goodwill held for the business, particularly in light of the current macro-economic environment the industry is facing and concluded that a \$40.0m impairment to goodwill should be recorded against the \$68.7m recognised on acquisition.

### Hunting Specialty

Hunting Specialty has reported strong results ahead of management's expectations with the business investing in new equipment in the year, broadening the business's manufacturing capabilities and enabling previously outsourced processes to be brought in-house to retain additional margin.

### Hunting Trenchless

The Hunting Trenchless business has continued to market its products through third party distribution networks. The business manufactures and sells drill stems and during the year broadened the range of accessories it manufactures following investment in new machinery.

### Well Completion

|                                    | 2014             | 2013  | Change |
|------------------------------------|------------------|-------|--------|
| Revenue                            | \$m <b>862.6</b> | 796.1 | +8%    |
| Underlying profit from operations  | \$m <b>140.8</b> | 124.5 | +13%   |
| Underlying operating profit margin | % <b>16</b>      | 16    |        |
| Reported profit from operations    | \$m <b>106.1</b> | 82.2  |        |
| Capital investment                 | \$m <b>42.5</b>  | 31.2  |        |
| Average employees                  | <b>2,237</b>     | 2,102 |        |
| Year end employees                 | <b>2,298</b>     | 2,197 |        |

The Well Completion segment incorporates Hunting Titan, Manufacturing and Accessories and Hunting's International Completion businesses. In 2014, revenues increased 8% to \$862.6m and underlying profit from operations increased 13% from \$124.5m in 2013 to \$140.8m in 2014. Hunting Titan was the key driver behind the segment's improved performance. Manufacturing and Accessories also performed well but International Completion was below expectations with North Sea activity being particularly weak. Reported profit from continuing operations was \$106.1m (2013 – \$82.2m).

### Hunting Titan

Hunting Titan reported improving monthly sales and profit records throughout the majority of 2014 as key growth initiatives, including new products and technologies, generated improvements in market share in a number of key drilling basins across North America and through increased international sales through Hunting's global operating hubs.

In 2014, Titan introduced to customers the ControlFire™ switch system which enhances field safety and new Spectra™ jet cutters which allows for more efficient well intervention procedures to be completed.



API test on a concrete core to show pattern and penetration of a perforating operation.

During the year, Titan manufactured a record 8.6m energetics charges for use in perforating procedures, pushing the facility in Milford, Texas, to full capacity for most of the year. Plans to expand the manufacturing capacity at Milford are under consideration, subject to the wider industry outlook improving.

During the year, Titan continued to manufacture its wide range of perforating guns in the US, Canada, Mexico and China which has enabled lead times to be reduced while actively managing the cost base. The business has also benefited from the implementation of lean manufacturing processes which has been completed at a number of facilities.

Titan has continued to expand operations in the Williston and Permian basins and in Canada has benefited from the broadened distribution network following the acquisition of the XLPP business in 2013.

Titan continues to increase its international presence through Hunting's existing network of manufacturing facilities. During 2014, initiatives to develop regional sales in Aberdeen, UK; Jakarta, Indonesia; Dubai, UAE and Brisbane, Australia, also progressed as new market opportunities or existing demand from customers enabled Titan to commence initiatives to stock its broad range of products and tools closer to customer demand.

### Manufacturing and Accessories

Hunting's Manufacturing and Accessories platform has also reported results ahead of expectations during the year, as activity levels in the Gulf of Mexico remained robust. The platform benefited from a number of global master supply agreements being agreed with major energy service companies, which has meant that Hunting has been able to tender for contracts across its global operations.

During Q4 2014, the Group completed the final phase of expansion of its facility in Houma, Louisiana, to service clients operating in the Gulf of Mexico. The total manufacturing capacity is 281,000 square feet, making the facility the Group's second largest manufacturing site after Wuxi, China.

As part of the Group's plan to consolidate its operations, Hunting Doffing was incorporated into the Hunting Manufacturing and Accessories platform. The business is shortly to move to a new leased facility to enable further manufacturing efficiencies to be captured and to complement the capabilities of the other facilities within the Manufacturing and Accessories business platform.



# GROUP PERFORMANCE AND DEVELOPMENT

## CONTINUED

### International Completion

Hunting's global completion businesses have reported mixed results in the year, impacted by regional conditions.

Within Canada, drilling activity recovered during 2014 which led to the region reporting a profit in the year. Hunting's premium connections have seen good demand for customers utilising 'Vacuum Insulated Tubing' technology which assists with the production of heavy oil, leading to continued demand throughout the year for a number of connection product lines.

In the Middle East, Hunting has delivered results ahead of management's expectations. The unit has maintained good levels of business in Iraq, despite the political unrest in-country throughout the year. The business has also progressed its plans for expansion in Saudi Arabia, with the formation of a joint venture with SG Petroleum nearing completion.

Hunting's Asia Pacific business delivered a result slightly ahead of management's expectations, following the exceptionally strong performance in 2013. While regional steel producers continue to compete strongly on price across the region, Hunting's pipe supply and threading offering remains a highly attractive proposition for operators in the region, which enabled the business to continue to grow its presence throughout the year. Given the focus of the global energy industry on the eastern hemisphere, and the associated competition for talent, Hunting opened a Regional Training Academy in Singapore during the year, to attract and retain new talent and develop the skill sets of the wider work force. The Group now has 4 facilities in Singapore and future investment plans in the region focus on consolidating these facilities to capture further cost and manufacturing efficiencies in the medium term.

In Europe, Hunting's North Sea and European operations saw near record lows in activity as fiscal and political uncertainty hindered customer investment in the region. Hunting's European operations have identified new opportunities within Norway and during the year opened a sales and distribution site and appointed a country manager to oversee growth on the Norwegian Continental Shelf.

### Well Intervention

|                                    | 2014      | 2013  | Change |
|------------------------------------|-----------|-------|--------|
| Revenue                            | \$m 135.5 | 108.6 | +25%   |
| Underlying profit from operations  | \$m 23.8  | 15.7  | +52%   |
| Underlying operating profit margin | % 18      | 14    |        |
| Reported profit from operations    | \$m 23.0  | 14.8  |        |
| Capital investment                 | \$m 4.5   | 9.2   |        |
| Average employees                  | 483       | 432   |        |
| Year end employees                 | 513       | 438   |        |

The Well Intervention segment includes the Hunting Subsea and Well Intervention businesses. In 2014, revenue increased 25% leading to a 52% increase in underlying profit from operations from \$15.7m in 2013 to \$23.8m. Reported profit from operations was \$23.0m (2013 – \$14.8m).

### Hunting Subsea

Hunting Subsea delivered a result ahead of management's expectations in the year driven by strong international offshore demand. Sales of hydraulic couplings and valves have grown, with new supply agreements being signed in the year leading to coupling production achieving a record level of output during Q3 2014. Subsea's order book remains strong as global deep water projects continue to progress, with activity likely to be sustained into Q1 2015.

During the year, Hunting Subsea appointed new global sales personnel to drive international growth for its product lines. Opportunities in the UK and Norwegian continental shelves have been identified which should lead to new revenue streams being developed in the future.

### Well Intervention

Hunting's Well Intervention business lines focus on pressure control systems and Thru Tubing intervention products and services for the Group's global client base. During the year sales throughout the Middle East and Asia Pacific have been particularly strong with a number of major orders being completed in the year which has driven strong growth.

### Exploration and Production

Hunting's exploration and production business has oil and natural gas well investments mainly in the Southern US and shallow waters offshore Gulf of Mexico, holding equity interests in 49 producing properties. On a Barrel of Oil Equivalent basis ("BOE") production in the year was 143,000 BOE (2013 – 128,000 BOE) with reserves at 31 December 2014 being 0.9m BOE (2013 – 1.1m BOE). In 2014, the business reported an underlying profit from operations of \$0.2m (2013 – \$1.2m).

During 2014, the unit participated in drilling 5 oil and gas wells. This resulted in 4 successful outcomes and 1 which was deemed non-commercial, resulting in dry hole costs of \$1.7m (2013 – \$2.6m), which are shown as an exceptional item.

Following a year end valuation of reserves which requires individual oil and gas properties to be impaired when the estimated realisable value is less than the book value based on future production and commodity prices, the business has taken an impairment charge of \$9.6m (2013 – \$7.9m), which has been shown as an exceptional item, reflecting a reduction in reserve estimates and higher retirement obligation cost estimates. Reported loss from operations for 2014 was \$11.1m (2013 – \$9.3m).

## Summary Group Cash Flow

|   | 2014<br>\$m | 2013*<br>\$m |
|---|-------------|--------------|
| EBITDA  | 269.8       | 244.0        |
| Working capital movements                                 | 3.8         | (22.7)       |
| Net interest paid and bank fees                           | (5.6)       | (6.5)        |
| Tax paid  | (26.6)      | (19.9)       |
| Replacement capital investment                            | (69.0)      | (44.8)       |
| Other operating cash and non-cash movements               | 9.9         | (4.5)        |
| Free cash flow  | 182.3       | 145.6        |
| Expansion capital investment                              | (54.5)      | (50.0)       |
| Dividends to equity holders and non-controlling interests | (46.6)      | (45.8)       |
| Purchase of subsidiaries                                  | (3.0)       | (10.7)       |
| Other   | 0.2         | 4.2          |
| Foreign exchange  | (3.0)       | (0.6)        |
| Reduction in net debt in the year – continuing operations | 75.4        | 42.7         |
| Disposal of subsidiaries                                  | 3.9         | –            |
| Tax indemnity refunds                                     | 0.2         | 17.7         |
| Gibson Shipbrokers cash flows reported as discontinued    | (4.7)       | 0.2          |
| Reduction in net debt in the year                         | 74.8        | 60.6         |

\* Restated following the designation of Gibson Shipbrokers as a discontinued operation.

## Cash Flow

EBITDA increased 11% during the year reflecting strong trading conditions and good performance. While the business grew over 2014, working capital was tightly managed and ended the year broadly unchanged.

Net interest paid decreased in the year to \$5.6m from \$6.5m in 2013 reflecting lower average net debt. Tax paid in the year increased by \$6.7m to \$26.6m from \$19.9m in 2013 due to higher taxable profits, an increase in rates and because 2013 benefited from a shielding effect of losses brought forward.

Replacement capital investment increased 54% to \$69.0m in 2014 (2013 – \$44.8m) and included \$25.4m on the new Houma facility, which replaces other sites. Other key components included \$19.2m on drilling tools and rental equipment and \$16.4m on machinery and equipment. Exploration and production capital investments totalled \$7.0m during the year as contractually committed wells were drilled by the unit's business partners.

Other operating cash and non cash movements at \$9.9m were \$14.4m favourable to 2013. This reflected higher adjustments for losses on the sale of plant, equipment and machinery, higher share based payment charges with the 2004 Long-Term Incentive Plan being replaced with the Hunting PSP, and higher pension charges.

As a result of the above investments, free cash flow increased by \$36.7m to \$182.3m in the year (2013 – \$145.6m).

Expansion capital investment during 2014 reached \$54.5m (2013 – \$50.0m) as the Group's internal capital investment programme progressed. The Group incurred \$23.0m on its new premium threading and test facility at Houston, Texas, \$3.7m on the new regional facility in Cape Town, \$9.7m on drilling tools and rental equipment, \$12.9m on machinery and equipment and \$3.1m at Hunting Dearborn. Other expansion capital investments totalled \$2.1m.

Total dividend payments of \$46.6m were paid, with \$2.5m of this relating to non-controlling interests. The \$44.1m paid to equity shareholders reflected the payment of the final dividend for 2013 of 21.8 cents (12.9 pence) and the 2014 interim dividend of 8.1 cents (5.1 pence). All dividends will continue to be declared in cents, with a Sterling equivalent paid, following a formal process of conversion. The final dividend for 2014 is proposed at 22.9 cents, and, if approved by shareholders, is expected to result in an outflow of \$33.7m.

During 2014 the Group paid \$3.0m being the final payment on the Specialty Supply acquisition, which together with other cash inflows of \$0.2m and foreign exchange movements of \$3.0m resulted in a net cash inflow from continuing operations of \$75.4m.

Within discontinued operations, an inflow of \$3.9m following the settlement of a loan note from Field Aviation and the return of unutilised environmental escrow funds together with other cash inflows of \$0.2m, were broadly offset by cashflow movements within Gibson Shipbrokers. Therefore, net debt reduced by \$74.8m during 2014 to end the year with a net debt position of \$131.0m (2013 – \$205.8m).



THE EXPANSION OF FACILITIES AROUND THE GLOBE ENTERED A NEW PHASE  
IN 2014 WITH CONSTRUCTION NEARING COMPLETION AND COMMISSIONING  
BEGINNING AT THE KEY PROJECTS IN SOUTH AFRICA AND THE UNITED STATES  
IN MAINE, LOUISIANA AND TEXAS.

# FULFILMENT





**Capacity Fulfilment**

Building on the successful model of co-locating manufacturing and distribution centres according to market demand, the new Houma, Louisiana, US, facility and Cape Town, South Africa, plant are configured to meet unique regional requirements.

Ameriport, near Houston, Texas, US, is a purpose-built proprietary threading and test facility geared to the deep water Gulf of Mexico.

Dearborn, Maine, US, is an expansion of the unique precision machining capability for MWD/LWD and associated products in the Advanced Manufacturing Group.

The main picture portrays the new Houma, Louisiana, US, facility with its multi-functional design. The manufacturing facility is shown with ports for full length pipe threading and is configured internally for smaller accessories and large capacity wireline/slickline production. Partially covered overhead loading lanes are for loading and shipping; the facility is ideally sited for Interstate highway access. The separate deepwater storage building contains a pressure testing cell for fully made up tools. The administrative block provides all support functions for the Company's offshore Gulf of Mexico markets.



The Cape Town facility and its satellite repair facility in Mombasa, Kenya, will service customer needs across Sub-Saharan Africa.

**New or expanding facilities completing in 2015**

Houma, Louisiana, US

**281,000** sq ft

Cape Town, South Africa

**52,000** sq ft

Ameriport, Houston, Texas, US

**155,000** sq ft

Fryeburg, Maine, US

**214,000** sq ft

## GROUP FUNDING AND POSITION AT YEAR END

CASH GENERATION HAS BEEN PARTICULARLY STRONG DURING THE YEAR PROVIDING THE GROUP WITH THE FLEXIBILITY TO INVEST IN RESEARCH AND DEVELOPMENT, CONSIDER ACQUISITIONS, EXPAND AND ADD TO THE FACILITIES FOOTPRINT, MAINTAIN ITS INFRASTRUCTURE AND CONTINUE WITH A PROGRESSIVE DIVIDEND POLICY TO SHAREHOLDERS. OVER THE YEAR NET DEBT REDUCED BY \$74.8M TO END THE YEAR AT \$131.0M REFLECTING GEARING OF 9% AT 31 DECEMBER 2014 (2013 – 15%).

### Financial Capital Management

Capital employed is managed with the aim of maintaining an appropriate level of financing available for the Group's activities. The balance of debt and equity (as reflected in the gearing ratio which is net debt expressed as a percentage of total 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, cash management and the investment of surplus cash.

The Group operates on a global basis and hence results originate in a number of currencies. The US dollar is the most significant functional currency used; however, where this is not the case the Group is subject to the effects of foreign exchange rate fluctuations with respect to currency conversions. Currency exposure on the balance sheet is, where practical, reduced by financing assets with borrowings in the same currency. Spot and forward foreign exchange contracts are used to cover the net exposure of purchases and sales in non-domestic currencies.

2014 has been a year of growth for the Group, as activity levels improved within a number of the Group's core businesses leading to an increase in revenues and underlying profits from continuing operations. Cash generation has been sufficient not only to fund our capital investment programme requirements but also to reduce net debt by \$74.8m to \$131.0m (2013 – \$205.8m), with gearing reducing to 9% at 31 December 2014 (2013 – 15%).

|                  | 2014<br>\$m | 2013<br>\$m |
|------------------|-------------|-------------|
| Total equity     | 1,438.3     | 1,414.8     |
| Net debt         | 131.0       | 205.8       |
| Capital employed | 1,569.3     | 1,620.6     |
| <b>Gearing</b>   | <b>9%</b>   | <b>15%</b>  |

The Group's financial position remains robust, with total credit facilities of \$649.8m in place (2013 – \$688.8m) of which \$584.7m or £375.0m (2013 – \$621.1m or £375.0m) is committed. The committed facility is a £375.0m Sterling denominated multi-currency revolving credit facility ("RCF") from a syndicate of ten banks which extends to 5 August 2016. Further details regarding the facility can be found in note 30 of the 2014 Annual Report and Accounts.

The ratio of net debt to EBITDA permitted under the RCF must not exceed a maximum of 3 times. EBITDA must also cover relevant finance charges by a minimum of 4 times. For covenant testing purposes, the Group's EBITDA is adjusted to exclude exceptional items, include the share of associates' post-tax results and exclude the fair value charge for share awards. EBITDA, for covenant test purposes, is based on the previous twelve month period, measured twice yearly at 30 June and 31 December. At 31 December 2014 both these covenants were comfortably met.

The Group's net debt is monitored by Group Treasury on a daily basis and a variety of cash forecasts looking at different time horizons are prepared on a periodic basis. The covenants are monitored on a monthly basis and all external covenant requirements have been met during the year.

Management's judgement is that the level of headroom remaining is adequate to provide ongoing flexibility and to support the investment in key projects outlined in this strategic report.

Return on average capital employed is a KPI management use to assess business unit performance. The Group's underlying return on average capital employed has improved to 13% (2013 – 12%) reflecting the strong results in the year despite the ongoing capital investment programme on expansion projects, which do not provide an immediate financial return.

The Board considers each ordinary dividend proposed based on the merits of the information available to it at the time. Consideration is given to the financial projections of business performance and capital investment needs, together with feedback from shareholder discussions.

Further detail on financial risks is provided within note 30 of the 2014 Annual Report and Accounts.

## Balance Sheet

|  | 2014<br>\$m    | 2013<br>\$m    |
|--|----------------|----------------|
| Goodwill   | 440.6          | 495.2          |
| Other intangible assets                            | 224.8          | 263.0          |
| Property, plant and equipment                      | 473.0          | 431.8          |
| Working capital                                    | 470.6          | 467.6          |
| Taxation (current and deferred)                    | (55.2)         | (48.7)         |
| Provisions   | (24.7)         | (33.4)         |
| Net assets held for sale                           | 4.8            | –              |
| Other net assets                                   | 35.4           | 45.1           |
| Capital employed                                   | 1,569.3        | 1,620.6        |
| Net debt   | (131.0)        | (205.8)        |
| Net assets   | 1,438.3        | 1,414.8        |
| Non-controlling interests                          | (30.2)         | (30.9)         |
| <b>Equity attributable to owners of the parent</b> | <b>1,408.1</b> | <b>1,383.9</b> |

Following the Group's annual impairment review exercise, whereby the carrying value of goodwill for each relevant cash generating unit across the Group is evaluated based on future cash projections, an impairment of \$49.6m to the goodwill held in respect of the Drilling Tools and Hunting Electronics business units has been recognised. Further details of the reasons for the impairment are detailed in note 16 of the 2014 Annual Report and Accounts. Other changes to goodwill relate to an adverse impact from foreign exchange of \$3.2m and a reclassification to assets held for sale of \$1.8m. As a result, the Group's goodwill has decreased by \$54.6m compared to 2013.

Other intangible assets have reduced by \$38.2m, the main movements being an amortisation expense for the year of \$42.8m offset by the capitalisation of technology and software development costs of \$4.8m.

Property, plant and equipment has increased by \$41.2m. Additions of \$125.1m were offset by depreciation of \$52.3m and impairment of dry hole costs and oil and gas assets of \$11.3m. The net book value on disposals amounted to \$13.7m, exchange adjustments were an adverse \$6.1m and \$0.5m was reclassified as held for sale.

Working capital has increased by \$3.0m since 2013 with increases in receivables more than offsetting that on payables. Inventory balances were relatively neutral.

Tax balances payable have increased to \$55.2m at 31 December 2014. The increase largely reflects additional deferred tax on the reversal of timing differences.

Provisions have reduced by \$8.7m during the year primarily due to the release of unutilised onerous property provisions with a settlement agreement reached with the landlord in respect of certain vacant properties.

As a result of the above changes, capital employed in the Group has reduced by \$51.3m to \$1,569.3m.

Cash generation in the final months of the year has been particularly strong resulting in an overall cash inflow in 2014 of \$74.8m reducing net debt to \$131.0m at 31 December 2014.

Net assets at 31 December 2014 were \$1,438.3m, which, after non-controlling interests of \$30.2m, result in equity shareholders' funds of \$1,408.1m. This is an increase of \$24.2m over 31 December 2013, which reflects the retained result for the year of \$69.2m offset by other items of \$0.9m and \$44.1m of dividend payments.

## OUTLOOK

Over the last few years, a quiet revolution in North America has taken place which has reshaped the supply of hydrocarbons. Hydraulic fracturing (fracking) initially transformed the US natural gas market from a concerning deficit to an exportable abundance. Further advances in fracking and horizontal drilling have now made a positive impact on US oil production and coupled with global supplies, have created a temporary imbalance to the world's supply/demand curve.

Accordingly, oil prices have declined dramatically, and the global oil and gas industry is quickly resetting its expenditure and profitability expectations. Rig counts continue to decline each week with varying estimates of future levels. Operators initially set modest targets of contraction, but have escalated those reductions depending on their geographic focus, debt position and cost structure.

This rapid decline in industry expenditure and activity will inevitably feed through to our revenue and profitability levels for 2015. Depending on the geographic location and product description, profit levels will vary. North America onshore activity will be the most affected and will be the target region for most of Hunting's initial cost actions including, headcount reduction, hiring and salary freezes and capital investment constraints. Since year end, approximately 500 employees or 13% of the Group's global workforce have been affected. The offshore Gulf of Mexico, primarily deep water drilling and production, will have modest changes in rig count and expenditure.

Internationally, we expect the Middle East and Asia Pacific to remain at activity levels seen in 2014 however, tubular margins will decline. Canada and the North Sea has and will continue to experience contraction in rig counts and activity at varying levels dependent upon the individual operator's cost points.

Despite the subdued consensus for the short term oil market, Hunting remains confident in the long term fundamentals for oil and gas demand. Our capital investment programme for additional and more efficient capacity will be completed throughout 2015 with a strong belief in preparedness for the eventual recovery. Our balance sheet remains solid with modest levels of net debt. Our unique products, global footprint, flexible manufacturing capacity and experienced personnel will enable us to manage the downturn yet capture opportunities which often appear in cyclical environments.

We do not know the length or depth of the industry contraction. We will however endeavour to provide updates more often than required regarding the activity and developments we see in the markets and clients we serve. Your Company has an excellent team of experienced managers to respond quickly during this period and react to the changing developments of individual clients, commodity prices, geopolitical influences and financial requirements. They remain committed to improving further the Company's Health, Safety and Environment record. They will introduce new products that will aid in reducing customer costs for oil and gas extraction. And finally, they will be mindful of shareholder value and the need to operate as if Hunting were their personal company.



HUNTING DEARBORN IS EXPANDING ITS OPERATING  
FOOTPRINT BY 65,000 SQUARE FEET – A 44% INCREASE.



A TYPICAL MWD/LWD TOOL TAKES BETWEEN 250 TO 300 HOURS OF MACHINING,  
UTILISING AS MANY AS 35 DIFFERENT MACHINING OPERATIONS.  
THE QUALITY OF THE FINISHED PART IS ASSURED BY MORE THAN 1,200 DATA POINT MEASUREMENTS PER PIECE.



## PRINCIPAL RISKS AND UNCERTAINTIES

### RISKS SPECIFIC TO THE NATURE OF HUNTING GROUP BUSINESSES

#### RAW MATERIAL AND COMMODITY PRICES

IN ITS DAY-TO-DAY OPERATIONS, THE GROUP IS EXPOSED TO A WIDE VARIETY OF COMMERCIAL, OPERATIONAL AND FINANCIAL RISKS AND THE BOARD HAS ESTABLISHED AN INTERNAL CONTROL PROCESS TO MANAGE, MONITOR AND REVIEW THESE RISKS. THIS PROCESS IS DESCRIBED IN MORE DETAIL IN THE CORPORATE GOVERNANCE REPORT. GROUP RISKS ARE FORMALLY REVIEWED BY THE BOARD AT LEAST THREE TIMES A YEAR AND ARE DISCUSSED AT EVERY BOARD MEETING.

THE GROUP'S PRINCIPAL RISKS ARE THOSE THAT THE BOARD CONSIDERS COULD HAVE A MAJOR IMPACT ON THE OPERATIONAL, FINANCIAL AND REPORTED PERFORMANCE OF THE BUSINESS AND ARE THEREFORE OF HEIGHTENED IMPORTANCE.

Hunting is exposed to the consequences of fluctuations in the price of oil and gas as the supply and demand for energy is a key driver of demand for Hunting's products.

Oil and gas exploration companies may reduce or curtail operations if oil and gas prices fall to levels where exploration and production activities become uneconomical. Therefore, the continuation of prices above these levels is, in part, critical to the industry and the financial viability of the Hunting Group.

##### Controls and Actions

Working capital and, in particular, inventory levels are closely managed to ensure the Group maintains flexibility to meet changes in demand.

The Group maintains three operating platforms: the Well Construction and Well Completion segments expect to benefit when exploration companies are active in their drilling operations and the Well Intervention segment benefits when wells are subject to maintenance or require testing or repair work.

##### Movement in Year

The decline in global oil and gas prices during 2014 continues to be closely monitored by the Group. Regular contact with customers provides management with the ability to assess the potential impact on demand for the Group's products and services and for management to respond accordingly.

#### SHALE DRILLING

The Group provides products to the oil and gas shale drilling industry. Although it is now an established practice in the US, significant sections of the public continue to view this activity as high risk and any consequent moratorium or new laws may unfavourably impact the industry.

##### Controls and Actions

The Board monitors public and political opinion and maintains an awareness of the potential for changes to legislation especially with regard to the US where the Group is mainly exposed.

The Group maintains a diverse portfolio of products that extends beyond supplying the shale drilling industry, including the supplies for conventional drilling and the manufacture of high precision and advanced technology components for both the onshore and offshore markets.

Many of the Group's facilities have the flexibility to reconfigure their manufacturing processes to meet with a change in the pattern of demand.

##### Movement in Year

The Board believes that US consumers remain aware of the relative benefits and risks associated with shale drilling and that the public in general remains in favour of the activity.

Following the recent fall in oil and gas prices, the Board expects to see reduced levels of shale drilling in the US. Appropriate measures are being implemented to address the consequential reduction in demand for products and services supplied to the shale industry.

## COMPETITION

The Group's ability to win and maintain contracts is defined by its relationships with its key customers and its ability to provide a quality of product that is superior to that of its competitors. A material reduction in orders from a major customer may arise for a variety of reasons including from direct competitive action or through competitors taking advantage of a weakening customer relationship, which may be due to a contractual dispute, a business consolidation or a change in Group strategy.

### Controls and Actions

Senior management maintains close relationships with key customers and seeks to maintain the highest level of service to preserve Hunting's reputation for quality.

The Board is committed to strengthening product quality in order to stay ahead of increasing competition. A new product testing facility, new lean manufacturing processes and increased spend on research and development are all expected to raise the Group's competitive position and reputation for supplying superior products and services.

The Group has a wide customer base that includes many of the major oil and gas service providers.

### Movement in Year

The Board believes that the risks associated with competitor action and the loss of key customers in general increased during 2014 and going into 2015 particularly with the deteriorating market environment.

## ACQUISITIONS AND CAPITAL INVESTMENT

Acquisitions and capital investment form the basis of the Group's strategy of expansion and development. Such activity incurs the potential for business disruption, management distraction, interruption to IT systems and the consequent poor financial returns that would emanate from these issues if not controlled properly.

### Controls and Actions

The Board reviews and challenges each potential acquisition prior to approval and frequently engages consultants to provide expert analysis of the key issues.

The success of each acquisition or major capital investment programme is assessed through a post-acquisition/investment appraisal process that provides a learning platform for future business combinations.

The Board and senior management follow a rigorous process of approving, managing and monitoring capital investments along with planning for contingencies. Capital investment above discretionary limits requires Board approval prior to commitment.

### Movement in Year

During 2014 the Board remained focused on organic expansion and consequently the Group's exposure to the risks associated with capital investment were unchanged during the year.

## PRODUCT QUALITY AND RELIABILITY

The Group has an established reputation for producing a range of high quality components capable of operating within high pressure, high temperature environments.

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

### Controls and Actions

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

### Movement in Year

Internal procedures continue to be enhanced to mitigate the risk of a product failure materially impacting the Group. Regional Training Centres are now established in Houston and Singapore, where product quality training is a key agenda item.

# PRINCIPAL RISKS AND UNCERTAINTIES

CONTINUED

## RISKS COMMON TO INTERNATIONAL MANUFACTURING BUSINESSES

### ECONOMIC AND GEOPOLITICS

The economic and political environments in which the Group operates have the potential to impact demand for energy or disrupt business activity and therefore may affect output of the Group's products and services.

The Group's principal presence remains located in the stable regions of North America and the UK. However the growing presence in the Asia Pacific region has proportionately increased the Group's exposure to the emerging markets in that part of the world. The Group has also commenced its expansion into Sub-Sahara Africa and as part of this process has policies and procedures in place to manage and monitor the economic and geopolitical risk profile in that region.

The Group has limited exposure to the Eurozone and Ukraine/Russia.

#### Controls and Actions

Management and the Board closely monitor projected economic trends in order to match capacity to regional demand.

Areas exposed to high geopolitical risk are noted by the Board and are also monitored closely.

#### Movement in Year

Notwithstanding the Group's strongest presence remaining in North America, the risk of exposure to geopolitical uncertainty has increased during the year with the current global expansion programme under way.

### KEY EXECUTIVES

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

#### Controls and Actions

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

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

The Board regards succession planning as an important factor in ensuring the longer-term success of the Group. Succession planning is an annual topic of discussion at Board meetings and senior management is held responsible for ensuring this is addressed throughout the organisation.

#### Movement in Year

A number of changes have arisen at the senior management level with all vacated positions being filled by competent individuals who are anticipated to proactively contribute to the success of the Group.

Due to the small turnover of key personnel, the Board has assessed the risk of losing key executives as unchanged from last year.

## HEALTH, SAFETY AND THE ENVIRONMENT ("HS&E")

Due to the nature of the Group's activities and the industry in which it operates, the Group is subject to a relatively high number of HS&E risks and the laws and regulations issued by each of the jurisdictions in which the Group operates.

The Group's exposure to risk therefore includes the potential for the occurrence of a reportable incident, the financial risk of a breach of HS&E regulations and the risk of unexpected compliance expenditure whenever a law or regulation is renewed or enhanced.

### Controls and Actions

The Board targets to achieve a record of nil incidents and further aims for full compliance with the laws and regulations in each jurisdiction in which the Group operates.

Every Group facility is overseen by a health and safety officer with the responsibility for ensuring compliance with current and newly issued HS&E standards.

The Board receives a Group HS&E compliance report at every Board meeting.

### Movement in Year

The Group incurs a small number of incidents each year, which remain well below the industry average and the number recorded during 2014 is broadly consistent to the Group's record in prior years. The risks associated with HS&E have therefore not materially changed.

Details of the Group's HS&E record are disclosed on pages 42 and 43.

## EFFECTIVE CONTROL OVER SUBSIDIARIES

Group subsidiaries operate within a control framework with a degree of autonomy vested in local management. Autonomy incurs the risk of local decisions being made outside the parameters of the Board's strategies and policies, possible breaches of the Group's Code of Conduct and a general ineffectiveness by local management to conduct business in a manner that furthers the interests and profitability of the Group.

### Controls and Actions

Each subsidiary is subject to regular assessment that includes Board and management meetings, regular reporting and frequent contact. Compliance is further checked by internal audit. The Group is also subject to external audit.

A conference of senior management is held annually in which key business operations are discussed and challenged.

Senior managers at the Group's subsidiaries remain aware of their responsibilities to corporate governance and the Group's own operational policies.

### Movement in Year

No concerns were raised by the Board during the year.

## CORPORATE AND SOCIAL RESPONSIBILITY

AS AN INTERNATIONAL PRODUCTS AND SERVICES PROVIDER, HUNTING RELIES ON ITS REPUTATION WITHIN THE ENERGY INDUSTRY. THE RELATIONSHIPS DEVELOPED WITH STAKEHOLDERS ARE CRITICAL TO OUR BUSINESS SUCCESS AND IN ORDER TO ENSURE THE CONTINUING GROWTH OF THE GROUP WE CONSTANTLY EVALUATE WAYS TO STRENGTHEN OUR LINKS WITH INVESTORS, CUSTOMERS, SUPPLIERS, EMPLOYEES, GOVERNMENTS AND THE COMMUNITIES IN WHICH OUR BUSINESSES OPERATE.

The responsibility for building and maintaining our reputation with stakeholders extends from the Board, to our executive management and to those employees working at an operational level. Hunting continues to update and introduce policies on governance, ethics and business conduct.

Further details on the Group's governance framework can be found within the Corporate Governance Report on pages 52 to 55.

The Board believes that the combined policies covering these areas continued to remain effective during the year. The Board also believes that the policies in place covering other key areas such as human rights, bribery and corruption, sanctions and compliance with laws and regulations remained effective in the period.

### Code of Conduct

Through the Group's Code of Conduct Hunting has published the basis on which our employees interact with our customers and suppliers around the world. Our commitment to do business in an ethical and transparent way enables Hunting to occupy a position of trust with our partners. As part of our established procedures, the Code of Conduct is sent to all major trading partners around the world.

### Human Rights

Hunting is committed to upholding the Human Rights of all our stakeholders and in 2014 published its global Human Rights Policy which is incorporated within the Group's Code of Conduct. This policy extends to:

- providing a safe working environment for all employees and contractors;
- respecting the rights of the individual with a zero tolerance to any form of discrimination, harassment or bullying;
- providing training and development programmes to our global workforce;
- not employing child labour;
- promoting good relationships with the communities in which we operate;
- operating in an environmentally responsible manner.

### Investors

Communicating the position, performance and future strategy with the Group's shareholders is of key importance to the Board of Directors. Communications include press releases issued to the London Stock Exchange, industry analyst and institutional investor presentations and webcasts and interacting with shareholders at general meetings of the Company. Other communications include an in-house corporate publication, the Hunting Review, which is published twice a year.

The Company is quoted on the London Stock Exchange and has a premium listing status, indicating its commitment to the UK's highest standards of regulation and corporate governance as published by the Financial Conduct Authority. The Company is also required to comply with the UK Corporate Governance Code, UK Company Law and the laws and regulations of the jurisdictions in which it operates.

### Customers and Suppliers

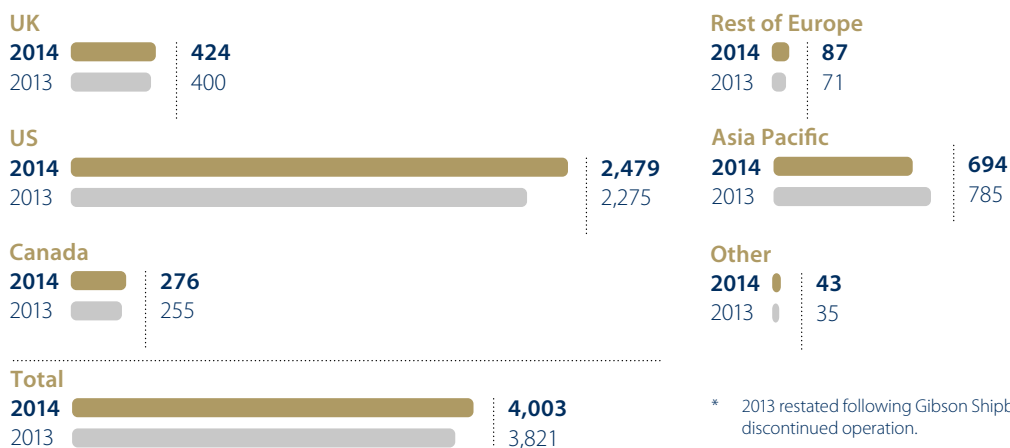
Hunting's customers and suppliers are an integral part of the success of the Group. Developing our relationships with these partners is essential to our long-term growth. The Hunting way of doing business is summarised in the Code of Conduct, with openness and transparency being key components of our reputation with long-term business partners.

Hunting PLC is a signatory to the UK government's Prompt Payment Code and is committed to making timely payments to our suppliers, providing transparency and certainty to our business partners.

In order to promote its standing within our industry sector, Group companies hold memberships with a variety of organisations including:

- American Petroleum Institute
- Society of Petroleum Engineers
- The International Coiled Tubing Association
- American Society for Quality

## Geographic split of employees – year end actuals\*



\* 2013 restated following Gibson Shipbrokers being designated a discontinued operation.

## Employees

Our people are our most valuable asset and the Group recognises that its success and reputation depends upon their efforts, integrity and commitment. Our people create Hunting's competitive edge and ensure that our customers' expectations are met. Responsibility for employees lies with local management, which allows local cultural issues to be appropriately managed and the necessary development programmes to be structured accordingly. The demographic of our employees reflects the global nature of the oil and gas industry and the geographic diversity of the Group's activities.

At 31 December 2014, the Group had 4,003 employees (2013 – 3,821) with the geographical split shown in the charts above.

During 2014 Hunting opened a Regional Training Centre in Houston, Texas. This facility provides training to Hunting's employees focusing on key manufacturing and operational skills developed by leading industry providers. The facility is equipped with machine tooling and inspection resources ranging from manual to state-of-the-art computer controlled equipment. These resources represent a cross-section of equipment commonly used at many of Hunting's facilities. While growing the skill sets of our front-line manufacturing personnel is a primary goal, the Regional Training Centre provides a curriculum relevant to Hunting's US employees. The Regional Training Centre represents one of many programmes that Hunting utilises to maximise employee value and retention.

Hunting also operates ToolingU™, an industry leading online manufacturing training platform. ToolingU™ offers over 400 online courses covering a wide array of subjects for all levels of manufacturing personnel. There are now over 2,200 active Hunting participants across the Group's US operations and over 8,000 online courses have been completed in the past year. In addition to job specific training, core modules comprising of four basic courses were created and assigned to US personnel. These core modules emphasise Hunting's values and include courses in Health, Safety and Quality Assurance.

Hunting believes that employing the right people is only the start of the relationship between an employee and employer. The Group seeks to adhere to all relevant local and jurisdictional laws covering employment and minimum wage legislation. As a responsible employer, full and fair consideration is given to applications for positions from disabled persons and to their training and career advancement. Every effort is made to retain in employment those who become disabled while employed by the Group.

It is important for the Group to retain key employees and to recruit high quality candidates. This remains a major challenge for the oil and gas industry. Hunting has cultivated a supportive environment that promotes development, learning and advancement to ensure that its employees realise their potential. Long service is a feature of the Group's employment profile and recognition is given through service award programmes across the Group. Thirty years' service is not an uncommon attribute. The Group believes that providing additional benefits to staff encourages the best performance from our people. The majority of employees are offered participation in schemes which provide healthcare and post-retirement benefits and, in certain instances, participation in bonus arrangements when outperformance in terms of operational excellence has been achieved. Hunting has share award schemes in place as a longer-term incentive and to encourage employees to participate in the ownership of the Company.

The Board has established "whistleblowing" procedures for any employee wishing to raise, in confidence, any concerns they may have about possible financial improprieties, or other matters, with the Chairman or Senior Independent Director. The Group also has in place an independent and anonymous whistleblowing reporting service operated by Safecall Limited with the contact details communicated to all employees.



# CORPORATE AND SOCIAL RESPONSIBILITY

CONTINUED

THE GROUP OPERATES FROM 43 PRINCIPAL MANUFACTURING FACILITIES AND ALL ARE COMMITTED TO ACHIEVING AND MAINTAINING THE HIGHEST STANDARDS OF SAFETY FOR ITS EMPLOYEES, CUSTOMERS, SUPPLIERS AND THE PUBLIC.

## Diversity

Hunting's diversity policy is detailed within the Corporate Governance Report. The Group seeks to ensure equal opportunities are given to its global workforce across the whole spectrum of diversity areas, including gender.

The Group's gender balance is presented in the table below:

### Hunting's Gender Balance\*

|                   | Total number of officers/employees |       | Males % |      | Females % |      |
|-------------------|------------------------------------|-------|---------|------|-----------|------|
|                   | 2014                               | 2013  | 2014    | 2013 | 2014      | 2013 |
| Senior Management | 130                                | 152   | 94      | 91   | 6         | 9    |
| Whole Workforce   | 4,003                              | 3,821 | 82      | 82   | 18        | 18   |

\* 2013 restated

Hunting's senior management is defined as those employees who have influence in the daily running of the Group's major operational businesses and activities, including the number of persons who were directors of subsidiary undertakings within the Group.

During 2014, Hunting's Board was made up of six male Directors. Following the appointments announced on 2 February 2015, the Board now comprises six male Directors and one female Director.

## Community

Hunting's responsibilities to the communities in which it operates extends on many fronts. The Group participates in a number of initiatives and events which raise money for charities and community projects around the world. In 2014, many Hunting employees participated in local charitable events with associated corporate support.

The Hunting Art Prize is an annual event hosted in Houston which supports local community organisations. In 2014, Hunting's chosen charity was Patriot PAWS Service Dogs. Patriot is dedicated to training dogs to assist disabled service veterans and others with mobile disabilities. Patriot is also Hunting's designated charity for 2015.

The Group also makes donations to various UK charities through the Chairman's charitable trust committee, which comprises the Chairman and former Hunting employees. In 2014, assistance was granted to 38 charities.

During 2014, the Group donated \$0.4m (2013 – \$0.5m) to charities.

## Health and Safety

The Group operates from 43 principal manufacturing facilities and 34 service and distribution points across the globe and all are committed to achieving and maintaining the highest standards of safety for its employees, customers, suppliers and the public.

Hunting has a proven culture of aiming for best practice and employs rigorous health and safety practices. Health and Safety policies include:

- Regular audit and maintenance reviews of facilities, equipment, practices and procedures to ensure compliance with prevailing standards and legislation and a safe environment for all those who work within and around our facilities.
- Seeking accreditation and aligning long-standing Company programmes and procedures to internationally recognised Quality Assurance standards.
- Monitoring, which is a management task, documented and reported at Board level.
- Appropriate training and education of all staff.
- A Group policy on health, safety and environmental matters, which can be found on the Company's website [www.huntingplc.com](http://www.huntingplc.com).

Hunting's Director of Health, Safety and Environment reports directly to the Chief Executive and a report is considered by the Board of Directors at each meeting.

The Group's target is to achieve zero recordable incidents. Each local business is required to develop tailored policies to suit their environment. These incorporate the Group's approach to putting safety first and, at a minimum, to comply with local regulatory requirements. Training is given to every employee, throughout the Group.



In the ten years of hosting the Hunting Art Prize in the United States, \$0.5m has been awarded in prize money and well over \$1.0m raised in related charitable contributions.

During the year, there were no fatalities across the Group's operations with 81 recordable incidents (2013 – 63). The incident rate, as calculated from guidance issued by the Occupation Safety and Health Administration in the US, was 1.92 compared to 1.54 in 2013. The industry average incident rate in 2014 was 5.3 (2013 – 7.0).

### Quality and Manufacturing Excellence

The Group is committed to enhancing its production and operational quality with a number of facilities being certified ISO 9001 (quality), 14001 (health and safety) and 18001 (environmental) compliant, indicating that globally recognised standards and systems are in place. The table below presents the adoption of the ISO accreditations across the Group's manufacturing facilities:

#### ISO Accreditation

|           | Number of Facilities Accredited | % of Manufacturing Facilities |
|-----------|---------------------------------|-------------------------------|
| ISO 9001  | 22                              | 51%                           |
| ISO 14001 | 8                               | 19%                           |
| ISO 18001 | 3                               | 7%                            |

More facilities across the Group are working towards these accreditations, continuing the Group's commitment to monitoring and reducing the environmental impact of its operations and increasing HS&E standards.

Operational and production excellence is a key feature of our relationship with customers, therefore quality assurance for each component manufactured is a key indication of our drive to be an industry leading provider of critical components and measurement tools.

In 2014, the Group continued its programme to introduce lean manufacturing processes into global operations. This resulted in efficiency gains in a number of key business units.

The Group continuously strives to gain leadership in areas of technology relevant to the Group's products and at the year end had 355 active patents.

### Environment

The Group is committed to the protection of the environment and developing manufacturing processes and procedures, which ensure that any adverse effects on the environment are kept to a minimum.

The Group's environmental policy is to look for opportunities and adopt practices that create a safer and cleaner environment. It is particularly sensitive to the challenges of the industry in which it operates. The Group has programmes in place to monitor the environmental impact from its operational activities and remains focused on ensuring environmental consideration is at the forefront of its business practices.

Key aspects of our environmental policies include:

- Raising awareness of the environment within the workplace through noticeboard communications.
- Encouraging the reduction of waste and emissions and promoting awareness of recycled materials and use of renewable resources.
- Each operating unit developing and implementing their own procedures while conducting regular reviews to ensure that they are maintained and refined.
- Encouraging employees to pay special regard to environmental issues and requirements in the communities in which the Group operates.
- Incorporating health, safety and environment considerations into the design of new facilities.

The Group monitors and collects data relating to its greenhouse gas emissions from across its operations and submits data to the UK's Carbon Disclosure Project, and is complying with the UK government's Energy Savings Opportunity Scheme's requirements.

In compliance with UK environmental legislation, each business unit across the Group has reported Scope 1 and 2 emissions to provide a consolidated total of each source of greenhouse gas emissions for the year ended 31 December 2014. Scope 1 emissions result from direct sources such as fossil fuels consumed onsite. Scope 2 emissions are indirect emissions such as electricity consumed by a business. The reporting basis for emissions has been presented on an operational control basis, with data collected on the six greenhouse gases highlighted by the Kyoto Protocol.

## CORPORATE AND SOCIAL RESPONSIBILITY

### CONTINUED



As well as fundraising for local causes, staff volunteer their time in the community.



Pictured here are Hunting employees assisting in an orphanage in Indonesia.

Total emissions are converted to a carbon dioxide equivalent figure, using guidance and conversion factors detailed in the UK government's Environmental Reporting Guidance as published by DEFRA ([www.gov.uk/defra](http://www.gov.uk/defra)).

The following table details Hunting's Scope 1 and 2 emissions:

#### Carbon dioxide equivalent emissions (tonnes)

|                                   | 2014          | 2013          | % Change    |
|-----------------------------------|---------------|---------------|-------------|
| Scope 1                           | 8,113         | 8,309         | -2.4        |
| Scope 2                           | 34,059        | 33,544        | +1.5        |
| <b>Total controlled emissions</b> | <b>42,172</b> | <b>41,853</b> | <b>+0.8</b> |

The Group also collects mains water usage data and in 2014 consumed 290k cubic metres (2013 – 195k cubic metres) of water.

The Group's emissions are primarily a function of the production activity within its operating facilities, therefore the Group's facilities square footage has been adopted as the basis of the intensity factor presented below:

#### Intensity factor

|   | 2014        | 2013        | % Change    |
|---|-------------|-------------|-------------|
| Total controlled emissions (tonnes)     | 42,172      | 41,853      | +0.8        |
| Facilities footprint ('000 square feet) | 2,806       | 2,763       | +1.6        |
| <b>Intensity Factor</b>                 | <b>15.0</b> | <b>15.1</b> | <b>-0.7</b> |

2014 has seen the Group continue to develop and enhance its relationships with all stakeholders with a commitment from all levels of the Group to deliver value for its partners in the long term.

**Dennis Proctor**  
Chief Executive  
5 March 2015

**Peter Rose**  
Finance Director



## EMPLOYEE TRAINING

**HUNTING'S COMMITMENT TO THE EDUCATION OF ITS WORKFORCE HAS CONTINUED THROUGHOUT THE YEAR THROUGH THE GROUP'S REGIONAL TRAINING CENTRES, LOCATED IN THE US AND SINGAPORE. STAFF DEVELOPMENT INCLUDES COURSES ON QUALITY ASSURANCE, HEALTH AND SAFETY AND ENVIRONMENTAL COMPLIANCE MATTERS.**

Technical development is also encouraged through the Group's use of the ToolingU™ online training portal, to which many of Hunting's US employees have been assigned modules to complete.

The Group is committed to strong ethical standards and global compliance, with all employees required to review Hunting's Code of Conduct as part of the Company's induction programmes. Each role within the Company is assigned a 'risk status' for Anti-Bribery and Corruption compliance purposes and those employees in higher risk roles are required to complete training on the Group's anti-bribery compliance procedures and the legislation which promotes transparent commercial dealings.

Hunting has trained relevant employees and developed its procedures in the area of sanctions compliance and in the year held sessions which enabled each Group business to address export compliance procedures pertinent to its international sales reach. Training includes use of web-based sessions enabling employees around the world to access online training.



## BOARD OF DIRECTORS



**RICHARD HUNTING, C.B.E.**  
NON-EXECUTIVE CHAIRMAN

Elected an executive Director and Deputy Chairman on the formation of Hunting PLC in 1989 and has been Chairman of the Board since 1991. In 2011, Mr Hunting moved from an executive to a non-executive role. Chairman of the Nomination Committee. He is a non-executive director of the Royal Brompton & Harefield NHS Foundation Trust.



**DENNIS PROCTOR**  
CHIEF EXECUTIVE

Appointed a Director in 2000 and Chief Executive in 2001. He was chief executive of Hunting Energy Services from March 2000 after joining the Group in 1993. He is a US citizen based in Houston, Texas, and has held senior positions in the oil services industry in Europe, the Middle East and North America.



**PETER ROSE**  
FINANCE DIRECTOR

Appointed to the Board as Finance Director in 2008. A Chartered Accountant, he joined Hunting in 1997 prior to which he held senior financial positions with Babcock International.

### Board Subcommittee Membership

|                                | Audit Committee | Nomination Committee | Remuneration Committee |
|--------------------------------|-----------------|----------------------|------------------------|
| <b>Executive Directors</b>     |                 |                      |                        |
| Dennis Proctor                 | –               | ✓                    | –                      |
| Peter Rose                     | –               | –                    | –                      |
| <b>Non-executive Directors</b> |                 |                      |                        |
| Richard Hunting                | –               | ✓                    | –                      |
| Annell Bay                     | ✓               | ✓                    | ✓                      |
| John Glick                     | ✓               | ✓                    | ✓                      |
| John Hofmeister                | ✓               | ✓                    | ✓                      |
| John Nicholas                  | ✓               | ✓                    | ✓                      |



**ANNELL BAY**  
NON-EXECUTIVE DIRECTOR

Appointed a non-executive Director in February 2015. Annell Bay is a US citizen resident in Houston, Texas. She is currently a non-executive director of Apache Corporation, a global oil and gas exploration and production company. She was formerly a vice-president at Marathon Oil Corporation and prior to that vice-president of Americas Exploration at Shell Exploration and Production Company.



**JOHN GLICK**  
NON-EXECUTIVE DIRECTOR

Appointed a non-executive Director in February 2015. John ("Jay") Glick is a US citizen resident in Lufkin, Texas. He is currently a non-executive director of TETRA Technologies, Inc, a geographically diversified oil and gas services company. He was formerly the president and chief executive officer of Lufkin Industries, Inc and prior to that held several senior management roles within Cameron International Corporation.



**JOHN HOFMEISTER**  
NON-EXECUTIVE DIRECTOR

Appointed a non-executive Director in 2009 and is Chairman of the Remuneration Committee and the Company's Senior Independent Director. A US citizen resident in Houston, Texas. He is the founder and chief executive officer of the Washington D.C. registered not-for-profit Citizens for Affordable Energy Inc, and a non-executive director of Camac Energy Inc and Applus Services SA. He is the former president of Shell Oil Company and a former group director of Royal Dutch Shell PLC in The Hague, Netherlands.



**JOHN NICHOLAS**  
NON-EXECUTIVE DIRECTOR

Appointed a non-executive Director in 2009 and is Chairman of the Audit Committee. He is a Fellow of the Association of Chartered Certified Accountants and is a member of the UK Financial Reporting Review Panel. He is currently the non-executive chairman of Diploma PLC, and a non-executive director of Rotork PLC and Mondi plc. He was formerly the group finance director of Tate & Lyle PLC and prior to that the group finance director of Kidde PLC.



## REPORT OF THE DIRECTORS

The Directors present their report, together with the audited consolidated financial statements for the year ended 31 December 2014.

### Principal Activities and Strategic Report

Hunting PLC is a holding company whose subsidiaries are primarily involved in the manufacture and distribution of products that enable the extraction of oil and gas for the world's leading energy companies.

The Company is UK domiciled and incorporated in England and Wales. A list of the Company's principal subsidiaries is set out in note 42 on page 140 of the financial statements. A full list of the Company's subsidiaries will be annexed to the next Annual Return to be filed at Companies House in 2015.

The Strategic Report, which is set out on pages 4 to 44, provides a comprehensive review of the development, performance and future prospects of the business for the year ended 31 December 2014 (pages 22 to 34). The information set out includes a description of the Company's strategy and business model (pages 6 to 12), the principal risks and uncertainties facing the Group (pages 36 to 39), key performance indicators (pages 14 to 16) and key information about environmental matters, the Company's employees and community issues. These sections, including the Corporate Governance Report on pages 52 to 55, are deemed to form part of this report.

### Results

The results of the Group are set out in the Consolidated Income Statement on page 85.

### Dividends

The Directors, subject to approval by shareholders at the Annual General Meeting ("AGM") of the Company to be held on 15 April 2015, recommend a final dividend of 22.9 cents per share (2013 – 21.8 cents), which together with the interim dividend of 8.1 cents per share (2013 – 7.7 cents), takes the total dividend for the year to 31.0 cents per share (2013 – 29.5 cents), an increase of 5.1%. The final dividend will be paid on 26 May 2015 to shareholders on the register at the close of business on 1 May 2015.

### Changes in the Group and its Interests During the Financial Year

During the year negotiations with the employees of E.A. Gibson Shipbrokers Ltd, a wholly owned subsidiary of Hunting PLC, commenced with a view to an employee benefit trust buying the business. Given the high probability of the transaction completing the business has been designated as a discontinued operation and the Company's results have been restated to reflect this.

### Post Balance Sheet Events

There are no disclosable post balance sheet events.

### Annual General Meeting

The AGM of the Company will take place on Wednesday, 15 April 2015 at The Royal Automobile Club, 89 Pall Mall, London SW1Y 5HS, commencing at 10.30am.

Further details of the resolutions and voting procedures are set out in the Notice of AGM. Shareholders can vote by completing the form of proxy sent with the Notice of Meeting, or by submitting votes electronically via the Registrars' website [www.sharevote.co.uk](http://www.sharevote.co.uk) or via their online portfolio service, Shareview, if registered as a member. Alternatively, shares held in CREST may be voted through the CREST Proxy Voting Service. To be valid all votes must be received no later than 48 hours before the time set for the meeting.

### Directors

The biographies of the Directors of the Company as at 31 December 2014 and at the date of signature of these accounts are set out on pages 46 and 47.

On 1 August 2014, Richard Hunting was reappointed as Chairman and non-executive Director of the Company for a further two year term.

On 15 September 2014, Andrew Szescila retired from the Board, following completion of his three year term of appointment, with John Hofmeister succeeding him as Chairman of the Remuneration Committee.

On 2 February 2015, Annell Bay and John ("Jay") Glick were appointed as independent non-executive Directors to the Board and its subcommittees. At the AGM of the Company in April 2015, they will both retire and offer themselves for reappointment.

As recommended by the UK Corporate Governance Code, all other Directors will submit themselves for re-election at the Company's AGM.

No Director during the year had a material interest in any contract of significance to which either the Company or any of its subsidiaries were a party. Directors' interests in the shares of the Company are shown on page 73.

As at 31 December 2014, no Director of the Company had any beneficial interest in the shares of subsidiary companies.

### Powers of the Directors

Subject to the Company's Articles of Association, UK legislation and any directions prescribed by resolution at a general meeting, the business of the Company is managed by the Board.

The Directors have been authorised to allot and issue Ordinary shares and to disapply statutory pre-emption rights. These powers are exercised under authority of resolutions of the Company passed at its AGM. During the financial year ended 31 December 2014 725,917 Ordinary shares were issued pursuant to the Company's various share plans.

Further, the Company has authority, renewed annually, to purchase up to 14.99% of the issued share capital, equating to 22,147,128 shares. Any shares purchased will either be cancelled, and the number of Ordinary shares in issue reduced accordingly, or held in Treasury.

These powers are effective for 15 months from the date of shareholder approval, or up to the next general meeting where new authorities are sought. The Directors will be seeking new authorities for these powers at the 2015 AGM.

### Directors' and Officers' Liability Insurance

The Company maintains insurance against certain liabilities, which could arise from a negligent act or a breach of duty by its Directors and Officers in the discharge of their duties. This is a qualifying third party indemnity provision, which was in force throughout the financial year.

### Articles of Association

The Company's Articles of Association may only be amended by special resolution at a general meeting of shareholders. Where class rights are varied, such amendments must be approved by the members of each class of share separately.

### Share Capital

The Company's issued share capital comprises a single class, which is divided into Ordinary shares of 25 pence each, details of which are set out in note 33 on page 130 of the financial statements. All of the Company's issued Ordinary shares are fully paid up and rank equally in all respects. As at 31 December 2014, there were 148,468,677 Ordinary shares in issue. The rights and obligations attached to these shares are summarised below and are detailed in the Articles of Association of the Company, copies of which can be obtained from Companies House in the UK, or by writing to the Company Secretary at the registered office of the Company. Subject to applicable statutes, shares may be issued with such rights and restrictions as the Company may, by ordinary resolution, decide, or (if there is no such resolution or so far as it does not make specific provision) as the Board may decide. The movements in share capital during the year are detailed in note 33 on page 130 of the financial statements.

### Voting Rights and Restrictions on Transfer of Shares

On a show of hands at a general meeting of the Company, every holder of Ordinary shares present in person or by proxy, and entitled to vote, has one vote, and, on a poll, every member present in person or by proxy and entitled to vote has one vote for every Ordinary share held. None of the Ordinary shares carry any special rights with regard to control of the Company. Proxy appointments and voting instructions must be received by the Company's Registrars not later than 48 hours before a general meeting.

A shareholder can lose his entitlement to vote at a general meeting where that shareholder has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares. Shareholders' rights to transfer shares are subject to the Company's Articles of Association.

Transfers of uncertificated shares must be carried out using CREST and the Directors can refuse to register a transfer of an uncertificated share in accordance with the regulations governing the operation of CREST.

The Directors may decide to suspend the registration of transfers, for up to 30 days a year, by closing the register of shareholders. The Directors cannot suspend the registration of transfers of any uncertificated shares without obtaining consent from CREST.

There are no restrictions on the transfer of Ordinary shares in the Company other than:

- certain restrictions that may from time to time be imposed by laws and regulations, for example insider trading laws;
- pursuant to the Company's share dealing code whereby the Directors and certain employees of the Company require approval to deal in the Company's shares; and
- where a shareholder with at least a 0.25% interest in the Company's certificated shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares.

As noted in the table of Substantial Interests on page 50 certain members of the Hunting family and their associated interests entered into a voting agreement on 22 September 2014, whereby the voting rights of signatories to the agreement transferred their voting rights to a committee. Excluding this, the Company is not aware of any further agreements between shareholders that may result in restrictions on the transfer of Ordinary shares or on voting rights.

### Registrar

The address and contact details of Equiniti Limited, the Company's Registrar, are listed on the inside back cover of this report. Equiniti is the Company's single alternative inspection location, whereby individuals can inspect the register of members. Individual shareholders may view their personal shareholder information online, through the [www.shareview.co.uk](http://www.shareview.co.uk) website.

### Employee Share Trust

The Hunting Employees' Share Trust was established on 5 June 1996 as a vehicle to satisfy shares options and awards granted to employees who participate in the Company's share-based incentive schemes. At 31 December 2014 the Trust held 986,944 Ordinary shares in the Company (2013 – 986,731). The Trust has elected to waive its voting rights and all dividends attached to the shares held. The Trust has a policy to purchase shares in the market or subscribe for new shares to meet future requirements of these incentive schemes. During the year, the Trust subscribed for 162,083 Ordinary shares with an aggregate nominal value of \$66,774.

Details of the employee share-based incentive schemes can be found in the Directors' Remuneration Policy on pages 65 and 66 and in note 37 on pages 133 to 137 of the financial statements.

# REPORT OF THE DIRECTORS

## CONTINUED

### Substantial Interests

As at 31 December 2014 pursuant to the Disclosure and Transparency Directive, issued by the Financial Conduct Authority, the major shareholders of the Company are as follows:

|                                       | Notes    | Number of Ordinary shares | Percentage of issued Ordinary shares |
|---------------------------------------|----------|---------------------------|--------------------------------------|
| AXA group of companies                |          | 16,948,638                | 11.4                                 |
| Hunting Investments Limited           | (i/iv/v) | 10,973,487                | 7.4                                  |
| Threadneedle Asset Management         | (vi)     | 6,954,849                 | 4.7                                  |
| Franklin Templeton group of companies |          | 6,912,200                 | 4.7                                  |
| Slaley Investments Limited            | (v)      | 6,411,679                 | 4.3                                  |
| J Trafford – as trustee               | (ii/v)   | 6,025,864                 | 4.1                                  |
| Royal London Asset Management         |          | 5,919,733                 | 4.0                                  |
| Mondrian Investment Partners          |          | 5,776,991                 | 3.9                                  |
| F Godson – as trustee                 | (ii/v)   | 5,722,170                 | 3.9                                  |
| Norges Bank Investment Management     |          | 4,824,884                 | 3.2                                  |
| David RL Hunting                      | (v)      | 199,910                   | 0.1                                  |
| – as trustee                          | (ii/v)   | 2,549,117                 | 1.7                                  |
| – other beneficial                    | (iii/v)  | 2,484,583                 | 1.7                                  |

#### Notes

- Included in this holding are 9,437,743 Ordinary shares held by Huntridge Limited, a wholly owned subsidiary of Hunting Investments Limited. Neither of these companies is owned by Hunting PLC either directly or indirectly.
- After elimination of duplicate holdings, the total Hunting family trustee interests shown above amount to 6,025,864 Ordinary shares.
- Arise because David RL Hunting and his children are or could become beneficiaries under the relevant family trusts of which David RL Hunting is a trustee.
- Richard H Hunting (Chairman of Hunting PLC) and David RL Hunting are both directors of Hunting Investments Limited.
- On 22 September 2014 the Company was notified that Hunting Investments Limited, Slaley Investments Limited, certain Hunting family members, including Richard H Hunting and David RL Hunting and the Hunting family trusts, to which Fred Godson and James Trafford are trustees (together known as “the Hunting Family Interests”) entered into a voting agreement. The voting agreement has the legal effect of transferring all voting rights of Hunting PLC Ordinary shares held by the Hunting Family Interests to a voting committee. The beneficial ownership of Hunting PLC Ordinary shares remains as per the table shown above. At 5 March 2015, the Hunting Family Interests party to the agreement totalled 25,410,438 Ordinary shares in the Company, or 17.12% of the total voting rights.
- On 22 January 2015, the Company was notified that Threadneedle Asset Management had increased its holding to 7,517,166 Ordinary shares representing 5.1% of the issued share capital. Further, on 30 January 2015, the Company received a notification from Threadneedle Asset Management confirming that it had reduced its holding to 7,286,465 Ordinary shares representing 4.9% of the issued share capital.

### Greenhouse Gas Emissions

The Group's greenhouse gas emissions for 2014 were 42,172 tonnes (2013 – 41,853 tonnes). For further details please see page 44 of the Strategic Report.

### Research and Development

Group subsidiaries undertake, where appropriate, research and development to meet particular market and product needs. The amount expended by the Group during the year was \$0.8m (2013 – \$0.6m).

### Political Contributions

It is the Group's policy not to make political donations, accordingly there were no political donations made during the year (2013 – \$nil).

### Significant Agreements

The Company is a party to a revolving credit facility in which the counterparties can determine whether or not to cancel the agreement where there has been a change of control of the Company.

The service agreements of the executive Directors include provisions for compensation for loss of office or employment as a result of a change of control. Further details of the Directors' service contracts can be found in the Directors' Remuneration Policy contained within pages 66 and 67.

### Going Concern

The Group has a broad range of products and services, a large portfolio of production and storage facilities, a sufficiently diverse global customer and supplier base and meets its day-to-day working capital requirements through its cash and debt facilities.

The Group retains limited exposure to credit risk as it has strong, well-developed relationships with its major customers and maintains insurance cover for 96% of its trade receivables.

In conducting its review of the Group's ability to remain as a going concern for the foreseeable future, the Board assessed the Group's recent trading position and its latest financial forecasts and took account of reasonably predictable changes in future trading performance. The Board also considered the Group's current business model, its strategy, the principal risks and the potential financial impact of the estimates, judgements and assumptions that were used to prepare these financial statements. The Board is satisfied that all material uncertainties have been identified and that they are not considered to be sufficiently material to impact the financial viability of the Group.

The Group has access to considerable financial resources including a \$585m (£375m) committed bank facility. The main financial covenants attached to this facility are (1) EBITDA should not be less than four times net finance charges, and (2) net debt should be no more than three times adjusted EBITDA. The Group continues to have significant headroom over both covenants.

The Board is satisfied that it has conducted a robust review of the Group's foreseeable future and has a high level of confidence that the Group has the necessary liquid resources to meet its liabilities as they fall due, will be able to sustain its operational requirements and will remain solvent during that period. Consequently the Board continues to adopt the going concern basis of accounting in preparing these consolidated financial statements.

#### Independent Auditors

PricewaterhouseCoopers LLP has indicated its willingness to continue in office as auditors. A resolution to reappoint them as auditors to the Group will be proposed at the AGM to be held on 15 April 2015.

#### Statement of Listing Rule Compliance

In accordance with Listing Rule 9.8.4C, the Directors confirm that:

- All waivers of dividends over the Company's Ordinary shares are noted in the Directors' Report on page 49.

#### Statement of Disclosure of Information to Auditors

In accordance with the Companies Act 2006, all Directors in office as at the date of this report have confirmed, so far as they are aware, there is no relevant audit information of which the Group's auditors are unaware and each Director has taken all reasonable steps necessary in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information. This confirmation should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

#### Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, the Audit and Remuneration Committee Reports and the financial statements in accordance with applicable laws and regulations.

Company Law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group and parent Company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU").

Under Company Law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for the year.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and to enable them to ensure that the financial statements and the Remuneration Committee Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. The Directors are also responsible for safeguarding the assets of the Group and the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for the maintenance and integrity of the Group's website, [www.huntingplc.com](http://www.huntingplc.com). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Pursuant to the Financial Conduct Authority's Listing Rules, Disclosure and Transparency Rules and the UK Corporate Governance Code, each of the Directors, whose names and responsibilities are listed on pages 46 and 47, confirm that, to the best of their knowledge and belief:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and of the Company;
- the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess a company's performance, business model and strategy;
- the Strategic Report on pages 4 to 44 includes a fair review of the development and performance of the Group's operations and the year end position of the Group and the Company, together with a description of the principal risks and uncertainties they face. The Strategic Report also details the Group's policies on human rights, gender balance and its Scope 1 and 2 greenhouse gas emissions.

By Order of the Board



**Ben Willey**  
Company Secretary  
5 March 2015

# CORPORATE GOVERNANCE REPORT

"IT IS WITH PLEASURE THAT I INTRODUCE TO YOU OUR CORPORATE GOVERNANCE REPORT FOR 2014.

THE COMPANY IS REPORTING ITS GOVERNANCE COMPLIANCE UNDER THE UK CORPORATE GOVERNANCE CODE (THE "CODE") PUBLISHED IN 2012, WITH ADDITIONAL MEASURES CURRENTLY BEING INTRODUCED TO ALIGN WITH THE REVISIONS TO THE CODE PUBLISHED BY THE FINANCIAL REPORTING COUNCIL IN SEPTEMBER 2014."

**Richard Hunting, C.B.E.**  
Chairman

## UK Corporate Governance Code

This report, which has been approved by the Board, details the Company's compliance with the UK Corporate Governance Code (the "Code") as issued by the Financial Reporting Council ("FRC") in 2012 and how the principles of the Code have been applied during the year.

The Company was compliant with the Code's provisions throughout the year, except with regard to the Code's recommendation to put the external audit contract out to tender at least every ten years and in regard to the number/proportion of independent non-executive Directors comprising membership of the Board's subcommittees following Andrew Szescila's retirement from the Board on 15 September 2014 and Annell Bay and John ("Jay") Glick being appointed to the Board on 2 February 2015.

Both new directors bring a wealth of industry experience which will be invaluable as we continue to expand our global operations. With these appointments Hunting has increased its number of independent non-executive Directors, and made progress in addressing the recommendations of Lord Davies on board diversity.

Following clarification of European Union legislation regarding the length of tenure permitted for a Company's external auditor, the Board has agreed, following consultation with the Audit Committee, to plan for a change of external auditor. During 2017 a formal tender process will be undertaken to select and appoint a new external auditor. From this process a firm will be selected on merit and will assume the role of external auditor with effect from 1 January 2019. To aid the transition process the new firm will shadow the 2018 year end audit alongside PricewaterhouseCoopers LLP. PricewaterhouseCoopers LLP will not be invited to participate in the 2017 tender process.

Compliance with the principles relating to Directors' remuneration is reported within the Remuneration Committee Report on pages 56 to 76 and the activities of the Audit Committee are reported on pages 77 to 79.

## Board Composition and Committee Membership

The Board of Directors currently comprises the non-executive Chairman, Chief Executive, Finance Director and four independent non-executive Directors, including the Senior Independent Director. The Directors, together with brief biographical details, are identified on pages 46 and 47.

The division of responsibilities between the Chairman and Chief Executive is set out in writing and agreed by the Board. This composition, with a separate Chairman and Chief Executive, ensures a balance of responsibilities and authorities.

All independent non-executive Directors are appointed to the Company's Audit, Nomination and Remuneration Committees. Non-executive Directors' letters of appointment include details of their duties and expected time commitments.

Excluding the Chairman, 66% of the Board is currently comprised of independent non-executive Directors. Mr Hunting, the Company's non-executive Chairman, is not regarded as independent, given his former executive positions since joining the Company in 1989. Between 15 September 2014 and 2 February 2015, 50% of the Board comprised of independent non-executive Directors.



The Company has procedures in place to deal with potential conflicts of interest. Actual and potential conflicts of interest are reviewed, with appropriate authorisation sought if a conflict arises prior to the appointment of any new Director or if a new conflict arises with an existing Director. In accordance with the Articles of Association, only non-conflicted Directors are involved in the authorisation process. The Board is of the view that these procedures operated effectively throughout the year. The Group operates a decentralised management structure to allow for rapid responses to its global business environment. A framework of controls with discretionary limits and powers for local management is contained within a Group manual.

#### Appointment and Replacement of Directors

Rules for the appointment and replacement of Directors are set out in the Company's Articles of Association. Directors are appointed by the Board on the recommendation of the Nomination Committee and are subject to election by the Company by ordinary resolution at a general meeting of ordinary shareholders. The Company may also remove a Director. Additional details of the workings of the Nomination Committee are set out on page 55.

Following the Code's guidance on the election of Directors, all members of the Board submit themselves for re-election at each Annual General Meeting ("AGM") of the Company.

The non-executive Directors are initially appointed for a three year term with subsequent reappointment conditional upon an appraisal and review process. Letters of appointment for each of the independent non-executive Directors and non-executive Chairman are available from the Company upon request and their terms of appointment are summarised on page 67. Details of the executive Directors' service contracts are set out on page 66.

Prior to the appointment of a non-executive Director, the Nomination Committee undertakes an evaluation of the Board's requirements to ensure the balance of skill and experience is maintained to fulfil the Group's strategy. In the case of a non-executive Director being reappointed, the Code recommends a particularly rigorous evaluation with specific consideration being given to the need to regularly refresh the Board and to continued independence.

On appointment to the Board, each Director receives an introduction to the Group tailored to their experience and needs including site visits. All Directors have access to the Company Secretary and to independent professional advice, at the Company's expense, in the furtherance of their duties. Directors are encouraged to maintain their skills and knowledge to best practice standards and, where appropriate, attend update training courses on relevant topics. During the year, the Chairman held meetings with the non-executive Directors without the executive Directors present and also met each individual Director to discuss training and development requirements.

The Company Secretary, through the Chairman, is responsible for keeping the Board informed of Corporate Governance developments and maintaining corporate awareness of legislative and regulatory changes. The appointment and removal of the Company Secretary is a matter reserved for the Board.

#### Annual Performance Evaluation

During 2014, the Board completed an internal performance evaluation exercise, which comprised of a detailed questionnaire on its operation and practices and that of the subcommittees of the Board. The findings from the questionnaire were presented by the Chairman to the Board at its March 2015 meeting.

The performance of the Chairman was evaluated by the non-executive Directors, led by the Senior Independent Director. The independent non-executive Directors evaluated the performance of the individual executive Directors, with feedback being provided to the Chairman and then to the respective Directors. The performance of the non-executive Directors and that of the subcommittees of the Board was assessed by the executive Directors.

As recommended by the Code, the Board appoint external facilitators every three years to complete a Board performance evaluation. The next external evaluation will take place during 2015.

#### Board and Committee Meetings

The Board's powers and authorities under which they act and as detailed in the Company's Articles of Association are contained within the Report of the Directors on pages 48 to 51.

The Board normally holds six formal meetings each year. Meeting dates are set a year in advance. Attendance by each of the Directors at Board or subcommittee meetings during 2014 is detailed below.

|   | Board    | Audit Committee | Nomination Committee | Remuneration Committee |
|---|----------|-----------------|----------------------|------------------------|
| <b>Number of meetings held</b>                        | <b>6</b> | <b>4</b>        | <b>4</b>             | <b>4</b>               |
| <b>Number of meetings attended (actual/possible):</b> |          |                 |                      |                        |
| Richard Hunting                                       | 6/6      | —               | 4/4                  | —                      |
| Dennis Proctor  | 6/6      | —               | 4/4                  | —                      |
| Peter Rose  | 6/6      | —               | —                    | —                      |
| John Hofmeister                                       | 6/6      | 4/4             | 4/4                  | 4/4                    |
| John Nicholas   | 6/6      | 4/4             | 4/4                  | 4/4                    |
| Andrew Szescila (to 15 September 2014)                | 4/4      | 3/3             | 2/2                  | 3/3                    |

# CORPORATE GOVERNANCE REPORT

## CONTINUED

The duties and responsibilities of the Board and its subcommittees are formally agreed by the Board in writing.

Matters specifically reserved for the Board include, but are not limited to, the following:

- compliance with UK Company Law and the UKLA's Listing Rules;
- review and assess the effectiveness of the Group's system of risk management and internal control;
- approve all major Stock Exchange announcements;
- approve the full and half year financial statements, including the declaration of dividends;
- consider the Group's commercial strategy and approve the annual budget; and
- consider recommendations of the Board subcommittees including Board remuneration, appointments and their terms of reference.

Board papers are always circulated in advance of meetings. These include detailed financial reports on the Group's activities, reports on each operating division, health and safety, risk management and investor relations reports. In addition, the meetings held in March and August focus on the full and half year results respectively and the meeting in December focuses on the budget for the following financial year.

During the year, the Board reviewed the major Stock Exchange announcements issued by the Group, including the full and half year results, and concluded that the information presented was a fair, balanced and understandable assessment of the affairs of the Group.

During 2014, the Board reviewed the Group's strategy to evaluate the development and growth of the Company, in particular its plans for further international growth and facility investment.

### Internal Control

The Board acknowledges its responsibility for monitoring the Group's system of internal control and for reviewing its effectiveness as required by the Code. The internal control system, which has been in place throughout 2014 and up to the date of approval of these accounts, is an ongoing evolutionary process designed to identify, evaluate and manage the significant risks to which the Group is exposed. These systems of internal control are designed to manage rather than eliminate risks, therefore they only provide reasonable, but not absolute, assurance against material misstatement or loss in the financial statements and of meeting internal control objectives.

The Directors have reviewed the effectiveness of the Group's system of internal control for the period covered by these financial statements, the key features of which are as follows:

**Management Structure** – within operational parameters set by the Board, management is delegated to the executive Directors. Subsidiaries operate within clearly defined policies and authorities contained within a Group manual under a decentralised management structure. All senior management changes require the prior approval of the Chief Executive.

**Reporting and Consolidation** – all subsidiaries submit detailed financial information in accordance with a preset reporting timetable. This includes weekly, bi-monthly and quarterly treasury reports, monthly management accounts, annual budgets and two-year plans, together with half year and annual statutory reporting. The Group's consolidation process is maintained and updated with regular communication, including distribution of a Group manual to all reporting units. The Group monitors and reviews new UK Listing Rules, Disclosure and Transparency Rules, accounting standards, interpretations and amendments and legislation and other statutory requirements. Subsidiary reporting entities are supported by instruction from Group and structured training. All data is subject to review and assessment by management through the monitoring of key performance ratios and comparison to targets and budgets. The content and format of reporting is kept under review and periodically amended to ensure appropriate information is available.

**Strategic Planning and Budgeting** – strategic plans and annual budgets containing comprehensive financial projections are formally presented to the Board for adoption and approval and form the basis for monitoring performance. Clearly defined procedures exist for capital investment proposals and authorisation.

**Quality Assurance** – most of the business sectors within which the Group operates are highly regulated and subsidiaries are invariably required to be accredited, by the customer or an industry regulator, to national or international quality organisations. These organisations undertake regular audits and checks on subsidiary procedures and practices ensuring compliance with regulatory requirements.

During the year there were no material changes to the internal control procedures described above.

### Institutional Shareholders

The Company uses a number of processes for communicating with shareholders, including stock exchange announcements, the annual and half year reports and webcasts, trading statements and the AGM to which all shareholders are invited. In addition, the Chief Executive and Finance Director meet on a one-to-one basis with all principal shareholders at least twice a year, following the Group's half and full year results, or when requested to update them on Group performance and strategy. The Board is in turn briefed by the Chief Executive, when appropriate, on matters raised by shareholders.

During 2014, the Remuneration Committee concluded a consultation process with the Company's major institutional shareholders to discuss and agree the Directors' Remuneration Policy and new Hunting Performance Share Plan, which was subsequently approved by shareholders at the AGM of the Company held in April 2014.

The Chairman and Senior Independent Director also met with a number of shareholders to discuss strategy, governance and other matters. Their comments were passed on to the Board by the Chairman. The non-executive Directors are also available to meet shareholders.

The Company's major shareholders are listed, together with the information required under the Disclosure and Transparency Rules 7.2.6, within the Report of the Directors on page 50.

### Board Committees

The Board has three main Committees to which it delegates responsibility and authority, the Audit, Nomination and Remuneration Committees.

### Audit Committee

The Audit Committee comprises exclusively of the independent non-executive Directors of the Company and is chaired by John Nicholas. Details of the Audit Committee's activities are contained within its report on pages 77 to 79.

### Nomination Committee

Members of the Committee are Richard Hunting (Committee Chairman), Dennis Proctor and the independent non-executive Directors. The Committee has written terms of reference approved by the Board, which are published on the Group's website. The role of the Committee includes leading the process for Board appointments and determining the terms of new appointments. The Committee also considers succession planning which takes into account the experience, balance and skills required of Board members. The Committee met four times during 2014 to consider Board and Committee appointments.

In April 2014, the Committee met to consider the reappointment of Richard Hunting as the Company's non-executive Chairman. Following an evaluation led by John Hofmeister, Hunting's Senior Independent Director, the Committee approved Mr Hunting's reappointment for a further two year term from 1 August 2014.

Andrew Szescila retired from the Board on 15 September 2014. A process to recruit two new independent non-executive Directors was undertaken, which followed Hunting's recruitment and diversity policies and resulted in the appointment of Annell Bay and Jay Glick to the Board on 2 February 2015. Ms Bay and Mr Glick have been appointed for a three year term from 2 February 2015. In accordance with the Company's Articles of Association, they will retire and offer themselves for reappointment by the Company's shareholders at the AGM to be held in April 2015.

In 2012, the Company issued its gender diversity policy for new Director appointments. Hunting's diversity policy commits the Group to:

- an embedded culture of equal opportunities for all employees, regardless of gender;
- require external recruitment consultants to submit their diversity policies to the Group prior to appointment;
- ensure that external consultants appointed by Hunting provide candidate shortlists comprising of an appropriate gender balance for consideration by the Nomination Committee;
- a target of at least one female Director of the Company when practicable; and
- a periodic review by the Nomination Committee of its progress in complying with the Davies Report's recommendations.

As part of the process to appoint Annell Bay and Jay Glick, Boyden Associates were appointed to assist with the recruitment process and the above procedures were followed and documented by the Nomination Committee. Boyden Associates has no other connection to the Company.

Following the appointment of Annell Bay, Hunting is more aligned to the recommendations of the Davies Report.

### Remuneration Committee

The Remuneration Committee comprises solely the independent non-executive Directors of the Company. Andrew Szescila retired as Chairman of the Committee on 15 September 2014 and John Hofmeister succeeded him as Chairman. On 2 February 2015, Annell Bay and Jay Glick joined the Remuneration Committee, following their appointment as Directors.

The Committee convened four times during the year and has written terms of reference approved by the Board which are published on the Group's website. The terms of reference were amended in the year, following publication of the revised UK Corporate Governance Code.

During the year, the Committee reviewed its effectiveness and the Committee Chairman reported these findings to the Board.

Details of the Committee's activities are contained within its Report on pages 56 to 76. The Report follows the new disclosure requirements published in 2013 and contains a Statement from the Chairman of the Remuneration Committee, the Directors' Remuneration Policy and an Annual Report on Remuneration.

### By Order of the Board



**Richard Hunting, C.B.E.**  
Chairman  
5 March 2015

# REMUNERATION COMMITTEE REPORT

## FOR THE YEAR ENDED 31 DECEMBER 2014

"THIS IS MY FIRST LETTER TO SHAREHOLDERS AS CHAIRMAN OF THE REMUNERATION COMMITTEE AND I AM PLEASED TO REPORT THAT AT THE ANNUAL GENERAL MEETING OF THE COMPANY HELD IN APRIL 2014, BOTH THE DIRECTORS' REMUNERATION POLICY AND ANNUAL REPORT ON REMUNERATION RECEIVED GOOD SUPPORT FROM SHAREHOLDERS. WITH AN APPROVED REMUNERATION POLICY NOW IN PLACE, THE COMMITTEE HAS A CLEAR FRAMEWORK OF REWARD IN ORDER TO REMUNERATE THE COMPANY'S EXECUTIVE DIRECTORS, WHICH IS BOTH FAIR AND CHALLENGING, WITH ANNUAL BONUS AND LONG-TERM INCENTIVES CLEARLY LINKED TO THE DELIVERY OF SHAREHOLDER VALUE. THE FRAMEWORK WAS ADOPTED DURING 2014 AND THE EMOLUMENTS TO THE EXECUTIVE DIRECTORS REFLECT THE REMUNERATION POLICY AS DRIVEN BY THE GROUP'S PERFORMANCE IN THE YEAR."

**John Hofmeister**

Chairman of the Remuneration Committee

### Annual Statement from the Chairman of the Remuneration Committee

#### Introduction

The Directors' Remuneration Policy and Annual Report on Remuneration that follow reflect the Remuneration Committee's (the "Committee") reporting requirements under the amended Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

At the Company's Annual General Meeting ("AGM") on 16 April 2014, 91.5% of the votes cast by shareholders were in favour of the Directors' Remuneration Policy (the "Policy"), a clear endorsement by shareholders. The Policy sets out the framework for Directors' remuneration for three years from the date of the meeting. The Policy, including any potential amendments, will be resubmitted to shareholders for approval no later than the Company's AGM in April 2017.

The Annual Report on Remuneration details how the Policy's principles were applied during 2014 and will be tabled for shareholder approval at the AGM on 15 April 2015.

#### Major decisions and substantial changes to remuneration made by the Committee in 2014

- Salary review: the Committee reviewed benchmarked base salary data for the executive Directors and increased their respective base salaries by 2.8% in March 2014. Following approval by shareholders at the Company's AGM, the base salary of the Finance Director was revised to £298,000 (\$491,074) which is towards the market mid-point in line with Policy.
- Annual Bonus: following amendments to the Annual Bonus Plan, which incorporated a personal performance adjustor, targets were set by the Committee in March 2014 for each executive Director and were reviewed in December 2014, with no change to the bonus award being agreed following satisfactory delivery of the individual performance targets.
- Hunting Performance Share Plan: following approval by shareholders in April 2014, the first grants to the executive Directors were made on 1 May 2014 and subject to the achievement of the performance conditions will vest on 1 May 2017.

#### Performance and Context of Remuneration awarded in 2014

The Group achieved a record financial performance during 2014 due to sustained growth across a number of Hunting's businesses. As a consequence, the Group reported underlying profit before tax of \$212.4m which was 2.4% ahead of the Annual Budget approved by the Board in December 2013. Return on Capital Employed was 3.1% ahead of Budget. Using the formula contained within the approved executive Director Annual Bonus Plan, bonuses are payable of \$889,299 and \$416,922 to the Chief Executive and Finance Director respectively, with no adjustment to the bonus for personal performance.

Following an interim measurement of the Total Shareholder Return performance condition on 24 February 2015, a zero vesting is anticipated for the 2012 performance based awards under the 2009 Performance Share Plan. The final measurement will be recorded on 16 April 2015. The Committee anticipates that no shares will vest for the executive Directors, with this nil result being recorded in the single figure remuneration table on page 70.

At 31 December 2014, the accumulated incentive pool under the rules of the 2004 Long Term Incentive Plan ("LTIP") was \$9.8m, resulting in awards of \$2.8m and \$0.9m to the Chief Executive and Finance Director respectively.

Further details of the emoluments of the executive Directors can be found within the Annual Report on Remuneration on pages 69 to 76.



**John Hofmeister**

Chairman of the Remuneration Committee  
5 March 2015

## DIRECTORS' REMUNERATION POLICY

### Policy Overview

This report outlines the Directors' Remuneration Policy (the "Policy") applied by the Hunting Board for the executive and non-executive Directors of the Company. The Policy was approved by shareholders at the Company's Annual General Meeting in April 2014.

The Policy for executive Director remuneration is designed to comply with the principles of the UK Corporate Governance Code and amendments to the Companies Act 2006 regarding remuneration and to ensure that each Director is attracted, retained and motivated to promote and achieve the long-term success of the Group. The Policy is divided between fixed and variable incentives and is structured to link total reward to both corporate and individual performance.

The remuneration structures of the Chief Executive and Finance Director are based on externally benchmarked data aimed at providing the executive Directors with competitive levels of remuneration.

Non-executive Director fees are set at levels which take into account the time commitment and responsibilities of each role. Given the small size of the Hunting Board, each non-executive Director is required to give an above average time commitment to Group matters. The fees are benchmarked to other companies of a similar size, profile and profitability and are reviewed annually by the executive Directors.

### Fixed Emoluments

Fixed emoluments to the executive Directors comprise of base salary, benefits including healthcare insurance, the provision of a company vehicle and fuel, and pension contributions suitable to the geographic location of the executive. Base salaries are aimed at the market mid-point.

### Variable Emoluments

Variable emoluments comprise of an Annual Bonus and participation in a number of long-term incentive schemes.

The Remuneration Committee (the "Committee") applies the Group's Budget, agreed annually at each December meeting of the Board, to benchmark the performance-linked annual cash bonus which is indexed to the Group's actual performance against Budget. From 2014, the bonus award is subject to possible adjustment through the application of a personal performance adjustor, which recognises the delivery of individual targets set by the Committee.

Awards under the 2009 Performance Share Plan ("PSP") begin to vest when the Total Shareholder Return of the Company is at the median of a chosen peer group. Awards under the 2004 Long Term Incentive Plan ("LTIP") are designed to pay out when the increase in average shareholder funds of the Group exceeds demanding long-term growth targets. Existing awards granted to the executive Directors under these long-term incentive schemes will continue to vest up to 2016, following measurement of the respective performance conditions.

Following a review of the PSP and the LTIP and reflecting the Committee's drive to ensure the incentive plans in place remain fair and demanding, a new long-term incentive plan, the Hunting Performance Share Plan (the "Hunting PSP"), has replaced both the PSP and LTIP. From 2014, the executive Directors receive awards over Hunting shares which vest after three years, subject to performance conditions. Awards under the Hunting PSP for the executive Directors are equally apportioned into three categories with each category subject to a performance condition:

(i) relative total shareholder return ("TSR"), (ii) absolute growth in earnings per share ("EPS") and (iii) average return on capital employed ("ROCE"). The first awards under the Hunting PSP were made to the executive Directors and senior managers of the Group in May 2014, with the first vesting of these awards to occur in 2017. As part of each annual award, the Committee has discretion to set different performance targets, if in the opinion of the Committee the new targets are not materially less challenging. These targets take into account the outlook for the Group over the long term, with the Committee committed to ensuring these targets remain demanding.

### Enhanced Stock Ownership Requirements

In parallel to the introduction of the Hunting PSP, the Committee has introduced a policy to enhance share ownership and improve the alignment of participants in Hunting's long-term incentive schemes with shareholders. From 2014, enhanced Stock Ownership Requirements are now incorporated in to Hunting's long-term incentive arrangements, with the Chief Executive required to maintain a minimum holding of shares in the Company equal to a market value of 500% of base salary; the Finance Director a minimum holding of 200% of base salary and the non-executive Directors a minimum holding of 100% of annual fees. Other executives of the Group are required to build and maintain a minimum holding of shares in the Company equal to a market value of between 100% to 200% of base salary. The primary method of accumulating this shareholding is through the retention of vested long-term incentives, with the reported shareholding taking into account the post tax value of vested, but unexercised, share options. Those subject to this requirement have a period of five years from 1 January 2014 or, for new employees, from the date of employment by Hunting, to comply.

### Amendments to the Policy

The oil and gas industry is increasingly a competitive market place, therefore recruiting and retaining the right individuals to deliver long-term shareholder growth is subject to increasingly challenging market conditions. As a result, the Committee intends to keep the approved Policy under review, and will make any necessary revisions only after appropriate consultation and approval from shareholders has been received.

### Statement of Disclosure of Performance Targets

The annual performance-linked cash bonus plan is measured against performance targets based on underlying profit before tax ("PBT") and ROCE values contained within the Group's Annual Budget. In the opinion of the Directors, this budget/target information is commercially sensitive and would be prejudicial to the competitive interests of the Group. Retrospective disclosures on the corporate performance against the Annual Budget are provided in the Annual Report on Remuneration.

### Remuneration Committee Discretion

The Committee has discretion within the Directors' Policy framework in the following areas:

- annual base salary and fee reviews of the Directors;
- application of the personal performance adjustor to the annual cash bonus;
- application of the annual cash bonus following the exit of a Director;
- composition of the comparator group for the Hunting PSP;
- setting the performance targets for the Hunting PSP; and
- specific recruitment considerations if new Directors are appointed.

Where discretion is applied, the Committee will disclose the rationale for the application of discretion. Further details are provided within the following policy section.



## Executive Director Remuneration Policy Table

## Fixed Emoluments

## Remuneration Component – Base Salary

| Purpose and Link to Strategy   | Operation and Award Basis  | Maximum  | Notes |
|--|--|--|-------|
| <ul style="list-style-type: none"> <li>– Attract, retain and reward executives with the necessary skills to effectively deliver the Company strategy.</li> </ul> | <ul style="list-style-type: none"> <li>– Base salaries are set at competitive rates which take into account the individual's country of residence and primary operating location as well as companies in the same market segment.</li> <li>– Aimed at the market mid-point.</li> <li>– Annual increases take into account inflation in the UK, US and increases across the total workforce.</li> <li>– Relocation and tax equalisation agreements are also in place for employees working across multiple geographic jurisdictions.</li> </ul> | <ul style="list-style-type: none"> <li>– There is no prescribed maximum annual increase. The Committee is guided by the general increase for the broader employee population, but on occasions may need to recognise, for example, development in role, change in responsibility, and/or specific retention issues.</li> </ul> | N/A   |

## Remuneration Component – Pension Arrangements and Benefits

|   |   |     |     |
|---|---|-----|-----|
| <ul style="list-style-type: none"> <li>– Provide normal pension and benefit schemes appropriate to the country of residence.</li> <li>– Each executive Director is provided with healthcare insurance and a company car with fuel.</li> </ul> | <ul style="list-style-type: none"> <li>– The Group contributes on behalf of the Chief Executive (currently resident in the US) to a US 401K tax deferred savings plan and an additional deferred compensation scheme.</li> <li>– The Group contributes on behalf of the Finance Director (currently resident in the UK) to a UK final salary defined benefit pension scheme.</li> </ul> | N/A | N/A |
|---|---|-----|-----|

## DIRECTORS' REMUNERATION POLICY

### CONTINUED

#### Executive Director Remuneration Policy Table *continued*

##### Variable Emoluments

##### Remuneration Component – Annual Performance-Linked Cash Bonus Plan

| Purpose and Link to Strategy   | Operation and Award Basis  | Maximum  | Notes |
|--|--|--|-------|
| <ul style="list-style-type: none"> <li>– To incentivise annual delivery of financial and operational targets.</li> <li>– High reward potential for exceeding demanding targets.</li> </ul> | <ul style="list-style-type: none"> <li>– Awards are made subject to plan rules and to measurement against the Annual Budget.</li> <li>– Bonus is weighted 70% to budgeted PBT and 30% to budgeted ROCE.</li> <li>– Budgeted PBT for plan purposes is before amortisation and items deemed exceptional within the Annual Budget.</li> <li>– Budgeted ROCE for plan purposes is profit from operations before amortisation and items deemed exceptional within the Annual Budget divided by the budgeted average capital employed.</li> <li>– Bonus begins to accrue when 80% of the Budget targets are achieved.</li> <li>– Level of bonus increases on a straight-line basis from zero payment when 80% of Budget is achieved to a maximum when 120% of Budget is achieved.</li> <li>– For an on target performance defined as actual results equal to the Budget, the Chief Executive is paid 100% of base salary and the Finance Director is paid 75% of base salary.</li> <li>– Bonus is not pensionable.</li> <li>– The Committee implemented a personal performance adjustor to the annual bonus arrangements during 2014.</li> <li>– The Committee has the discretion to adjust the annual bonus using the performance adjustor. The adjustor range is from 0 to 1.25 times the annual bonus figure. The personal performance targets linked to the performance adjustor will be disclosed on award of the bonus.</li> <li>– Clawback provisions were introduced in 2010 to allow for the bonus to be adjusted to zero.</li> </ul> | <p><b>Chief Executive</b></p> <ul style="list-style-type: none"> <li>– 200% of base salary.</li> </ul> <p><b>Finance Director</b></p> <ul style="list-style-type: none"> <li>– 150% of base salary.</li> </ul> | N/A   |

**Executive Director Remuneration Policy Table** *continued***Variable Emoluments****Remuneration Component – Hunting PSP**

| Purpose and Link to Strategy  | Operation and Award Basis   | Maximum  | Notes |
|---|---|--|-------|
| <ul style="list-style-type: none"> <li>– Recognition and reward to executive Directors for the creation of shareholder value over the longer term.</li> <li>– This element provides full alignment to shareholder interests.</li> </ul> | <ul style="list-style-type: none"> <li>– Annual grant of shares or nil cost options.</li> <li>– Vesting levels determined by Company performance over a three year period against (i) TSR of a bespoke peer group; (ii) EPS growth; and (iii) average ROCE.</li> <li>– Grant value of 450% of base salary for the Chief Executive and 210% of base salary for the Finance Director.</li> <li>– Achievement of minimum performance target results in a 25% vesting of any element of the award.</li> <li>– Awards subject to clawback and malus provisions.</li> <li>– The maximum award noted provides the Committee with flexibility in cases such as recruitment. The Committee has set the award levels of the current executive Directors and does not intend to increase these further.</li> </ul> | <p><b>Chief Executive</b></p> <ul style="list-style-type: none"> <li>– 550% of base salary.</li> </ul> <p><b>Finance Director</b></p> <ul style="list-style-type: none"> <li>– 450% of base salary.</li> </ul> | N/A   |

**Remuneration Component – Stock Ownership Requirement**

|  |   |     |     |
|--|---|-----|-----|
| <ul style="list-style-type: none"> <li>– To encourage the retention of shares under award to the executive.</li> <li>– To align the long-term interests of the executive with shareholders.</li> </ul> | <ul style="list-style-type: none"> <li>– The target holding of the Chief Executive is equal to the market value of 500% of base salary and for the Finance Director 200% of base salary.</li> <li>– All vested shares are to be retained, following the payment of relevant taxes, until the ownership requirement is achieved.</li> <li>– Directors have five years to achieve the required holding level from 1 January 2014 or from the date of their appointment to the Board.</li> </ul> | N/A | N/A |
|--|---|-----|-----|

# DIRECTORS' REMUNERATION POLICY

## CONTINUED

### Executive Director Remuneration Policy Table *continued*

#### Legacy Long-term Incentive Arrangements

##### 2009 Performance Share Plan

| Purpose and Link to Strategy  | Operation and Award Basis  | Maximum  | Notes  |
|---|--|--|--|
| <ul style="list-style-type: none"> <li>– Recognition and reward to executive Directors for the creation of shareholder value over the longer term.</li> <li>– This element provides strong alignment with the interests of shareholders.</li> </ul> | <ul style="list-style-type: none"> <li>– Annual grant of shares or nil cost options.</li> <li>– Vesting levels determined by TSR measured over three years against a peer group.</li> <li>– 40% of shares vest for a median performance increasing on a straight line basis to 100% for a top quartile performance.</li> <li>– Face value of award to the Chief Executive is 100% of base salary.</li> <li>– Face value of award to the Finance Director is 80% of base salary.</li> </ul> | <p><b>Chief Executive</b></p> <ul style="list-style-type: none"> <li>– 200% of base salary.</li> </ul> <p><b>Finance Director</b></p> <ul style="list-style-type: none"> <li>– 200% of base salary.</li> </ul> | <ul style="list-style-type: none"> <li>– Awards under the PSP, which are subject to performance conditions, will continue to vest up to 2016 when the final grants made in 2013 vest.</li> <li>– The PSP operated between 2009 and 2013 and has now been replaced by the Hunting PSP.</li> </ul> |

##### 2004 Long-Term Incentive Plan

|   |  |  |  |
|---|--|--|--|
| <ul style="list-style-type: none"> <li>– Recognition and reward to executive Directors for the creation of shareholder value over the longer term.</li> </ul> | <ul style="list-style-type: none"> <li>– Awards are made based on the accruing of an incentive pool over a three year period.</li> <li>– The incentive pool only accumulates if increases to average shareholder funds are achieved throughout the period.</li> <li>– If the accruing incentive pool equals zero across the period, no payments are made.</li> <li>– Chief Executive receives 35% of the accumulated incentive pool, with actual payout limited to a maximum of 350% of base salary.</li> <li>– Finance Director receives 15% of the accumulated incentive pool with actual payout limited to a maximum of 175% of base salary.</li> </ul> | <p><b>Chief Executive</b></p> <ul style="list-style-type: none"> <li>– 350% of base salary.</li> </ul> <p><b>Finance Director</b></p> <ul style="list-style-type: none"> <li>– 175% of base salary.</li> </ul> | <ul style="list-style-type: none"> <li>– Awards under the LTIP, which are subject to performance conditions, will continue to 2016, when the final grants made in 2013 vest.</li> <li>– The LTIP operated between 2004 and 2013 and has now been replaced by the Hunting PSP.</li> </ul> |
|---|--|--|--|

**Non-executive Director Remuneration Policy Table**

The remuneration of the non-executive Directors as adopted by the Company is designed to reflect the time and commitment of each to their respective roles.

| Element                       | Purpose and link to strategy   | Operation  | Fee detail   | Maximum  |
|-------------------------------|--|--|--|--|
| Chairman's fees.              | <ul style="list-style-type: none"> <li>To attract and retain a high-calibre Chairman by offering a market competitive fee level.</li> </ul>              | <ul style="list-style-type: none"> <li>The Chairman is paid a single fee for all his responsibilities including chairing the Nomination Committee.</li> <li>Fees are determined by the Board as a whole on recommendation of the executive Directors following receipt of external fee information and an assessment of the time commitment and responsibilities involved.</li> </ul>  | <ul style="list-style-type: none"> <li>The current fee for the Chairman is \$318,869 (£193,500).</li> <li>Fees are reviewed annually in December.</li> </ul>   | <ul style="list-style-type: none"> <li>The fees paid to the non-executive Directors are benchmarked to other UK companies of a similar size and profile to the Group.</li> </ul>   |
| Non-executive Director fees.  | <ul style="list-style-type: none"> <li>To attract and retain high-calibre non-executive Directors by offering a market competitive fee level.</li> </ul> | <ul style="list-style-type: none"> <li>The non-executive Directors are paid a basic fee. The Directors who chair the Board's subcommittees and the Senior Independent Director are paid an additional fee to reflect their extra responsibilities.</li> <li>Non-executive Director fees are determined by the Board as a whole, on recommendation of the executive Directors, following receipt of external fee information and an assessment of the time commitment and responsibilities involved.</li> <li>The non-executive Directors do not participate in the Group's share plans and do not receive any other benefits.</li> </ul> | <ul style="list-style-type: none"> <li>The basic Board fee is \$98,874 (£60,000) with an additional fee of \$16,479 (£10,000) for chairing the Audit and Remuneration Committees, and for the role of Senior Independent Director.</li> <li>Fees are reviewed annually in December.</li> </ul> | <ul style="list-style-type: none"> <li>Given the small size of the Board, each non-executive Director is expected to give an above average time commitment to Group matters and fees are based on this increased commitment.</li> <li>The Company's Articles of Association prescribe aggregate maximum fees for all non-executive Directors of \$823,950 (£500,000) per annum.</li> </ul> |
| Stock Ownership Requirements. | <ul style="list-style-type: none"> <li>To align the non-executive Directors' interests to the long-term interests of shareholders.</li> </ul>            | <ul style="list-style-type: none"> <li>Non-executive Directors are required to build up a holding of shares in the Company equal to a market value of 100% of the annual fees paid and have five years to achieve the required holding level from 1 January 2014 or from the date of their appointment to the Board.</li> </ul>  | N/A  | N/A  |



## DIRECTORS' REMUNERATION POLICY

### CONTINUED

#### Relevance to Employee Pay

The Policy described above provides an overview of the structure that also operates and applies to the most senior executives in the Group.

While bonus and pensions arrangements are in place for most of the Group's employees, lower aggregate remuneration operates at below the executive Director and senior manager level with total remuneration driven by market comparatives and the individual responsibilities of each role.

The oil and gas industry operates in an increasingly competitive labour market globally and, to reflect this, the Group's average employee costs, including salary, benefits and bonuses, in the year increased 10%. Average salaries, including overtime, across the Group increased 8% compared to 2013.

#### Choice of Performance Metrics

The corporate strategy includes promoting the long-term success of the Group by investing in its existing product and services portfolio through capital investment or by acquisition and growing the business in a way that is aligned to the evolving global energy industry.

The performance of the executive Directors in executing this strategy is evaluated by the following key performance indicators ("KPIs"), which drive the variable components of the executive Directors' emoluments.

| KPI                                   | Element of remuneration      | Reason for use  |
|---------------------------------------|------------------------------|---|
| Underlying Profit before Taxation     | Annual Bonus                 | <ul style="list-style-type: none"> <li>– PBT is a management KPI used to measure the underlying performance of the Group.</li> <li>– PBT reflects the achievements of the Group in a given financial year and recognises sustained profitability measured against an agreed Annual Budget.</li> </ul> |
| Underlying Return on Capital Employed | Annual Bonus/<br>Hunting PSP | <ul style="list-style-type: none"> <li>– ROCE is a management KPI used to measure the underlying performance of the Group.</li> <li>– ROCE reflects the value created on funds invested in the short and medium term.</li> </ul>  |
| Total Shareholder Return              | PSP/Hunting PSP              | <ul style="list-style-type: none"> <li>– To achieve sustained levels of shareholder return over the long term.</li> </ul>   |
| Underlying Earnings Per Share         | Hunting PSP                  | <ul style="list-style-type: none"> <li>– To achieve sustained levels of earnings growth over the long term.</li> </ul>  |

Taken together, the Committee believe that the executive Directors are appropriately incentivised to deliver both short and long-term performance based on these metrics.

#### Single Figure Remuneration Definition

For the purposes of the Policy and Annual Report on Remuneration, the single figure remuneration presented comprises base salary, benefits (including healthcare insurance and car benefits), tax equalisation, pension contributions incorporating where relevant the prescribed HMRC multiplier, annual cash bonus and vested PSP and LTIP awards during the financial year (or where the performance period has substantially completed). The single figure remuneration equates to Total Remuneration as shown on page 70 of the Annual Report on Remuneration.

#### Detailed Policy

##### Base Salaries and Fees

Base salaries and fees are reviewed annually. In considering appropriate salary levels for the executive Directors, the Committee takes into account their experience and personal performance, the remuneration paid by comparable companies in terms of asset size, revenues, profits, number of employees, market capitalisation and the complexity and international spread of Group operations, as well as Group wide salary increases and applicable rates of inflation. Other relocation and taxation agreements are also in place for key executives.

As part of the consultation process with major shareholders in 2013 and 2014, the base salary of the Finance Director was reviewed. The Committee concluded that in line with Policy, his base salary should be increased towards the market mid-point. As a consequence of this adjustment, the proposed long-term incentive awards to the Finance Director were reduced to ensure his total emoluments, including base salary, annual bonus and long-term incentives, remained at the market mid-point.

Base fee increases for the non-executive Directors are based on benchmarked market data for fees paid by comparable companies.

##### Benefits

Other benefits provided to the executive Directors as part of their remuneration package include the provision of appropriate health cover, life and disability insurance, car and fuel benefits.

##### Pension

The Group contributes to the pension arrangements of both the Chief Executive and Finance Director.

Being a US based citizen, Dennis Proctor participates in the Group's US 401K tax deferred savings plan, with the Group making matching annual contributions to the plan up to 2% of base salary up to a maximum of \$15,600 at the current compensation limit. In addition, the Group contributed a figure equivalent to 17% of his 2014 base salary to a deferred compensation scheme. In practice this scheme is operated on a money purchase basis.

Richard Hunting and Peter Rose are members of the Hunting Pension Scheme (the "Scheme"), which is a defined benefit pension scheme. The normal retirement age for the Directors under the Scheme is 60 and they are entitled to, subject to certain limits, a pension of up to two thirds of final salary. Pensionable salary is the annual salary less an amount equal to the State Lower Earnings Limit. Richard Hunting contributed 8.5% of his pensionable salary up until his Scheme retirement date of 31 July 2006. Peter Rose contributes a similar proportion of his salary to the Scheme. The Scheme provides all members with a lump sum death in service benefit of four times base salary and a spouse's pension of two thirds of the member's pension on the member's death. Bonuses and benefits do not qualify as pensionable salary. Mr Rose is able to draw his pension on an unreduced basis from age 57 with the consent of the Company.

#### *Annual Performance-Linked Cash Bonus*

An annual performance-linked cash bonus plan is in place for the executive Directors. The plan, which is not pensionable, is designed to provide an incentive reward for performance and reflects the competitive markets in which the Group conducts its business.

In 2014 the bonus plan was amended to allow the Committee to incorporate a personal performance adjutor to the bonus, ranging from 0 to 1.25 times the award value. The Committee is committed to publishing the personal targets set for the executive Directors and, where the personal performance adjutor is applied, will provide detailed disclosures to investors. This amendment allows the Committee to reduce the formula-driven bonus to zero or increase the bonus up to 1.25 times the award value but not greater than the maximum payable under the plan rules.

#### *Long-term Performance Related Incentives*

The Group operated four long-term incentive plans during the year all of which align the incentive packages of executives with the long-term interests of shareholders. The Hunting PSP has replaced awards under the PSP and LTIP plans, details of which are set out below.

##### **1. Performance Share Plan**

The PSP operated between 2009 and 2013 and has now been replaced by the Hunting PSP.

Awards under the PSP were granted annually and only vest if demanding performance conditions based on returns to shareholders are met. Awards granted under the PSP, which are subject to a three year performance period, are based on the Group's TSR performance relative to the constituent members of the Dow Jones US Oil Equipment and Services and the DJ STOXX TM Oil Equipment and Services sector indices and if the Committee determines the Group's financial performance to be satisfactory. These indices were considered by the Committee to be appropriate as they compare the Group's performance against other companies in the oil and gas services sector.

Awards vest subject to the schedule outlined below:

#### **Group's TSR against the TSR of the members of the Comparator Group**

|                                   | % of the award that vests                     |
|-----------------------------------|---|
| Upper quartile                    | 100%  |
| Between upper quartile and median | On a straight-line basis between 40% and 100% |
| Median                            | 40%   |
| Below median                      | 0%  |

##### **2. Long-Term Incentive Plan**

The LTIP, which operated between 2004 and 2013 has been replaced by the Hunting PSP.

The LTIP is a performance-linked plan with an incentive pool, which is calculated using the sum of the Group's after tax operating income after deducting a 7% charge on average shareholders funds for the after tax cost of capital. Determination of the incentive pool incorporates two components, the first being 2% of the absolute value added, and the second being 5% of the incremental value added. These performance conditions align the interests of the executives with those of the Group and its shareholders and will only produce value to the participants if value is created for the Group.

Awards are determined for each participant at the beginning of a three year performance cycle and are settled at the end of each cycle either in shares or in cash. The award for each participant is calculated as a percentage of the incentive pool resulting from the performance of the business over the performance cycle, as determined by the Committee.

##### **3. Executive Share Option Plan ("ESOP")**

The Group operated an ESOP between 2001 and 2008 to provide long-term incentives for executive Directors and senior executives of the Group. No further grants will be made under the ESOP.

# DIRECTORS' REMUNERATION POLICY

## CONTINUED

### 4. Hunting PSP

The Hunting PSP was approved by shareholders in April 2014 and replaces the PSP and LTIP incentive schemes. Certain key shareholders were consulted on the new plan's implementation during 2013 and 2014.

Shares awarded to the executive Directors under the Hunting PSP are divided equally into three tranches. Each tranche is subject to a three year vesting period, and is also subject to a performance condition. The three performance conditions are listed below:

- Relative TSR.
- Absolute growth in EPS.
- Average ROCE.

More detail on the performance conditions is provided in the following table:

| Proportion of award | Performance condition | Detail   |
|---------------------|-----------------------|--|
| 33%                 | TSR                   | <ul style="list-style-type: none"> <li>– The Group's TSR will be measured over a three year period against a bespoke peer group selected from the same global market sector as Hunting.</li> <li>– 25% of the award will vest if a median performance against the peer group is achieved, increasing on a straight-line basis to 100% if a top quartile performance against the peer group is achieved.</li> </ul> |
| 33%                 | Underlying EPS        | <ul style="list-style-type: none"> <li>– The Group's growth in EPS will be measured across the three year vesting period.</li> <li>– 25% of the award will vest if earnings growth achieves a minimum growth target set by the Committee increasing on a straight-line basis to 100% if a stretch growth target set by the Committee is achieved.</li> </ul>   |
| 33%                 | Underlying ROCE       | <ul style="list-style-type: none"> <li>– The Group's ROCE will be measured across the three year vesting period.</li> <li>– 25% of the award will vest if ROCE achieves a minimum target set by the Committee increasing on a straight-line basis to 100% if a stretch target set by the Committee is achieved.</li> </ul>   |

The respective performance conditions will be measured at the end of the three year vesting period and awards to the executive Directors will be proportional to the total vesting level achieved.

The face value of the grant to the Chief Executive is 450% of base salary and 210% of base salary for the Finance Director. Dividends declared by the Company during the vesting period are added to the awards once the final vesting levels have been determined.

### Executive Director Service Contracts

All existing executive Directors' Service Contracts are rolling one year agreements and contain standard provisions allowing the Company to terminate summarily for cause, such as gross misconduct.

The Chief Executive entered into an Employment Agreement with Hunting Energy Services Inc., a wholly owned subsidiary of the Group, on 7 February 2001. This Agreement is governed by the laws of the State of Delaware, US. Under the terms of the Agreement both Hunting Energy Services Inc. and the Chief Executive are required to give one year's notice of termination.

The Agreement contains a pay in lieu of notice clause, which provides for payment of base salary, up to a maximum of one year, a performance bonus if earned and vacation pay based on an annual entitlement of five weeks. There are special provisions on a change of control. These provide for payment of an amount equal to the total of the base salary for one year and the average Performance Bonus over the immediately preceding two year period. In addition, the Chief Executive would be entitled to continue to participate in the Group insurance programmes for 18 months following the change of control, and, unless otherwise provided in the relevant agreement, all share-based awards granted to him shall immediately accelerate and become exercisable as of the date of change of control.

The Finance Director entered into a Service Agreement with the Company on 23 April 2008. Under the terms of the Service Agreement both the Company and the Director are required to give one year's notice of termination. The Company reserves the right to pay the Finance Director in lieu of notice (whether given by the Company or by him) which provides for payment of base salary up to a maximum of one year and bonus, which he would have been entitled to receive under his contract between the date of termination and the earliest date the appointment could otherwise be lawfully terminated, less income tax and National Insurance Contributions. The Company also has the option to put the Finance Director on paid leave of absence following payment of a sum equivalent to salary and bonus (based on the previous twelve month period), subject to him complying with the terms of his Service Agreement. These conditions also apply on termination following a change of control and, in addition, the Finance Director would be entitled to an acceleration of all share-based awards which would immediately vest at the date of the change of control.

The Company has authorised the executive Directors to undertake non-executive directorships outside of the Group provided these do not interfere with their primary duties. During the year neither executive Director held any external positions.

### Non-executive Director Letters of Appointment

On appointment each non-executive Director is provided with a letter of appointment which sets out the responsibilities and time commitments for the role. Additional duties, as requested by the Nomination Committee, including chairing a Board subcommittee, are also incorporated into the letters of appointment and fees paid. Non-executive Director appointments are usually for a fixed three year term, which can be terminated by either party at any time.

### Payment for Loss of Office

The Committee has considered the Company's policy on remuneration for executive Directors leaving the Company and is committed to applying a consistent approach to ensure that the Company pays no more than is necessary. The loss of office payment policy subject to existing Service Contract agreements is generally aligned with market practice and depends on whether the departing executive Director is, or is deemed to be treated as, a "good leaver" or "bad leaver". A good leaver is defined as an employee who has ceased to be employed by the Group due to death, ill-health, injury, disability, redundancy, the employee's company ceasing to be a Group member or for any other reason, if the Committee so decides.

In the case of a good leaver the policy normally allows:

- payment in lieu of notice equal to twelve months' base salary, pension contributions and contractual benefits;
- payment of a bonus for the period worked subject to the achievement of the relevant performance conditions; and
- any unvested long-term incentives to vest subject to the achievement of the performance conditions and pro-rated based on the period of service.

If an employee departs the Group for any other reason than those specified in the good leaver definition above then he/she is treated as a bad leaver and unvested long-term incentives lapse immediately on cessation of employment. The Committee retains discretion to satisfy bonus payments to those executive Directors deemed to be bad leavers.

### New Director Policies

As the Board of Hunting is refreshed, with new executive and non-executive Director appointments, the policy for remuneration for the new Board members, will align to those detailed above.

Hunting needs to be able to attract and retain the best executive and non-executive Directors in the market place. The Remuneration Committee believes that the framework now in place will enable the Company to achieve its recruitment aims.

For executive Director appointments the fixed component of the total emoluments made will target the market mid-point, subject to geographic considerations of the candidate and the specific labour market conditions. The Service Contracts will be rolling one year agreements with standard provisions. The fixed components of emoluments will comprise base salary including any appropriate relocation or tax equalisation agreements, benefits including healthcare insurance, pension contributions, car benefits and any other components deemed necessary to secure an appointment. The variable components to the emoluments will be implemented in line with the policies above, subject to any future amendments to these arrangements being approved by shareholders. Annual Performance-Linked Cash Bonus arrangements will include awards up to 150% and 200% of base salary for the new Finance Director and Chief Executive respectively. The maximum awards under the Hunting PSP will be up to 450% and 550% of base salary for the new Finance Director and Chief Executive respectively. The Committee anticipates market standard change of control provisions within new Service Contracts.

In addition, for new appointees the Committee may offer additional cash and/or share-based elements when it considers these to be in the best interests of the Company and therefore shareholders. Any such payments would take account of remuneration relinquished when leaving the former employer and would reflect the nature, time horizons and performance requirements attaching to that remuneration. Shareholders will be informed of any such payments at the time of appointment.

For non-executive Director appointments, benchmarked fees to companies of similar size and profile to Hunting will be applied.

### Consideration of Employment Conditions Elsewhere in the Group

The Committee considers the general basic salary increases for the broader employee population when determining the annual salary increases for the executive Directors. Employees have not been consulted in respect of the design of the Company's senior executive remuneration policy.

### Shareholder Consultation and Feedback

The Committee engaged in a shareholder consultation on the Policy and the Hunting PSP in the final quarter of 2013 and early 2014, with shareholders approving the new arrangements at the Company's AGM in April 2014.

# DIRECTORS' REMUNERATION POLICY

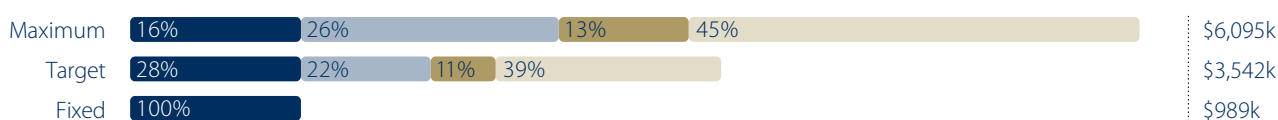
## CONTINUED

### Remuneration Scenarios for Executive Directors

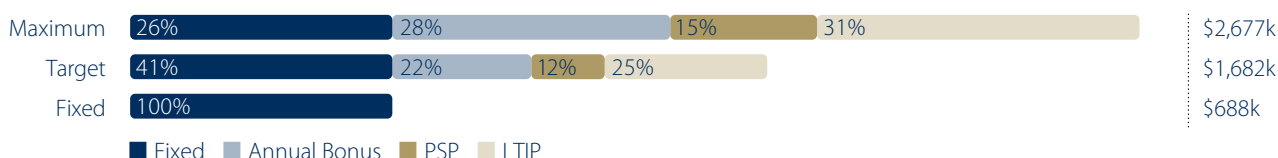
The remuneration scenarios of the executive Directors for a fixed, target and maximum performance are presented in the charts below detailing remuneration under Hunting's legacy long-term incentive arrangements and the future framework for remuneration following approval of the Hunting PSP in April 2014. The charts are based on 2014 remuneration data.

#### Legacy Remuneration

##### Chief Executive



##### Finance Director



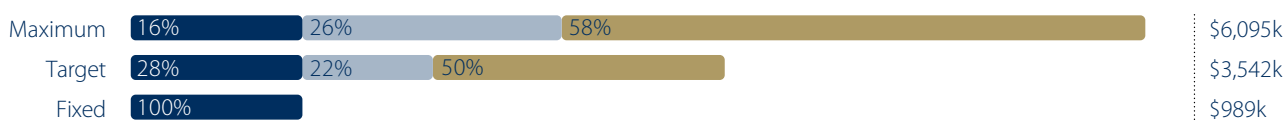
Note: these charts are indicative as share price movement and dividend accruals have been excluded. Assumptions made for each scenario are as follows:

- Fixed: latest known salary, benefits and normal pension contributions.
- Target: fixed remuneration plus half of maximum annual cash bonus opportunity plus 50% vesting of awards under the PSP plus 50% vesting of awards under the LTIP.
- Maximum: fixed remuneration plus maximum annual cash bonus opportunity plus 100% vesting of all long-term incentives.

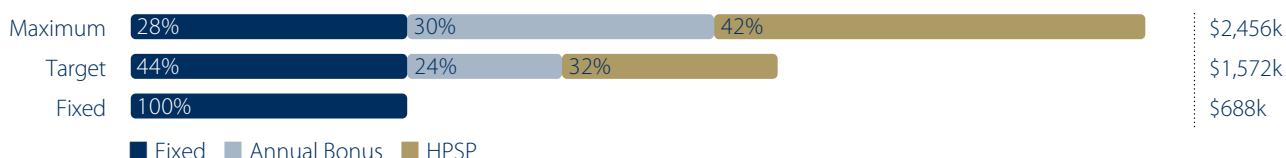
The Finance Director is paid in Sterling and the equivalent total remuneration scenarios are as follows – fixed £417k; target £1,021k and maximum £1,624k.

#### Future Remuneration

##### Chief Executive



##### Finance Director



Note: these charts are indicative as share price movement and dividend accruals have been excluded. Assumptions made for each scenario are as follows:

- Fixed: latest known salary, benefits and normal pension contributions.
- Target: fixed remuneration plus half of maximum annual cash bonus opportunity plus 50% vesting of awards under the Hunting PSP.
- Maximum: fixed remuneration plus maximum annual cash bonus opportunity plus 100% vesting of all long-term incentives.

The Finance Director is paid in Sterling and the equivalent total remuneration scenarios are as follows – fixed £417k; target £954k and maximum £1,490k.



**John Hofmeister**

Chairman of the Remuneration Committee  
5 March 2015



# ANNUAL REPORT ON REMUNERATION

## Introduction

The principles of the Directors' Remuneration Policy (the "Policy") detailed on pages 58 to 68 have been in operation throughout 2014 and are detailed in the following report. The Policy can be viewed on the Group's website at [www.huntingplc.com](http://www.huntingplc.com).

The Remuneration Committee (the "Committee") will continue to implement these policies throughout 2015.

## Role, Membership and Attendance

The Committee is responsible for setting the remuneration of the executive Directors. The Chairman and Chief Executive are consulted on proposals relating to the remuneration of the Finance Director and designated senior management and, where appropriate, are invited by the Committee to attend meetings but are not present when their own remuneration is considered. Remuneration of the non-executive Directors is agreed by the Board as a whole. The full scope of the role of the Committee is set out in its terms of reference, which are reviewed annually, and can be found on the Group's website at [www.huntingplc.com](http://www.huntingplc.com).

The Committee consists entirely of independent non-executive Directors. On 15 September 2014, Andrew Szescila retired from the Board and ceased to be Chairman of the Committee. Following this, John Hofmeister was appointed Chairman of the Committee. The Committee met four times during the year and attendance details are shown in the table on page 53.

On 2 February 2015, Annell Bay and Jay Glick were appointed to the Committee, following their appointment as Directors. Neither received any emoluments or fees during 2014.

During the year, and to the date of signature of the accounts, the members of the Committee and their unexpired term of office were:

| Director                               | Latest appointment date | Unexpired term as at 5 March 2015 |
|--|-------------------------|-----------------------------------|
| John Hofmeister                        | 29 August 2012          | 6 months                          |
| Annell Bay                             | 2 February 2015         | 35 months                         |
| Jay Glick                              | 2 February 2015         | 35 months                         |
| John Nicholas                          | 29 August 2012          | 6 months                          |
| Andrew Szescila (to 15 September 2014) | 16 September 2011       | N/A                               |

## External Advisers

During the year, New Bridge Street, a trading name of Aon Hewitt Ltd, and Pearl Meyer and Partners were engaged by the Committee to provide remuneration consultancy services. Both firms, whose initial appointment was subject to a formal tender process, are regarded as independent having been appointed by the Committee and acting under direction of the Committee.

The total cost of advice to the Committee over the year to 31 December 2014 was \$264,858 (2013 – \$279,747) and reflects fees paid in respect of the review of remuneration, share plans and the remuneration reporting disclosure requirements.

## Shareholder Voting at the 2014 Annual General Meeting ("AGM")

At the AGM of the Company held in April 2014, the resolutions to approve the Directors' Remuneration Policy and Annual Report on Remuneration received the following votes from shareholders:

|                             | Directors' Remuneration Policy |                 | Annual Report on Remuneration |                 |
|-----------------------------|--------------------------------|-----------------|-------------------------------|-----------------|
|                             | Number of votes                | % of votes cast | Number of votes               | % of votes cast |
| For                         | 108,772,112                    | 91.5            | 117,041,996                   | 98.4            |
| Discretion                  | 408,552                        | 0.3             | 408,552                       | 0.3             |
| Against                     | 9,745,374                      | 8.2             | 1,504,470                     | 1.3             |
| Votes withheld <sup>1</sup> | 39,234                         | n/a             | 10,254                        | n/a             |
| Total votes cast            | 118,965,272                    | 100.0           | 118,965,272                   | 100.0           |

1. A vote withheld is not a vote in law and is not included in the calculation of the % of votes cast.

# ANNUAL REPORT ON REMUNERATION

## CONTINUED

### Director Remuneration (audited)

|                               | Fixed remuneration                      |                                 |                                |                     | Variable remuneration                    |                                   |                                    |                     | Other remuneration <sup>10</sup> | Total remuneration 2014 |
|-------------------------------|---|---------------------------------|--------------------------------|---------------------|--|-----------------------------------|------------------------------------|---------------------|----------------------------------|-------------------------|
|                               | Base salary/fees <sup>1</sup><br>\$'000 | Benefits <sup>2</sup><br>\$'000 | Pension <sup>3</sup><br>\$'000 | Sub total<br>\$'000 | Annual cash bonus <sup>4</sup><br>\$'000 | PSP awards <sup>6</sup><br>\$'000 | LTIP awards <sup>8</sup><br>\$'000 | Sub total<br>\$'000 |                                  |                         |
| 2014                          |   |                                 |                                |                     |  |                                   |                                    |                     |                                  |                         |
| <b>Executives</b>             |   |                                 |                                |                     |  |                                   |                                    |                     |                                  |                         |
| Dennis Proctor                | 786                                     | 56                              | 147                            | 989                 | 889                                      | –                                 | 2,750                              | 3,639               | 180                              | 4,808                   |
| Peter Rose                    | 491                                     | 47                              | 565                            | 1,103               | 417                                      | –                                 | 859                                | 1,276               | –                                | 2,379                   |
| <b>Non-executives</b>         |   |                                 |                                |                     |  |                                   |                                    |                     |                                  |                         |
| John Hofmeister <sup>11</sup> | 120                                     | –                               | –                              | 120                 | –  | –                                 | –                                  | –                   | –                                | 120                     |
| Richard Hunting               | 319                                     | –                               | –                              | 319                 | –  | –                                 | –                                  | –                   | –                                | 319                     |
| John Nicholas                 | 115                                     | –                               | –                              | 115                 | –  | –                                 | –                                  | –                   | –                                | 115                     |
| Andrew Szescila <sup>12</sup> | 83                                      | –                               | –                              | 83                  | –  | –                                 | –                                  | –                   | –                                | 83                      |
| <b>Total</b>                  | <b>1,914</b>                            | <b>103</b>                      | <b>712</b>                     | <b>2,729</b>        | <b>1,306</b>                             | <b>–</b>                          | <b>3,609</b>                       | <b>4,915</b>        | <b>180</b>                       | <b>7,824</b>            |
|                               |   |                                 |                                |                     |  |                                   |                                    |                     |                                  |                         |
|                               | Fixed remuneration                      |                                 |                                |                     | Variable remuneration                    |                                   |                                    |                     | Other remuneration <sup>10</sup> | Total remuneration 2013 |
|                               | Base salary/fees <sup>1</sup><br>\$'000 | Benefits <sup>2</sup><br>\$'000 | Pension <sup>3</sup><br>\$'000 | Sub total<br>\$'000 | Annual cash bonus <sup>5</sup><br>\$'000 | PSP awards <sup>7</sup><br>\$'000 | LTIP awards <sup>9</sup><br>\$'000 | Sub total<br>\$'000 |                                  |                         |
| 2013                          |   |                                 |                                |                     |  |                                   |                                    |                     |                                  |                         |
| <b>Executives</b>             |   |                                 |                                |                     |  |                                   |                                    |                     |                                  |                         |
| Dennis Proctor                | 764                                     | 54                              | 193                            | 1,011               | 647                                      | –                                 | 2,675                              | 3,322               | 109                              | 4,442                   |
| Peter Rose                    | 376                                     | 36                              | 142                            | 554                 | 239                                      | –                                 | 657                                | 896                 | –                                | 1,450                   |
| <b>Non-executives</b>         |   |                                 |                                |                     |  |                                   |                                    |                     |                                  |                         |
| John Hofmeister               | 110                                     | –                               | –                              | 110                 | –  | –                                 | –                                  | –                   | –                                | 110                     |
| Richard Hunting               | 303                                     | –                               | –                              | 303                 | –  | –                                 | –                                  | –                   | –                                | 303                     |
| John Nicholas                 | 110                                     | –                               | –                              | 110                 | –  | –                                 | –                                  | –                   | –                                | 110                     |
| Andrew Szescila               | 110                                     | –                               | –                              | 110                 | –  | –                                 | –                                  | –                   | –                                | 110                     |
| <b>Total</b>                  | <b>1,773</b>                            | <b>90</b>                       | <b>335</b>                     | <b>2,198</b>        | <b>886</b>                               | <b>–</b>                          | <b>3,332</b>                       | <b>4,218</b>        | <b>109</b>                       | <b>6,525</b>            |

Notes to table:

- Executive Directors' salaries were increased in March 2014 by 2.8%. Following shareholder approval at the Company's AGM the base salary of the Finance Director was set at £298,000 for 2014. In 2014 the fees of the non-executive Director's, including the Chairman, were not increased in Sterling terms. The movement in the £/\$ exchange rate in the year has the effect of showing a year-on-year increase for all Board members, except that of Dennis Proctor whose base salary is determined and paid in US dollars.
- Benefits include the provision of healthcare insurance, a company car and fuel benefits.
- Dennis Proctor's single figure pension remuneration represents the total Company contributions paid to his US pension arrangements. Peter Rose is a member of a defined benefit pension scheme and the single figure pension remuneration has been calculated in a consistent way in accordance with the regulations and represents 20 times the increase in his accrued pension over 2014 and 2013 after allowing for CPI inflation and deducting his own pension contributions. The principal reason for the increase in Mr Rose's pension remuneration in 2014 is due to the increase in his base salary with effect from 1 January 2014.
- The bonus is comprised 70% on a Profit Before Tax ("PBT") target and 30% on a Return on Capital Employed ("ROCE") target and is subject to the application of a personal performance adjutor. In 2014, the PBT and ROCE targets exceeded the Annual Budget by 2.4% and 3.1% respectively, leading to a bonus allocation equating to 113% of base salary for the Chief Executive and 85% of base salary for the Finance Director. Following review of the personal performance objectives set by the Committee in March 2014, a bonus adjutor of 1.0 times was applied to the formula driven allocation for each executive, resulting in no adjustment to the formula-driven annual bonus.
- The bonus is comprised 70% on a PBT target and 30% on a ROCE target. In 2013, the PBT and ROCE targets achieved were 98% and 94% of those Annual Budget items respectively, leading to bonus payments equating to 85% of base salary for the Chief Executive and 64% of base salary for the Finance Director.
- The 2012 awards under the PSP have a three year performance period to 16 April 2015. The awards were measured on 24 February 2015 against the performance conditions specified on page 65, which indicated that the 2012 awards were unlikely to vest. On this basis, no payments are likely to be paid to executive Directors.
- The 2011 awards under the PSP had a three year performance period to 24 February 2014. The awards were measured on 24 February 2014 and were subject to the performance conditions specified on page 65, which resulted in a zero vesting. No payments were therefore made to the executive Directors.
- In accordance with the rules under the 2004 Long-Term Incentive Plan ("LTIP") and the three year cycle ending 31 December 2014, the accumulated incentive pool totalled \$9.8m, resulting in an entitlement of \$2.8m to Dennis Proctor and an entitlement of \$0.9m to Peter Rose. Under the rules of the LTIP, Dennis Proctor is entitled to 35% of the accumulated incentive pool while Peter Rose is entitled to 15% of the incentive pool. The maximum levels of award to Dennis Proctor and Peter Rose are capped at 350% and 175% of base salary respectively.
- In accordance with the rules under the 2004 LTIP and the three year cycle ending 31 December 2013, the accumulated incentive pool totalled \$12.2m, resulting in an entitlement of \$2.7m to Dennis Proctor and an entitlement of \$0.7m to Peter Rose. Under the rules of the LTIP, Dennis Proctor is entitled to 35% of the accumulated incentive pool while Peter Rose is entitled to 15% of the incentive pool. The maximum levels of award to Dennis Proctor and Peter Rose are capped at 350% and 175% of base salary respectively.
- Other remuneration represents additional UK tax payable under a tax equalisation agreement.
- John Hofmeister received additional fees during 2014 following his appointment as Chairman of the Remuneration Committee.
- Andrew Szescila retired from the Board on 15 September 2014.

The remuneration of Richard Hunting, Peter Rose and the non-executive Directors is originally denominated in Sterling and is as follows:

|                              | Fixed remuneration        |                   |                  |                    | Variable remuneration      |                     |                      |                    | Total remuneration<br>£'000 |
|------------------------------|---------------------------|-------------------|------------------|--------------------|----------------------------|---------------------|----------------------|--------------------|-----------------------------|
|                              | Base salary/fees<br>£'000 | Benefits<br>£'000 | Pension<br>£'000 | Sub total<br>£'000 | Annual cash bonus<br>£'000 | PSP awards<br>£'000 | LTIP awards<br>£'000 | Sub total<br>£'000 |                             |
| 2014                         |                           |                   |                  |                    |                            |                     |                      |                    |                             |
| <b>Executives</b>            |                           |                   |                  |                    |                            |                     |                      |                    |                             |
| Peter Rose                   | 298                       | 28                | 343              | 669                | 253                        | –                   | 522                  | 775                | 1,444                       |
| <b>Non-executives</b>        |                           |                   |                  |                    |                            |                     |                      |                    |                             |
| Richard Hunting              | 194                       | –                 | –                | 194                | –                          | –                   | –                    | –                  | 194                         |
| John Hofmeister <sup>1</sup> | 73                        | –                 | –                | 73                 | –                          | –                   | –                    | –                  | 73                          |
| John Nicholas                | 70                        | –                 | –                | 70                 | –                          | –                   | –                    | –                  | 70                          |
| Andrew Szescila <sup>2</sup> | 50                        | –                 | –                | 50                 | –                          | –                   | –                    | –                  | 50                          |
| 2013                         |                           |                   |                  |                    |                            |                     |                      |                    |                             |
| <b>Executives</b>            |                           |                   |                  |                    |                            |                     |                      |                    |                             |
| Peter Rose                   | 240                       | 23                | 91               | 354                | 153                        | –                   | 420                  | 573                | 927                         |
| <b>Non-executives</b>        |                           |                   |                  |                    |                            |                     |                      |                    |                             |
| Richard Hunting              | 194                       | –                 | –                | 194                | –                          | –                   | –                    | –                  | 194                         |
| John Hofmeister              | 70                        | –                 | –                | 70                 | –                          | –                   | –                    | –                  | 70                          |
| John Nicholas                | 70                        | –                 | –                | 70                 | –                          | –                   | –                    | –                  | 70                          |
| Andrew Szescila              | 70                        | –                 | –                | 70                 | –                          | –                   | –                    | –                  | 70                          |

1. John Hofmeister received additional fees during 2014 following his appointment as Chairman of the Remuneration Committee.

2. Andrew Szescila retired from the Board on 15 September 2014.

### Salary and Fees

In December 2013, the executive Directors reviewed the non-executive Directors' fees, following receipt of benchmarked data from New Bridge Street. The review resulted in no changes to the fees payable in 2014.

In March 2014, the Committee increased the 2014 base salary of the Chief Executive and Finance Director by 2.8% compared to 2013, following receipt of benchmarked data from New Bridge Street and Pearl Meyer. Following approval by shareholders in April 2014, the base salary of the Finance Director was increased to \$491,074 (£298,000) to bring his benchmarked salary in line with the approved Policy of targeting the market mid-point.

### Pensions (audited)

Dennis Proctor is a member of a deferred compensation scheme in the US, which is anticipated to provide a cash lump sum on his retirement. In practice, this scheme is administered and operated on a money purchase basis. In 2014, the Group contributed \$131,496 (2013 – \$177,908) to that arrangement. There are no additional benefits provided on early retirement from this arrangement. The Group also contributed \$15,600 in 2014 (2013 – \$15,300) to his US 401K tax deferred savings plan.

Peter Rose is a member of the defined benefit section of the Hunting pension scheme. His accrued pension as at 31 December 2014 amounted to \$186,000 p.a. (2013 – \$144,000 p.a.) which includes a temporary pension of \$nil p.a. (2013 – \$9,000 p.a.). He is able to retire on 24 October 2018 age 60, his normal retirement age in that scheme, without any reduction on his main scheme benefits (although there is a small part of his pension that is payable only from age 62 without reduction). With Company consent Peter Rose is able to retire from age 57 without any actuarial reduction for early retirement applied to his accrued pension. The principal reason for the increase in Mr Rose's pension remuneration in 2014 is due to the increase in his base salary with effect from 1 January 2014. It is anticipated that Mr Rose's pension remuneration in future years will be more in line with the 2013 pension remuneration figure, subject to inflationary movements and future increases to base salary.

# ANNUAL REPORT ON REMUNERATION

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### Annual Performance-Linked Cash Bonus Plan

The annual performance-linked cash bonus plan entitles the executive Directors to cash bonus payments when the actual financial results of the Group achieve preset financial targets based on the Group's Annual Budget. The bonus has the potential to be adjusted to reflect the delivery of personal performance targets.

The 2014 actual results exceeded budgeted PBT and ROCE by 2.4% and 3.1% respectively, leading to a cash bonus allocation of \$889,299 for Dennis Proctor and \$416,922 (£253,002) for Peter Rose. These amounts reflect 113% and 85% of the base salaries for Dennis Proctor and Peter Rose respectively. Budgeted PBT and ROCE were \$207.4m and 12.7% respectively.

In March 2014, the Committee set personal performance targets for each executive Director. The targets and outcome, including the personal performance adjutor applied to the bonus, of each executive Director are summarised below:

| Description of Target  | Assessment   | Outcome  |
|--|--|--|
| <ul style="list-style-type: none"> <li>– Complete a strategic review (Chief Executive only)</li> <li>– Improve organisational effectiveness</li> <li>– Plan senior management succession</li> <li>– Strengthen financial management (Finance Director only)</li> </ul> | <ul style="list-style-type: none"> <li>– The Chief Executive and Finance Director were scored by the Committee in March 2015 on the basis of the targets set in 2014.</li> <li>– Factors taken into consideration included completion of a strategic review, identification and adoption of improvements to operational effectiveness and actions taken to strengthen financial management.</li> </ul> | <p>The personal performance adjutor applied to the above bonus allocation was as follows:</p> <p><b>Chief Executive</b> – 1.00 out of 1.25</p> <p><b>Finance Director</b> – 1.00 out of 1.25</p> |

Following application of the personal performance adjutor, the annual bonuses for 2014 payable to the Chief Executive and Finance Director are therefore \$889,299 and \$416,922 respectively.

The 2013 actual results were 98% of budgeted PBT and 94% of ROCE leading to a cash bonus payment of \$647,285 for Dennis Proctor and \$238,684 (£152,533) for Peter Rose. The amounts paid reflect 85% and 64% of the base salaries for Dennis Proctor and Peter Rose respectively.

### 2012 PSP Vesting (audited)

The 2012 awards granted under the PSP with a three year performance period to 16 April 2015 were measured by New Bridge Street on 24 February 2015 given that a substantial portion of the performance period had been completed. This measurement indicated that the awards were unlikely to vest. The Committee therefore advised that the 2012 share grants to the Chief Executive and Finance Director were likely to lapse resulting in no shares vesting to either executive Director. This result will be confirmed in the 2015 Annual Report on Remuneration, or should there be a vesting, announced to investors on receipt of the final measurement of the performance conditions.

### 2011 PSP Vesting (audited)

The 2011 awards granted under the PSP were measured by New Bridge Street on 24 February 2014 and resulted in a zero vesting. The 2011 share grants to the Chief Executive and Finance Director duly lapsed with no shares vesting to either executive Director.

### 2012 LTIP Vesting (audited)

On 31 December 2014, the 2012 award under the LTIP for the three year period commencing 1 January 2012 was measured in accordance with the plan rules and resulted in an accumulated incentive pool of \$9.8m. The executive Directors were awarded the following:

| Director       | % of incentive pool awarded | Value of award \$ | Award as % of base salary |
|----------------|-----------------------------|-------------------|---------------------------|
| Dennis Proctor | 35%                         | 2,749,600         | 350                       |
| Peter Rose     | 15%                         | 859,380           | 175                       |

### 2011 LTIP Vesting (audited)

On 31 December 2013, the 2011 award under the LTIP for the three year period commencing 1 January 2011 was measured in accordance with the plan rules and resulted in an accumulated incentive pool of \$12.2m. The executive Directors were awarded the following:

| Director       | % of incentive pool awarded | Value of award \$ | Award as % of base salary |
|----------------|-----------------------------|-------------------|---------------------------|
| Dennis Proctor | 35%                         | 2,674,732         | 350                       |
| Peter Rose     | 15%                         | 657,479           | 175                       |

**2014 Hunting PSP Grants**

On 1 May 2014, following approval by shareholders at the Company's Annual General Meeting, the Committee approved the allocation of nil cost share awards to Dennis Proctor and nil cost options to Peter Rose under the rules of the Hunting PSP. Awards will vest on 1 May 2017, subject to the achievement of the performance conditions detailed on page 66 of the Policy. Details of the grant are as follows:

| Director       | Award as % of base salary | Number of shares awarded | Face value of award at threshold vesting of 25% \$ | Face value of maximum award (vesting at 100%) \$ |
|----------------|---------------------------|--------------------------|--|--|
| Dennis Proctor | 450%                      | 255,050                  | 883,800  | 3,535,200  |
| Peter Rose     | 210%                      | 72,238                   | 257,814  | 1,031,255  |

The face value of the 2014 award is based on the closing mid-market price on 1 May 2014 which was 839.5p.

**Payments to Past Directors and for Loss of Office (audited)**

On 15 September 2014, Andrew Szescila retired from the Board, following completion of his three year term of appointment. Mr Szescila received all of his relevant fees up to this date, with no payment for loss of office being made.

No payments were made in the year to other past Directors in the normal course of business or for loss of office.

**Directors' Shareholdings, Ownership Policy and Share Interests (audited)**

The beneficial interests of the Directors in the issued Ordinary shares in the Company are as follows:

| Director  | At<br>31 December<br>2014 | At<br>31 December<br>2013 |
|---|---------------------------|---------------------------|
| <b>Non-executive Chairman</b>                       |                           |                           |
| Richard Hunting <sup>1</sup>                        | 463,306                   | 463,306                   |
| as trustee  | 979,049                   | 979,049                   |
| as director of Hunting Investments Limited          | 10,973,487                | 10,884,743                |
| <b>Executives</b>                                   |                           |                           |
| Dennis Proctor <sup>1</sup>                         | 1,576,802                 | 1,267,097                 |
| Peter Rose <sup>1</sup>                             | 57,410                    | 52,410                    |
| <b>Non-executives</b>                               |                           |                           |
| John Hofmeister <sup>1</sup>                        | 10,000                    | 10,000                    |
| John Nicholas <sup>1</sup>                          | 5,000                     | 5,000                     |
| Andrew Szescila <sup>1</sup> (at 15 September 2014) | 10,000                    | 10,000                    |

1. Beneficial share interests are those Ordinary shares owned by the Director or spouse which the Director is free to dispose of.

There has been no further changes to the Directors' share interests in the period 31 December 2014 to 5 March 2015.

As at 5 March 2015, Annell Bay and Jay Glick held no shares in the Company.

In 2014, the Group implemented a share ownership policy which requires Directors and certain senior executives within the Group to build up a holding in share equal in value to a certain multiple of their base salary or fee. The multiple takes into account the post tax value of vested but unexercised share awards or options.

The required shareholding of the respective Director and the current shareholding as a multiple of base salary as at 31 December 2014 is presented below:

| Director        | Required holding expressed as a multiple of base salary or fee | Value of holding in shares including the post tax value of vested but unexercised share awards and options expressed as a multiple of base salary or fee as at 31 December 2014 |
|-----------------|--|---|
| Dennis Proctor  | 5 times  | 17.3  |
| Peter Rose      | 2 times  | 1.2   |
| Richard Hunting | 1 times  | 12.7  |
| John Hofmeister | 1 times  | 0.7   |
| John Nicholas   | 1 times  | 0.4   |

Directors have five years from 1 January 2014 (or from date of appointment to the Board) in which to satisfy the shareholding requirement.



# ANNUAL REPORT ON REMUNERATION

## CONTINUED

The interests of the executive Directors over Ordinary shares of the Group under the ESOP, PSP and Hunting PSP are set out below:

The vesting of options and awards are subject to performance conditions set out within the Policy on pages 65 and 66.

| Director              | Interests at<br>1 January<br>2014 | Options/<br>awards<br>granted in<br>year | Options/<br>awards<br>exercised/<br>vested in year | Options/<br>awards lapsed<br>in year | Interests at<br>31 December<br>2014 | Exercise price<br>p | Grant date | Date from<br>which<br>exercisable/<br>vesting | Expiry date | Scheme |
|-----------------------|-----------------------------------|--|--|--------------------------------------|-------------------------------------|---------------------|------------|---|-------------|--------|
| <b>Dennis Proctor</b> | 309,705                           | –  | (309,705)  | –                                    | –                                   | 116.9               | 31.03.04   | 31.03.07                                      | 30.03.14    | ESOP   |
|                       | 171,742                           | –  | –  | –                                    | 171,742 <sup>+</sup>                | 220.7               | 09.03.05   | 09.03.08                                      | 08.03.15    | ESOP   |
|                       | 104,178                           | –  | –  | –                                    | 104,178 <sup>+</sup>                | 383.0               | 08.03.06   | 08.03.09                                      | 07.03.16    | ESOP   |
|                       | 64,688                            | –  | –  | –                                    | 64,688 <sup>+</sup>                 | 640.0               | 06.03.07   | 06.03.10                                      | 05.03.17    | ESOP   |
|                       | 55,449                            | –  | –  | –                                    | 55,449 <sup>+</sup>                 | 784.5               | 04.03.08   | 04.03.11                                      | 03.03.18    | ESOP   |
| <b>Sub total</b>      | <b>705,762</b>                    | <b>–</b>                                 | <b>(309,705)</b>                                   | <b>–</b>                             | <b>396,057</b>                      |                     |            |   |             |        |
|                       | 57,295                            | –  | –  | (57,295)                             | –                                   | nil                 | 25.02.11   | 25.02.14                                      | –           | PSP    |
|                       | 52,103                            | –  | –  | –                                    | 52,103 <sup>^</sup>                 | nil                 | 17.04.12   | 17.04.15                                      | –           | PSP    |
|                       | 52,516                            | –  | –  | –                                    | 52,516 <sup>^</sup>                 | nil                 | 20.03.13   | 20.03.16                                      | –           | PSP    |
| <b>Sub total</b>      | <b>161,914</b>                    | <b>–</b>                                 | <b>–</b>   | <b>(57,295)</b>                      | <b>104,619</b>                      |                     |            |   |             |        |
|                       | –                                 | 255,050                                  | –  | –                                    | 255,050 <sup>^</sup>                | nil                 | 01.05.14   | 01.05.17                                      | –           | HPSP   |
| <b>Sub total</b>      | <b>–</b>                          | <b>255,050</b>                           | <b>–</b>   | <b>–</b>                             | <b>255,050</b>                      |                     |            |   |             |        |
| <b>Total</b>          | <b>867,676</b>                    | <b>255,050</b>                           | <b>(309,705)</b>                                   | <b>(57,295)</b>                      | <b>755,726</b>                      |                     |            |   |             |        |
| <b>Peter Rose</b>     | 29,454                            | –  | –  | –                                    | 29,454 <sup>+</sup>                 | 220.7               | 09.03.05   | 09.03.08                                      | 08.03.15    | ESOP   |
|                       | 18,277                            | –  | –  | –                                    | 18,277 <sup>+</sup>                 | 383.0               | 08.03.06   | 08.03.09                                      | 07.03.16    | ESOP   |
|                       | 15,000                            | –  | –  | –                                    | 15,000 <sup>+</sup>                 | 640.0               | 06.03.07   | 06.03.10                                      | 05.03.17    | ESOP   |
|                       | 21,670                            | –  | –  | –                                    | 21,670 <sup>+</sup>                 | 784.5               | 04.03.08   | 04.03.11                                      | 03.03.18    | ESOP   |
| <b>Sub total</b>      | <b>84,401</b>                     | <b>–</b>                                 | <b>–</b>   | <b>–</b>                             | <b>84,401</b>                       |                     |            |   |             |        |
|                       | 23,241                            | –  | –  | (23,241)                             | –                                   | nil                 | 25.02.11   | 25.02.14                                      | 24.02.21    | PSP    |
|                       | 20,953                            | –  | –  | –                                    | 20,953 <sup>~</sup>                 | nil                 | 17.04.12   | 17.04.15                                      | 16.04.22    | PSP    |
|                       | 21,119                            | –  | –  | –                                    | 21,119 <sup>~</sup>                 | nil                 | 20.03.13   | 20.03.16                                      | 19.03.23    | PSP    |
| <b>Sub total</b>      | <b>65,313</b>                     | <b>–</b>                                 | <b>–</b>   | <b>(23,241)</b>                      | <b>42,072</b>                       |                     |            |   |             |        |
|                       | –                                 | 72,238                                   | –  | –                                    | 72,238 <sup>~</sup>                 | nil                 | 01.05.14   | 01.05.17                                      | 30.04.24    | HPSP   |
| <b>Sub total</b>      | <b>–</b>                          | <b>72,238</b>                            | <b>–</b>   | <b>–</b>                             | <b>72,238</b>                       |                     |            |   |             |        |
| <b>Total</b>          | <b>149,714</b>                    | <b>72,238</b>                            | <b>–</b>   | <b>(23,241)</b>                      | <b>198,711</b>                      |                     |            |   |             |        |

<sup>+</sup> Vested and currently exercisable.

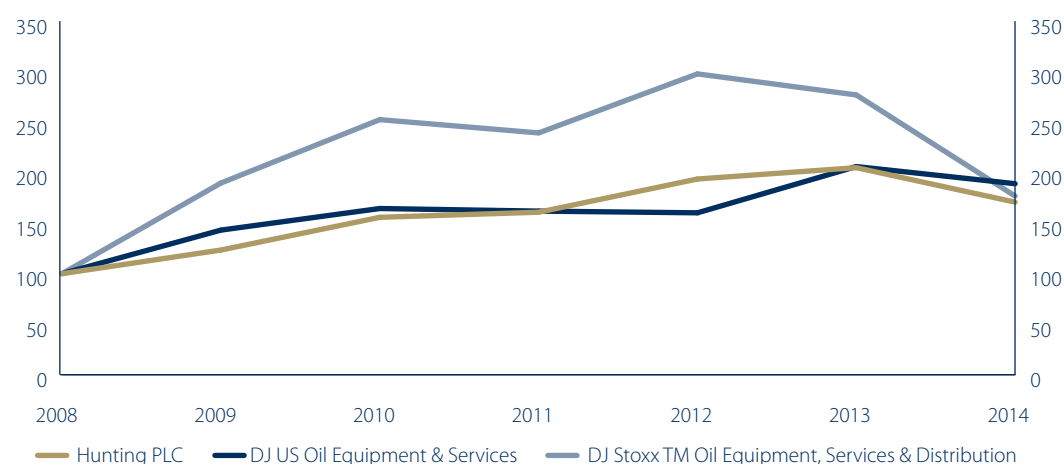
<sup>^</sup> Nil cost share awards which are not yet vested or exercisable and still subject to the performance conditions being measured in accordance with the PSP/HPSP rules.

<sup>~</sup> Nil cost share options which are not yet vested or exercisable and still subject to the performance conditions being measured in accordance with the PSP/HPSP rules.

### Executive Director Remuneration and Shareholder Returns

The following chart compares the TSR of Hunting PLC between 2008 and 2014 to the DJ Stoxx TM Oil Equipment, Services and Distribution and DJ US Oil Equipment and Services indices.

In the opinion of the Directors, these indices are the most appropriate indices against which the shareholder return of the Company's shares should be compared because they comprise other companies in the oil and gas services sector.



Source: Datastream

### Summary Table of Chief Executive's Remuneration

The accompanying table details remuneration of the Chief Executive:

|      | Single figure remuneration <sup>1</sup><br>\$'000 | Annual Bonus<br>% <sup>2</sup> | ESOP/PSP % vesting <sup>3</sup> | LTIP<br>% award <sup>4</sup> |
|------|---|--------------------------------|---------------------------------|------------------------------|
| 2014 | 4,808   | 57                             | Nil                             | 100                          |
| 2013 | 4,442   | 42                             | Nil                             | 100                          |
| 2012 | 5,497   | 75                             | 66                              | 100                          |
| 2011 | 3,261   | 100                            | Nil                             | 31                           |
| 2010 | 1,876   | 100                            | 100                             | 5                            |
| 2009 | 2,363   | 17                             | 100                             | 62                           |

1. Single figure remuneration reflects the aggregate remuneration paid to the Chief Executive as defined within the Policy on pages 58 to 68.
2. Annual cash bonus percentages reflect the bonus received by the Chief Executive each year expressed as a percentage of maximum bonus opportunity.
3. Percentage vesting reflects the % of the ESOP which vested in the financial year and the % of the PSP where a substantial portion of the performance period was completed at the financial year end.
4. LTIP award percentage reflects the award value expressed as a percentage of maximum award opportunity received each year measured at 31 December.

### Executive Director Remuneration and the Wider Workforce

The changes to the remuneration of the Chief Executive in 2014 compared to 2013 and those of the total workforce are as follows:

|             | Chief Executive | Employee |
|-------------|-----------------|----------|
| Base salary | +2.8%           | +7.5%    |
| Bonus       | +37.4%          | +40.0%   |
| Benefits    | +3.7%           | Nil      |

# ANNUAL REPORT ON REMUNERATION

## CONTINUED

### Relative Importance of Spend on Pay

The table below shows the relative importance of spend on employee remuneration in relation to corporate taxation, dividends and capital investments. The choice of performance metrics represents the material operating costs of the Group and the use of generated cash in delivering long-term shareholder value.

|                       | 2014<br>\$m | 2013*<br>\$m | % Change |
|-----------------------|-------------|--------------|----------|
| Employee remuneration | 290.6       | 262.4        | +11      |
| Tax paid              | 26.6        | 19.9         | +34      |
| Dividends paid        | 44.1        | 42.5         | +4       |
| Capital investment    | 123.5       | 94.8         | +30      |

\* Restated for the designation of Gibson Shipbrokers as a discontinued operation.

### Implementation of Policies in 2015

The remuneration policies for 2015 will be applied in line with those detailed on pages 58 to 68.

In December 2014, the Board reviewed benchmarked non-executive Director fee data, resulting in no changes being made to fees payable to the non-executive Directors for 2015. Ansell Bay and Jay Glick were appointed to the Board on 2 February 2015 and receive non-executive Director fees in line with the policy on page 63.

In March 2015, the Committee met to discuss base salary changes for the executive Directors. The Committee agreed to review and implement any changes later in the year, given the current market environment in which Hunting operates.

The annual performance-linked cash bonus for 2015 will be operated in line with the Policy detailed on page 60. The Committee will disclose details of the retrospective performance against the pre-set financial and personal performance targets.

The Committee plans to grant nil cost share awards or options to the Chief Executive, Finance Director and other senior executives of the Group under the Hunting PSP in early March 2015. The awards will be in line with the rules of the Hunting PSP and subject to performance conditions.



**John Hofmeister**

Chairman of the Remuneration Committee  
5 March 2015

## AUDIT COMMITTEE REPORT

“OUR WORK DURING 2014 CONTINUED TO FOCUS ON THE INTEGRITY OF THE GROUP’S FINANCIAL REPORTING, THE INDEPENDENCE AND EFFECTIVENESS OF THE EXTERNAL AND INTERNAL AUDIT ACTIVITIES, THE GROUP’S RISK MANAGEMENT PROCESSES AND ASSESSING THE GROUP’S INTERNAL CONTROLS. WITH NEW LEGISLATION NOW PUBLISHED BY THE EUROPEAN UNION CONCERNING THE TENURE OF EXTERNAL AUDITORS, HUNTING WILL UNDERTAKE A FORMAL TENDER PROCESS DURING 2017.”

### John Nicholas

Chairman of the Audit Committee

### Composition and Frequency of Meetings

The Committee currently comprises the independent non-executive Directors of the Company: John Nicholas (Committee Chairman), Annell Bay, Jay Glick and John Hofmeister.

Following completion of his three year term of appointment, Andrew Szescila retired from the Committee on 15 September 2014. Annell Bay and Jay Glick were appointed to the Committee on their appointment to the Board of Directors on 2 February 2015.

Mr Nicholas has a professional accounting qualification and is considered to have recent and relevant financial experience; further details can be found in his biographical summary set out on page 47.

The Committee met four times during the year and operates under written terms of reference approved by the Board, which are published on the Company’s website. Following publication of the revised UK Corporate Governance Code in September 2014, the Committee terms of reference were revised, following approval by the Board, with new procedures being considered to ensure compliance with the Code’s recommendations.

The Committee normally meets in March, April, August and December, and the attendance record of Committee members during the year is noted on page 53. The Chairman, Chief Executive, Finance Director, internal and external auditors are normally invited to attend meetings. During the year, the Committee reviewed its effectiveness and the Committee Chairman reported these findings to the Board.

### Responsibilities

The principal responsibilities of the Audit Committee are to:

- monitor and review reports from the executive Directors, including the Group’s financial statements and Stock Exchange announcements;
- provide to the Board a recommendation about the Annual Report and Accounts including whether they are fair, balanced and understandable;
- monitor and review the Group’s systems of internal control;
- assess the effectiveness of the Group’s systems of risk management and internal control;
- review reports from the Group’s external auditors;
- review reports from the Group’s internal auditors, including details of the internal audit programme and its scope;
- monitor corporate governance and accounting developments;
- monitor the Group’s Bribery Act compliance procedures;
- consider and recommend to the Board the reappointment of the external auditors;
- agree the scope and fees of the external audit;
- monitor and approve engagements of the external auditors to provide non-audit services to the Group; and
- review the external auditors’ independence, effectiveness of the audit process and assess the level and quality of service in relation to fees paid.

### Training

During the year, the Committee was briefed by PricewaterhouseCoopers LLP on the evolving regulatory environment, in particular the legislation related to auditors rotation.

# AUDIT COMMITTEE REPORT

## CONTINUED

### Review of the 2014 Financial Statements

The Committee reviews final drafts of the Group's Report and Accounts for both the half and full year. As part of this process, the performance of the Group's major divisions is considered, with key judgements, estimates and accounting policies being approved by the Committee ahead of a recommendation to the Board.

The principle significant issues reviewed by the Committee in connection with the 2014 Annual Report and Accounts were as follows:

#### Goodwill Impairment Review

The year-end balance sheet includes Goodwill of \$440.6m. This represents approximately 31% of the Group's net assets. The Committee reviewed the carrying value of Goodwill by examining a report from the Group Financial Controller which set out the values attributable to each cash generating unit, the expected value in use based on projected cash flows and the key economic assumptions related to growth rates and discount values. The Committee also considered the work undertaken by the auditors in testing the projections. The Committee discussed the appropriateness of the assumptions and challenged both the discount rates and the factors used to consider whether a reasonable change in assumptions may indicate impairment. After discussion, it was satisfied that the assumptions, the impairment of goodwill relating to the Hunting Electronics and Drilling Tools cash generating units and the disclosures in the accounts were appropriate.

#### Oil and Gas Exploration and Development Asset Impairment

The Committee reviewed the valuation of estimated reserves held within the Group's exploration and production segment. The Committee was informed by a report from the reserves engineer and also considered the appropriateness of the future prices for oil and gas. After considering the valuation model, including the impact of recent weakness in oil prices, the Committee was satisfied that the reported impairment of oil and gas reserves was calculated appropriately.

#### Taxation

In view of the international spread of operations the Committee monitors the incidence of tax risk, tax audits and provisions held for taxation. The Finance Director briefs the Committee on developments during the year.

#### Exceptional Items Charged to the Consolidated Income Statement

The Group accounts have historically reported a middle column within the Consolidated Income Statement which includes amortisation and exceptional items. The Committee considered the accounting policy definition of exceptional items and the items included within this column to ensure consistency of treatment and adherence to policy. The Committee also reviewed the calculation and composition of each exceptional item and has satisfied itself that they are reported appropriately.

In addition to receipt of detailed briefings and supporting reports from the central finance team on these principle significant issues, the Committee engages in discussion with the Group's external auditors.

The Committee has reviewed the financial statements together with commentary contained within the Strategic Report set out on pages 4 to 44 and believes that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable. In arriving at this conclusion the Committee undertook the following:

- review of early drafts of the Annual Report and Accounts;
- regular review and discussion of the financial results during the year including briefings by Group finance and operational management; and
- receipt and review of reports from the external and internal auditors.

The Committee advised the Board of its conclusion that the 2014 Annual Report and Accounts, taken as a whole, were fair, balanced and understandable at a meeting of the Directors on 3 March 2015.

#### External Audit

The external auditors present reports at the March, April, August and December meetings for consideration by the Committee. In March, a full year report is considered ahead of publication of the Group's Annual Report and Accounts; in April an internal control report is presented, following the year-end audit and in August an interim report is presented which includes the proposed full year audit scope and fee. An update to the full year plan was presented at the December meeting. The Audit Committee considers the reappointment of the auditors annually at its March meeting and makes a recommendation to the Board. The Committee normally meets with the external auditors without executive Directors present at the end of each formal meeting.

The external auditors' full year report includes a statement on their independence, their ability to remain objective and their ability to undertake an effective audit. The Committee considers and assesses this independence statement on behalf of the Board, taking into account the level of fees paid particularly for non-audit services.

The effectiveness of the audit process is considered throughout the year with a formal review at the April meeting of the Committee. The assessment considers the following matters:

- the auditors' understanding of the Group's business and industry sector;
- the planning and execution of the audit plan approved by the Committee;
- the communication between the Group and audit engagement team;
- the auditors' response to questions from the Committee including during private meetings without management present;
- the independence, objectivity and scepticism of the auditor;
- responses to a formal questionnaire on conduct of the audit from the senior financial managers of the Group;
- a report from the Finance Director and the Group Financial Controller; and
- finalisation of the audit work ahead of completion of the Annual Report and Accounts.

In addition, the Committee reviewed and took account of Financial Reporting Council reports on PricewaterhouseCoopers LLP. After considering these matters, the Committee was satisfied with the effectiveness of the year-end audit.

PricewaterhouseCoopers LLP and its predecessor firms have been auditors to the Group since the Company's formation on 7 August 1989 and under the firm's audit partner rotation rules, the current Senior Statutory Auditor will rotate off the audit following completion of the 2018 Statutory audit. The Committee has considered the European Union legislation enacted on 16 June 2014 relating to external auditors rotation and intends to complete a tender process during 2017 in order to ensure a full twelve month period of independence before appointment of the selected firm as auditors effective 1 January 2019. The Company has commenced a process of



engaging other firms to undertake non-audit assignments in order to assess the quality of each firm and its people as part of the early preparations for the tender process. This included Deloitte, KPMG and Ernst and Young who have undertaken non-audit assignments for the Group.

The Committee closely monitors fees paid to the auditors in respect of non-audit services, which are analysed within note 8. In 2014, fees for non-audit services totalled \$0.5m and included taxation services amounting to \$0.4m and other services of \$0.1m. The scope and extent of non-audit work undertaken by the external auditors is monitored by, and, above certain thresholds, requires prior approval from the Committee to ensure that the provision of such services does not impair their independence or objectivity.

The Board received copies of all reports submitted to the Audit Committee.

#### Internal Audit

The Audit Committee receives reports from the Internal Audit department and reviews the internal audit process and effectiveness as part of the Group's internal control and risk assessment programme. An annual programme of internal audit assignments is reviewed by the Audit Committee. The Committee met with the head of internal audit without the presence of the executive Directors on three occasions during the year.

#### Internal Controls

The Group has an established internal control environment, which was in operation throughout the year. The Audit Committee monitors these arrangements on behalf of the Board, this review includes a report submitted three times a year on the principal risks facing the Group and the mitigating controls against those identified key risks. The Group level report is based on submissions from all subsidiaries in the Group.

All subsidiaries undertake formal self-assessment risk reviews, a minimum of three times a year, on their internal control environment. These reviews are available to the Audit Committee and encompass the identification of the key business, financial, compliance and operational risks facing each unit, together with an assessment of the controls in place for managing and mitigating these risks. Additionally, risks are evaluated for their potential impact on the business.

Following publication of the 2014 UK Corporate Governance Code, existing review procedures are being updated and formalised to ensure the Committee can assess and monitor the effectiveness of the Company's systems of risk management and internal control, and report to the Board on its findings during 2015.

#### Bribery Act Compliance

In compliance with the UK Bribery Act, Hunting has procedures in place, including the publication of Bribery and Corruption policies and detailed guidelines on interacting with customers, suppliers and agents, including specific policies for gifts, entertainment and hospitality. Senior managers across the Group are required to report their compliance activities, including an evaluation of risk areas. The Group has completed a screening exercise to identify relevant employees who face a heightened risk of bribery with all relevant personnel completing a formal training and compliance course, in line with the Group's procedures. The Audit Committee reviews the compliance procedures relating to the Bribery Act at its April and December meetings, which incorporate risk assessments completed by each business unit and gifts and entertainment disclosures

made during the reporting period. The Group's internal audit function reviews local compliance with the Bribery Act and reports control improvements and recommendations to the Audit Committee where appropriate.

#### Code of Conduct

The Group's Code of Conduct contains policies and procedures covering how the Group conducts business and maintains its relationships with business partners. The Code of Conduct is available on the Group's website.

#### Whistleblowing

The Company's Senior Independent Director, John Hofmeister, is the primary point of contact for staff of the Group to raise, in confidence, concerns they may have over possible improprieties, financial or otherwise.

In addition, the Group engages the services of Safecall Limited, to provide an independent and anonymous whistleblowing service available to staff across all of Hunting's operations.

All employees have been notified of these arrangements through the corporate magazine, Group notice boards and the Group's website.



**John Nicholas**  
Chairman of the Audit Committee  
5 March 2015

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HUNTING PLC

## Report on the financial statements

### Our opinion

In our opinion:

- Hunting PLC's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2014 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- The Company financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

### What we have audited

Hunting PLC's financial statements comprise:

- the Consolidated and Company Balance Sheets as at 31 December 2014;
- the Consolidated Income Statement and the Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated and Company Statements of Cash Flows for the year then ended;
- the Consolidated and Company Statements of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

### Our audit approach

#### Overview

- |                    |  |
|--------------------|--|
| <b>Materiality</b> | – Overall Group materiality: \$8.0 million, based on 5% of profit before tax from continuing operations adjusted for the impairment of goodwill and oil and gas exploration and development assets |
|--------------------|--|

- |                    |  |
|--------------------|--|
| <b>Audit scope</b> | – We conducted audit work in 6 countries covering 24 operating units and visited a number of audit locations, including the one significant component, Hunting Titan   |
|                    | – Our audit scope accounted for over 90% of Group revenues and the Group profit before tax from continuing operations adjusted for the impairment of goodwill and oil and gas exploration and development assets |

- |                       |  |
|-----------------------|--|
| <b>Areas of focus</b> | – Goodwill impairment assessment                           |
|                       | – Oil and gas exploration and development asset impairment |
|                       | – Corporate tax exposures                                  |

### The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

| Area of focus   | How our audit addressed the area of focus  |
|---|--|
| <p><b>Goodwill impairment assessment</b><br/>Refer to page 78 (Audit Committee Report), page 141 (accounting policies) and note 16.</p> <p>The Group holds \$440.6m of goodwill on the balance sheet, mainly arising from historic acquisitions in the US. Goodwill valuation is a judgemental and complex area as it depends on the future financial performance of the cash generating unit ("CGU") and future market performance. In particular there is significant uncertainty in the oil and gas market as a result of the impact of the recent decline in oil prices. As such the key judgemental areas are the short term revenue and margin growth rate, terminal growth rates and the discount rate.</p> <p>We focused, in particular, on the estimated value in use of the Hunting Electronics CGU, which has a closing net book value of goodwill of \$28.7m and has been impaired by \$40.0m (58% of the balance assessed) in the year, and the Drilling Tools CGU, which has a closing net book value of goodwill of \$4.4m and has been impaired by \$9.6m (69% of the balance assessed), in the closing year. These impairments reflect the respective CGUs' subdued financial performance in the year, as a result of increased competition, the impact of the decline in oil prices on forecast revenue and the prolonged customer unwinding of inventory.</p> <p>Additionally we focused on those CGUs with lower headroom between their carrying value and value in use, as judgements are even more critical for these CGUs, and on the Hunting Titan CGU, as it accounts for 65% of the goodwill held on the balance sheet.</p> | <p>We tested management's identification of the CGUs, considering business changes that would prompt a change to the classification of CGUs. In order to test the impairment assessment model, we challenged and evaluated the future cash flow forecasts for the identified CGUs and the process by which they were drawn up and tested the accuracy of the underlying calculations. We found that management has followed a clear process for drawing up the future cash flow forecasts, which was subject to oversight and challenge by the directors and which was consistent with Board approved budgets, which have been revised to reflect current market conditions.</p> <p>As part of our testing we challenged the following key assumptions:</p> <ul style="list-style-type: none"> <li>– The short term revenue and profit assumptions and how management has incorporated the impact of the recent decline in oil prices, by comparing them to historical results and the current order book, agreeing the short term growth rate to specialist third party published reports and considering the impact already observed within the market;</li> <li>– Terminal growth rates in the forecasts by comparing them to historical results, economic and industry forecasts; and</li> <li>– The discount rates by assessing the cost of capital assumption for each CGU and comparable organisations.</li> </ul> <p>We found the assumptions to be consistent and in line with our expectations.</p> <p>In respect of the Hunting Electronics and Drilling Tools CGUs, we sensitised each key driver of the cash flow forecasts, including the underlying assumptions listed above, by determining what we considered to be a reasonably possible change in assumption, based on current market data and historical and current business performance. Through this we determined an appropriate range of value in use for each CGU. We concluded that the combined \$49.6m impairment charge recognised by management is within this appropriate range.</p> <p>For all other CGUs, in particular Hunting Titan and those with lower relative headroom, we calculated the degree to which the key assumptions would need to change before an impairment was triggered. We discussed the likelihood of such a movement with management and agreed with their conclusion that it was unlikely.</p> |

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HUNTING PLC

## CONTINUED

| Area of focus   | How our audit addressed the area of focus  |
|---|--|
| <p><b><i>Oil and gas exploration and development asset impairment assessment</i></b><br/>Refer to page 78 (Audit Committee Report), page 141 (accounting policies) and note 15.</p> <p>The Group holds \$12.5m of oil and gas exploration and development assets on the balance sheet, which is net of a \$9.6m impairment recognised during the year. Management's impairment model for the estimated value in use of oil and gas exploration and development assets is judgemental and complex, as it depends on the future financial performance of the assets and future market performance. In particular it is dependent on estimated oil reserves and forecast oil prices, which can fluctuate significantly.</p> <p>The impairment of \$9.6m recognised in the year reflects the decrease in forecast oil price and a decrease in estimated oil reserves.</p> | <p>In order to test management's impairment model, we challenged and evaluated the future cash flow forecasts and the process by which they were drawn up and tested the underlying calculations. In particular, for each of the following significant assumptions we challenged:</p> <ul style="list-style-type: none"> <li>– The forecast oil price by agreeing it to published forecast future oil prices;</li> <li>– The estimated oil reserves by agreeing them to independent third party reserves engineer reports and agreed that the reserves engineer is appropriately accredited; and</li> <li>– The discount rate by assessing the cost of capital assumption against comparable organisations.</li> </ul> <p>We found the assumptions to be appropriate and in line with our expectations.</p> <p>We sensitised each key driver of the cash flow forecasts, including the underlying assumptions listed above, by determining what we considered to be a reasonably possible change in assumption, based on current market data and historical and current business performance. Through this we determined an appropriate range of value in use for oil and gas exploration and development assets. We concluded that the impairment of \$9.6m recognised by management is within this appropriate range.</p>  |
| <p><b><i>Corporate tax exposures</i></b><br/>Refer to page 78 (Audit Committee Report), page 141 (accounting policies) and note 21.</p> <p>The Group operates in a number of different countries and is therefore subject to many tax regimes around the world. Provisions are estimated for uncertain tax positions and disputes with tax authorities, including transactions between Group companies. These are measured in accordance with relevant accounting standards. We considered this an area of focus because of the judgement required by management to assess matters across multiple jurisdictions.</p>   | <p>We read the latest correspondence between the Group and tax authorities. We discussed potential corporate tax exposures with senior Group management, and the basis for their positions with the Group's in-house tax specialists.</p> <p>We reviewed the calculations of the provisions, and considered:</p> <ul style="list-style-type: none"> <li>– The accuracy of the calculations and ensured that appropriate tax rates have been used;</li> <li>– Key judgements made by management in determining the probability of potential outcomes; and</li> <li>– Management's assessment of the Group's exposure and provisions by retrospectively evaluating the outcome of reviews made by tax authorities.</li> </ul> <p>Our review of these judgements utilised our specialist tax knowledge, in the UK and overseas, and experience in the oil and gas and oilfield services industry as well as our experience of similar challenges elsewhere.</p> <p>In addition to evaluating the provisions individually, we performed a holistic review of the Group's tax position at year end and the Group's effective tax rate.</p> <p>Through these procedures we corroborated management's position on the level of their tax exposures and provisions and disclosures made in the financial statements and that the provisions were in line with the Group's policies and that the methodology and policies have been applied consistently.</p> |

**How we tailored the audit scope**

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group financial statements are a consolidation of entities covering non-trading legal entities, centralised functions and 31 operating units.

In establishing the overall approach to the Group audit, we considered the type of work that needed to be performed at the operating units by us, as the Group engagement team, or component auditors within PwC UK and from other PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the extent of audit work needed at those operating units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

The Group's operating units vary significantly in size and we identified 12 operating units that, in our view, required an audit of their complete financial information, due to their size or risk characteristics. Specific audit procedures over certain balances and transactions were performed at a further 12 operating units, to give appropriate coverage of all material balances at the Group level. In doing so we conducted work in 6 countries and the Group audit team visited multiple reporting locations in the US, which included visiting Hunting Titan, the one significant component, and the United Kingdom. Together, the operating units subject to audit procedures accounted for over 90% of Group revenues and Group profit before tax from continuing operations adjusted for the impairment of goodwill and oil and gas exploration and development assets. Further, specific audit procedures over central functions and areas of significant judgement, including taxation, treasury, pensions and impairment, were performed by the Group audit team centrally.

**Materiality**

The scope of our audit is influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, consistent with last year, we determined materiality for the financial statements as a whole as follows:

|                                 |   |
|---------------------------------|---|
| Overall group materiality       | \$8.0 million (2013: \$7.5 million)   |
| How we determined it            | Based on 5% of profit before tax from continuing operations adjusted for the impairment of goodwill and oil and gas exploration and development assets                      |
| Rationale for benchmark applied | We applied this benchmark because, in our view, this is an appropriate metric against which the performance of the Group is measured and of the recurring Group performance |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above \$0.4 million (2013: \$0.3 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

**Going concern**

Under the Listing Rules we are required to review the directors' statement, set out on pages 50 and 51, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group and Company have adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Company's ability to continue as a going concern.

**Other required reporting****Consistency of other information****Companies Act 2006 opinions**

In our opinion:

- The information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The information given in the Corporate Governance Statement set out on pages 52 to 55 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.



# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HUNTING PLC

## CONTINUED

### ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

|  |   |
|--|---|
| <ul style="list-style-type: none"> <li>Information in the Annual Report is:               <ul style="list-style-type: none"> <li>materially inconsistent with the information in the audited financial statements; or</li> <li>apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or</li> <li>otherwise misleading.</li> </ul> </li> </ul>  | We have no exceptions to report arising from this responsibility. |
| <ul style="list-style-type: none"> <li>The statement given by the directors on page 54, in accordance with provision C.1.1 of the UK Corporate Governance Code ("the Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Company's performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.</li> </ul> | We have no exceptions to report arising from this responsibility. |
| <ul style="list-style-type: none"> <li>The section of the Annual Report on pages 77 to 79, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.</li> </ul>   | We have no exceptions to report arising from this responsibility. |

### Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Directors' remuneration

#### Directors' remuneration report - Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

### Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

### Corporate governance statement

Under the Companies Act 2006 we are required to report to you if, in our opinion, the corporate governance statement has not been prepared by the Company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

### Responsibilities for the financial statements and the audit Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 51, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- Whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and Adequately disclosed;
- The reasonableness of significant accounting estimates made by the directors; and
- The overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Accounts (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Nicholas Campbell-Lambert (Senior Statutory Auditor)**  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
5 March 2015

# CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2014

|   | Notes | 2014   |  |              | 2013*  |  |              |
|---|-------|--|--|--------------|--|--|--------------|
|   |       | Before<br>amortisation<br>and<br>exceptional<br>items<br>\$m | Amortisation<br>and<br>exceptional<br>items<br>(note 7)<br>\$m | Total<br>\$m | Before<br>amortisation<br>and<br>exceptional<br>items<br>\$m | Amortisation<br>and<br>exceptional<br>items<br>(note 7)<br>\$m | Total<br>\$m |
| <b>Revenue</b>                                      | 4     | 1,386.5  | –  | 1,386.5      | 1,293.6  | –  | 1,293.6      |
| Cost of sales                                       |       | (942.6)  | (11.3)   | (953.9)      | (898.9)  | (14.8)   | (913.7)      |
| <b>Gross profit</b>                                 |       | 443.9  | (11.3)   | 432.6        | 394.7  | (14.8)   | 379.9        |
| Other operating income                              | 5     | 9.5  | –  | 9.5          | 7.5  | –  | 7.5          |
| Operating expenses                                  | 6     | (235.6)  | (92.6)   | (328.2)      | (202.2)  | (46.3)   | (248.5)      |
| <b>Profit from continuing operations</b>            | 8     | 217.8  | (103.9)  | 113.9        | 200.0  | (61.1)   | 138.9        |
| Finance income                                      | 11    | 7.5  | –  | 7.5          | 11.8   | –  | 11.8         |
| Finance expense                                     | 11    | (12.4)   | –  | (12.4)       | (14.7)   | –  | (14.7)       |
| Share of associates' post-tax (losses) profits      |       | (0.5)  | –  | (0.5)        | 0.4  | –  | 0.4          |
| <b>Profit before tax from continuing operations</b> |       | 212.4  | (103.9)  | 108.5        | 197.5  | (61.1)   | 136.4        |
| Taxation  | 12    | (57.2)   | 20.5   | (36.7)       | (52.1)   | 23.3   | (28.8)       |
| <b>Profit for the year:</b>                         |       |  |  |              |  |  |              |
| From continuing operations                          |       | 155.2  | (83.4)   | 71.8         | 145.4  | (37.8)   | 107.6        |
| From discontinued operations                        | 13    | 0.3  | 1.1  | 1.4          | (1.4)  | 15.4   | 14.0         |
| <b>Profit for the year</b>                          |       | 155.5  | (82.3)   | 73.2         | 144.0  | (22.4)   | 121.6        |
| <b>Profit attributable to:</b>                      |       |  |  |              |  |  |              |
| Owners of the parent                                |       | 151.5  | (82.3)   | 69.2         | 140.3  | (22.4)   | 117.9        |
| Non-controlling interests                           |       | 4.0  | –  | 4.0          | 3.7  | –  | 3.7          |
|   |       | 155.5  | (82.3)   | 73.2         | 144.0  | (22.4)   | 121.6        |
| <b>Earnings per share</b>                           |       |  |  |              |  |  |              |
| Basic – from continuing operations                  | 14    | 102.6c   |  | 45.9c        | 96.8c  |  | 71.0c        |
| – from discontinued operations                      | 14    | 0.2c   |  | 1.0c         | (1.0)c   |  | 9.5c         |
| <b>Group total</b>                                  |       | 102.8c   |  | 46.9c        | 95.8c  |  | 80.5c        |
| Diluted – from continuing operations                | 14    | 100.0c   |  | 44.8c        | 94.5c  |  | 69.4c        |
| – from discontinued operations                      | 14    | 0.2c   |  | 1.0c         | (1.0)c   |  | 9.2c         |
| <b>Group total</b>                                  |       | 100.2c   |  | 45.8c        | 93.5c  |  | 78.6c        |

\* 2013 has been restated for the designation of Gibson Shipbrokers as a discontinued operation (note 13).

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

|   | Notes | 2014<br>\$m | 2013<br>\$m |
|---|-------|-------------|-------------|
| <b>Comprehensive income</b>   |       |             |             |
| Profit for the year   |       | 73.2        | 121.6       |
| <b>Components of other comprehensive income after tax</b>                             |       |             |             |
| <i>Items that have been reclassified to profit or loss:</i>                           |       |             |             |
| Fair value gains and losses:  |       |             |             |
| – gains transferred to income statement on disposal of cash flow hedges               | 34    | (1.3)       | (0.2)       |
| – gain transferred to income statement on redemption of available for sale investment | 34    | (0.2)       | –           |
| Release of foreign exchange losses  | 34    | 3.8         | –           |
|   |       | 2.3         | (0.2)       |
| <i>Items that may be reclassified subsequently to profit or loss:</i>                 |       |             |             |
| Exchange adjustments  |       | (17.9)      | (0.9)       |
| Fair value gains and losses:  |       |             |             |
| – gain on available for sale investment arising during the year                       | 34    | –           | 0.2         |
| – (losses) gains originating on cash flow hedges arising during the year              | 34    | (0.1)       | 1.5         |
|   |       | (18.0)      | 0.8         |
| <i>Items that will not be reclassified to profit or loss:</i>                         |       |             |             |
| Remeasurement of defined benefit pension schemes                                      |       | 1.5         | 2.8         |
| Other comprehensive (expense) income after tax  |       | (14.2)      | 3.4         |
| <b>Total comprehensive income for the year</b>  |       | 59.0        | 125.0       |
| <b>Total comprehensive income attributable to:</b>                                    |       |             |             |
| Owners of the parent  |       | 57.2        | 120.5       |
| Non-controlling interests   |       | 1.8         | 4.5         |
|   |       | 59.0        | 125.0       |

# CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2014

|  | Notes | 2014<br>\$m    | 2013<br>\$m    |
|--|-------|----------------|----------------|
| <b>ASSETS</b>                                      |       |                |                |
| <b>Non-current assets</b>                          |       |                |                |
| Property, plant and equipment                      | 15    | 473.0          | 431.8          |
| Goodwill   | 16    | 440.6          | 495.2          |
| Other intangible assets                            | 17    | 224.8          | 263.0          |
| Investments in associates                          |       | 4.4            | 9.9            |
| Investments  | 18    | 8.9            | 9.0            |
| Retirement benefit assets                          | 32    | 30.9           | 29.6           |
| Trade and other receivables                        | 20    | 3.3            | 7.5            |
| Deferred tax assets                                | 21    | 1.2            | 3.1            |
|  |       | <b>1,187.1</b> | <b>1,249.1</b> |
| <b>Current assets</b>                              |       |                |                |
| Inventories  | 22    | 381.8          | 386.3          |
| Trade and other receivables                        | 20    | 285.6          | 264.8          |
| Current tax assets                                 |       | 1.6            | 3.9            |
| Investments  | 18    | 3.8            | 2.0            |
| Cash and cash equivalents                          |       | 88.5           | 167.4          |
| Assets classified as held for sale                 | 23    | 20.3           | –              |
|  |       | <b>781.6</b>   | <b>824.4</b>   |
| <b>LIABILITIES</b>                                 |       |                |                |
| <b>Current liabilities</b>                         |       |                |                |
| Trade and other payables                           | 24    | 197.7          | 176.5          |
| Current tax liabilities                            |       | 20.9           | 21.0           |
| Borrowings   | 25    | 65.4           | 135.9          |
| Provisions   | 27    | 10.6           | 8.0            |
| Liabilities classified as held for sale            | 23    | 15.5           | –              |
|  |       | <b>310.1</b>   | <b>341.4</b>   |
| <b>Net current assets</b>                          |       |                |                |
|  |       | <b>471.5</b>   | <b>483.0</b>   |
| <b>Non-current liabilities</b>                     |       |                |                |
| Borrowings   | 25    | 157.9          | 239.3          |
| Deferred tax liabilities                           | 21    | 37.1           | 34.7           |
| Provisions   | 27    | 14.1           | 25.4           |
| Other payables                                     | 24    | 11.2           | 17.9           |
|  |       | <b>220.3</b>   | <b>317.3</b>   |
| <b>Net assets</b>                                  |       |                |                |
|  |       | <b>1,438.3</b> | <b>1,414.8</b> |
| <b>Equity attributable to owners of the parent</b> |       |                |                |
| Share capital                                      | 33    | 61.6           | 61.3           |
| Share premium                                      | 33    | 151.9          | 150.6          |
| Other components of equity                         | 34    | 30.7           | 41.6           |
| Retained earnings                                  | 35    | 1,163.9        | 1,130.4        |
|  |       | <b>1,408.1</b> | <b>1,383.9</b> |
| <b>Non-controlling interests</b>                   |       |                |                |
|  |       | <b>30.2</b>    | <b>30.9</b>    |
| <b>Total equity</b>                                |       |                |                |
|  |       | <b>1,438.3</b> | <b>1,414.8</b> |

The notes on pages 93 to 144 are an integral part of these consolidated financial statements. The financial statements on pages 85 to 144 were approved by the Board of Directors on 5 March 2015 and were signed on its behalf by:

**Dennis Proctor**  
Director

**Peter Rose**  
Director

Registered number: 974568

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

|                                      |       | Year ended 31 December 2014 |                      |                                      |                          |              |   |                        |
|--------------------------------------|-------|-----------------------------|----------------------|--------------------------------------|--------------------------|--------------|---|------------------------|
|                                      | Notes | Share capital<br>\$m        | Share premium<br>\$m | Other components<br>of equity<br>\$m | Retained earnings<br>\$m | Total<br>\$m | Non-<br>controlling<br>interests<br>\$m | Total<br>equity<br>\$m |
| At 1 January                         |       | 61.3                        | 150.6                | 41.6                                 | 1,130.4                  | 1,383.9      | 30.9                                    | 1,414.8                |
| Profit for the year                  |       | –                           | –                    | –                                    | 69.2                     | 69.2         | 4.0                                     | 73.2                   |
| Other comprehensive (expense) income |       | –                           | –                    | (13.5)                               | 1.5                      | (12.0)       | (2.2)                                   | (14.2)                 |
| Total comprehensive income           |       | –                           | –                    | (13.5)                               | 70.7                     | 57.2         | 1.8                                     | 59.0                   |
| Dividends                            |       | –                           | –                    | –                                    | (44.1)                   | (44.1)       | (2.5)                                   | (46.6)                 |
| Shares issued                        |       |                             |                      |                                      |                          |              |   |                        |
| – share option schemes and awards    | 33    | 0.3                         | 1.3                  | –                                    | –                        | 1.6          | –                                       | 1.6                    |
| Treasury shares                      |       |                             |                      |                                      |                          |              |   |                        |
| – purchase of treasury shares        | 35    | –                           | –                    | –                                    | (7.5)                    | (7.5)        | –                                       | (7.5)                  |
| Share options and awards             |       |                             |                      |                                      |                          |              |   |                        |
| – value of employee services         |       | –                           | –                    | 7.2                                  | –                        | 7.2          | –                                       | 7.2                    |
| – discharge                          |       | –                           | –                    | (4.6)                                | 11.3                     | 6.7          | –                                       | 6.7                    |
| – taxation                           |       | –                           | –                    | –                                    | 3.1                      | 3.1          | –                                       | 3.1                    |
| Total transactions with owners       |       | 0.3                         | 1.3                  | 2.6                                  | (37.2)                   | (33.0)       | (2.5)                                   | (35.5)                 |
| At 31 December                       |       | 61.6                        | 151.9                | 30.7                                 | 1,163.9                  | 1,408.1      | 30.2                                    | 1,438.3                |

|                                      |       | Year ended 31 December 2013 |                      |                                      |                          |              |   |                        |
|--------------------------------------|-------|-----------------------------|----------------------|--------------------------------------|--------------------------|--------------|---|------------------------|
|                                      | Notes | Share capital<br>\$m        | Share premium<br>\$m | Other components<br>of equity<br>\$m | Retained earnings<br>\$m | Total<br>\$m | Non-<br>controlling<br>interests<br>\$m | Total<br>equity<br>\$m |
| At 1 January                         |       | 61.0                        | 149.1                | 42.0                                 | 1,050.9                  | 1,303.0      | 29.7                                    | 1,332.7                |
| Profit for the year                  |       | –                           | –                    | –                                    | 117.9                    | 117.9        | 3.7                                     | 121.6                  |
| Other comprehensive (expense) income |       | –                           | –                    | (0.2)                                | 2.8                      | 2.6          | 0.8                                     | 3.4                    |
| Total comprehensive income           |       | –                           | –                    | (0.2)                                | 120.7                    | 120.5        | 4.5                                     | 125.0                  |
| Dividends                            |       | –                           | –                    | –                                    | (42.5)                   | (42.5)       | (3.3)                                   | (45.8)                 |
| Shares issued                        |       |                             |                      |                                      |                          |              |   |                        |
| – share option schemes and awards    | 33    | 0.3                         | 1.5                  | –                                    | –                        | 1.8          | –                                       | 1.8                    |
| Treasury shares                      |       |                             |                      |                                      |                          |              |   |                        |
| – purchase of treasury shares        | 35    | –                           | –                    | –                                    | (6.7)                    | (6.7)        | –                                       | (6.7)                  |
| Share options and awards             |       |                             |                      |                                      |                          |              |   |                        |
| – value of employee services         |       | –                           | –                    | 3.4                                  | –                        | 3.4          | –                                       | 3.4                    |
| – discharge                          |       | –                           | –                    | (3.6)                                | 9.2                      | 5.6          | –                                       | 5.6                    |
| – taxation                           |       | –                           | –                    | –                                    | (1.3)                    | (1.3)        | –                                       | (1.3)                  |
| Other                                |       | –                           | –                    | –                                    | 0.1                      | 0.1          | –                                       | 0.1                    |
| Total transactions with owners       |       | 0.3                         | 1.5                  | (0.2)                                | (41.2)                   | (39.6)       | (3.3)                                   | (42.9)                 |
| At 31 December                       |       | 61.3                        | 150.6                | 41.6                                 | 1,130.4                  | 1,383.9      | 30.9                                    | 1,414.8                |



# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

|   | Notes | 2014<br>\$m    | Restated<br>2013<br>\$m |
|---|-------|----------------|-------------------------|
| <b>Operating activities</b>   |       |                |                         |
| Profit from operations  |       | 113.9          | 138.9                   |
| Depreciation, amortisation and impairment                               |       | 155.7          | 97.9                    |
| Loss (profit) on disposal of property, plant and equipment              | 5,6   | 6.0            | (0.1)                   |
| (Increase) decrease in inventories                                      |       | (3.1)          | 11.0                    |
| Increase in receivables   |       | (34.7)         | (4.0)                   |
| Increase (decrease) in payables   |       | 41.6           | (25.4)                  |
| Decrease in provisions  |       | (8.0)          | (4.2)                   |
| Other non-cash flow items   |       | 7.3            | 2.7                     |
| Taxation paid   |       | (26.6)         | (19.9)                  |
| Proceeds from disposal of property, plant and equipment held for rental |       | 7.0            | 8.9                     |
| Purchase of property, plant and equipment held for rental               |       | (28.9)         | (26.1)                  |
| Discontinued operations   |       | (0.9)          | 0.3                     |
| <b>Net cash inflow from operating activities</b>                        |       | <b>229.3</b>   | <b>180.0</b>            |
| <b>Investing activities</b>   |       |                |                         |
| Interest received   |       | 2.0            | 2.4                     |
| Dividends received from associates                                      |       | 4.5            | 1.2                     |
| Purchase of subsidiaries  | 41    | (3.0)          | (10.7)                  |
| Proceeds from disposal of associate                                     |       | 0.2            | –                       |
| Net movement on loans to and from associates                            |       | 0.6            | 0.3                     |
| Proceeds from disposal of property, plant and equipment                 |       | 0.6            | 5.4                     |
| Purchase of property, plant and equipment                               |       | (94.6)         | (68.7)                  |
| Purchase of intangible assets   |       | (5.0)          | (5.0)                   |
| (Increase) decrease in bank deposit investments                         |       | (2.0)          | 3.0                     |
| Net proceeds from disposal of subsidiaries                              |       | 3.9            | –                       |
| Indemnity receipts in respect of disposed subsidiaries                  |       | 0.2            | 17.7                    |
| Discontinued operations   |       | –              | (0.1)                   |
| <b>Net cash outflow from investing activities</b>                       |       | <b>(92.6)</b>  | <b>(54.5)</b>           |
| <b>Financing activities</b>   |       |                |                         |
| Interest and bank fees paid   |       | (7.6)          | (8.9)                   |
| Equity dividends paid   | 36    | (44.1)         | (42.5)                  |
| Non-controlling interest dividend paid                                  |       | (2.5)          | (3.3)                   |
| Share capital issued  |       | 1.6            | 1.8                     |
| Purchase of treasury shares   |       | (7.5)          | (6.7)                   |
| Proceeds from new borrowings  |       | 70.2           | 11.3                    |
| Repayment of borrowings   |       | (155.9)        | (71.5)                  |
| <b>Net cash outflow from financing activities</b>                       |       | <b>(145.8)</b> | <b>(119.8)</b>          |
| <b>Net cash (outflow) inflow in cash and cash equivalents</b>           |       | <b>(9.1)</b>   | <b>5.7</b>              |
| Cash and cash equivalents at the beginning of the year                  |       | 52.4           | 47.2                    |
| Effect of foreign exchange rates  |       | (1.5)          | (0.5)                   |
| Classified as held for sale   |       | (3.8)          | –                       |
| <b>Cash and cash equivalents at the end of the year</b>                 |       | <b>38.0</b>    | <b>52.4</b>             |
| <b>Cash and cash equivalents at the end of the year comprise:</b>       |       |                |                         |
| Cash at bank and in hand  |       | 88.5           | 167.4                   |
| Bank overdrafts included in borrowings                                  |       | (50.5)         | (115.0)                 |
|   |       | <b>38.0</b>    | <b>52.4</b>             |

# COMPANY BALANCE SHEET

AT 31 DECEMBER 2014

|  | Notes | 2014<br>\$m  | 2013<br>\$m |
|--|-------|--------------|-------------|
| <b>ASSETS</b>                                      |       |              |             |
| <b>Non-current assets</b>                          |       |              |             |
| Investments in subsidiaries                        | 19    | 436.8        | 500.6       |
| Other investments                                  | 18    | –            | 0.6         |
| Other receivables                                  | 20    | 171.3        | 18.0        |
|  |       | <b>608.1</b> | 519.2       |
| <b>Current assets</b>                              |       |              |             |
| Other receivables                                  | 20    | 6.6          | 28.3        |
| Current tax asset                                  |       | 2.2          | 1.6         |
| Cash and cash equivalents                          |       | 16.0         | 31.4        |
|  |       | <b>24.8</b>  | 61.3        |
| <b>LIABILITIES</b>                                 |       |              |             |
| <b>Current liabilities</b>                         |       |              |             |
| Other payables                                     | 24    | 1.3          | 10.8        |
| Borrowings   | 25    | 6.5          | 9.9         |
| Provisions   |       | 0.3          | 0.2         |
|  |       | <b>8.1</b>   | 20.9        |
| <b>Net current assets</b>                          |       | <b>16.7</b>  | 40.4        |
| <b>Non-current liabilities</b>                     |       |              |             |
| Borrowings   | 25    | –            | 85.6        |
| Deferred tax liabilities                           | 21    | 0.2          | 0.2         |
| Provisions   |       | 0.5          | 0.3         |
| Other payables                                     | 24    | –            | 9.0         |
|  |       | <b>0.7</b>   | 95.1        |
| <b>Net assets</b>                                  |       | <b>624.1</b> | 464.5       |
| <b>Equity attributable to owners of the parent</b> |       |              |             |
| Share capital                                      | 33    | 61.6         | 61.3        |
| Share premium                                      | 33    | 151.9        | 150.6       |
| Other components of equity                         | 34    | (4.1)        | (6.5)       |
| Retained earnings                                  | 35    | 414.7        | 259.1       |
| <b>Total equity</b>                                |       | <b>624.1</b> | 464.5       |

The notes on pages 93 to 144 are an integral part of these consolidated financial statements. The financial statements on pages 87 to 144 were approved by the Board of Directors on 5 March 2015 and were signed on its behalf by:

**Dennis Proctor**  
Director

**Peter Rose**  
Director

Registered number: 974568

# COMPANY STATEMENT OF CHANGES IN EQUITY

|                                       | Notes | Year ended 31 December 2014 |                      |                                      |                          |                     |
|---------------------------------------|-------|-----------------------------|----------------------|--------------------------------------|--------------------------|---------------------|
|                                       |       | Share capital<br>\$m        | Share premium<br>\$m | Other components<br>of equity<br>\$m | Retained earnings<br>\$m | Total equity<br>\$m |
| <b>At 1 January</b>                   |       | <b>61.3</b>                 | <b>150.6</b>         | <b>(6.5)</b>                         | <b>259.1</b>             | <b>464.5</b>        |
| Profit for the year                   |       | –                           | –                    | –                                    | 195.9                    | 195.9               |
| Other comprehensive expense           |       | –                           | –                    | (0.2)                                | –                        | (0.2)               |
| <b>Total comprehensive income</b>     |       | <b>–</b>                    | <b>–</b>             | <b>(0.2)</b>                         | <b>195.9</b>             | <b>195.7</b>        |
| Dividends                             | 35    | –                           | –                    | –                                    | (44.1)                   | (44.1)              |
| Shares issued                         |       |                             |                      |                                      |                          |                     |
| – share option schemes and awards     | 33    | 0.3                         | 1.3                  | –                                    | –                        | 1.6                 |
| Treasury shares                       |       |                             |                      |                                      |                          |                     |
| – purchase of treasury shares         | 35    | –                           | –                    | –                                    | (7.5)                    | (7.5)               |
| Share options and awards              |       |                             |                      |                                      |                          |                     |
| – value of employee services          |       | –                           | –                    | 7.2                                  | –                        | 7.2                 |
| – discharge                           |       | –                           | –                    | (4.6)                                | 11.3                     | 6.7                 |
| <b>Total transactions with owners</b> |       | <b>0.3</b>                  | <b>1.3</b>           | <b>2.6</b>                           | <b>(40.3)</b>            | <b>(36.1)</b>       |
| <b>At 31 December</b>                 |       | <b>61.6</b>                 | <b>151.9</b>         | <b>(4.1)</b>                         | <b>414.7</b>             | <b>624.1</b>        |
|                                       | Notes | Year ended 31 December 2013 |                      |                                      |                          |                     |
|                                       |       | Share capital<br>\$m        | Share premium<br>\$m | Other components<br>of equity<br>\$m | Retained earnings<br>\$m | Total equity<br>\$m |
| <b>At 1 January</b>                   |       | <b>61.0</b>                 | <b>149.1</b>         | <b>(6.5)</b>                         | <b>247.0</b>             | <b>450.6</b>        |
| Profit for the year                   |       | –                           | –                    | –                                    | 52.1                     | 52.1                |
| Other comprehensive income            |       | –                           | –                    | 0.2                                  | –                        | 0.2                 |
| <b>Total comprehensive income</b>     |       | <b>–</b>                    | <b>–</b>             | <b>0.2</b>                           | <b>52.1</b>              | <b>52.3</b>         |
| Dividends                             | 35    | –                           | –                    | –                                    | (42.5)                   | (42.5)              |
| Shares issued                         |       |                             |                      |                                      |                          |                     |
| – share option schemes and awards     | 33    | 0.3                         | 1.5                  | –                                    | –                        | 1.8                 |
| Treasury shares                       |       |                             |                      |                                      |                          |                     |
| – purchase of treasury shares         | 35    | –                           | –                    | –                                    | (6.7)                    | (6.7)               |
| Share options and awards              |       |                             |                      |                                      |                          |                     |
| – value of employee services          |       | –                           | –                    | 3.4                                  | –                        | 3.4                 |
| – discharge                           |       | –                           | –                    | (3.6)                                | 9.2                      | 5.6                 |
| <b>Total transactions with owners</b> |       | <b>0.3</b>                  | <b>1.5</b>           | <b>(0.2)</b>                         | <b>(40.0)</b>            | <b>(38.4)</b>       |
| <b>At 31 December</b>                 |       | <b>61.3</b>                 | <b>150.6</b>         | <b>(6.5)</b>                         | <b>259.1</b>             | <b>464.5</b>        |

## COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

|   | Notes | 2014<br>\$m    | 2013<br>\$m   |
|---|-------|----------------|---------------|
| <b>Operating activities</b>                                       |       |                |               |
| Profit from operations  |       | 50.1           | 8.9           |
| (Gain) loss on disposal of subsidiaries                           |       | (36.3)         | 0.2           |
| Decrease in receivables   |       | 21.2           | 3.8           |
| (Decrease) increase in payables                                   |       | (11.6)         | 6.0           |
| Increase (decrease) in provisions                                 |       | 0.3            | (0.4)         |
| Taxation received   |       | 0.9            | 4.2           |
| Other non-cash flow items   |       | 7.5            | 4.0           |
| <b>Net cash inflow from operating activities</b>                  |       | <b>32.1</b>    | <b>26.7</b>   |
| <b>Investing activities</b>                                       |       |                |               |
| Interest received   |       | 1.9            | 1.2           |
| Dividends received from subsidiaries                              |       | 144.6          | 46.1          |
| Proceeds from disposal of subsidiaries                            |       | 103.1          | –             |
| <b>Net cash inflow from investing activities</b>                  |       | <b>249.6</b>   | <b>47.3</b>   |
| <b>Financing activities</b>                                       |       |                |               |
| Interest and bank fees paid                                       |       | (2.9)          | (1.9)         |
| Equity dividends paid   | 36    | (44.1)         | (42.5)        |
| Share capital issued  |       | 1.6            | 1.8           |
| Purchase of treasury shares                                       |       | (7.5)          | (6.7)         |
| Loan issued   |       | (171.2)        | (15.5)        |
| Loan issued repaid  |       | 15.5           | 15.5          |
| Proceeds from new borrowings                                      |       | –              | 39.5          |
| Repayment of borrowings   |       | (92.2)         | (35.5)        |
| <b>Net cash outflow from financing activities</b>                 |       | <b>(300.8)</b> | <b>(45.3)</b> |
| <b>Net cash (outflow) inflow in cash and cash equivalents</b>     |       | <b>(19.1)</b>  | <b>28.7</b>   |
| Cash and cash equivalents at the beginning of the year            |       | 28.1           | (0.2)         |
| Effect of foreign exchange rates                                  |       | 0.5            | (0.4)         |
| <b>Cash and cash equivalents at the end of the year</b>           |       | <b>9.5</b>     | <b>28.1</b>   |
| <b>Cash and cash equivalents at the end of the year comprise:</b> |       |                |               |
| Cash at bank and in hand  |       | 16.0           | 31.4          |
| Bank overdrafts included in borrowings                            |       | (6.5)          | (3.3)         |
|   |       | <b>9.5</b>     | <b>28.1</b>   |

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Basis of Preparation

The financial statements consolidate those of Hunting PLC (the 'Company') and its subsidiaries (together referred to as the 'Group') and include the Group's interests in associates.

The financial statements have been prepared in accordance with the Companies Act 2006 and those International Financial Reporting Standards ('IFRS') and International Financial Reporting Interpretations Committee ('IFRIC') Interpretations as adopted by the European Union. The financial statements have been prepared on a going concern basis under the historical cost convention as modified by the revaluation of available for sale financial assets and those financial assets and financial liabilities held at fair value through profit or loss. The Board's consideration of going concern is detailed further in the Report of the Directors on pages 50 and 51.

The Group is engaged in a process to sell Gibson Shipbrokers to an employee benefit trust formed by Gibson Shipbrokers' employees. It is expected that this transaction will be completed on 31 March 2015. As Gibson Shipbrokers was previously reported as a separate segment within continuing operations, its results and cash flows for 2013 have been re-presented as a discontinued operation. The assets and liabilities of Gibson Shipbrokers at 31 December 2014 have been treated as held for sale.

The principal accounting policies applied in the preparation of these financial statements are set out in note 43. These policies have been consistently applied to all the years presented.

### Restatement of Previously Reported Results

#### *Adoption of New Standards, Amendments and Interpretations*

The following standards, amendments and interpretations have been adopted and are effective for the Group's accounting period beginning on or after 1 January 2014:

- IAS 28 (revised) Investments in Associates and Joint Ventures
- IAS 32 (amendment) Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRIC 21 Levies

Although the adoption of these standards, amendments and interpretations represents a change in accounting policy, comparative figures for 2013 have not been restated for these as the changes do not impact the financial performance or position of the Group.

The following standards, amendments and interpretations are effective subsequent to the year end and are being assessed to determine whether there is a significant impact on the Group's results or financial position:

- IFRS 9 Financial Instruments\*
- IFRS 15 Revenue from Contracts with Customers\*
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception\*
- Amendments to IAS 1 Disclosure initiative\*
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture\*
- Amendments to IAS 27 Equity Method in Separate Financial Statements\*
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation\*
- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations\*
- Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions
- Annual Improvements to IFRSs 2010–2012 Cycle – effective 1 July 2014
- Annual Improvements to IFRSs 2012–2014 Cycle – effective 1 January 2016\*

\* Not yet endorsed by the European Union.

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 2. Critical Accounting Estimates and Judgements

The preparation of financial statements requires management to make judgements and assumptions about the future, resulting in the use of accounting estimates. These will, by definition, seldom equal the related actual results and adjustments will consequently be necessary. Estimates are continually evaluated, based on experience, consultation with experts and reasonable expectations of future events. Accounting estimates are applied in determining the carrying amounts of the following significant assets and liabilities:

| Asset/liability   | Nature of estimates  |
|---|--|
| Goodwill  | <ul style="list-style-type: none"> <li>The Group comprises a number of cash generating units ("CGUs") with each one having independent business profiles and cash flows. When goodwill is initially recognised upon a business combination, it is allocated to the CGUs that are expected to benefit from the combination.</li> </ul>  |
| Carrying value at 31 December 2014<br>\$440.6m (2013 – \$495.2m)                    | <ul style="list-style-type: none"> <li>The goodwill of each CGU is subsequently reviewed for impairment at least annually by comparing its carrying value with the present value of the estimated future gross cash flows that are expected to be generated by the CGU.</li> <li>The estimated future gross cash flows are based on the Directors' view of their future trading prospects and are discounted at a rate that is determined for each CGU in isolation by consideration of their business risk profiles.</li> <li>Any shortfall in the present value of the cash flows is charged to the income statement immediately.</li> <li>Details of goodwill are disclosed in note 16.</li> </ul>  |
| Taxation  | <ul style="list-style-type: none"> <li>In determining current tax estimates, management has to consider the likelihood of tax authority challenges and estimates tax payable accordingly.</li> </ul>   |
| Carrying value of net tax liability at 31 December 2014<br>\$55.2m (2013 – \$48.7m) | <ul style="list-style-type: none"> <li>The deferred tax balances at 31 December 2014 represent an estimate of the amounts that are expected to be paid or recovered from the tax authorities in future periods if assets and liabilities in the balance sheet were recovered at their carrying values based on tax laws and rates that have been substantively enacted by the balance sheet date. Measurement of deferred tax balances therefore requires management to assess the substantively enacted tax laws and rates, the timing of the reversal of existing taxable and deductible temporary differences and the nature, timing and amount of taxable income which would potentially be available to support the recognition of deferred tax assets.</li> </ul>  |
| Property, plant and equipment and other intangible assets                           | <ul style="list-style-type: none"> <li>The Group's property, plant and equipment and intangible assets (except goodwill) are depreciated/amortised at rates that are intended to spread the irrecoverable cost of the assets over their useful lives. The Directors must therefore estimate the useful lives of the assets, their residual values and the pattern of consumption of their carrying values. Each asset is also regularly reviewed to ensure it remains consistent with the Directors' assumptions and, when required, adjustments are made prospectively.</li> </ul>  |
| Combined carrying value at 31 December 2014<br>\$697.8m (2013 – \$694.8m)           | <ul style="list-style-type: none"> <li>The depreciation rates currently in use are disclosed in note 43. Further details of the Group's property, plant and equipment and the other intangible assets are disclosed in notes 15 and 17 respectively.</li> </ul>  |
| Oil and gas exploration and development assets                                      | <ul style="list-style-type: none"> <li>The carrying value of the Group's oil and gas exploration and development assets is subject to the value in use of the Group's oil and gas reserves.</li> <li>The value in use is determined by applying a present value to the estimated future producible reserves at a given forecast market price.</li> <li>The estimate of producible reserves is principally extracted using a combination of geological data and production performance records.</li> <li>The estimate of market prices is based on the medium term futures prices (4 to 6 years) issued by NYMEX.</li> <li>The discount rate is based on the activity's cost of capital and specific risk premium, which is estimated to be 13% pre-tax.</li> <li>Details of the Group's oil and gas exploration and development expenditure are disclosed in note 15.</li> </ul> |
| Carrying value at 31 December 2014<br>\$12.5m (2013 – \$21.5m)                      |  |
| Provisions  | <ul style="list-style-type: none"> <li>The provisions at 31 December 2014 are principally in respect of onerous property leases for which the Directors have estimated the period of time each property is expected to remain onerous, the cash flows expected to arise during that period and the risk-free discount rate required to measure the present value of the cash flows.</li> <li>Details of the Group's provisions are disclosed in note 27.</li> </ul>  |
| Carrying value at 31 December 2014<br>\$24.7m (2013 – \$33.4m)                      |  |

### 3. Segmental Reporting Group

The Group reports on seven operating segments, three of which are discontinued operations, in its internal management reports, which are used to make strategic decisions. The Group's continuing segments are strategic business units that offer different products and services to international oil and gas companies and undertake exploration and production activities.

The Group measures the performance of its operating segments based on revenue and profit from operations, before exceptional items and the amortisation of intangible assets. Accounting policies used for segment reporting reflect those used for the Group. Inter-segment sales are priced on an arm's length basis.

#### Continuing operations

The Well Construction segment provides products and services used by customers for the drilling phase of oil and gas wells, along with associated equipment used by the underground construction industry for telecommunication infrastructure build-out and precision machining services for the energy, aviation and power generation sectors.



**3. Segmental Reporting** *continued*

The Well Completion segment provides products and services used by customers for the completion phase of oil and gas wells.

The Well Intervention segment provides products and services used by customers for the production, maintenance and restoration of existing oil and gas wells.

The Exploration and Production segment includes the Group's oil and gas exploration and production activities in the Southern US and offshore Gulf of Mexico. The Board of Hunting will not be making any new capital investment, beyond where the division has contractual commitments and so the division will in future focus on producing out its remaining reserves, with a view to winding down the operation.

Costs and overheads incurred centrally are apportioned to the continuing operating segments on the basis of time attributed to those operations by senior executives.

**Discontinued operations**

Gibson Shipbrokers is a global energy shipping broker headquartered in London. The business has been presented as a discontinued operation and its results have been restated to exclude central overheads previously allocated to the division.

The discontinued operations comprise Gibson Shipbrokers, as noted above, which has been classified as held for sale at 31 December 2014, Field Aviation, which was sold in 2012, and Gibson Energy, which was sold in 2008. Gibson Energy and Field Aviation continue to generate accounting entries due to sale related transactions and are required for reconciliation purposes.

The following tables present the results of the operating segments on the same basis as that used for internal reporting purposes to the Chief Operating Decision Maker.

**Results from operations**

|   | Year ended 31 December 2014 |                                |                      |   |   |              |
|---|-----------------------------|--------------------------------|----------------------|---|---|--------------|
|   | Total gross revenue<br>\$m  | Inter-segmental revenue<br>\$m | Total revenue<br>\$m | Profit from operations before amortisation and exceptional items<br>\$m | Amortisation and exceptional items<br>\$m | Total<br>\$m |
| <b>Continuing operations:</b>                       |                             |                                |                      |   |   |              |
| <b>Hunting Energy Services</b>                      |                             |                                |                      |   |   |              |
| Well Construction                                   | 384.3                       | (6.0)                          | 378.3                | 53.0  | (57.1)                                    | (4.1)        |
| Well Completion                                     | 877.6                       | (15.0)                         | 862.6                | 140.8   | (34.7)                                    | 106.1        |
| Well Intervention                                   | 135.8                       | (0.3)                          | 135.5                | 23.8  | (0.8)                                     | 23.0         |
|   | 1,397.7                     | (21.3)                         | 1,376.4              | 217.6   | (92.6)                                    | 125.0        |
| <b>Other Activities</b>                             |                             |                                |                      |   |   |              |
| Exploration and Production                          | 10.1                        | –                              | 10.1                 | 0.2   | (11.3)                                    | (11.1)       |
| <b>Total from continuing operations</b>             | <b>1,407.8</b>              | <b>(21.3)</b>                  | <b>1,386.5</b>       | <b>217.8</b>  | <b>(103.9)</b>                            | <b>113.9</b> |
| Net finance expense                                 |                             |                                |                      | (4.9)   | –   | (4.9)        |
| Share of associates' post-tax losses                |                             |                                |                      | (0.5)   | –   | (0.5)        |
| <b>Profit before tax from continuing operations</b> |                             |                                |                      | <b>212.4</b>  | <b>(103.9)</b>                            | <b>108.5</b> |
| <b>Discontinued operations:</b>                     |                             |                                |                      |   |   |              |
| Gibson Shipbrokers                                  | 47.4                        | –                              | 47.4                 | 0.5   | –   | 0.5          |
| Gibson Energy                                       | –                           | –                              | –                    | –   | 0.2                                       | 0.2          |
| Field Aviation                                      | –                           | –                              | –                    | –   | 0.9                                       | 0.9          |
| <b>Total from discontinued operations</b>           | <b>47.4</b>                 | <b>–</b>                       | <b>47.4</b>          | <b>0.5</b>  | <b>1.1</b>                                | <b>1.6</b>   |
| Net finance income                                  |                             |                                |                      | 0.2   | –   | 0.2          |
| Taxation  |                             |                                |                      | (0.4)   | –   | (0.4)        |
| <b>Profit from discontinued operations</b>          |                             |                                |                      | <b>0.3</b>  | <b>1.1</b>                                | <b>1.4</b>   |

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 3. Segmental Reporting *continued*

|   | Restated<br>Year ended 31 December 2013 |                                       |                         |   |  |              |
|---|---|---------------------------------------|-------------------------|---|--|--------------|
|   | Total gross<br>revenue<br>\$m           | Inter-<br>segmental<br>revenue<br>\$m | Total<br>revenue<br>\$m | Profit from<br>operations<br>before<br>amortisation<br>and<br>exceptional<br>items<br>\$m | Amortisation<br>and<br>exceptional<br>items<br>\$m | Total<br>\$m |
| <i>Continuing operations:</i>                       |   |                                       |                         |   |  |              |
| <b>Hunting Energy Services</b>                      |   |                                       |                         |   |  |              |
| Well Construction                                   | 387.9                                   | (7.0)                                 | 380.9                   | 58.6  | (7.4)  | 51.2         |
| Well Completion                                     | 805.6                                   | (9.5)                                 | 796.1                   | 124.5   | (42.3)   | 82.2         |
| Well Intervention                                   | 108.6                                   | –                                     | 108.6                   | 15.7  | (0.9)  | 14.8         |
|   | 1,302.1                                 | (16.5)                                | 1,285.6                 | 198.8   | (50.6)   | 148.2        |
| <b>Other Activities</b>                             |   |                                       |                         |   |  |              |
| Exploration and Production                          | 8.0                                     | –                                     | 8.0                     | 1.2   | (10.5)   | (9.3)        |
| <b>Total from continuing operations</b>             | <b>1,310.1</b>                          | <b>(16.5)</b>                         | <b>1,293.6</b>          | <b>200.0</b>  | <b>(61.1)</b>                                      | <b>138.9</b> |
| Net finance expense                                 |   |                                       |                         | (2.9)   | –  | (2.9)        |
| Share of associates' post-tax profits               |   |                                       |                         | 0.4   | –  | 0.4          |
| <b>Profit before tax from continuing operations</b> |   |                                       |                         | <b>197.5</b>  | <b>(61.1)</b>                                      | <b>136.4</b> |
| <i>Discontinued operations:</i>                     |   |                                       |                         |   |  |              |
| Gibson Shipbrokers                                  | 40.4                                    | –                                     | 40.4                    | (1.5)   | –  | (1.5)        |
| Gibson Energy                                       | –                                       | –                                     | –                       | –   | 15.7   | 15.7         |
| Field Aviation                                      | –                                       | –                                     | –                       | –   | (0.2)  | (0.2)        |
| <b>Total from discontinued operations</b>           | <b>40.4</b>                             | <b>–</b>                              | <b>40.4</b>             | <b>(1.5)</b>  | <b>15.5</b>  | <b>14.0</b>  |
| Net finance income                                  |   |                                       |                         | 0.1   | –  | 0.1          |
| Taxation  |   |                                       |                         | –   | (0.1)  | (0.1)        |
| <b>Profit from discontinued operations</b>          |   |                                       |                         | <b>(1.4)</b>  | <b>15.4</b>  | <b>14.0</b>  |

Gibson Shipbrokers' results for the year ended 31 December 2013 have been re-presented as a discontinued operation and its results have been restated to exclude central overheads previously allocated to the division.

**3. Segmental Reporting** *continued*  
**Other Segment Items**

|                                | 2014                |  |                   | Restated<br>2013    |  |                   |
|--------------------------------|---------------------|--|-------------------|---------------------|--|-------------------|
|                                | Depreciation<br>\$m | Amortisation<br>of intangible<br>assets<br>\$m | Impairment<br>\$m | Depreciation<br>\$m | Amortisation<br>of intangible<br>assets<br>\$m | Impairment<br>\$m |
| <b>Hunting Energy Services</b> |                     |  |                   |                     |  |                   |
| Well Construction              | 21.7                | 7.5  | 49.6              | 19.3                | 7.4  | –                 |
| Well Completion                | 19.2                | 34.5   | –                 | 16.6                | 35.1   | –                 |
| Well Intervention              | 6.3                 | 0.8  | –                 | 6.1                 | 0.9  | –                 |
|                                | 47.2                | 42.8   | 49.6              | 42.0                | 43.4   | –                 |
| <b>Other Activities</b>        |                     |  |                   |                     |  |                   |
| Exploration and Production     | 4.8                 | –  | 11.3              | 2.0                 | –  | 10.5              |
| <b>Continuing operations</b>   | 52.0                | 42.8   | 60.9              | 44.0                | 43.4   | 10.5              |
| <b>Discontinued operations</b> |                     |  |                   |                     |  |                   |
| Gibson Shipbrokers             | 0.3                 | –  | –                 | 0.3                 | –  | –                 |

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 3. Segmental Reporting *continued*

#### Geographical Information

The Group operates across a number of geographical areas. The UK is the domicile of Hunting PLC. The table below shows revenues from external customers, which are attributed to individual countries on the basis of the location in which the sale originated. Information on the location of non-current assets is also presented below. Non-current assets exclude defined benefit assets and deferred tax assets.

|                                 | External revenue |                         | Profit from operations before amortisation and exceptional items |                         | Non-current assets |                         |
|---------------------------------|------------------|-------------------------|--|-------------------------|--------------------|-------------------------|
|                                 | 2014<br>\$m      | Restated<br>2013<br>\$m | 2014<br>\$m  | Restated<br>2013<br>\$m | 2014<br>\$m        | Restated<br>2013<br>\$m |
| <i>Continuing operations:</i>   |                  |                         |  |                         |                    |                         |
| <b>Hunting Energy Services</b>  |                  |                         |  |                         |                    |                         |
| USA                             | 867.3            | 798.8                   | 170.0  | 155.8                   | 985.6              | 1,007.4                 |
| Canada                          | 95.5             | 75.3                    | 3.8  | (2.4)                   | 25.6               | 38.9                    |
| North America                   | 962.8            | 874.1                   | 173.8  | 153.4                   | 1,011.2            | 1,046.3                 |
| UK                              | 163.5            | 148.6                   | 8.4  | 11.3                    | 75.0               | 88.6                    |
| Rest of Europe                  | 30.7             | 27.4                    | 2.5  | 3.0                     | 4.4                | 5.0                     |
| Europe                          | 194.2            | 176.0                   | 10.9   | 14.3                    | 79.4               | 93.6                    |
| Singapore                       | 149.0            | 144.7                   | 27.4   | 28.1                    | 11.8               | 12.7                    |
| Rest of Asia Pacific            | 50.5             | 72.2                    | 3.6  | 2.3                     | 22.4               | 23.7                    |
| Asia Pacific                    | 199.5            | 216.9                   | 31.0   | 30.4                    | 34.2               | 36.4                    |
| Middle East, Africa and Other   | 19.9             | 18.6                    | 1.9  | 0.7                     | 14.6               | 10.5                    |
|                                 | 1,376.4          | 1,285.6                 | 217.6  | 198.8                   | 1,139.4            | 1,186.8                 |
| <b>Other Activities</b>         |                  |                         |  |                         |                    |                         |
| USA                             | 10.1             | 8.0                     | 0.2  | 1.2                     | 15.6               | 26.5                    |
| <b>Continuing operations</b>    | <b>1,386.5</b>   | <b>1,293.6</b>          | <b>217.8</b>   | <b>200.0</b>            | <b>1,155.0</b>     | <b>1,213.3</b>          |
| <i>Discontinued operations:</i> |                  |                         |  |                         |                    |                         |
| UK                              | 40.4             | 35.4                    | (1.4)  | (0.8)                   | –                  | 2.9                     |
| Other                           | 7.0              | 5.0                     | 1.9  | (0.7)                   | –                  | 0.2                     |
|                                 | 47.4             | 40.4                    | 0.5  | (1.5)                   | 1,155.0            | 1,216.4                 |
| <i>Unallocated assets:</i>      |                  |                         |  |                         |                    |                         |
| Deferred tax assets             |                  |                         |  |                         | 1.2                | 3.1                     |
| Retirement benefit assets       |                  |                         |  |                         | 30.9               | 29.6                    |
| <b>Total non-current assets</b> |                  |                         |  |                         | <b>1,187.1</b>     | <b>1,249.1</b>          |

Gibson Shipbrokers' results for the year ended 31 December 2013 and non-current assets at 31 December 2013 have been re-presented from other activities to discontinued operations. At 31 December 2014, its assets and liabilities have been presented as held for sale as disclosed in note 23.

#### Major Customer Information

The Group received \$155.5m of revenue from the Halliburton Company Group which is 11% of the Group's revenue from external customers. The revenue is reported in the Well Construction, Well Completion and Well Intervention segments. The Group had no customers in 2013 who accounted for more than 10% of the Group's external revenue during the year.

### 4. Revenue

#### Group

|                               | 2014<br>\$m    | Restated<br>2013<br>\$m |
|-------------------------------|----------------|-------------------------|
| Sale of goods                 | 1,154.5        | 1,076.4                 |
| Revenue from services         | 110.3          | 94.9                    |
| Revenue from rental equipment | 121.7          | 122.3                   |
| <b>Continuing operations</b>  | <b>1,386.5</b> | <b>1,293.6</b>          |

## 5. Other Operating Income

### Group

|   | 2014<br>\$m | Restated<br>2013<br>\$m |
|---|-------------|-------------------------|
| Operating lease rental income                     | 1.2         | 1.4                     |
| Gain on disposal of property, plant and equipment | 4.2         | 2.7                     |
| Foreign exchange gains                            | 2.8         | 1.4                     |
| Other income*                                     | 1.3         | 2.0                     |
| <b>Continuing operations</b>                      | <b>9.5</b>  | <b>7.5</b>              |

\* Includes a fair value gain on non-hedging derivatives of \$0.1m (2013 – \$nil).

## 6. Operating Expenses

### Group

|  | 2014<br>\$m  | Restated<br>2013<br>\$m |
|--|--------------|-------------------------|
| Administration expenses before amortisation and exceptional items* | 133.9        | 123.9                   |
| Distribution costs and selling costs                               | 91.5         | 75.7                    |
| Loss on disposal of property, plant and equipment                  | 10.2         | 2.6                     |
| Operating expenses before amortisation and exceptional items       | 235.6        | 202.2                   |
| Amortisation and exceptional items (note 7)                        | 92.6         | 46.3                    |
| <b>Continuing operations</b>                                       | <b>328.2</b> | <b>248.5</b>            |

\* Includes a fair value loss on non-hedging derivatives of \$nil (2013 – \$0.3m) and foreign exchange losses of \$1.8m (2013 restated – \$2.2m).

## 7. Amortisation and Exceptional Items

### Group

|  | 2014<br>\$m | 2013<br>\$m |
|--|-------------|-------------|
| Impairment of property, plant and equipment (note 15)      | 9.6         | 7.9         |
| Fair value uplift to inventories charge                    | –           | 4.3         |
| Dry hole costs (note 15)                                   | 1.7         | 2.6         |
| Charged to cost of sales                                   | 11.3        | 14.8        |
| Amortisation of intangible assets (note 17)                | 42.8        | 43.4        |
| Impairment of goodwill (note 16)                           | 49.6        | –           |
| Release of foreign exchange on liquidation of subsidiaries | 4.8         | –           |
| Excess property provision release                          | (4.6)       | –           |
| Settlement of litigation and associated legal expenses     | –           | 2.9         |
| Charged to operating expenses                              | 92.6        | 46.3        |
| Amortisation and exceptional items                         | 103.9       | 61.1        |
| Taxation on amortisation and exceptional items (note 12)   | (20.5)      | (23.3)      |
| <b>Continuing operations</b>                               | <b>83.4</b> | <b>37.8</b> |

Following a valuation of oil and gas reserves at 31 December 2014 performed for impairment purposes, an impairment charge of \$9.6m (2013 – \$7.9m) was incurred in the year reflecting a decline in the oil price and a reduction in reserve estimates compared to those at 31 December 2013. The recoverable amount of oil and gas development expenditure is based on value in use. These calculations use discounted cash flow projections based on estimated oil and gas reserves, future production and the income and costs in generating this production. Cash flows are based on productive lives between one and fifteen years and are discounted using a nominal pre-tax rate of 13% (2013 – 13%).

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 7. Amortisation and Exceptional Items *continued*

Under IFRS, at acquisition, inventory values are adjusted from their carrying values (generally at cost of production) to a fair value, which includes profit attributable to the degree of completion of the inventory. This uplift is charged to the income statement as the inventory is sold, thereby reducing reported operating profits. In 2014, the charge was \$nil (2013 – \$4.3m) relating to acquisitions completed in the second half of 2011.

Dry hole costs of \$1.7m (2013 – \$2.6m) were incurred and paid during the year from Exploration and Production activities.

A goodwill impairment charge of \$40.0m (2013 – \$nil) has been recognised in relation to the Electronics CGU and \$9.6m (2013 – \$nil) has been recognised in relation to the Drilling Tools CGU. Further details can be found in note 16.

Foreign exchange losses of \$4.8m (2013 – \$nil) relating to cumulative foreign exchange differences previously recognised in the foreign currency translation reserve have been transferred to the income statement in relation to central non-operating companies which have entered into voluntary liquidation.

Property provisions of \$4.6m (2013 – \$nil) have been released as they are no longer required following the signing of a lease termination agreement with the owner of a leasehold property.

During 2013, the Group settled a pre-acquisition litigation case brought against one of its subsidiaries. The settlement cost and associated legal expenses amounted to \$2.9m.

### 8. Profit from Continuing Operations

#### Group

The following items have been charged/(credited) in arriving at profit from continuing operations:

|  | 2014<br>\$m | Restated<br>2013<br>\$m |
|--|-------------|-------------------------|
| Staff costs (note 10)  | 284.8       | 256.6                   |
| Depreciation of property, plant and equipment (note 15)                            | 52.0        | 44.0                    |
| Amortisation of other intangible assets (included in operating expenses) (note 17) | 42.8        | 43.4                    |
| Impairment of goodwill (note 16)   | 49.6        | –                       |
| Impairment of property, plant and equipment (included in cost of sales) (note 15)  | 11.3        | 10.5                    |
| Impairment of trade and other receivables (note 20)                                | 0.5         | 0.4                     |
| Cost of inventories recognised as expense (included in cost of sales)*             | 839.2       | 795.9                   |
| Write down in inventories  | 4.5         | 3.2                     |
| Net loss (gain) on disposal of property, plant and equipment                       | 6.0         | (0.1)                   |
| Operating lease payments   | 16.2        | 14.1                    |
| Research and development expenditure   | 0.8         | 0.6                     |

\* The cost of inventories recognised as an expense includes the release of the fair value uplift to inventories of \$nil (2013 – \$4.3m) included in exceptional items (note 7).

Services provided by the Group's auditors PricewaterhouseCoopers LLP and its associates comprised:

|  | Group       |             | Company     |             |
|--|-------------|-------------|-------------|-------------|
|  | 2014<br>\$m | 2013<br>\$m | 2014<br>\$m | 2013<br>\$m |
| Fees payable to the Company's auditors and its associates for: |             |             |             |             |
| The audit of these accounts                                    | 1.9         | 2.2         | 0.5         | 0.6         |
| The audit of the accounts of the Company's subsidiaries        | 0.3         | 0.2         | –           | –           |
| Total audit  | 2.2         | 2.4         | 0.5         | 0.6         |
| Audit-related assurance services                               | 0.1         | 0.1         | –           | –           |
| Total audit and audit-related services                         | 2.3         | 2.5         | 0.5         | 0.6         |
| Taxation compliance services                                   | 0.2         | 0.3         | 0.1         | 0.1         |
| Taxation advisory services                                     | 0.2         | 0.5         | 0.1         | 0.1         |
| Total services relating to taxation                            | 0.4         | 0.8         | 0.2         | 0.2         |
| Corporate finance services                                     | –           | 0.1         | –           | –           |
| Other services   | 0.1         | 0.1         | –           | –           |
| Total other non-audit services                                 | 0.1         | 0.2         | –           | –           |
| <b>Total fees</b>  | <b>2.8</b>  | <b>3.5</b>  | <b>0.7</b>  | <b>0.8</b>  |



**9. EBITDA****Group**

EBITDA is a non-GAAP measure. Underlying EBITDA is defined as profit from continuing operations before interest, tax, depreciation, amortisation and exceptional items. The Board uses underlying EBITDA as one of the measures of performance of the Group which is discussed in the Group Performance Summary report on pages 22 to 29. Reported EBITDA is defined as profit from continuing operations before interest, tax, depreciation and amortisation.

The following table provides a reconciliation of underlying EBITDA to reported EBITDA:

|  | 2014<br>\$m  | Restated<br>2013<br>\$m |
|--|--------------|-------------------------|
| Reported profit from continuing operations (page 85) | 113.9        | 138.9                   |
| Add: amortisation and exceptional items (note 7)     | 103.9        | 61.1                    |
| Add: depreciation                                    | 52.0         | 44.0                    |
| <b>Underlying EBITDA</b>                             | <b>269.8</b> | <b>244.0</b>            |
| Less: exceptional items impacting EBITDA             | (0.2)        | (7.2)                   |
| <b>Reported EBITDA</b>                               | <b>269.6</b> | <b>236.8</b>            |

**10. Employees****Group**

|   | 2014                            |                                   |              | Restated<br>2013                |                                   |              |
|---|---------------------------------|-----------------------------------|--------------|---------------------------------|-----------------------------------|--------------|
|   | Continuing<br>operations<br>\$m | Discontinued<br>operations<br>\$m | Total<br>\$m | Continuing<br>operations<br>\$m | Discontinued<br>operations<br>\$m | Total<br>\$m |
| Wages and salaries                              | 247.9                           | 31.7                              | 279.6        | 220.3                           | 27.8                              | 248.1        |
| Social security costs                           | 17.2                            | 3.6                               | 20.8         | 16.2                            | 3.3                               | 19.5         |
| Share-based payments (note 37)                  | 7.4                             | 0.3                               | 7.7          | 9.9                             | 0.1                               | 10.0         |
| Pension costs                                   |                                 |                                   |              |                                 |                                   |              |
| – defined contribution schemes (note 32)        | 9.8                             | 1.0                               | 10.8         | 8.6                             | 0.8                               | 9.4          |
| – defined benefit scheme (note 32)              | 2.5                             | 2.3                               | 4.8          | 1.9                             | 2.5                               | 4.4          |
| Staff costs for the year                        | 284.8                           | 38.9                              | 323.7        | 256.9                           | 34.5                              | 291.4        |
| Less: staff costs capitalised as R&D            | –                               | –                                 | –            | (0.3)                           | –                                 | (0.3)        |
| <b>Staff costs charged to profit before tax</b> | <b>284.8</b>                    | <b>38.9</b>                       | <b>323.7</b> | <b>256.6</b>                    | <b>34.5</b>                       | <b>291.1</b> |

The average monthly number of employees by geographical area (including executive Directors) during the year was:

|                               | 2014                     |                            |              | Restated<br>2013         |                            |              |
|-------------------------------|--------------------------|----------------------------|--------------|--------------------------|----------------------------|--------------|
|                               | Continuing<br>operations | Discontinued<br>operations | Total        | Continuing<br>operations | Discontinued<br>operations | Total        |
| UK                            | 409                      | 154                        | 563          | 436                      | 137                        | 573          |
| Rest of Europe                | 78                       | –                          | 78           | 71                       | 1                          | 72           |
| Canada                        | 267                      | –                          | 267          | 258                      | –                          | 258          |
| USA                           | 2,359                    | 1                          | 2,360        | 2,281                    | –                          | 2,281        |
| Singapore                     | 218                      | 15                         | 233          | 186                      | 25                         | 211          |
| Rest of Asia Pacific          | 498                      | 4                          | 502          | 523                      | 4                          | 527          |
| Middle East, Africa and Other | 41                       | –                          | 41           | 34                       | –                          | 34           |
|                               | <b>3,870</b>             | <b>174</b>                 | <b>4,044</b> | <b>3,789</b>             | <b>167</b>                 | <b>3,956</b> |

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 10. Employees continued

The average monthly number of employees by operating segment (including executive Directors) during the year was:

|                            | 2014                  |                         |       | Restated 2013         |                         |       |
|----------------------------|-----------------------|-------------------------|-------|-----------------------|-------------------------|-------|
|                            | Continuing operations | Discontinued operations | Total | Continuing operations | Discontinued operations | Total |
| Well Construction          | 1,081                 | –                       | 1,081 | 1,186                 | –                       | 1,186 |
| Well Completion            | 2,237                 | –                       | 2,237 | 2,102                 | –                       | 2,102 |
| Well Intervention          | 483                   | –                       | 483   | 432                   | –                       | 432   |
| Exploration and Production | 4                     | –                       | 4     | 4                     | –                       | 4     |
| Gibson Shipbrokers         | –                     | 174                     | 174   | –                     | 167                     | 167   |
| Central                    | 65                    | –                       | 65    | 65                    | –                       | 65    |
|                            | 3,870                 | 174                     | 4,044 | 3,789                 | 167                     | 3,956 |

The actual number of employees at the year end was:

|        | 2014                  |                         |       | Restated 2013         |                         |       |
|--------|-----------------------|-------------------------|-------|-----------------------|-------------------------|-------|
|        | Continuing operations | Discontinued operations | Total | Continuing operations | Discontinued operations | Total |
| Male   | 3,271                 | 149                     | 3,420 | 3,152                 | 144                     | 3,296 |
| Female | 732                   | 30                      | 762   | 669                   | 25                      | 694   |
|        | 4,003                 | 179                     | 4,182 | 3,821                 | 169                     | 3,990 |

Key management comprises the executive and non-executive Directors only. Their compensation in the year was:

|   | 2014<br>\$m | 2013<br>\$m |
|---|-------------|-------------|
| Salaries and short-term employee benefits | 3.9         | 2.7         |
| Social security costs                     | 0.4         | 0.4         |
| Post-employment benefits                  | 0.5         | 0.5         |
| Share-based payments                      | 1.5         | 3.6         |
|   | 6.3         | 7.2         |

Salaries and short-term benefits are included within the Directors Remuneration table on page 70 of the Annual Report on Remuneration. Post employment benefits comprise employer pension contributions. Share-based payments comprise the charge to the income statement. Details of share options and awards are disclosed on page 74 of the Annual Report on Remuneration.

#### Company

The Company has no employees.

### 11. Net Finance Costs

Group

|  | 2014<br>\$m  | Restated<br>2013<br>\$m |
|--|--------------|-------------------------|
| <b>Finance income:</b>                             |              |                         |
| Bank balances and deposits                         | 1.7          | 2.1                     |
| Pension interest income                            | 1.5          | 1.1                     |
| Foreign exchange gains                             | 3.3          | 6.2                     |
| Other finance income                               | 1.0          | 2.4                     |
|  | 7.5          | 11.8                    |
| <b>Finance expense:</b>                            |              |                         |
| Bank overdrafts                                    | (1.4)        | (2.3)                   |
| Bank borrowings                                    | (3.5)        | (4.4)                   |
| Bank fees and commissions                          | (4.1)        | (3.6)                   |
| Foreign exchange losses                            | (2.4)        | (3.7)                   |
| Other finance expense                              | (1.0)        | (0.7)                   |
|  | (12.4)       | (14.7)                  |
| <b>Net finance expense – continuing operations</b> | <b>(4.9)</b> | <b>(2.9)</b>            |

### 12. Taxation

Group

|   | 2014   |  |              | Restated<br>2013   |  |              |
|---|--|--|--------------|--|--|--------------|
|   | Before<br>amortisation<br>and<br>exceptional<br>items<br>\$m | Amortisation<br>and<br>exceptional<br>items<br>\$m | Total<br>\$m | Before<br>amortisation<br>and<br>exceptional<br>items<br>\$m | Amortisation<br>and<br>exceptional<br>items<br>\$m | Total<br>\$m |
| Current tax   |  |  |              |  |  |              |
| - current year expense                              | 58.4   | (19.1)   | 39.3         | 63.7   | (22.2)   | 41.5         |
| - adjustments in respect of prior years             | (6.5)  | –  | (6.5)        | (7.9)  | –  | (7.9)        |
|   | 51.9   | (19.1)   | 32.8         | 55.8   | (22.2)   | 33.6         |
| Deferred tax  |  |  |              |  |  |              |
| - origination and reversal of temporary differences | 2.6  | (1.4)  | 1.2          | (2.0)  | (1.4)  | (3.4)        |
| - change in tax rate                                | –  | –  | –            | (0.1)  | –  | (0.1)        |
| - adjustments in respect of prior years             | 2.7  | –  | 2.7          | (1.6)  | 0.3  | (1.3)        |
|   | 5.3  | (1.4)  | 3.9          | (3.7)  | (1.1)  | (4.8)        |
| <b>Taxation – continuing operations</b>             | <b>57.2</b>  | <b>(20.5)</b>                                      | <b>36.7</b>  | <b>52.1</b>  | <b>(23.3)</b>                                      | <b>28.8</b>  |

The weighted average applicable tax rate for continuing operations before amortisation and exceptional items is 27% (2013 restated – 26%).

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 12. Taxation continued

The tax credit in the income statement of \$20.5m (2013 – \$23.3m) for amortisation and exceptional items comprises credits of \$16.4m (2013 – \$16.5m) on the amortisation of intangible assets, \$3.7m (2013 – \$3.1m) on the impairment of oil and gas development expenditure, \$0.7m (2013 – \$1.0m) on dry hole costs, \$0.7m (2013 – \$nil) on the release of foreign exchange on liquidation of subsidiaries, \$nil (2013 – \$1.6m) on the fair value uplift to inventories charge, \$nil (2013 – \$1.1m) on the settlement of litigation costs and a charge of \$1.0m (2013 – \$nil) on the excess property provision release.

The total tax charge for the year is higher (2013 – lower) than the standard rate of UK corporation tax of 21.5% (2013 – 23.25%) for the following reasons:

|   | 2014<br>\$m  | Restated<br>2013<br>\$m |
|---|--------------|-------------------------|
| <b>Profit before tax from continuing operations</b>   | <b>108.5</b> | <b>136.4</b>            |
| Tax at 21.5% (2013 – 23.25%)                          | 23.3         | 31.7                    |
| Permanent differences including tax credits           | (4.0)        | (0.4)                   |
| Recognition of previously unrecognised deferred taxes | (0.1)        | (0.2)                   |
| Non-tax deductible (untaxed) exceptional items        | 11.1         | 0.1                     |
| Higher rate of tax on overseas profits                | 10.2         | 6.9                     |
| Change in tax rates                                   | –            | (0.1)                   |
| Adjustments in respect of prior years                 | (3.8)        | (9.2)                   |
| <b>Taxation – continuing operations</b>               | <b>36.7</b>  | <b>28.8</b>             |

Tax effects relating to each component of other comprehensive income were as follows:

|   | 2014              |                                  |                  | 2013              |                                  |                  |
|---|-------------------|----------------------------------|------------------|-------------------|----------------------------------|------------------|
|   | Before tax<br>\$m | Tax (charged)<br>credited<br>\$m | After tax<br>\$m | Before tax<br>\$m | Tax (charged)<br>credited<br>\$m | After tax<br>\$m |
| Exchange adjustments  | (19.4)            | 1.5                              | (17.9)           | (1.7)             | 0.8                              | (0.9)            |
| Release of foreign exchange losses  | 4.8               | (1.0)                            | 3.8              | –                 | –                                | –                |
| Fair value gains and losses:  |                   |                                  |                  |                   |                                  |                  |
| – gain transferred to income statement on redemption of available for sale investment | (0.2)             | –                                | (0.2)            | –                 | –                                | –                |
| – gain on available for sale investment arising during the year                       | –                 | –                                | –                | 0.2               | –                                | 0.2              |
| – (losses) gains originating on cash flow hedges arising during the year              | (0.1)             | –                                | (0.1)            | 1.8               | (0.3)                            | 1.5              |
| – gains transferred to income statement on disposal of cash flow hedges               | (1.7)             | 0.4                              | (1.3)            | (0.2)             | –                                | (0.2)            |
| Remeasurement of defined benefit pension schemes                                      | 1.7               | (0.2)                            | 1.5              | 2.3               | 0.5                              | 2.8              |
|   | (14.9)            | 0.7                              | (14.2)           | 2.4               | 1.0                              | 3.4              |

In respect of the tax on the remeasurement of defined benefit pension schemes, a \$0.2m charge (2013 – \$0.2m) arises on the current year's movement and \$nil (2013 – \$0.7m credit) is due to a change in tax rates.

In July 2013, the UK Government enacted a change in the UK corporation tax rate from 23% to 21% effective from 1 April 2014 and to 20% from 1 April 2015. The impact of the change in rate to 21% has been recognised in calculating the effective rate of tax for the year ended 31 December 2014. The UK deferred tax balances at 31 December 2014 have been recalculated at the new rates. The changes have not had a material impact on the Group's deferred tax balances.

### 13. Discontinued Operations

#### Group

The results from discontinued operations were as follows:

|   | 2014                         |                          |                         |              | Restated<br>2013             |                          |                         |              |
|---|------------------------------|--------------------------|-------------------------|--------------|------------------------------|--------------------------|-------------------------|--------------|
|   | Gibson<br>Shipbrokers<br>\$m | Field<br>Aviation<br>\$m | Gibson<br>Energy<br>\$m | Total<br>\$m | Gibson<br>Shipbrokers<br>\$m | Field<br>Aviation<br>\$m | Gibson<br>Energy<br>\$m | Total<br>\$m |
| <b>Trading results:</b>                                 |                              |                          |                         |              |                              |                          |                         |              |
| <b>Revenue</b>  | 47.4                         | –                        | –                       | 47.4         | 40.4                         | –                        | –                       | 40.4         |
| <b>Gross profit</b>                                     | 47.4                         | –                        | –                       | 47.4         | 40.4                         | –                        | –                       | 40.4         |
| Other operating income                                  | 0.4                          | –                        | –                       | 0.4          | 0.1                          | –                        | –                       | 0.1          |
| Other operating expenses                                | (47.3)                       | –                        | –                       | (47.3)       | (42.0)                       | –                        | –                       | (42.0)       |
| <b>Profit (loss) from operations</b>                    | 0.5                          | –                        | –                       | 0.5          | (1.5)                        | –                        | –                       | (1.5)        |
| Finance income  | 0.2                          | –                        | –                       | 0.2          | 0.2                          | –                        | –                       | 0.2          |
| Finance expense   | –                            | –                        | –                       | –            | (0.1)                        | –                        | –                       | (0.1)        |
| <b>Profit (loss) before tax</b>                         | 0.7                          | –                        | –                       | 0.7          | (1.4)                        | –                        | –                       | (1.4)        |
| Taxation  | (0.4)                        | –                        | –                       | (0.4)        | –                            | –                        | –                       | –            |
| <b>Profit (loss) for the year</b>                       | 0.3                          | –                        | –                       | 0.3          | (1.4)                        | –                        | –                       | (1.4)        |
| <b>Gain on disposal:</b>                                |                              |                          |                         |              |                              |                          |                         |              |
| Gain (loss) on sale before tax                          | –                            | 0.9                      | 0.2                     | 1.1          | –                            | (0.2)                    | 15.7                    | 15.5         |
| Taxation  | –                            | –                        | –                       | –            | –                            | –                        | (0.1)                   | (0.1)        |
| <b>Gain (loss) on sale after tax</b>                    | –                            | 0.9                      | 0.2                     | 1.1          | –                            | (0.2)                    | 15.6                    | 15.4         |
| <b>Total profit (loss) from discontinued operations</b> | 0.3                          | 0.9                      | 0.2                     | 1.4          | (1.4)                        | (0.2)                    | 15.6                    | 14.0         |

#### Gibson Shipbrokers

The Group has classified Gibson Shipbrokers as held for sale at 31 December 2014, as sale negotiations are at an advanced stage such that it is highly probable that the company will be sold within twelve months of the balance sheet date. The results of Gibson Shipbrokers have been re-presented as a discontinued operation.

#### Field Aviation

On 27 April 2012, the Group sold its aviation engineering services business, Hunting Canadian Airport Holdings Ltd and its subsidiaries, including Field Aviation Company Inc. (together referred to as "Field Aviation"). Under the terms of the sale, Hunting PLC and the purchaser established an environmental escrow account to address ongoing site condition costs relating to Field Aviation's hangar facilities in Calgary. Additionally, part of the consideration was deferred in the form of an interest-bearing promissory note issued to Hunting PLC, repayable by the purchaser on or before 31 December 2018. On 30 September 2014, the promissory note was repaid in full and the environmental escrow account was wound up, with remaining funds distributed between Hunting PLC and the purchaser. This resulted in a gain of \$0.9m included within discontinued items.

#### Gibson Energy

The sale of Gibson Energy Inc., Hunting's Canadian midstream services operation, was completed on 12 December 2008. Subsequent gains reported relate to the settlement of tax items.

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 14. Earnings per Share

#### Group

Basic earnings per share ("EPS") is calculated by dividing the earnings attributable to Ordinary shareholders by the weighted average number of Ordinary shares outstanding during the year.

For diluted earnings per share, the weighted average number of outstanding Ordinary shares is adjusted to assume conversion of all dilutive potential Ordinary shares. The dilution in respect of share options applies where the exercise price is less than the average market price of the Company's Ordinary shares during the year and the possible issue of shares under the Group's long-term incentive plans.

Reconciliations of the earnings and weighted average number of Ordinary shares used in the calculations are set out below:

|  | 2014<br>\$m  | Restated<br>2013<br>\$m |
|--|--------------|-------------------------|
| <b>Basic and diluted earnings attributable to Ordinary shareholders:</b>   |              |                         |
| From continuing operations   | 67.8         | 103.9                   |
| From discontinued operations   | 1.4          | 14.0                    |
| <b>Total</b>   | <b>69.2</b>  | <b>117.9</b>            |
| <b>Basic and diluted earnings attributable to Ordinary shareholders before amortisation and exceptional items:</b> |              |                         |
| From continuing operations   | 67.8         | 103.9                   |
| Add: amortisation and exceptional items after taxation (note 7)  | 83.4         | 37.8                    |
| <b>Total</b>   | <b>151.2</b> | <b>141.7</b>            |
| From discontinued operations   | 1.4          | 14.0                    |
| Less: exceptional items after taxation   | (1.1)        | (15.4)                  |
| <b>Total</b>   | <b>0.3</b>   | <b>(1.4)</b>            |
|  | millions     | millions                |
| <b>Basic weighted average number of Ordinary shares</b>  | <b>147.3</b> | <b>146.5</b>            |
| Dilutive outstanding share options   | 0.6          | 1.1                     |
| Long-term incentive plans  | 3.2          | 2.4                     |
| <b>Adjusted weighted average number of Ordinary shares</b>   | <b>151.1</b> | <b>150.0</b>            |
|  | cents        | cents                   |
| <b>Basic EPS:</b>  |              |                         |
| From continuing operations   | 45.9         | 71.0                    |
| From discontinued operations   | 1.0          | 9.5                     |
|  | <b>46.9</b>  | <b>80.5</b>             |
| <b>Diluted EPS:</b>  |              |                         |
| From continuing operations   | 44.8         | 69.4                    |
| From discontinued operations   | 1.0          | 9.2                     |
|  | <b>45.8</b>  | <b>78.6</b>             |
| <b>Earnings per share before amortisation and exceptional items</b>  |              |                         |
| <b>Basic EPS:</b>  |              |                         |
| From continuing operations   | 102.6        | 96.8                    |
| From discontinued operations   | 0.2          | (1.0)                   |
|  | <b>102.8</b> | <b>95.8</b>             |
| <b>Diluted EPS:</b>  |              |                         |
| From continuing operations   | 100.0        | 94.5                    |
| From discontinued operations   | 0.2          | (1.0)                   |
|  | <b>100.2</b> | <b>93.5</b>             |



### 15. Property, Plant and Equipment Group

|   | 2014                      |  |                     |  |              |
|---|---------------------------|--|---------------------|--|--------------|
|   | Land and buildings<br>\$m | Plant, machinery and motor vehicles<br>\$m | Rental tools<br>\$m | Oil and gas exploration and development<br>\$m | Total<br>\$m |
| <b>Cost:</b>                                    |                           |  |                     |  |              |
| At 1 January                                    | 192.1                     | 281.5                                      | 135.2               | 171.3  | 780.1        |
| Exchange adjustments                            | (3.7)                     | (6.6)                                      | (1.6)               | –  | (11.9)       |
| Additions                                       | 56.0                      | 36.3                                       | 25.7                | 7.1  | 125.1        |
| Disposals                                       | (0.1)                     | (4.6)                                      | (19.7)              | –  | (24.4)       |
| Classified as held for sale                     | (2.0)                     | (1.3)                                      | –                   | –  | (3.3)        |
| Reclassification                                | 1.3                       | (1.1)                                      | (0.2)               | –  | –            |
| At 31 December                                  | 243.6                     | 304.2                                      | 139.4               | 178.4  | 865.6        |
| <b>Accumulated depreciation and impairment:</b> |                           |  |                     |  |              |
| At 1 January                                    | 22.7                      | 133.3                                      | 42.5                | 149.8  | 348.3        |
| Exchange adjustments                            | (0.8)                     | (4.1)                                      | (0.9)               | –  | (5.8)        |
| Charge for the year*                            | 4.4                       | 28.6                                       | 14.5                | 4.8  | 52.3         |
| Impairment of assets (note 7)                   | –                         | –  | –                   | 11.3   | 11.3         |
| Disposals                                       | (0.1)                     | (4.2)                                      | (6.4)               | –  | (10.7)       |
| Classified as held for sale                     | (1.6)                     | (1.2)                                      | –                   | –  | (2.8)        |
| Reclassification                                | 0.2                       | (0.2)                                      | –                   | –  | –            |
| At 31 December                                  | 24.8                      | 152.2                                      | 49.7                | 165.9  | 392.6        |
| <b>Net book amount</b>                          | <b>218.8</b>              | <b>152.0</b>                               | <b>89.7</b>         | <b>12.5</b>                                    | <b>473.0</b> |

\* Included in the charge for the year is \$0.3m for discontinued operations.

Oil and gas exploration and development includes expenditure on the exploration for and evaluation of mineral resources, which is recognised at cost and is not depreciated until production commences, or is impaired if the exploration of the mineral resources is not commercially viable. Productive assets are tested for impairment, at least annually, and an impairment to the value of the Group's oil and gas assets totalling \$11.3m (2013 – \$10.5m) has been recognised within exceptional items (note 7).

Included in the net book amount is expenditure relating to assets in the course of construction of \$60.1m (2013 – \$6.2m) for land and buildings, \$0.7m (2013 – \$5.0m) for oil and gas exploration and development, \$20.2m (2013 – \$10.7m) for plant and machinery and \$0.8m (2013 – \$0.6m) for rental tools.

Group capital expenditure committed, for the purchase of property, plant and equipment, but not provided for in these financial statements amounted to \$23.3m (2013 – \$19.2m).

The net book amount of land and buildings of \$218.8m (2013 – \$169.4m) comprises freehold land and buildings of \$215.4m (2013 – \$165.3m) and short leasehold land and buildings of \$3.4m (2013 – \$4.1m).

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 15. Property, Plant and Equipment *continued*

|   | 2013                         |   |                        |   |              |
|---|------------------------------|---|------------------------|---|--------------|
|   | Land and<br>buildings<br>\$m | Plant,<br>machinery<br>and motor<br>vehicles<br>\$m | Rental<br>tools<br>\$m | Oil and gas<br>exploration<br>and<br>development<br>\$m | Total<br>\$m |
| <b>Cost:</b>                                    |                              |   |                        |   |              |
| At 1 January                                    | 172.7                        | 250.6   | 124.0                  | 162.3   | 709.6        |
| Exchange adjustments                            | 0.9                          | (0.7)   | 0.1                    | –   | 0.3          |
| Additions                                       | 20.3                         | 37.5  | 26.4                   | 10.8  | 95.0         |
| Acquisitions                                    | –                            | 1.7   | –                      | –   | 1.7          |
| Disposals                                       | (4.5)                        | (4.6)   | (15.3)                 | –   | (24.4)       |
| Transfer to other intangible assets             | 2.7                          | (3.0)   | –                      | –   | (0.3)        |
| Transfer to other receivables                   | –                            | –   | –                      | (1.8)   | (1.8)        |
| At 31 December                                  | 192.1                        | 281.5   | 135.2                  | 171.3   | 780.1        |
| <b>Accumulated depreciation and impairment:</b> |                              |   |                        |   |              |
| At 1 January                                    | 18.4                         | 114.0   | 36.1                   | 137.3   | 305.8        |
| Exchange adjustments                            | (0.1)                        | (0.6)   | –                      | –   | (0.7)        |
| Charge for the year*                            | 4.6                          | 26.2  | 11.5                   | 2.0   | 44.3         |
| Impairment of assets (note 7)                   | –                            | –   | –                      | 10.5  | 10.5         |
| Disposals                                       | (2.2)                        | (4.1)   | (5.1)                  | –   | (11.4)       |
| Transfer to other intangible assets             | 2.0                          | (2.2)   | –                      | –   | (0.2)        |
| At 31 December                                  | 22.7                         | 133.3   | 42.5                   | 149.8   | 348.3        |
| <b>Net book amount</b>                          | 169.4                        | 148.2   | 92.7                   | 21.5  | 431.8        |

\* Included in the charge for the year is \$0.3m for discontinued operations.

The net book amount of property, plant and equipment at 1 January 2013 was \$403.8m.

### 16. Goodwill Group

|                                | 2014<br>\$m | 2013<br>\$m |
|--------------------------------|-------------|-------------|
| <b>Cost:</b>                   |             |             |
| At 1 January                   | 529.2       | 529.4       |
| Exchange adjustments           | (3.7)       | (1.5)       |
| Additions                      | –           | 1.3         |
| Classified as held for sale    | (3.0)       | –           |
| At 31 December                 | 522.5       | 529.2       |
| <b>Accumulated impairment:</b> |             |             |
| At 1 January                   | 34.0        | 34.4        |
| Exchange adjustments           | (0.5)       | (0.4)       |
| Charge for the year            | 49.6        | –           |
| Classified as held for sale    | (1.2)       | –           |
| At 31 December                 | 81.9        | 34.0        |
| <b>Net book amount</b>         | 440.6       | 495.2       |

The net book amount at 1 January 2013 was \$495.0m.

**16. Goodwill continued****Impairment Tests for Goodwill**

Goodwill is allocated to the Group's cash-generating units ("CGUs") as follows:

|  | 2014<br>\$m | 2013<br>\$m |
|--|-------------|-------------|
| Titan  | 288.4       | 288.4       |
| Hunting Stafford "Subsea" (formally National Coupling Company) | 32.7        | 32.7        |
| Electronics  | 28.7        | 68.7        |
| Dearborn   | 25.5        | 25.5        |
| Welltonic  | 18.0        | 19.1        |
| Drilling Tools   | 4.4         | 15.5        |
| Other  | 42.9        | 45.3        |
| At 31 December   | 440.6       | 495.2       |

The recoverable amount of a CGU has been determined based on value in use calculations. The key assumptions for the value in use calculations are revenue growth rates, taking into account the impact these have on margins, and the pre-tax discount rates applied. As required by IFRS for value in use calculations, projections do not take into account benefits of growth projects or potential restructuring actions.

The value in use calculations use discounted pre-tax cash flow projections based on the most recent financial projections and include an assessment of how the CGUs are expected to perform given current market conditions, using past experience as a guide, and monitoring the position of order books for businesses where this is appropriate. Market conditions are currently volatile and will impact CGUs differently. In broad terms, management has assumed a significant decline in activity for most CGUs in 2015, although in the Well Intervention segment (including Hunting Stafford "Subsea" and Welltonic CGUs) the impact is expected to be less adverse. In 2016 a partial recovery is anticipated but with many of the CGUs remaining below 2014 levels.

Cash flows in the three to five year period are derived using estimated nominal revenue annualised growth rates between 7% and 14% (2013 – 5% and 7%) which are higher than previously assumed, reflecting a recovery period after the short-term decline in activity. These growth rates are inherently based on management's judgement. This judgement is supported by external research such as Spears and Associates Drilling and Production Outlook, to assess likely changes for the countries and markets in which the relevant CGUs operate, for example, rig counts, the expected profile and footage of drilling and expected E&P spend. Management then consider the applicability of these expectations to the CGU's business activities. Terminal growth rates between 2% and 5% (2013 – 3% and 4%) are then used.

Cash flows are discounted using nominal pre-tax rates between 9% and 15% (2013 – 9% and 15%). The discount rate best reflects current market assessments of the time value of money, the risks associated with the cash flows and the likely external rate of borrowing of the CGU. Consideration has also been given to other factors such as currency risk, operational risk and country risk.

**Titan**

The Titan CGU represents 65% (2013 – 58%) of the goodwill balance. The carrying value, including amounts recognised on consolidation such as goodwill, is \$654.0m (2013 – \$676.5m). The value in use has been calculated as for other CGUs using the methodology described above. Cash flows have been discounted using a nominal pre-tax rate of 11% (2013 – 11%). If minimal revenue growth is assumed over the next five years and with terminal growth rates of 2.7%, a headroom over the carrying value of the CGU in excess of 25% is generated.

**Impairment of goodwill**

The Electronics CGU has been impacted by a prolonged period of customer de-stocking. This situation is being exacerbated by increased competition, in particular from the Far East, and this in combination with the expected decline in activity due to market conditions has led to the recognition of a \$40.0m impairment charge to goodwill. The CGU has a total carrying value of \$63.7m based on its value in use. The cash flows have been discounted using a nominal pre-tax rate of 11%. Any further adverse changes in assumptions would give rise to further impairments to goodwill.

During 2014 there has been a downturn in activity for the Drilling Tools CGU which operates across the USA and Canada. The business has been adversely impacted by increased competition and rising equipment maintenance costs. The expected downturn caused by the oil price decline will particularly impact this CGU due to its focus on US shale activity and on high cost Canadian projects. An impairment of \$9.6m has been charged to goodwill. The CGU has a total carrying value of \$107.1m based on its value in use. The cash flows have been discounted using a nominal pre-tax rate of 11%. Any further adverse changes in assumptions would give rise to further impairments to goodwill.

**Sensitivities**

Having performed sensitivity analysis on the value in use calculations, management believes that no reasonably foreseeable change in any key assumption would cause the recoverable amount of any CGU to be materially below its carrying value. In particular, for the Titan, Hunting Stafford "Subsea", Dearborn and Welltonic CGUs, if discounted cash flows fell by 20% or the pre-tax discount rate was increased by 2% there would be no impairment.

# NOTES TO THE FINANCIAL STATEMENTS

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### 17. Other Intangible Assets Group

|                                  | 2014                          |                              |                               |              |              |
|----------------------------------|-------------------------------|------------------------------|-------------------------------|--------------|--------------|
|                                  | Customer relationships<br>\$m | Unpatented technology<br>\$m | Patents and trademarks<br>\$m | Other<br>\$m | Total<br>\$m |
| <b>Cost:</b>                     |                               |                              |                               |              |              |
| At 1 January                     | 247.8                         | 53.4                         | 53.2                          | 22.7         | 377.1        |
| Exchange adjustments             | (0.2)                         | (0.1)                        | –                             | (0.4)        | (0.7)        |
| Additions                        | –                             | 3.9                          | 0.2                           | 0.9          | 5.0          |
| Classified as held for sale      | –                             | –                            | –                             | (0.3)        | (0.3)        |
| Reclassification                 | –                             | 3.0                          | (2.7)                         | (0.3)        | –            |
| At 31 December                   | 247.6                         | 60.2                         | 50.7                          | 22.6         | 381.1        |
| <b>Accumulated amortisation:</b> |                               |                              |                               |              |              |
| At 1 January                     | 66.3                          | 12.2                         | 21.1                          | 14.5         | 114.1        |
| Exchange adjustments             | (0.2)                         | –                            | –                             | (0.1)        | (0.3)        |
| Charge for the year              | 26.0                          | 5.3                          | 7.5                           | 4.0          | 42.8         |
| Classified as held for sale      | –                             | –                            | –                             | (0.3)        | (0.3)        |
| At 31 December                   | 92.1                          | 17.5                         | 28.6                          | 18.1         | 156.3        |
| <b>Net book amount</b>           | <b>155.5</b>                  | <b>42.7</b>                  | <b>22.1</b>                   | <b>4.5</b>   | <b>224.8</b> |
|                                  | 2013                          |                              |                               |              |              |
|                                  | Customer relationships<br>\$m | Unpatented technology<br>\$m | Patents and trademarks<br>\$m | Other<br>\$m | Total<br>\$m |
| <b>Cost:</b>                     |                               |                              |                               |              |              |
| At 1 January                     | 247.7                         | 53.4                         | 50.4                          | 19.9         | 371.4        |
| Exchange adjustments             | –                             | –                            | –                             | 0.1          | 0.1          |
| Additions                        | –                             | –                            | 2.8                           | 2.2          | 5.0          |
| Acquisitions                     | 0.1                           | –                            | –                             | 0.2          | 0.3          |
| Reclassification from PPE        | –                             | –                            | –                             | 0.3          | 0.3          |
| At 31 December                   | 247.8                         | 53.4                         | 53.2                          | 22.7         | 377.1        |
| <b>Accumulated amortisation:</b> |                               |                              |                               |              |              |
| At 1 January                     | 40.1                          | 6.9                          | 13.6                          | 9.7          | 70.3         |
| Exchange adjustments             | 0.1                           | –                            | –                             | 0.1          | 0.2          |
| Charge for the year              | 26.1                          | 5.3                          | 7.5                           | 4.5          | 43.4         |
| Reclassification from PPE        | –                             | –                            | –                             | 0.2          | 0.2          |
| At 31 December                   | 66.3                          | 12.2                         | 21.1                          | 14.5         | 114.1        |
| <b>Net book amount</b>           | <b>181.5</b>                  | <b>41.2</b>                  | <b>32.1</b>                   | <b>8.2</b>   | <b>263.0</b> |

The net book amount of other intangible assets at 1 January 2013 was \$301.1m.

Other intangible assets include non-compete agreements of \$0.5m (2013 – \$3.1m) and software of \$3.7m (2013 – \$4.1m).

Internally generated intangible assets have been included within unpatented technology. Additions during the year amounted to \$3.2m (2013 – \$2.7m) which have been reclassified from Patents and Trademarks). The carrying value at the end of the year was \$5.9m (2013 – \$2.7m).

**17. Other Intangible Assets** *continued*

All intangible assets are regarded as having a finite life and are amortised accordingly and all amortisation charges relating to intangible assets have been charged to operating expenses.

**Individual Material Intangible Assets**

Included in the table above are the following individual material intangible assets:

|   | 2014  |                                       |
|---|---|---------------------------------------|
|   | Customer relationships – Electronics<br>\$m | Customer relationships – Titan<br>\$m |
| <b>Cost:</b>  |   |                                       |
| At 1 January and 31 December                                | 27.0  | 190.1                                 |
| <b>Accumulated amortisation:</b>                            |   |                                       |
| At 1 January  | 11.3  | 43.6                                  |
| Charge for the year   | 3.3   | 19.0                                  |
| At 31 December  | 14.6  | 62.6                                  |
| <b>Net book amount</b>                                      | 12.4  | 127.5                                 |
| <b>Remaining amortisation period at 31 December – years</b> | 3.7   | 6.8                                   |

**18. Investments**

|   | Group       |             | Company     |             |
|---|-------------|-------------|-------------|-------------|
|   | 2014<br>\$m | 2013<br>\$m | 2014<br>\$m | 2013<br>\$m |
| <b>Non-current:</b>                                 |             |             |             |             |
| Unlisted equity investments                         | –           | 0.4         | –           | –           |
| Listed equity investments and mutual funds          | 8.9         | 8.0         | –           | –           |
| Environmental escrow (note 29)                      | –           | 0.6         | –           | 0.6         |
|   | 8.9         | 9.0         | –           | 0.6         |
|   |             |             |             |             |
|   | Group       |             | Company     |             |
|   | 2014<br>\$m | 2013<br>\$m | 2014<br>\$m | 2013<br>\$m |
| <b>Current:</b>                                     |             |             |             |             |
| Bank deposits maturing after more than three months | 3.8         | 2.0         | –           | –           |

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 19. Investments in Subsidiaries

#### Company

|                        | 2014<br>\$m  | 2013<br>\$m  |
|------------------------|--------------|--------------|
| <b>Cost:</b>           |              |              |
| At 1 January           | 509.9        | 509.9        |
| Disposals              | (73.1)       | –            |
| At 31 December         | 436.8        | 509.9        |
| <b>Impairment:</b>     |              |              |
| At 1 January           | 9.3          | 9.3          |
| Disposals              | (9.3)        | –            |
| At 31 December         | –            | 9.3          |
| <b>Net book amount</b> | <b>436.8</b> | <b>500.6</b> |

The principal subsidiaries are detailed in note 42. A central reorganisation took place during the year and a number of operating subsidiaries were disposed of by Hunting PLC to another entity within the Group. This resulted in a gain of \$35.4m (2013 – \$nil).

Investments in subsidiaries are recorded at cost, which is the fair value of the consideration paid, less impairment. The Directors believe that the carrying value of the investments is supported by their underlying net assets.

### 20. Trade and Other Receivables

|   | Group       |             | Company     |             |
|---|-------------|-------------|-------------|-------------|
|   | 2014<br>\$m | 2013<br>\$m | 2014<br>\$m | 2013<br>\$m |
| <b>Non-current:</b>                           |             |             |             |             |
| Receivables due from subsidiaries             | –           | –           | 171.2       | 15.5        |
| Other receivables                             | 0.2         | 4.3         | –           | 2.5         |
| Prepayments                                   | 3.1         | 3.2         | 0.1         | –           |
|   | 3.3         | 7.5         | 171.3       | 18.0        |
| <b>Current:</b>                               |             |             |             |             |
| Trade receivables                             | 255.6       | 227.6       | –           | –           |
| Less: provision for impairment of receivables | (2.5)       | (3.9)       | –           | –           |
| Net trade receivables                         | 253.1       | 223.7       | –           | –           |
| Receivables due from subsidiaries             | –           | –           | 6.3         | 28.0        |
| Prepayments                                   | 12.4        | 9.9         | 0.2         | 0.1         |
| Accrued revenue                               | 9.9         | 10.9        | –           | –           |
| Other receivables*                            | 10.2        | 20.3        | 0.1         | 0.2         |
|   | 285.6       | 264.8       | 6.6         | 28.3        |

\* Group includes derivative financial assets of \$0.1m (2013 – \$1.8m).



**20. Trade and Other Receivables** *continued***Group**

Trade receivables that are not overdue and not impaired are expected to be fully recovered as there is no recent history of default or any indications that the customers will not meet their payment obligations. At the year end there are no trade receivables (2013 – none) whose terms have been renegotiated and would otherwise be past due or impaired.

At 31 December 2014, trade receivables of \$112.0m (2013 – \$94.3m) were overdue but not impaired. The ageing of these receivables at the year end is as follows:

| Number of days overdue:                  | 2014<br>\$m  | 2013<br>\$m  |
|--|--------------|--------------|
| 1-30 days                                | 54.3         | 53.7         |
| 31-60 days                               | 24.8         | 23.7         |
| 61-90 days                               | 23.1         | 9.9          |
| 91-120 days                              | 6.9          | 7.0          |
| More than 120 days                       | 2.9          | –            |
| Receivables overdue not impaired         | 112.0        | 94.3         |
| Receivables not overdue and not impaired | 141.1        | 129.4        |
| Receivables not overdue and impaired     | –            | 1.8          |
| Receivables overdue and impaired         | 2.5          | 2.1          |
| Provision for impairment of receivables  | (2.5)        | (3.9)        |
| <b>Net trade receivables</b>             | <b>253.1</b> | <b>223.7</b> |

Receivables that are overdue but not impaired relate to customers for whom there is no recent history of default.

Receivables which have been impaired mainly relate to debtors in financial difficulty where defaults in payments have occurred or concerns have been raised about the customer's liquidity. Trade receivables are impaired when there is evidence that the Group will not be able to collect all amounts due according to the original terms of sale.

During the year, a provision of \$1.3m (2013 – \$1.5m) for the impairment of receivables was recognised, \$0.7m (2013 – \$0.4m) receivables were written off, \$0.7m (2013 – \$1.0m) unused provisions were released and \$1.3m was classified as held for sale. After recognising foreign exchange movements of \$nil (2013 – \$0.1m), the provision for the impairment of trade receivables at the year end was \$2.5m (2013 – \$3.9m).

The other classes of financial assets within trade and other receivables do not contain impaired assets.

Concentrations of credit risk with respect to trade receivables are limited due to the Group's wide and unrelated customer base. The maximum exposure to credit risk is the fair value of each class of receivable. The carrying value of each class of receivable approximates their fair value as described in note 29.

The Group does not hold any collateral as security and no assets have been acquired through the exercise of any collateral previously held.

**Company**

None (2013 – none) of the Company's other receivables were past due at the year end and the Company does not consider it necessary to provide for any impairments. The Company's maximum exposure to credit risk is the fair value of each class of receivable. The carrying value of receivables approximates their fair value as described in note 29. The Company does not hold any collateral as security and no assets have been acquired through the exercise of any collateral previously held. Non-current receivables due from subsidiaries are unsecured and interest is charged based on a margin over bank lending rates. Current receivables due from subsidiaries are unsecured, interest free and repayable on demand.

## NOTES TO THE FINANCIAL STATEMENTS

### CONTINUED

#### 21. Deferred Tax

Deferred income tax assets and liabilities are only offset when there is a legally enforceable right to offset and when the deferred income taxes relate to the same fiscal authority and there is an intention to settle the balance net. The offset amounts are as follows:

|                          | Group       |             | Company     |             |
|--------------------------|-------------|-------------|-------------|-------------|
|                          | 2014<br>\$m | 2013<br>\$m | 2014<br>\$m | 2013<br>\$m |
| Deferred tax assets      | 1.2         | 3.1         | –           | –           |
| Deferred tax liabilities | (37.1)      | (34.7)      | (0.2)       | (0.2)       |
|                          | (35.9)      | (31.6)      | (0.2)       | (0.2)       |

The movement in the net deferred tax liability is as follows:

|                                      | Group         |               | Company      |              |
|--------------------------------------|---------------|---------------|--------------|--------------|
|                                      | 2014<br>\$m   | 2013<br>\$m   | 2014<br>\$m  | 2013<br>\$m  |
| At 1 January                         | (31.6)        | (33.1)        | (0.2)        | (0.2)        |
| Exchange adjustments                 | 0.6           | –             | –            | –            |
| (Charge) credit to income statement* | (3.9)         | 3.5           | –            | –            |
| Taken direct to equity               | (0.8)         | (2.6)         | –            | –            |
| Classified as held for sale          | (0.2)         | –             | –            | –            |
| Other movements                      | –             | 0.6           | –            | –            |
| <b>At 31 December</b>                | <b>(35.9)</b> | <b>(31.6)</b> | <b>(0.2)</b> | <b>(0.2)</b> |

\* Included in the income statement is a \$nil charge (2013 – \$1.2m credit) relating to discontinued operations.

Deferred tax assets of \$1.4m (2013 – \$0.7m) have not been recognised as realisation of the tax benefit is not probable. The tax losses do not have an expiry date.

Previously unrecognised deferred tax assets of \$0.1m (2013 – \$0.2m) have been recognised as the Group has assessed that the realisation of the benefit is probable. Deferred tax assets of \$1.2m (2013 – \$3.1m) are expected to be recovered after more than twelve months. Deferred tax liabilities of \$37.1m (2013 – \$34.7m) are expected to be released after more than twelve months.

**21. Deferred Tax** *continued*

The movements in deferred tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdictions, are shown below:

**Group**

|                                 | At 1 January<br>2014<br>\$m | Exchange<br>adjustments<br>\$m | (Charge)<br>credit to<br>income<br>statement<br>\$m | Taken direct<br>to equity<br>\$m | Changes<br>in tax rates<br>through the<br>income<br>statement<br>\$m | Other<br>movements<br>\$m | At 31<br>December<br>2014<br>\$m | Net deferred<br>tax assets<br>\$m | Net deferred<br>tax liabilities<br>\$m |
|---------------------------------|-----------------------------|--------------------------------|---|----------------------------------|--|---------------------------|----------------------------------|-----------------------------------|--|
| Tax losses                      | 0.8                         | –                              | 0.2   | –                                | –  | –                         | 1.0                              | 0.5                               | 0.5                                    |
| Inventory                       | 5.4                         | –                              | 1.3   | –                                | –  | 0.5                       | 7.2                              | –                                 | 7.2                                    |
| Goodwill and intangibles        | (16.9)                      | 0.1                            | (3.0)   | –                                | –  | (0.4)                     | (20.2)                           | –                                 | (20.2)                                 |
| Post retirement benefits        | (3.8)                       | 0.4                            | (0.1)   | (0.2)                            | –  | –                         | (3.7)                            | –                                 | (3.7)                                  |
| Asset decommissioning provision | 2.1                         | –                              | 0.1   | –                                | –  | –                         | 2.2                              | –                                 | 2.2                                    |
| Accumulated tax depreciation    | (33.7)                      | 0.2                            | 4.7   | –                                | –  | 0.6                       | (28.2)                           | 0.9                               | (29.1)                                 |
| Share-based payments            | 7.8                         | (0.1)                          | (1.4)   | (1.0)                            | –  | 0.7                       | 6.0                              | 1.0                               | 5.0                                    |
| Unremitted earnings             | (0.2)                       | –                              | –   | –                                | –  | –                         | (0.2)                            | –                                 | (0.2)                                  |
| Other                           | 6.9                         | –                              | (5.7)   | 0.4                              | –  | (1.4)                     | 0.2                              | (1.0)                             | 1.2                                    |
|                                 | (31.6)                      | 0.6                            | (3.9)   | (0.8)                            | –  | –                         | (35.7)                           | 1.4                               | (37.1)                                 |
| Classified as held for sale     |                             |                                |   |                                  |  |                           |                                  | (0.2)                             | –                                      |
|                                 |                             |                                |   |                                  |  |                           |                                  | 1.2                               | (37.1)                                 |

|                                 | At 1 January<br>2013<br>\$m | Exchange<br>adjustments<br>\$m | (Charge)<br>credit to<br>income<br>statement<br>\$m | Taken direct<br>to equity<br>\$m | Change<br>in tax rates<br>through the<br>income<br>statement<br>\$m | Other<br>movements<br>\$m | At 31<br>December<br>2013<br>\$m | Net deferred<br>tax assets<br>\$m | Net deferred<br>tax liabilities<br>\$m |
|---------------------------------|-----------------------------|--------------------------------|---|----------------------------------|---|---------------------------|----------------------------------|-----------------------------------|--|
| Tax losses                      | 2.1                         | –                              | (1.2)   | –                                | (0.1)   | –                         | 0.8                              | 0.8                               | –                                      |
| Inventory                       | 4.8                         | 0.1                            | 0.4   | –                                | –   | 0.1                       | 5.4                              | –                                 | 5.4                                    |
| Goodwill and intangibles        | (12.0)                      | (0.1)                          | (3.6)   | –                                | –   | (1.2)                     | (16.9)                           | –                                 | (16.9)                                 |
| Post retirement benefits        | (3.3)                       | (0.2)                          | (0.3)   | –                                | 0.1   | (0.1)                     | (3.8)                            | (5.9)                             | 2.1                                    |
| Asset decommissioning provision | 1.9                         | –                              | 0.2   | –                                | –   | –                         | 2.1                              | –                                 | 2.1                                    |
| Accumulated tax depreciation    | (37.5)                      | 0.1                            | 2.4   | –                                | 0.1   | 1.2                       | (33.7)                           | 0.8                               | (34.5)                                 |
| Share-based payments            | 10.5                        | –                              | (0.3)   | (2.3)                            | (0.1)   | –                         | 7.8                              | 7.8                               | –                                      |
| Unremitted earnings             | (0.2)                       | –                              | –   | –                                | –   | –                         | (0.2)                            | –                                 | (0.2)                                  |
| Other                           | 0.6                         | 0.1                            | 5.9   | (0.3)                            | –   | 0.6                       | 6.9                              | (0.4)                             | 7.3                                    |
|                                 | (33.1)                      | –                              | 3.5   | (2.6)                            | –   | 0.6                       | (31.6)                           | 3.1                               | (34.7)                                 |

**Company**

The Company had \$0.2m (2013 – \$0.2m) of deferred tax liabilities relating to unremitted earnings at the year end.

**22. Inventories****Group**

|                                 | 2014<br>\$m | 2013<br>\$m |
|---------------------------------|-------------|-------------|
| Raw materials                   | 110.7       | 103.2       |
| Work in progress                | 63.7        | 62.6        |
| Finished goods                  | 219.3       | 232.1       |
| Less: provisions for impairment | (11.9)      | (11.6)      |
|                                 | 381.8       | 386.3       |

The carrying amount of inventories stated at fair value less selling costs is \$22.8m (2013 – \$20.2m).

The Group reversed \$2.1m (2013 – \$0.4m) of a previous inventory impairment as the goods were sold during the year for an amount greater than their carrying value. The amount reversed has been included in cost of sales in the income statement.

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 23. Assets Held for Sale

#### Group

The assets and liabilities of Gibson Shipbrokers have been presented as held for sale at 31 December 2014 as it is highly probable that the company will be sold within twelve months of the balance sheet date. Gibson Shipbrokers' assets and liabilities are a disposal group and the business has been re-presented as a discontinued operation at 31 December 2014. The disposal of this business will enable Hunting to focus on its core operations.

Assets held for sale are carried at the lower of carrying amount and fair value less costs to sell at the date of held for sale classification. The carrying values of Gibson Shipbrokers' assets and liabilities at 31 December 2014 are:

|  | 2014<br>\$m |
|--|-------------|
| <b>Assets classified as held for sale</b>      |             |
| Property, plant and equipment                  | 0.5         |
| Goodwill                                       | 1.8         |
| Investments                                    | 0.7         |
| Deferred tax assets                            | 0.2         |
| Trade and other receivables                    | 13.3        |
| Cash and cash equivalents                      | 3.8         |
|  | <b>20.3</b> |
| <b>Liabilities classified as held for sale</b> |             |
| Trade and other payables                       | 15.1        |
| Current tax liabilities                        | 0.4         |
|  | <b>15.5</b> |

### 24. Trade and Other Payables

|                                 | Group        |              | Company     |             |
|---------------------------------|--------------|--------------|-------------|-------------|
|                                 | 2014<br>\$m  | 2013<br>\$m  | 2014<br>\$m | 2013<br>\$m |
| <b>Non-current:</b>             |              |              |             |             |
| Accruals                        | 1.5          | 9.5          | –           | 9.0         |
| Social security and other taxes | 0.8          | 0.4          | –           | –           |
| Other payables                  | 8.9          | 8.0          | –           | –           |
|                                 | <b>11.2</b>  | <b>17.9</b>  | <b>–</b>    | <b>9.0</b>  |
| <b>Current:</b>                 |              |              |             |             |
| Trade payables                  | 92.7         | 75.1         | –           | –           |
| Payables due to subsidiaries    | –            | –            | 0.3         | 5.5         |
| Social security and other taxes | 12.5         | 11.9         | –           | –           |
| Accruals                        | 86.7         | 70.6         | 0.8         | 5.1         |
| Other payables*                 | 5.8          | 18.9         | 0.2         | 0.2         |
|                                 | <b>197.7</b> | <b>176.5</b> | <b>1.3</b>  | <b>10.8</b> |

\* Group includes derivative financial liabilities of \$nil (2013 – \$0.1m).

#### Company

Current payables due to subsidiaries are unsecured, interest free and payable on demand.

**25. Borrowings**

|                           | Group        |              | Company     |             |
|---------------------------|--------------|--------------|-------------|-------------|
|                           | 2014<br>\$m  | 2013<br>\$m  | 2014<br>\$m | 2013<br>\$m |
| <b>Non-current:</b>       |              |              |             |             |
| Unsecured bank loans      | 154.0        | 235.4        | –           | –           |
| Other unsecured loans     | 3.9          | 3.9          | –           | –           |
| Loans due to subsidiaries | –            | –            | –           | 85.6        |
|                           | 157.9        | 239.3        | –           | 85.6        |
| <b>Current:</b>           |              |              |             |             |
| Bank overdrafts           | 50.5         | 115.0        | 6.5         | 3.3         |
| Unsecured bank loans      | 14.9         | 18.8         | –           | –           |
| Other unsecured loans     | –            | 2.1          | –           | –           |
| Loans due to subsidiaries | –            | –            | –           | 6.6         |
|                           | 65.4         | 135.9        | 6.5         | 9.9         |
| <b>Total borrowings</b>   | <b>223.3</b> | <b>375.2</b> | <b>6.5</b>  | <b>95.5</b> |

**Analysis of Borrowings by Currency****Group**

The carrying amounts of the Group's borrowings are denominated in the following currencies:

|                            | US dollars<br>\$m | Sterling<br>\$m | Canadian<br>dollars<br>\$m | Total<br>\$m |
|----------------------------|-------------------|-----------------|----------------------------|--------------|
| Unsecured bank loans       | 105.0             | 29.9            | 34.0                       | 168.9        |
| Other unsecured loans      | 3.9               | –               | –                          | 3.9          |
| Bank overdrafts            | 26.5              | 24.0            | –                          | 50.5         |
| <b>At 31 December 2014</b> | <b>135.4</b>      | <b>53.9</b>     | <b>34.0</b>                | <b>223.3</b> |
|                            | US dollars<br>\$m | Sterling<br>\$m | Euro<br>\$m                | Total<br>\$m |
| Unsecured bank loans       | 254.2             | –               | –                          | 254.2        |
| Other unsecured loans      | 6.0               | –               | –                          | 6.0          |
| Bank overdrafts            | 47.3              | 67.6            | 0.1                        | 115.0        |
| <b>At 31 December 2013</b> | <b>307.5</b>      | <b>67.6</b>     | <b>0.1</b>                 | <b>375.2</b> |

**Company**

The Company has borrowings of \$6.5m (2013 – \$95.5m) at the year end, of which \$6.5m (2013 – \$60.1m) are denominated in Sterling and \$nil (2013 – \$35.4m) are denominated in US dollars.

# NOTES TO THE FINANCIAL STATEMENTS

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### 26. Changes in Net Debt

#### Group

Net debt is a non-GAAP measure. The analysis below is provided in order to reconcile the movement in borrowings (note 25) and cash and cash equivalents during the year.

|                           | At 1 January<br>2014<br>\$m | Cash flow<br>\$m | Exchange<br>movements<br>\$m | Amortisation<br>of loan<br>facility fees<br>\$m | Classified<br>as held<br>for sale<br>\$m | At 31<br>December<br>2014<br>\$m |
|---------------------------|-----------------------------|------------------|------------------------------|---|--|----------------------------------|
| Cash and cash equivalents | 167.4                       | (71.9)           | (3.2)                        | –   | (3.8)                                    | 88.5                             |
| Bank overdrafts           | (115.0)                     | 62.8             | 1.7                          | –   | –  | (50.5)                           |
|                           | 52.4                        | (9.1)            | (1.5)                        | –   | (3.8)                                    | 38.0                             |
| Current investments       | 2.0                         | 2.0              | (0.2)                        | –   | –  | 3.8                              |
| Non-current borrowings    | (239.3)                     | 80.5             | 2.7                          | (1.8)   | –  | (157.9)                          |
| Current borrowings        | (20.9)                      | 5.2              | 0.8                          | –   | –  | (14.9)                           |
| <b>Total net debt</b>     | <b>(205.8)</b>              | <b>78.6</b>      | <b>1.8</b>                   | <b>(1.8)</b>                                    | <b>(3.8)</b>                             | <b>(131.0)</b>                   |

### 27. Provisions

#### Group

|  | Onerous<br>contracts<br>\$m | Warranties<br>and tax<br>indemnities<br>\$m | Other<br>\$m | Total<br>\$m |
|--|-----------------------------|---|--------------|--------------|
| At 1 January 2014                          | 22.5                        | 2.1   | 8.8          | 33.4         |
| Exchange adjustments                       | (0.9)                       | –   | (0.1)        | (1.0)        |
| Charged to income statement                | –                           | –   | 1.0          | 1.0          |
| Additions to property, plant and equipment | –                           | –   | 0.1          | 0.1          |
| Provisions utilised                        | (3.4)                       | (0.2)                                       | (0.5)        | (4.1)        |
| Unutilised amounts reversed                | (5.5)                       | –   | –            | (5.5)        |
| Unwinding of discount                      | 0.3                         | –   | 0.1          | 0.4          |
| Change in discount rate                    | 0.4                         | –   | –            | 0.4          |
| <b>At 31 December 2014</b>                 | <b>13.4</b>                 | <b>1.9</b>                                  | <b>9.4</b>   | <b>24.7</b>  |

Provisions are due as follows:

|             | 2014<br>\$m | 2013<br>\$m |
|-------------|-------------|-------------|
| Current     | 10.6        | 8.0         |
| Non-current | 14.1        | 25.4        |
|             | <b>24.7</b> | <b>33.4</b> |

The Group has commitments in respect of leasehold properties, some of which are not used for Group trading purposes and are vacant or sub-let to third parties. The provision for onerous contracts reflects the uncertainty of future conditions in the sub-letting market. It is expected that \$6.3m of the provision will be utilised in 2015, \$1.0m in 2016 and the remaining balance of \$6.1m utilised from 2017 to 2023. Provision is made on a discounted basis, at a risk-free rate of between 0.35% and 1.55% p.a., for the net rental deficit on these properties to the end of the lease term.

Asset decommissioning and remediation obligations of \$6.3m (2013 – \$6.1m) relate to the Group's obligation to dismantle, remove and restore items of property, plant and equipment and have been included in other provisions. The provision reflects uncertainty in the timing and amounts of the costs expected to arise in meeting this obligation. Provision is made on a discounted basis, the majority of which is estimated to be utilised over a period of one to ten years.



**28. Derivatives and Hedging****Group****(a) Currency Derivatives**

The Group has used spot and forward foreign exchange contracts to hedge its exposure to exchange rate movements during the year.

At 31 December 2014, the total notional amount of the Group's outstanding forward foreign exchange contracts is \$4.0m (2013 – \$22.5m).

Gains and losses on contracts that are not designated in a hedge relationship are taken directly to the income statement. Changes in the fair value of currency derivatives not designated in a hedge relationship amounting to a \$0.1m gain (2013 – \$0.3m loss) have been recognised in the income statement during the year for continuing operations.

The Group's forward foreign exchange contracts designated as cash flow hedges matured during 2014. Losses of \$0.1m (2013 – \$1.8m gains) were recognised in the hedging reserve (note 34) during the year. Gains of \$1.7m (2013 – \$0.2m) were reclassified from equity during the year and included in revenue in the income statement. Ineffectiveness of \$nil (2013 – \$nil) arose on the cash flow hedges during the year.

Fair values of derivative financial instruments:

|  | 2014                |                          | 2013                |                          |
|--|---------------------|--------------------------|---------------------|--------------------------|
|  | Total assets<br>\$m | Total liabilities<br>\$m | Total assets<br>\$m | Total liabilities<br>\$m |
| Forward foreign exchange – in cash flow hedges | –                   | –                        | 1.8                 | –                        |
| Forward foreign exchange – not in a hedge      | 0.1                 | –                        | –                   | (0.1)                    |
|  | 0.1                 | –                        | 1.8                 | (0.1)                    |

**(b) Hedge of Net Investments in Foreign Operations**

The Group has both Canadian dollar and Sterling denominated borrowings which it has designated as hedges of net investments in its Canadian and UK subsidiaries respectively. At 31 December 2014, the carrying amount of net Canadian dollar borrowings was \$33.9m and the carrying amount of net Sterling borrowings was \$47.6m. During 2014, foreign exchange gains of \$5.2m on translation of the borrowings into US dollars was recognised in the cumulative translation reserve. There were no amounts designated as hedges of net investments in foreign operations during 2013.

**29. Financial Instruments: Fair Values****Group**

The carrying value of investments, non-current trade and other receivables, net trade receivables, accrued revenue, other receivables, deposits maturing after three months, cash and cash equivalents, assets classified as held for sale, trade payables, accruals, other payables, provisions, liabilities classified as held for sale, bank overdrafts, unsecured bank loans and other unsecured loans approximates their fair value. Drawdowns under the multi-currency loan facility are for periods of one month or less, and as a result, the carrying value and the fair value are considered to be the same.

The following tables present the Group's other financial assets and liabilities that are measured at fair value at the year end and show the level in the fair value hierarchy in which the fair value measurements are categorised. There were no transfers between Level 1 and Level 2 during the year.

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 29. Financial Instruments: Fair Values *continued*

|   | Fair value at<br>31 December<br>2014<br>\$m | Level 1<br>\$m | Level 2<br>\$m | Level 3<br>\$m |
|---|---|----------------|----------------|----------------|
| <b>Non-current investments</b>                  |   |                |                |                |
| Listed equity investments and mutual funds      | 8.9   | 8.9            | –              | –              |
| <b>Derivatives held for trading</b>             |   |                |                |                |
| Derivative financial assets                     | 0.1   | –              | 0.1            | –              |
| <b>Total</b>                                    | <b>9.0</b>                                  | <b>8.9</b>     | <b>0.1</b>     | <b>–</b>       |
|   |   |                |                |                |
|   | Fair value at<br>31 December<br>2013<br>\$m | Level 1<br>\$m | Level 2<br>\$m | Level 3<br>\$m |
| <b>Non-current investments</b>                  |   |                |                |                |
| Unlisted equity investments                     | 0.4   | –              | –              | 0.4            |
| Listed equity investments and mutual funds      | 8.0   | 8.0            | –              | –              |
| Environmental escrow                            | 0.6   | –              | –              | 0.6            |
| <b>Derivatives held for trading</b>             |   |                |                |                |
| Derivative financial liabilities                | (0.1)                                       | –              | (0.1)          | –              |
| <b>Derivatives at fair value through equity</b> |   |                |                |                |
| Derivative financial assets                     | 1.8   | –              | 1.8            | –              |
| <b>Current liabilities</b>                      |   |                |                |                |
| Contingent consideration                        | (3.0)                                       | –              | –              | (3.0)          |
| <b>Total</b>                                    | <b>7.7</b>                                  | <b>8.0</b>     | <b>1.7</b>     | <b>(2.0)</b>   |

The fair value hierarchy has the following levels:

Level 1 – inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability.

Level 3 – inputs for the asset or liability that are not based on observable market data.

The fair value of forward foreign exchange contracts is determined by comparing the cash flows generated by the contract with the coterminus cash flows potentially available in the forward exchange market on the balance sheet date. The fair value of listed equities and mutual funds is based on their current bid prices, which is considered to be the most representative of fair value, in an active market at the balance sheet date. The fair values of non-US dollar denominated financial instruments are translated into US dollars using the year end exchange rate.

In 2013, the fair values of the environmental escrow and the promissory note included in non-current investments were determined by discounting the expected future cash flows. The unlisted equity investments were carried at cost and the fair value of the contingent consideration arrangement was estimated by applying the income approach and appropriate discount rates.

The inputs used to determine the fair value of unlisted equity investments, the environmental escrow and the contingent consideration arrangements were not based on observable market data and therefore their fair value measurements were categorised in Level 3 of the fair value hierarchy. The inputs used to determine the fair value of derivative financial instruments are inputs other than quoted prices that are observable and so the fair value measurement can be categorised in Level 2 of the fair value hierarchy. The fair value of listed equity investments and mutual funds is based on quoted market prices and so the fair value measurement can be categorised in Level 1 of the fair value hierarchy.

**29. Financial Instruments: Fair Values** *continued*

The table below shows a reconciliation of the fair value measurements in Level 3 of the fair value hierarchy.

|                             | Contingent<br>consideration<br>\$m | Available for<br>sale financial<br>assets<br>\$m | Total<br>\$m |
|-----------------------------|------------------------------------|--|--------------|
| At 1 January 2014           | (3.0)                              | 1.0  | (2.0)        |
| Additions                   | –                                  | 0.3  | 0.3          |
| Cash paid                   | 3.0                                | –  | 3.0          |
| Classified as held for sale | –                                  | (0.7)  | (0.7)        |
| Settlement                  | –                                  | (0.6)  | (0.6)        |
| <b>At 31 December 2014</b>  | <b>–</b>                           | <b>–</b>   | <b>–</b>     |
|                             | Contingent<br>consideration<br>\$m | Available for<br>sale financial<br>assets<br>\$m | Total<br>\$m |
| At 1 January 2013           | (4.8)                              | 0.7  | (4.1)        |
| Additions                   | –                                  | 0.3  | 0.3          |
| Unwinding of discount       | (0.2)                              | –  | (0.2)        |
| Cash paid                   | 2.0                                | –  | 2.0          |
| <b>At 31 December 2013</b>  | <b>(3.0)</b>                       | <b>1.0</b>                                       | <b>(2.0)</b> |

During 2014, a final payment of \$3.0m (2013 – \$2.0m) was made to the sellers of Hunting Specialty Supply in respect of the contingent consideration arrangement and an amount of \$1.3m was received (2013 – \$nil) from the environmental escrow account which was subsequently closed. The fair value of the contingent consideration at 31 December 2013 was based on cash flows discounted using a risk free rate of 11%. The 2013 fair value of the environmental escrow was based on cash flows discounted using a rate of 3%.

There has been no impact on the income statement or other comprehensive income from the change in fair value of the unlisted equity investments. The change in the fair value of the environmental escrow of \$nil (2013 – \$0.2m) was taken through other comprehensive income.

**Company**

The carrying value of receivables, cash and cash equivalents, accruals, other payables, provisions, borrowings and bank overdrafts approximates their fair value.

The inputs used to determine the fair value of the environmental escrow in 2013 were not based on observable market data and therefore the fair value measurement was categorised in Level 3 of the fair value hierarchy as shown in the 2013 Group fair value table on page 120. The 2013 fair value of the environmental escrow was based on cash flows discounted using a rate of 3%. During 2014, an amount of \$1.3m was received (2013 – \$nil) from the environmental escrow account which was subsequently closed.

**30. Financial Risk Management**

The Group's activities expose it to certain financial risks, namely market risk (including currency risk, fair value interest risk and cash flow interest risk), credit risk and liquidity risk. The Group's risk management strategy seeks to mitigate potential adverse effects on its financial performance. As part of its strategy, both primary and derivative financial instruments are used to hedge certain risk exposures.

There are clearly defined objectives and principles for managing financial risk established by the Board of Directors, with policies, parameters and procedures covering the specific areas of funding, banking relationships, foreign currency and interest rate exposures and cash management.

The Group's treasury function is responsible for implementing the policies and providing a centralised service to the Group for funding, foreign exchange, interest rate management and counterparty risk management. It is also responsible for identifying, evaluating and hedging financial risks in close co-operation with the Group's operating companies.

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 30. Financial Risk Management *continued*

#### (a) Foreign Exchange Risk

The Group's international base is exposed to foreign exchange risk from its investing, financing and operating activities, particularly in respect of Sterling and Canadian dollars. Foreign exchange risks arise from future transactions and cash flows and from recognised monetary assets and liabilities that are not denominated in the functional currency of the Group's local operations.

The Group's material foreign exchange rates are:

|                                      | Sterling    |      | Canadian dollar |      |
|--------------------------------------|-------------|------|-----------------|------|
|                                      | 2014        | 2013 | 2014            | 2013 |
| Average exchange rate to US dollars  | <b>0.61</b> | 0.64 | <b>1.10</b>     | 1.03 |
| Year end exchange rate to US dollars | <b>0.64</b> | 0.60 | <b>1.16</b>     | 1.06 |

#### (i) Transactional Risk

The exposure to exchange rate movements in significant future transactions and cash flows is hedged by using forward foreign exchange contracts and currency options. Certain forward foreign exchange contracts have been designated as hedging instruments of highly probable forecast transactions. Operating companies prepare quarterly rolling twelve month cash flow forecasts to enable working capital currency exposures to be identified. Currency exposures arise where the cash flows are not in the functional currency of the entity. Exposures arising from committed long-term projects beyond a twelve month period are also identified. The currency flows to be hedged are committed foreign currency transactions greater than \$400,000 equivalent per month and/or currency flows that in aggregate exceed \$400,000 equivalent per annum.

No speculative positions are entered into by the Group.

The table below shows the carrying values of the Group's financial instruments at 31 December, including derivative financial instruments, on which exchange differences would potentially be recognised in the income statement in the following year. The table excludes available for sale financial assets, derivatives designated in a cash flow hedge and loans to subsidiaries that are considered to be part of the net investment in a foreign operation, as exchange differences arising on these are recognised in other comprehensive income.

At 31 December 2014

|  | Currency of denomination |                   |                            |                             |             |                       |                            | Total<br>\$m |
|--|--------------------------|-------------------|----------------------------|-----------------------------|-------------|-----------------------|----------------------------|--------------|
|  | Sterling<br>\$m          | US dollars<br>\$m | Canadian<br>dollars<br>\$m | Singapore<br>dollars<br>\$m | Euro<br>\$m | Chinese<br>CNY<br>\$m | Other<br>currencies<br>\$m |              |
| Functional currency of Group's entities: |                          |                   |                            |                             |             |                       |                            |              |
| Sterling                                 | –                        | 6.9               | 0.2                        | –                           | (2.0)       | –                     | –                          | 5.1          |
| US dollars                               | 10.5                     | –                 | 8.7                        | (0.3)                       | 2.1         | 2.7                   | 0.2                        | 23.9         |
| Canadian dollars                         | –                        | 2.4               | –                          | –                           | –           | –                     | –                          | 2.4          |
| Singapore dollars                        | –                        | 3.6               | –                          | –                           | –           | –                     | –                          | 3.6          |
| Euro                                     | (0.7)                    | 2.1               | –                          | –                           | –           | –                     | –                          | 1.4          |
| Chinese CNY                              | –                        | (0.7)             | –                          | –                           | –           | –                     | –                          | (0.7)        |
| Other currencies                         | –                        | (0.1)             | –                          | –                           | –           | –                     | –                          | (0.1)        |
|  | <b>9.8</b>               | <b>14.2</b>       | <b>8.9</b>                 | <b>(0.3)</b>                | <b>0.1</b>  | <b>2.7</b>            | <b>0.2</b>                 | <b>35.6</b>  |

The Sterling and US dollar denominated financial instruments consist of cash balances, trade receivables, accrued revenue, trade payables, accrued expenses and intra-group loans. The Canadian dollar denominated financial instruments consist of intra-group loans.

### 30. Financial Risk Management *continued*

At 31 December 2013

|  | Currency of denomination |                   |                            |                             |             |                       | Total<br>\$m               |
|--|--------------------------|-------------------|----------------------------|-----------------------------|-------------|-----------------------|----------------------------|
|  | Sterling<br>\$m          | US dollars<br>\$m | Canadian<br>dollars<br>\$m | Singapore<br>dollars<br>\$m | Euro<br>\$m | Chinese<br>CNY<br>\$m | Other<br>currencies<br>\$m |
| Functional currency of Group's entities: |                          |                   |                            |                             |             |                       |                            |
| Sterling                                 | –                        | 17.4              | –                          | 1.0                         | (1.1)       | –                     | 0.7                        |
| US dollars                               | (95.1)                   | –                 | 6.8                        | (0.4)                       | 0.7         | 4.8                   | (0.8)                      |
| Canadian dollars                         | –                        | (5.5)             | –                          | –                           | –           | –                     | –                          |
| Singapore dollars                        | –                        | 1.6               | –                          | –                           | –           | –                     | –                          |
| Euro                                     | (1.1)                    | 1.3               | –                          | –                           | –           | –                     | –                          |
| Chinese CNY                              | –                        | (0.7)             | –                          | –                           | –           | –                     | –                          |
| Other currencies                         | –                        | 0.4               | –                          | –                           | –           | 0.2                   | –                          |
|  | (96.2)                   | 14.5              | 6.8                        | 0.6                         | (0.4)       | 5.0                   | (0.1)                      |
|  |                          |                   |                            |                             |             |                       | (69.8)                     |

The US dollar denominated financial instruments consist mainly of cash balances, trade receivables, accrued revenue, trade payables, accrued expenses and intra-group loans.

#### (ii) Translational Risk

Foreign exchange risk also arises from the Group's investments in foreign operations. Average rate options are periodically used to reduce translation risk on the Group's consolidated profit before tax if the Group considers there to be a significant exposure.

The foreign exposure to net investments in foreign operations is managed using borrowings denominated in the same functional currency as that of the hedged assets. The borrowings are designated as a hedge of the net investment in foreign operations. The foreign exchange exposure primarily arises from Sterling and Canadian dollar denominated net investments.

#### (b) Interest Rate Risk

Variable interest rates on cash at bank, deposits, overdrafts and borrowings expose the Group to cash flow interest risk and fixed interest rates on loans and deposits expose the Group to fair value interest rate risk. The treasury function manages the Group's exposure to interest rate risk and uses interest rate swaps and caps, when considered appropriate.

#### (c) Credit Risk

The Group's credit risk arises from its pension assets, cash and cash equivalents, investments, derivative financial instruments and outstanding receivables.

At the year end, the Group had credit risk exposures to a wide range of counterparties. Credit risk exposure is continually monitored and no individual exposure is considered to be significant in the context of the ordinary course of the Group's activities.

Exposure limits are set for each approved counterparty, as well as the types of transactions that may be entered into. Approved institutions that the treasury function can invest surplus cash with all must have a minimum of an A1, P1 or F1 short-term rating from Standard and Poor's, Moody's or Fitch rating agencies and AAA rating for Money Market Funds.

At the year end, cash and cash equivalents totalled \$88.5m (2013 – \$167.4m) and current investments \$3.8m (2013 – \$2.0m). 90% of cash and cash equivalents was deposited with banks with Fitch short-term ratings of F1 to F1+. Of the remaining 10%, the vast majority was held on deposit with a mainland Chinese financial institution which, given the Group's operations in this jurisdiction, were deemed necessary. Despite not having a formal credit rating, an internal vetting procedure determined that the bank's credit profile was appropriate for this level of deposit.

The credit risk of foreign exchange contracts is calculated before the contract is acquired and compared to the credit risk limit set for each counterparty. Credit risk is calculated as a fixed percentage of the nominal value of the instrument.

Trade and other receivables are continuously monitored. Credit account limits are primarily based on the credit quality of the customer and past experience through trading relationships. To reduce credit risk exposure from outstanding receivables, the Group has taken out credit insurance with an external insurer, subject to certain conditions.

## NOTES TO THE FINANCIAL STATEMENTS

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#### 30. Financial Risk Management *continued*

The Company operates a pension scheme in the UK, which includes a funded defined benefit section with pension plan net assets of \$30.9m (2013 – \$29.6m). The majority of the Scheme's defined benefits are now covered by insurance company annuity policies, meaning the pensions-related risks have largely been eliminated. The pension buy-in has been effected by using two insurers, so as to spread its credit risk. The credit rating of these insurers is monitored.

The Company also operates a defined benefit pension scheme in the US, which is unfunded. Contributions are paid into a separate investment vehicle and invested in a wide portfolio of US mutual funds that are recognised by the Company as non-current investments. Investments at the year end amounted to \$8.9m (2013 – \$8.0m) and are expected to be fully recovered.

#### (d) Liquidity Risk

The Group needs to ensure that it has sufficient liquid funds available to support its working capital and capital expenditure requirements. All subsidiaries submit weekly and bi-monthly cash forecasts to the treasury function to enable them to monitor the Group's requirements.

The Group has sufficient credit facilities to meet both its long and short-term requirements.

The Group's credit facilities are provided by a variety of funding sources and total \$649.8m (2013 – \$688.8m) at the year end. The facilities comprise \$584.7m (2013 – \$621.1m) of committed facilities and \$65.1m (2013 – \$67.7m) of unsecured uncommitted facilities.

The committed facilities comprise the Sterling denominated £375.0m (\$584.7m) multi-currency loan facility from a syndicate of ten banks (2013 – £375.0m; \$621.1m). This facility expires on 5 August 2016 and is unsecured. A commitment fee is payable on the undrawn amount.

The Group's treasury function maintains flexibility in funding by maintaining availability under committed credit facilities. The Group has the following undrawn committed borrowing facilities available at the year end:

|                                     | 2014<br>\$m | 2013<br>\$m |
|-------------------------------------|-------------|-------------|
| Floating rate:                      |             |             |
| Expiring between two and five years | 428.0       | 378.0       |

The tables below analyse the Group's and Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date of the financial liabilities. The amounts are the contractual, undiscounted cash flows. The carrying amounts in the balance sheet are the discounted amounts. Balances due within one year have been included in the maturity analysis at their carrying amounts, as the impact of discounting is not significant.

#### Group

|                                       | 2014                                      |                                      |                            |              |
|---------------------------------------|---|--------------------------------------|----------------------------|--------------|
|                                       | On demand<br>or within one<br>year<br>\$m | Between two<br>and five years<br>\$m | After five<br>years<br>\$m | Total<br>\$m |
| Non-derivative financial liabilities: |   |                                      |                            |              |
| Trade payables                        | 92.7                                      | –                                    | –                          | 92.7         |
| Accruals                              | 86.7                                      | 1.5                                  | –                          | 88.2         |
| Other payables                        | 3.1                                       | –                                    | 8.9                        | 12.0         |
| Onerous lease contracts               | 6.2                                       | 4.4                                  | 3.0                        | 13.6         |
| Unsecured bank loans                  | 19.6                                      | 159.6                                | –                          | 179.2        |
| Other unsecured loans                 | –   | –                                    | 3.9                        | 3.9          |
| Bank overdrafts                       | 50.5                                      | –                                    | –                          | 50.5         |
|                                       | 258.8                                     | 165.5                                | 15.8                       | 440.1        |

### 30. Financial Risk Management *continued*

#### Group

|                                       | 2013                                      |                                      |                            | Total<br>\$m |
|---------------------------------------|---|--------------------------------------|----------------------------|--------------|
|                                       | On demand<br>or within one<br>year<br>\$m | Between two<br>and five years<br>\$m | After five<br>years<br>\$m |              |
| Non-derivative financial liabilities: |   |                                      |                            |              |
| Trade payables                        | 75.1                                      | –                                    | –                          | 75.1         |
| Accruals                              | 70.6                                      | 9.5                                  | –                          | 80.1         |
| Other payables                        | 5.9                                       | –                                    | 8.0                        | 13.9         |
| Onerous lease contracts               | 3.4                                       | 16.0                                 | 4.1                        | 23.5         |
| Unsecured bank loans                  | 24.2                                      | 248.6                                | –                          | 272.8        |
| Other unsecured loans                 | 2.1                                       | –                                    | 3.9                        | 6.0          |
| Bank overdrafts                       | 115.0                                     | –                                    | –                          | 115.0        |
|                                       | 296.3                                     | 274.1                                | 16.0                       | 586.4        |

The Group had no net settled financial liabilities at the year end (2013 – none).

The table below analyses the Group's derivative financial instruments, which will be settled on a gross basis, into maturity groupings based on the period remaining from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual, undiscounted cash flows.

|                             | On demand or within one year |             |
|-----------------------------|------------------------------|-------------|
|                             | 2014<br>\$m                  | 2013<br>\$m |
| <b>Currency derivatives</b> |                              |             |
| – inflows                   | 17.8                         | 34.1        |
| – outflows                  | (17.8)                       | (32.2)      |

#### Company

|                                       | 2014                                      |                                      |              |
|---------------------------------------|---|--------------------------------------|--------------|
|                                       | On demand<br>or within one<br>year<br>\$m | Between two<br>and five years<br>\$m | Total<br>\$m |
| Non-derivative financial liabilities: |   |                                      |              |
| Payables due to subsidiaries          | 0.3                                       | –                                    | 0.3          |
| Accruals                              | 0.8                                       | –                                    | 0.8          |
| Other payables                        | 0.2                                       | –                                    | 0.2          |
| Bank overdrafts                       | 6.5                                       | –                                    | 6.5          |
|                                       | 7.8                                       | –                                    | 7.8          |

|                                       | 2013                                      |                                      |              |
|---------------------------------------|---|--------------------------------------|--------------|
|                                       | On demand<br>or within one<br>year<br>\$m | Between two<br>and five years<br>\$m | Total<br>\$m |
| Non-derivative financial liabilities: |   |                                      |              |
| Payables due to subsidiaries          | 5.5                                       | –                                    | 5.5          |
| Loans from subsidiaries               | 6.6                                       | 85.6                                 | 92.2         |
| Accruals                              | 5.1                                       | 9.0                                  | 14.1         |
| Other payables                        | 0.2                                       | –                                    | 0.2          |
| Bank overdrafts                       | 3.3                                       | –                                    | 3.3          |
|                                       | 20.7                                      | 94.6                                 | 115.3        |

The Company did not have any derivative financial liabilities.



# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 30. Financial Risk Management *continued*

#### (e) Capital Risk Management

The Group's objectives, policies and processes for managing capital are outlined in the Strategic Report within the Financial Capital Management section on page 32. Within this section, the Group provides a definition of capital, provides details of the external financial covenants imposed, key measures for managing capital and the objectives for managing capital. Quantitative disclosures have been made together with the parameters for meeting external financial covenants.

### 31. Financial Instruments: Sensitivity Analysis

The following sensitivity analysis is intended to illustrate the sensitivity to changes in market variables on the Group's and Company's financial instruments and show the impact on profit or loss and shareholders' equity. Financial instruments affected by market risk include cash and cash equivalents, borrowings, deposits and derivative financial instruments. The sensitivity analysis relates to the position as at 31 December 2014.

The analysis excludes the impact of movements in market variables on the carrying value of pension and other post-retirement obligations, provisions and on the non-financial assets and liabilities of foreign operations.

The following assumptions have been made in calculating the sensitivity analysis:

- Foreign exchange rate and interest rate sensitivities have an asymmetric impact on the Group's results, that is, an increase in rates does not result in the same amount of movement as a decrease in rates.
- For floating rate assets and liabilities, the amount of asset or liability outstanding at the balance sheet date is assumed to be outstanding for the whole year.
- Fixed rate financial instruments that are carried at amortised cost are not subject to interest rate risk for the purpose of this analysis.
- The carrying values of financial assets and liabilities carried at amortised cost do not change as interest rates change.

Positive figures represent an increase in profit or equity.

#### (i) Interest Rate Sensitivity

The sensitivity rate of 0.25% (2013 – 0.25%) for US interest rates represents management's assessment of a reasonably possible change, based on historical volatility and a review of analysts' research and banks' expectations of future interest rates.

##### Group

The post-tax impact on the income statement, with all other variables held constant, at 31 December, for an increase of 0.25% (2013 – 0.25%) in US interest rates, is to reduce profits by \$0.2m (2013 – \$0.5m). If US interest rates were to decrease by 0.25% (2013 – 0.25%), then the post-tax impact on the income statement would be to increase profits by \$0.2m (2013 – \$0.5m). The movements arise on US dollar denominated borrowings. There is no impact on other comprehensive income ("OCI") for a change in interest rates.

##### Company

The post-tax impact on the income statement, with all other variables held constant, at 31 December, for an increase of 0.25% (2013 – 0.25%) in the UK interest rate, is \$nil (2013 – a profit reduction of \$0.1m). If the UK interest rate were to decrease by 0.25% (2013 – 0.25%), then the post-tax impact would be \$nil (2013 – a profit increase of \$0.1m).

The post-tax impact on the income statement, with all other variables held constant, at 31 December, for an increase of 0.25% (2013 – 0.25%) in US interest rates, is to increase profits by \$0.4m (2013 – \$nil). If the US interest rates were to decrease by 0.25% (2013 – \$nil), then the post-tax impact would be to reduce profits by \$0.4m (2013 – \$nil). The movements arise on US dollar denominated intra-group loans.

There is no impact on OCI for a change in interest rates.

#### (ii) Foreign Exchange Rate Sensitivity

The sensitivity rate of 10% (2013 – 10%) for Sterling and Canadian dollar exchange rates represents management's assessment of a reasonably possible change, based on historical volatility and a review of analysts' research and banks' expectations of future foreign exchange rates.

**31. Financial Instruments: Sensitivity Analysis** *continued***Group**

The table below shows the post-tax impact for the year of a reasonable change in foreign exchange rates, with all other variables held constant, at 31 December.

|  | 2014                    |            | 2013                    |            |
|--|-------------------------|------------|-------------------------|------------|
|  | Income statement<br>\$m | OCI<br>\$m | Income Statement<br>\$m | OCI<br>\$m |
| Sterling exchange rates +10% (2013: +10%)        | (0.5)                   | 1.6        | (12.6)                  | 18.6       |
| Sterling exchange rates –10% (2013: –10%)        | 0.9                     | (2.0)      | 2.1                     | (22.4)     |
| Canadian dollar exchange rates +10% (2013: +10%) | (0.8)                   | (5.1)      | (0.1)                   | (1.8)      |
| Canadian dollar exchange rates –10% (2013: –10%) | 0.9                     | 5.5        | 0.1                     | 2.2        |

The movements in the income statement mainly arise from cash, bank overdrafts, intra-group balances and accrued expenses where the functional currency of the entity is different from the currency that the monetary items are denominated in.

The movements in OCI in 2014 arise from net Sterling and Canadian dollar borrowings designated in a hedge of net investments in foreign subsidiaries and from US and Canadian dollar denominated loans that have been recognised as part of the Group's net investment in foreign subsidiaries. The movements in OCI in 2013 arise from Sterling and Canadian dollar denominated loans that have been recognised as part of the Group's net investment in foreign subsidiaries.

**Company**

The table below shows the post-tax impact for the year of a reasonably possible change in the Sterling and Canadian dollar exchange rate, with all other variables held constant, at 31 December.

|  | 2014                    |            | 2013                    |            |
|--|-------------------------|------------|-------------------------|------------|
|  | Income statement<br>\$m | OCI<br>\$m | Income Statement<br>\$m | OCI<br>\$m |
| Sterling exchange rates +10% (2013: +10%)        | 0.4                     | –          | 4.5                     | –          |
| Sterling exchange rates –10% (2013: –10%)        | (0.5)                   | –          | (5.6)                   | –          |
| Canadian dollar exchange rates +10% (2013: +10%) | –                       | –          | (0.2)                   | –          |
| Canadian dollar exchange rates –10% (2013: –10%) | –                       | –          | 0.3                     | 0.1        |

The movement in the income statement arises from Sterling denominated receivables, cash, accrued expenses, intra-group balances and borrowings and Canadian dollar denominated receivables.

The movement in OCI in 2013 relates to the environmental escrow.

**32. Post-Employment Benefits****Group****Pensions**

Within the UK, the Group operates a funded pension scheme, which includes a defined benefit section with benefits linked to final salary and a defined contribution section with benefits dependent on future investment returns. The defined benefit section is closed to new UK employees who are offered membership of the defined contribution section. The majority of UK employees are members of one of these arrangements.

The UK scheme is registered with HMRC for tax purposes, and is operated separately from the Group and managed by a Board of trustees. The trustees are responsible for the payment of benefits and the management of the scheme's assets.

The UK scheme is subject to UK regulations, which require the Group and the trustees to agree a funding strategy and contributions schedule for the defined benefit section of the UK scheme. Contributions to the defined contribution section of the UK scheme and other Group defined contribution arrangements are payable in addition and are charged directly to profit and loss.

**Risk Exposures and Investment Strategy**

The weighted average duration to payment of the projected future cash flows from the defined benefit section of the UK scheme is about 17 years. The scheme is managed so that it is well funded and represents a low risk to the Group. In particular, the scheme's assets are invested in a range of deferred annuity and immediate annuity policies with two insurers, which largely match the benefits to be paid to members of the scheme. This strategy significantly reduces the Group's investment, inflation and demographic risks in relation to the scheme's liabilities. This is demonstrated by the relative stability of the Group's pension asset from year-to-year. The position would change materially if one of the insurers were no longer able to meet its obligations as the pension obligation ultimately rests with the Group.

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 32. Post-Employment Benefits *continued*

#### Funding Strategy

The trustees and the Group together agree a funding strategy for the scheme every three years. Under this agreement, the Group expects to contribute approximately \$4.8m to the defined benefit section of the UK scheme in the next reporting period.

The net assets for the UK post-employment benefit scheme are:

|                                     | 2014<br>\$m | 2013<br>\$m |
|-------------------------------------|-------------|-------------|
| Present value of funded obligations | (438.3)     | (428.2)     |
| Fair value of plan assets           | 469.2       | 457.8       |
| <b>Net asset</b>                    | <b>30.9</b> | <b>29.6</b> |

#### Changes in the net asset recognised in the balance sheet

|   | 2014<br>\$m | 2013<br>\$m |
|---|-------------|-------------|
| Opening balance sheet net asset                 | 29.6        | 22.8        |
| Exchange adjustments                            | (1.8)       | 0.8         |
| Expense charged to income statement             | (4.3)       | (4.1)       |
| Amount recognised in other comprehensive income | 2.1         | 4.2         |
| Employer contributions paid                     | 5.3         | 5.9         |
| <b>Closing balance sheet net asset</b>          | <b>30.9</b> | <b>29.6</b> |

The Group has concluded that it can recognise the full amount of this surplus on the grounds that it could gain sufficient economic benefit from a future reduction of its contributions to the scheme.

#### Movements in the present value of the defined benefit obligation for the defined benefit section of the UK scheme

|   | 2014<br>\$m  | 2013<br>\$m  |
|---|--------------|--------------|
| Opening defined benefit obligation                            | 428.2        | 391.4        |
| Exchange adjustments  | (27.2)       | 9.0          |
| Current service cost (employer)                               | 5.8          | 5.2          |
| Contributions by plan participants                            | 0.5          | 0.5          |
| Interest on benefit obligations                               | 18.3         | 15.8         |
| Remeasurements due to:  |              |              |
| Changes in financial assumptions                              | 31.6         | 15.0         |
| Changes in demographic assumptions                            | —            | 5.6          |
| Experience on benefit obligations                             | (0.3)        | 2.4          |
| Benefits and expenses paid                                    | (18.6)       | (16.7)       |
| <b>Present value of the obligation at the end of the year</b> | <b>438.3</b> | <b>428.2</b> |

#### Movements in the fair value of the assets for the defined benefit section of the UK scheme

|   | 2014<br>\$m  | 2013<br>\$m  |
|---|--------------|--------------|
| Opening fair value of plan assets           | 457.8        | 414.2        |
| Exchange adjustments                        | (29.0)       | 9.8          |
| Interest on plan assets                     | 19.8         | 16.9         |
| Actual returns over interest on plan assets | 33.4         | 27.2         |
| Contributions paid by employer              | 5.3          | 5.9          |
| Contributions paid by plan participants     | 0.5          | 0.5          |
| Benefits and expenses paid                  | (18.6)       | (16.7)       |
| <b>Closing fair value of plan assets</b>    | <b>469.2</b> | <b>457.8</b> |

**32. Post-Employment Benefits continued**

The "Actual returns over interest on plan assets" shown in the table above principally includes the impact that the changes in financial assumptions have had on the value of the insurance annuity policies. The gain due to these factors offsets the corresponding loss on the remeasurement of the defined benefit obligation, demonstrating that the pensions-related risks have been mitigated by the scheme's investment strategy. In particular, the gain on the assets is greater than the loss on the defined benefit obligation because the value of the insurance annuity policies exceeds the value of the defined benefit obligation.

The major asset categories for the defined benefit section of the UK scheme are:

|                                  | 2014<br>\$m  | 2013<br>\$m  |
|----------------------------------|--------------|--------------|
| Insurance annuity policies       | 459.8        | 452.7        |
| Multi-asset fund                 | 7.8          | —            |
| Cash/other                       | 1.6          | 5.1          |
| <b>Fair value of plan assets</b> | <b>469.2</b> | <b>457.8</b> |

The scheme does not invest in property occupied by the Group or in financial securities issued by the Group.

The amounts recognised in the income statement in respect of the UK scheme are:

|   | 2014<br>\$m | 2013<br>\$m |
|---|-------------|-------------|
| Current service cost – recognised within operating expenses                   | 5.8         | 5.2         |
| Net interest on the defined benefit asset – recognised within interest income | (1.5)       | (1.1)       |
| <b>Total expense included within staff costs (note 10)</b>                    | <b>4.3</b>  | <b>4.1</b>  |

The current service cost includes \$1.5m (2013 – \$1.3m) of administration costs.

In addition, employer contributions of \$10.8m (2013 – \$9.4m) for various Group defined contribution arrangements (including the defined contribution section of the UK scheme) are recognised in the income statement.

**Special Events**

There were no special events during 2014. During 2013, a tranche of benefits was secured with one of the insurers. The effect of this was recognised in other comprehensive income.

The principal assumptions used for accounting purposes reflect prevailing market conditions and are:

|                         | 2014     | 2013     |
|-------------------------|----------|----------|
| Discount rate           | 3.6% p.a | 4.4% p.a |
| Future pension increase | 3.2% p.a | 3.6% p.a |
| Future salary increase  | 5.2% p.a | 5.6% p.a |

**Mortality assumption – life expectancy**

|                                       | 2014<br>Years | 2013<br>Years |
|---------------------------------------|---------------|---------------|
| Male aged 65 at the accounting date   | 24.9          | 24.8          |
| Female aged 65 at the accounting date | 27.1          | 27.0          |
| Male aged 65 in 20 years              | 27.6          | 27.4          |
| Female aged 65 in 20 years            | 29.5          | 29.4          |

The assumptions used to determine the end-of-year benefit obligations are also used to calculate the following year's cost.

## NOTES TO THE FINANCIAL STATEMENTS

### CONTINUED

#### 32. Post-Employment Benefits *continued*

##### *Sensitivity Analysis*

Apart from the assumption for salary increases, the change in the obligation arising as a result of changes in the above assumptions is broadly matched by a corresponding change in the value of the insurance policies, so that the impact on the net balance sheet asset is significantly dampened.

A 0.25% p.a. increase in the salary increase assumption would increase the defined benefit obligation by about \$2.7m (2013 – \$1.7m) without having any impact on the value of the scheme's assets.

##### *Unfunded Defined Benefit Pension Scheme*

The Group also operates a cash balance arrangement in the US for certain executives. Members build up benefits in this arrangement by way of notional contributions and notional investment returns. Actual contributions are paid into an entirely separate investment vehicle held by the Company, which is used to pay benefits due from the cash balance arrangement when the member retires.

Under IAS 19, the cash balance arrangement is accounted for as an unfunded defined benefit scheme.

The amounts recognised in the income statement during the year were \$0.2m (2013 – \$0.2m) for the employer's current service cost (recognised in operating expenses) and \$0.3m (2013 – \$0.1m) interest cost (recognised in interest expense).

##### **Movements in the present value of the obligation for the defined US Deferred Compensation Plan**

|  | 2014<br>\$m | 2013<br>\$m |
|--|-------------|-------------|
| Present value of the obligation at the start of the year                 | 8.0         | 5.7         |
| Current service cost (equal to the notional contributions)               | 0.2         | 0.2         |
| Contributions by plan participants                                       | –           | 0.1         |
| Interest on benefit obligations  | 0.3         | 0.1         |
| Remeasurement – excess of notional investment returns over interest cost | 0.4         | 1.9         |
| <b>Present value of the obligation at the end of the year</b>            | <b>8.9</b>  | <b>8.0</b>  |

##### **Company**

The Company has no employees and therefore does not participate in any of the above schemes, although it does guarantee the contributions due by the participating employers.

#### 33. Share Capital and Share Premium

##### **Group and Company**

|   | 2014  |                                    |                      |
|---|---|------------------------------------|----------------------|
|   | Number of Ordinary shares of 25p each<br>Number | Ordinary shares of 25p each<br>\$m | Share premium<br>\$m |
| At 1 January                                    | 147,742,760                                     | 61.3                               | 150.6                |
| Shares issued – share option schemes and awards | 725,917   | 0.3                                | 1.3                  |
| <b>At 31 December</b>                           | <b>148,468,677</b>                              | <b>61.6</b>                        | <b>151.9</b>         |

|   | 2013  |                                    |                      |
|---|---|------------------------------------|----------------------|
|   | Number of Ordinary shares of 25p each<br>Number | Ordinary shares of 25p each<br>\$m | Share premium<br>\$m |
| At 1 January                                    | 147,049,241                                     | 61.0                               | 149.1                |
| Shares issued – share option schemes and awards | 693,519   | 0.3                                | 1.5                  |
| <b>At 31 December</b>                           | <b>147,742,760</b>                              | <b>61.3</b>                        | <b>150.6</b>         |

There are no restrictions attached to any of the Ordinary shares in issue and all Ordinary shares carry equal voting rights. The rights attached to the Company's Ordinary shares are summarised on page 49. All of the Ordinary shares in issue are fully paid.

At 31 December 2014, 986,944 (2013 – 986,731) Ordinary shares were held by an Employee Benefit Trust. Details of the carrying amount are set out in note 35.

**34. Other Components of Equity****Group**

Year ended 31 December 2014

|   | Other<br>reserves<br>\$m | Cash flow<br>hedge<br>reserve<br>\$m | Foreign<br>currency<br>translation<br>reserve<br>\$m | Total<br>\$m |
|---|--------------------------|--------------------------------------|--|--------------|
| At 1 January  | 12.7                     | 1.4                                  | 27.5   | 41.6         |
| Exchange adjustments net of tax   | –                        | –                                    | (15.7)   | (15.7)       |
| Release of foreign exchange losses net of tax   | –                        | –                                    | 3.8  | 3.8          |
| Fair value gains and losses:  |                          |                                      |  |              |
| – gain transferred to income statement on redemption of available for sale investment | (0.2)                    | –                                    | –  | (0.2)        |
| – losses originating on cash flow hedges arising during the year net of tax           | –                        | (0.1)                                | –  | (0.1)        |
| – gains transferred to income statement on disposal of cash flow hedges net of tax    | –                        | (1.3)                                | –  | (1.3)        |
| Share options   |                          |                                      |  |              |
| – value of employee services  | 7.2                      | –                                    | –  | 7.2          |
| – discharge   | (4.6)                    | –                                    | –  | (4.6)        |
| <b>At 31 December</b>   | <b>15.1</b>              | <b>–</b>                             | <b>15.6</b>  | <b>30.7</b>  |

Year ended 31 December 2013

|  | Other<br>reserves<br>\$m | Cash flow<br>hedge<br>reserve<br>\$m | Foreign<br>currency<br>translation<br>reserve<br>\$m | Total<br>\$m |
|--|--------------------------|--------------------------------------|--|--------------|
| At 1 January   | 12.7                     | 0.1                                  | 29.2   | 42.0         |
| Exchange adjustments net of tax  | –                        | –                                    | (1.7)  | (1.7)        |
| Fair value gains and losses:   |                          |                                      |  |              |
| – gain on available for sale investment arising during the year net of tax         | 0.2                      | –                                    | –  | 0.2          |
| – gains originating on cash flow hedges arising during the year net of tax         | –                        | 1.5                                  | –  | 1.5          |
| – gains transferred to income statement on disposal of cash flow hedges net of tax | –                        | (0.2)                                | –  | (0.2)        |
| Share options  |                          |                                      |  |              |
| – value of employee services   | 3.4                      | –                                    | –  | 3.4          |
| – discharge  | (3.6)                    | –                                    | –  | (3.6)        |
| <b>At 31 December</b>  | <b>12.7</b>              | <b>1.4</b>                           | <b>27.5</b>  | <b>41.6</b>  |

**Company**

Year ended 31 December 2014

|   | Capital<br>redemption<br>reserve<br>\$m | Share option<br>reserve<br>\$m | Foreign<br>currency<br>translation<br>reserve<br>\$m | Other<br>reserves<br>\$m | Total<br>\$m |
|---|---|--------------------------------|--|--------------------------|--------------|
| At 1 January  | 0.2                                     | 12.3                           | (19.2)   | 0.2                      | (6.5)        |
| Fair value gains and losses:  |   |                                |  |                          |              |
| – gain transferred to income statement on redemption of available for sale investment | –                                       | –                              | –  | (0.2)                    | (0.2)        |
| Share options and awards  |   |                                |  |                          |              |
| – value of employee services  | –                                       | 7.2                            | –  | –                        | 7.2          |
| – discharge   | –                                       | (4.6)                          | –  | –                        | (4.6)        |
| <b>At 31 December</b>   | <b>0.2</b>                              | <b>14.9</b>                    | <b>(19.2)</b>  | <b>–</b>                 | <b>(4.1)</b> |

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 34. Other Components of Equity *continued*

Year ended 31 December 2013

|   | Capital<br>redemption<br>reserve<br>\$m | Share option<br>reserve<br>\$m | Foreign<br>currency<br>translation<br>reserve<br>\$m | Other<br>reserves<br>\$m | Total<br>\$m |
|---|---|--------------------------------|--|--------------------------|--------------|
| At 1 January  | 0.2                                     | 12.5                           | (19.2)   | –                        | (6.5)        |
| Fair value gains and losses:                                    |   |                                |  |                          |              |
| – gain on available for sale investment arising during the year | –                                       | –                              | –  | 0.2                      | 0.2          |
| Share options and awards  |   |                                |  |                          |              |
| – value of employee services                                    | –                                       | 3.4                            | –  | –                        | 3.4          |
| – discharge   | –                                       | (3.6)                          | –  | –                        | (3.6)        |
| <b>At 31 December</b>   | <b>0.2</b>                              | <b>12.3</b>                    | <b>(19.2)</b>  | <b>0.2</b>               | <b>(6.5)</b> |

### 35. Retained Earnings

|   | Group          |                | Company      |              |
|---|----------------|----------------|--------------|--------------|
|   | 2014<br>\$m    | 2013<br>\$m    | 2014<br>\$m  | 2013<br>\$m  |
| At 1 January  | 1,130.4        | 1,050.9        | 259.1        | 247.0        |
| Profit for the year   | 69.2           | 117.9          | 195.9        | 52.1         |
| Remeasurement of defined benefit pension schemes net of tax | 1.5            | 2.8            | –            | –            |
| Dividends paid  | (44.1)         | (42.5)         | (44.1)       | (42.5)       |
| Treasury shares   |                |                |              |              |
| – purchase of Treasury shares                               | (7.5)          | (6.7)          | (7.5)        | (6.7)        |
| Share options and awards                                    |                |                |              |              |
| – discharge   | 11.3           | 9.2            | 11.3         | 9.2          |
| – taxation  | 3.1            | (1.3)          | –            | –            |
| Other   | –              | 0.1            | –            | –            |
| <b>At 31 December</b>                                       | <b>1,163.9</b> | <b>1,130.4</b> | <b>414.7</b> | <b>259.1</b> |

The taxation credit taken directly to equity of \$3.1m (2013 – charge of \$1.3m) comprises a current tax credit of \$4.1m (2013 – \$1.0m) and a deferred tax charge of \$1.0m (2013 – \$2.3m).

Retained earnings include the following amounts in respect of the carrying amount of Treasury shares:

|                             | Group         |               | Company       |               |
|-----------------------------|---------------|---------------|---------------|---------------|
|                             | 2014<br>\$m   | 2013<br>\$m   | 2014<br>\$m   | 2013<br>\$m   |
| <b>Cost:</b>                |               |               |               |               |
| At 1 January                | (13.8)        | (12.0)        | (13.8)        | (12.0)        |
| Purchase of Treasury shares | (7.5)         | (6.7)         | (7.5)         | (6.7)         |
| Disposal of Treasury shares | 6.5           | 4.9           | 6.5           | 4.9           |
| <b>At 31 December</b>       | <b>(14.8)</b> | <b>(13.8)</b> | <b>(14.8)</b> | <b>(13.8)</b> |

The loss on disposal of Treasury shares during the year, which is recognised in retained earnings, was:

|                         | Group        |              | Company      |              |
|-------------------------|--------------|--------------|--------------|--------------|
|                         | 2014<br>\$m  | 2013<br>\$m  | 2014<br>\$m  | 2013<br>\$m  |
| <b>Loss on disposal</b> | <b>(6.5)</b> | <b>(4.9)</b> | <b>(6.5)</b> | <b>(4.9)</b> |

#### Company

In accordance with the exemption allowed by Section 408 of the Companies Act 2006, the Company has not presented its own income statement and statement of comprehensive income. A profit of \$195.9m (2013 – \$52.1m) has been accounted for in the financial statements of the Company.



### 36. Dividends Paid

Group and Company

|                            | 2014            |             | 2013            |             |
|----------------------------|-----------------|-------------|-----------------|-------------|
|                            | Cents per share | \$m         | Cents per share | \$m         |
| <b>Ordinary dividends:</b> |                 |             |                 |             |
| 2014 interim paid          | 8.1             | 12.0        | –               | –           |
| 2013 final paid            | 21.8            | 32.1        | –               | –           |
| 2013 interim paid          | –               | –           | 7.7             | 11.3        |
| 2012 final paid            | –               | –           | 21.3            | 31.2        |
|                            | <b>29.9</b>     | <b>44.1</b> | <b>29.0</b>     | <b>42.5</b> |

A final dividend of 22.9 cents per share has been proposed by the Board, amounting to an estimated distribution of \$33.7m. The dividend will be paid in Sterling on 26 May 2015 and the Sterling value of the dividend payable per share will be fixed and announced approximately two weeks prior to the payment date based on the average spot exchange rate over the three business days preceding the announcement date. The proposed final dividend is subject to approval by the shareholders at the Annual General Meeting to be held on 15 April 2015 and has not been provided for in these financial statements.

### 37. Share-based Payments

#### Group and Company

##### (a) 2001 Executive Share Option Plan

The Company operated an executive share option plan between 2001 and 2008 which granted options to eligible employees. Under this scheme, the final granting of options occurred on 4 March 2008 and the final vesting of options occurred on 4 March 2011. There is no longer a charge to the income statement attributable to this scheme. Following successful vesting of the options, the employee, subject to continued employment, has seven years in which to exercise the option. Details of movements in the outstanding share options are set out below.

#### Share Option Movements During the Year

|  | 2014              |                                   | 2013              |                                   |
|--|-------------------|-----------------------------------|-------------------|-----------------------------------|
|  | Number of options | Weighted average exercise price p | Number of options | Weighted average exercise price p |
| Outstanding at beginning of the year               | 1,658,147         | 354                               | 2,006,243         | 348                               |
| Exercised during the year                          | (563,834)         | 160                               | (348,096)         | 318                               |
| <b>Outstanding and exercisable at the year end</b> | <b>1,094,313</b>  | <b>454</b>                        | <b>1,658,147</b>  | <b>354</b>                        |

Options were granted with an exercise price equal to the average closing mid-market price of the Company's share price for the three trading days prior to the date of grant.

The weighted average share price at the date of exercise during 2014 was 873.5p (2013 – 883.0p).

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 37. Share-based Payments *continued*

#### Share Options Outstanding at the Year End

|                                       | 2014<br>Number of<br>options | 2013<br>Number of<br>options | Exercise price<br>range<br>p | Exercise period   |
|---------------------------------------|------------------------------|------------------------------|------------------------------|-------------------|
| Executive Share Options 2004 – vested | –                            | 478,754                      | 116.9                        | 31.03.07–30.03.14 |
| Executive Share Options 2005 – vested | 372,831                      | 409,536                      | 220.7                        | 09.03.08–08.03.15 |
| Executive Share Options 2006 – vested | 298,471                      | 323,014                      | 383.0                        | 08.03.09–07.03.16 |
| Executive Share Options 2007 – vested | 216,534                      | 229,659                      | 640.0                        | 06.03.10–05.03.17 |
| Executive Share Options 2008 – vested | 206,477                      | 217,184                      | 784.5                        | 04.03.11–03.03.18 |
|                                       | <b>1,094,313</b>             | <b>1,658,147</b>             |                              |                   |

#### (b) 2009 Performance Share Plan ("PSP")

##### Performance based awards and options

The Company granted performance based share awards and options under the PSP between 2009 and 2013. Under the PSP annual conditional awards of shares and options were made to executive Directors and senior employees. Awards and options are subject to performance conditions during the vesting period. The PSP was replaced by the 2014 Hunting Performance Share Plan ("HPSP") following shareholder approval of the HPSP at the Annual General Meeting ("AGM") of the Company on 16 April 2014. The final grant under the PSP occurred in 2013 and will vest in 2016, subject to performance conditions and continued service. Awards and options were granted at nil cost under the PSP.

The performance based awards and options will vest subject to total shareholder return ("TSR") over a three year period from the date of grant, relative to comparator companies from the Dow Jones US Oil Equipment and Services sector index and the DJ STOXX TM Oil Equipment and Services sector index.

Details of the performance based PSP awards and options movements during the year are set out below:

|   | Number of<br>awards<br>2014 | Number of<br>awards<br>2013 |
|---|-----------------------------|-----------------------------|
| Outstanding at beginning of the year      | 568,664                     | 712,056                     |
| Granted during the year                   | –                           | 177,027                     |
| Vested during the year                    | –                           | (171,910)                   |
| Lapsed during the year                    | (184,981)                   | (148,509)                   |
| <b>Outstanding at the end of the year</b> | <b>383,683</b>              | <b>568,664</b>              |

Details of the performance based awards and options outstanding at 31 December 2014 are as follows:

|   | Number of<br>awards<br>2014 | Number of<br>awards<br>2013 | Normal<br>vesting date |
|---|-----------------------------|-----------------------------|------------------------|
| 25 February 2011                          | –                           | 174,020                     | 25.02.14               |
| 17 April 2012                             | 218,963                     | 225,564                     | 17.04.15               |
| 20 March 2013                             | 164,720                     | 169,080                     | 20.03.16               |
| <b>Outstanding at the end of the year</b> | <b>383,683</b>              | <b>568,664</b>              |                        |

There were no exercises of the performance based PSP awards and options during 2014. The weighted average share price at the date of exercise during 2013 was 904.6p.

The fair value charge to the income statement attributable to the performance based PSP is \$1.3m (2013 – \$0.8m), which is recognised in operating expenses.

**37. Share-based Payments continued***Time based awards and options*

The Company granted time based share awards and options under the PSP between 2009 and 2013. Annual awards of shares and options were made to employees subject to continued employment during the vesting period. There were no performance conditions attached. Time based awards will continue to be granted under the HPSP. The final grant under the PSP occurred in 2013 and will vest in 2016. Awards and options were granted at nil cost under the PSP.

Details of the time based PSP awards and options movements during the year are as follows:

|   | Number of awards<br>2014 | Number of awards<br>2013 |
|---|--------------------------|--------------------------|
| Outstanding at beginning of the year      | 747,166                  | 603,701                  |
| Granted during the year                   | –                        | 418,923                  |
| Vested during the year                    | (158,665)                | (177,812)                |
| Lapsed during the year                    | (35,004)                 | (97,646)                 |
| <b>Outstanding at the end of the year</b> | <b>553,497</b>           | <b>747,166</b>           |

The weighted average share price at the date of exercise during 2014 was 864.0p (2013 – 906.0p).

Details of the time based PSP awards and options outstanding at 31 December 2014 are as follows:

| Date of grant                             | Number of awards<br>2014 | Number of awards<br>2013 | Normal vesting date |
|---|--------------------------|--------------------------|---------------------|
| 25 February 2011                          | 1,969                    | 154,686                  | 25.02.14            |
| 17 April 2012                             | 204,266                  | 219,572                  | 17.04.15            |
| 20 March 2013                             | 347,262                  | 372,908                  | 20.03.16            |
| <b>Outstanding at the end of the year</b> | <b>553,497</b>           | <b>747,166</b>           |                     |

The fair value charge to the income statement attributable to the time based PSP is \$2.5m (2013 – \$2.6m), which is recognised in operating expenses.

**(c) 2004 Long-Term Incentive Plan ("LTIP")**

The Company granted awards to key executives under the LTIP between 2004 and 2013. The LTIP expired in 2014 in line with Plan rules following ten years of operation. Awards under the LTIP will continue to vest until 2016. LTIP awards may be settled in shares or cash. Details of awards made under this plan are contained within the Remuneration Committee Report on page 65.

The fair value charge to the income statement attributable to the LTIP is \$0.5m (2013 – \$6.6m) and the liability in relation to the LTIP at the year end is \$6.8m (2013 – \$13.5m).

**(d) 2014 Hunting Performance Share Plan ("HPSP")***Performance based awards*

The Company grants performance based share awards under the HPSP, which replaces both the LTIP which expired in 2014 and the PSP which will no longer be used. On 1 May 2014 the first performance based awards under the HPSP were granted to executive Directors and senior employees. Awards are granted at nil cost under the HPSP.

The performance based HPSP awards granted in the year are divided equally into three tranches. Each tranche is subject to a three year vesting period, and is also subject to performance conditions. The three conditions are Company performance over a three year period against (i) the TSR of a bespoke peer group; (ii) Earnings per share ("EPS") growth and (iii) average Return on Capital Employed ("ROCE"). The performance period for 2014 awards granted under the HPSP is 1 January 2014 to 31 December 2016.

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 37. Share-based Payments *continued*

Details of the performance based HPSP awards movements during the year are set out below:

|   | Number of awards<br>2014 |
|---|--------------------------|
| Granted during the year                   | 707,376                  |
| Lapsed during the year                    | (14,626)                 |
| <b>Outstanding at the end of the year</b> | <b>692,750</b>           |

The normal vesting date of these first awards is 1 May 2017.

#### Time based awards

The Company grants time based share awards under the HPSP. Annual awards of shares may be made to employees subject to continued employment during the vesting period. On 1 May 2014 the first time based awards were granted. There are no performance conditions attached. Awards are granted at nil cost under the HPSP.

Details of time based HPSP awards movements during the year are set out below:

|   | Number of awards<br>2014 |
|---|--------------------------|
| Granted during the year                   | 681,850                  |
| Vested during the year                    | (429)                    |
| Lapsed during the year                    | (26,579)                 |
| <b>Outstanding at the end of the year</b> | <b>654,842</b>           |

The normal vesting date of these first awards is 1 May 2017 although awards may vest earlier on a pro-rata basis under certain circumstances. The weighted average share price at the date of exercise during 2014 was 649.0p.

#### Fair value of HPSP awards

The fair value of awards granted under the HPSP are calculated using two separate models:

- (1) The fair value of awards subject to a market related performance condition, specifically Company performance against the TSR of a bespoke peer group, has been calculated using the Stochastic pricing model (also known as the "Monte Carlo" model).

The assumptions used in this model were as follows:

|                                       | 2014       |
|---------------------------------------|------------|
| Date of grant/valuation date          | 1 May 2014 |
| Weighted average share price at grant | 839.5p     |
| Exercise price                        | nil        |
| Expected dividend yield               | nil        |
| Expected volatility                   | 32.3%      |
| Risk free rate                        | 1.08%      |
| Expected life                         | 3 years    |
| Fair value                            | 463.9p     |

**37. Share-based Payments** *continued*

- (2) The fair value of performance based awards not subject to a market related performance condition, specifically Company performance against EPS and ROCE targets, and the time based HPSP awards has been calculated using the Black-Scholes pricing model.

The assumptions used in this model were as follows:

|                                       | 2014       |
|---------------------------------------|------------|
| Date of grant/valuation date          | 1 May 2014 |
| Weighted average share price at grant | 839.5p     |
| Exercise price                        | nil        |
| Expected dividend yield               | nil        |
| Expected volatility                   | 32.3%      |
| Risk free rate                        | 1.08%      |
| Expected life                         | 3 years    |
| Fair value                            | 839.5p     |

The methods to calculate the assumptions for both models are:

- The expected volatility was calculated using historic weekly volatility, equal in length to the remaining portion of the performance period at the date of grant.
- The expected life of the award has been calculated commensurate with the vesting period. The risk free rate is based on the UK gilt rate commensurate with the vesting period prevailing at the date of grant.
- Participants are entitled to a dividend equivalent over the number of shares that make up their award. It is accumulated over the vesting period and released subject to the achievement of the performance conditions. This is factored into the fair value calculation and as a result the dividend yield assumption is set to zero.
- The initial accounting charge of the performance based HPSP awards granted under the HPSP incorporates an estimate of the number of shares that are expected to lapse for those participants who cease employment during the vesting period. The estimate of the expected forfeiture rate is 2.5% per annum. The subsequent accounting charge for 2014 includes an adjustment to the initial accounting charge to allow for actual lapses rather than estimated lapses.

The 2014 charge to the income statement attributable to the performance based HPSP awards is \$1.4m (2013 – \$nil) and to the time based HPSP awards is \$2.0m (2013 – \$nil). These are recognised in operating expenses.

**38. Operating Leases****The Group as Lessee**

Operating lease payments from continuing operations mainly represent rentals payable by the Group for properties:

|  | 2014            |               |              | Restated 2013   |               |              |
|--|-----------------|---------------|--------------|-----------------|---------------|--------------|
|  | Property<br>\$m | Others<br>\$m | Total<br>\$m | Property<br>\$m | Others<br>\$m | Total<br>\$m |
| Operating lease payments recognised in income statement: |                 |               |              |                 |               |              |
| Lease and rental payments                                | 13.7            | 2.5           | 16.2         | 12.1            | 2.0           | 14.1         |

Total future aggregate minimum lease payments under non-cancellable operating leases expiring:

|                             | 2014            |               |              | 2013            |               |              |
|-----------------------------|-----------------|---------------|--------------|-----------------|---------------|--------------|
|                             | Property<br>\$m | Others<br>\$m | Total<br>\$m | Property<br>\$m | Others<br>\$m | Total<br>\$m |
| Within one year             | 13.1            | 0.8           | 13.9         | 13.9            | 0.9           | 14.8         |
| Between two and five years  | 32.6            | 1.1           | 33.7         | 36.6            | 1.3           | 37.9         |
| After five years            | 27.2            | –             | 27.2         | 21.1            | –             | 21.1         |
| <b>Total lease payments</b> | <b>72.9</b>     | <b>1.9</b>    | <b>74.8</b>  | <b>71.6</b>     | <b>2.2</b>    | <b>73.8</b>  |

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 38. Operating Leases *continued*

#### The Group as Lessor

Property rental earned during the year was \$1.2m (2013 – \$1.4m). A number of the Group's leasehold properties are sublet under existing lease agreements.

Total future minimum sublease income receivable under non-cancellable operating leases expiring:

|                                      | 2014<br>Property<br>\$m | 2013<br>Property<br>\$m |
|--------------------------------------|-------------------------|-------------------------|
| Within one year                      | 0.6                     | 1.0                     |
| Between two and five years           | 2.8                     | 3.1                     |
| After five years                     | 2.1                     | 3.0                     |
| <b>Total lease income receivable</b> | <b>5.5</b>              | <b>7.1</b>              |

### 39. Exploration and Evaluation Activities

The assets, liabilities, income, expense and cash flows arising on the Group's exploration for and evaluation of oil and gas resources are as follows:

The Group has assets of \$nil (2013 – \$1.0m) and liabilities of \$nil (2013 – \$2.9m) relating to the exploration for and evaluation of oil and gas reserves.

During the year, income earned on exploration and evaluation activities was \$nil (2013 – \$nil), expenses incurred for the year were \$1.7m (2013 – \$2.6m) and finance costs incurred were \$nil (2013 – \$0.3m), with tax relief of \$0.6m (2013 – \$1.0m). Expenses comprise \$1.7m (2013 – \$2.6m) for dry hole costs.

Cash inflows from operating activities were \$1.0m (2013 – \$0.8m), cash outflows from investing activities were \$1.7m (2013 – \$2.6m) and cash inflows from financing activities were \$nil (2013 – \$1.8m).

The Group is committed to \$nil (2013 – \$nil) for future drilling costs.

### 40. Related Party Transactions

#### Group

The following related party transactions took place between wholly owned subsidiaries of the Group and associates during the year:

|   | 2014<br>\$m | 2013<br>\$m |
|---|-------------|-------------|
| Transactions:                             |             |             |
| Sales of goods and services               | 0.1         | 0.1         |
| Purchase of goods and services            | (0.1)       | –           |
| Royalties receivable                      | 0.2         | 0.4         |
| Dividends received from associates        | 4.5         | 1.2         |
| Movement on loans to and from associates: |             |             |
| Loans from associates repaid              | –           | (0.1)       |
| Loans to associates repaid                | 0.6         | 0.4         |
| Year-end balances:                        |             |             |
| Receivables from associates               | 0.1         | 0.6         |
| Payables to associates                    | (0.1)       | (0.1)       |

The outstanding balances at the year end are unsecured and have no fixed date for repayment. No expense has been recognised in the year for bad or doubtful debts in respect of amounts owed by associates.

All interests in associates are in the equity shares of those companies.

The key management of the Company comprises the executive and non-executive Directors only. The details of the Directors' compensation are disclosed in note 10. The Directors of the Company had no material transactions other than as a result of their service agreements.

**40. Related Party Transactions** *continued***Company**

The following related party transactions took place between the Company and wholly owned subsidiaries of the Group during the year:

|   | 2014<br>\$m | 2013<br>\$m |
|---|-------------|-------------|
| Transactions:   |             |             |
| Royalties receivable  | 19.4        | 17.7        |
| Management fees payable   | (8.0)       | (5.1)       |
| Recharges of share options and awards and administrative expenses | 9.6         | 11.0        |
| Loans received from subsidiaries                                  | –           | 39.5        |
| Loans from subsidiaries repaid                                    | (92.2)      | (35.5)      |
| Loan to subsidiary  | (171.2)     | (15.5)      |
| Loan to subsidiary repaid   | 15.5        | 15.5        |
| Interest payable on inter-company loans                           | (0.7)       | (1.3)       |
| Interest receivable on inter-company loans                        | 0.2         | 0.2         |
| Dividends received from subsidiaries                              | 144.6       | 46.1        |
| Year-end balances:  |             |             |
| Payables to subsidiaries  | (0.3)       | (5.5)       |
| Receivables from subsidiaries                                     | 6.3         | 28.0        |
| Loans owed to subsidiaries  | –           | (92.2)      |
| Loans owed by subsidiaries  | 171.2       | 15.5        |

All balances between the Company and its subsidiaries are unsecured.

The Company also serves as the Group's intermediary for the provision of UK group tax relief, VAT and certain group insurances. At the year end, the outstanding receivable for group tax was \$2.5m (2013 – \$4.0m).

**41. Acquisitions****Hunting Specialty Supply, Inc.**

On 16 January 2014, a final payment of \$3.0m was made to the sellers of Specialty in respect of the contingent consideration arrangement.



# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 42. Principal Subsidiaries

The Directors consider that the number of undertakings in respect of which the Company is required to disclose under Section 409 of the Companies Act 2006 would result in information of excessive length being given in the notes to the Company's annual accounts. In accordance with Section 410(2) of the Companies Act 2006, the information below relates to those Group undertakings at the financial year end whose results and/or financial position, in the opinion of the Directors, principally affect the figures of the consolidated financial statements of Hunting PLC. Details of all the subsidiary undertakings will be annexed to the next Annual Return of Hunting PLC to be filed at Companies House.

All Companies listed below are wholly owned by the Group, except where otherwise indicated.

| Subsidiaries  | Country of incorporation and/or operations | Business   |
|---|--|--|
| <b>Oil and Gas activities</b>                       |  |  |
| Hunting Energy Services (Canada) Ltd                | Canada                                     | Oilfield services                                      |
| Hunting Energy Services (Drilling Tools) Ltd        | Canada                                     | Drilling equipment                                     |
| Hunting Energy Services (Wuxi) Co. Ltd (70%)        | China                                      | Oilfield services                                      |
| Hunting Energy Services (International) Limited     | England and Scotland                       | Oilfield services                                      |
| PT Hunting Energy Asia                              | Indonesia                                  | Oilfield services                                      |
| Hunting Energy Services Limited                     | Scotland                                   | Oilfield services                                      |
| Hunting Energy Services (UK) Limited (60%)          | Scotland and Netherlands                   | Oilfield services                                      |
| Hunting Energy Services (Well Intervention) Limited | Scotland, USA, Singapore and UAE           | Oilfield services                                      |
| Hunting Welltonic Limited                           | Scotland                                   | Oilfield services                                      |
| Hunting Energy Services (International) Pte. Ltd.   | Singapore                                  | Oilfield services                                      |
| Hunting Energy Services Pte. Ltd.                   | Singapore                                  | Oilfield services                                      |
| Hunting Energy Services (China) Pte. Ltd. (70%)     | Singapore                                  | Oilfield services                                      |
| Hunting Energy Services South Africa (Pty) Ltd      | South Africa                               | Oilfield services                                      |
| National Coupling Company, Inc.                     | USA  | Oilfield services                                      |
| Hunting Energy Services, Inc.                       | USA  | Oilfield and trenchless drilling products and services |
| Hunting Dearborn, Inc.                              | USA  | Oilfield services – precision engineering              |
| Hunting Energy Services (Drilling Tools), Inc.      | USA  | Drilling equipment                                     |
| Hunting Innova, Inc.                                | USA  | Oilfield services electronic component manufacturer    |
| Hunting Specialty Supply, Inc.                      | USA  | Oilfield services                                      |
| Hunting Titan, Inc.                                 | USA  | Oilfield services – perforating systems                |
| <b>Other activities</b>                             |  |  |
| E.A. Gibson Shipbrokers Limited                     | England, Hong Kong and Singapore           | Shipbroking  |
| Tenkay Resources, Inc.                              | USA  | Oil and natural gas exploration and production         |
| <b>Corporate activities</b>                         |  |  |
| Hunting Energy Holdings Limited*                    | England                                    | Holding company  |
| Hunting Oil Holdings Limited*                       | England                                    | Holding company  |
| Hunting Knightsbridge Holdings Limited              | England                                    | Finance  |
| Hunting Knightsbridge (US) Finance Limited          | England                                    | Finance  |
| Huntaven Properties Limited                         | England                                    | Group properties                                       |
| Hunting U.S. Holdings, Inc.                         | USA  | Holding company  |
| Hunting Energy Corporation                          | USA  | Holding company  |

### Notes

1 Except where otherwise stated companies are wholly owned, being incorporated and operating in the countries indicated.

2 Interests in companies marked \* are held directly by Hunting PLC.

3 All interests in subsidiaries and associates are in the equity shares of those companies.

### 43. Principal Accounting Policies

The Group's principal accounting policies are described below:

#### (1) Consolidation

- The Group accounts include the results of the Company and its subsidiaries, together with its share of associates.
- Subsidiaries are consolidated from the date on which control is transferred to the Group and are de-consolidated from the date control ceases.
- The Group uses the acquisition method of accounting for business combinations. Consequently, the consideration is determined as the fair value of the net assets transferred to the vendor and includes an estimate of any contingent consideration. The net assets acquired are also measured at their respective fair values for initial recognition purposes on the acquisition date.
- Acquisition-related costs are expensed to the income statement as incurred.

#### (2) Discontinued Operations

- A discontinued operation is a component of the Group that has either been disposed of or that is classified as held for sale, which represents a separate major line of business or geographical area of operations and is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations.
- Discontinued operations are presented separately in the income statement and are shown net of tax.

#### (3) Revenue

- Revenue is measured as the fair value of the consideration received or receivable for the provision of goods or services in the ordinary course of business, taking into account trade discounts and volume rebates, and is stated net of sales taxes.
- Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the customer, which is normally on delivery of the products. Products include manufactured goods and OCTG supplies, including tubulars acquired by Hunting as plain-end pipe on which lathing work has been applied and which is resold as threaded pipe.
- Revenue from the sale of services is recognised when the services are rendered. The Group's service activities principally comprise lathing work on customer-owned plain-end pipe in order to apply a thread to each pipe end and commissions earned from shipbroking.
- Revenue from the rental of plant and equipment is recognised as the income is earned.

#### (4) Amortisation and Exceptional Items

Exceptional items are items of income or expense which the Directors believe should be separately disclosed by virtue of their significant size or nature to enable a better understanding of the Group's financial performance. The Group discloses such items in the "middle column" of the income statement. In applying this policy, the following items have been treated as exceptional:

- The unwinding of fair value uplifts to inventories that were initially capitalised upon a business acquisition. The unwind is dealt with as an exceptional item to ensure that post acquisition gross profit is based on the cost of production or purchase of inventory and is therefore consistent with and comparable to normal trading transactions in existing companies.
- Impairments of property, plant and equipment held by the Exploration and Production division. As the valuations are subject to the frequent changes in long-term oil and gas prices, such impairments can lead to volatility in the income statement that is unrelated to the underlying performance of the business. For this reason, dry hole costs are also treated as exceptional.
- Goodwill impairment charges have been recognised reflecting a combination of factors including a prolonged period of customer de-stocking, increased competition and the expected decline in activity due to market conditions.
- Foreign exchange losses relating to cumulative exchange differences previously recognised in the foreign currency translation reserve which have been transferred to the income statement in relation to central non-operating companies which have entered into voluntary liquidation.
- The release of excess property provisions no longer required following the signing of a lease termination agreement.
- Litigation settlements and associated legal costs.
- The tax effect of any transaction considered to be exceptional is also treated as exceptional.

Amortisation expenses for acquired intangible assets are also shown in the "middle column" due to the significance of these amounts and to clearly identify the effect on profits, which will arise as current balances become fully written-off, or as new acquisitions give rise to new expenses.

#### (5) Interest

- Interest income and expense is recognised in the income statement using the effective interest method.

#### (6) Foreign Currencies

##### (a) Individual Subsidiaries' and Associates' Accounts

- The financial statements for each of the Group's subsidiaries and associates are prepared using their functional currency.
- The functional currency is the currency of the primary economic environment in which the entity operates.
- Transactions denoted in currencies other than the functional currency are translated into the functional currency at the exchange rate ruling at the date of the transaction.
- Monetary assets and liabilities, except borrowings designated as a hedging instrument in a net investment hedge, denoted in non-functional currencies are retranslated at the exchange rate ruling at the balance sheet date and exchange differences are taken to the income statement.
- Borrowings designated as a hedging instrument in a net investment hedge are retranslated at the exchange rate ruling at the balance sheet date and exchange differences are taken direct to equity.

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 43. Principal Accounting Policies *continued*

#### (b) Group Consolidated Accounts

- The presentation currency of the Group is US dollars.
- The net assets of non-US dollar denominated subsidiaries and associates are translated into US dollars at the exchange rates ruling at the balance sheet date.
- The income statements of subsidiaries and associates are translated into US dollars at the average rates of exchange for the year.
- Exchange differences are recognised directly in equity in the currency translation reserve ("CTR"), together with exchange differences arising on foreign currency loans used to finance foreign currency net investments.
- Upon adoption of IFRS on 1 January 2004, accumulated exchange differences arising on consolidation prior to 31 December 2003 were reset to zero and the CTR recommenced under IFRS on 1 January 2004.
- The balance on the CTR represents the exchange differences arising on the retranslation of non-US dollar amounts into US dollars since 1 January 2004.
- On the disposal of a business, the cumulative exchange differences previously recognised in the foreign currency translation reserve relating to that business are transferred to the income statement as part of the gain or loss on disposal.

#### (7) Taxation

- The taxation charge in the income statement comprises current tax and deferred tax arising on the current year's profit before tax and adjustments to tax arising on prior years' profits.
- Current tax is the expected tax payable arising in the current year on the current year's profit before tax, using tax rates enacted or substantively enacted at the balance sheet date, plus adjustments to tax payable in respect of prior years' profits.
- Deferred tax is the expected tax payable on the current year's profit before tax arising in a future year, using tax rates enacted or substantively enacted at the balance sheet date that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.
- Full provision is made for deferred taxation, using the liability method, on all taxable temporary differences. Deferred tax assets and liabilities are recognised separately on the balance sheet and are reported as non-current assets.
- Deferred tax assets are recognised only to the extent that they are expected to be recoverable. Deferred taxation on unremitted overseas earnings is provided for to the extent a tax charge is foreseeable.
- When items of income and expense are recognised in other comprehensive income, the current and deferred tax relating to those items is also recognised in other comprehensive income.
- Tax arising on the discharge of share options and awards is recognised directly in equity.

#### (8) Segmental Reporting

- Financial information on operating segments that corresponds with information regularly reviewed by the Chief Operating Decision Maker is disclosed in the accounts.
- Operating segments are components of the Group that are engaged in providing related products.
- Geographical information is based on the location of where the sale originated and where the non-current assets are located.

#### (9) Property, Plant and Equipment

##### (a) General

- Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Cost includes expenditure that is directly attributable to the acquisition and installation of the asset.
- Land, pre-production oil and gas exploration costs and assets under construction are not depreciated.
- With the exception of drilling tools, which are depreciated using the units of production method, and oil and gas exploration and production equipment (see 9(b) below), assets are depreciated using the straight-line method at the following rates:

|                                     |                 |
|-------------------------------------|-----------------|
| Freehold buildings                  | – 2% to 10%     |
| Leasehold buildings                 | – life of lease |
| Plant, machinery and motor vehicles | – 6% to 33⅓%    |

- The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

##### (b) Exploration Expenditure

- Oil and gas exploration and appraisal costs are initially capitalised pending determination of the existence of commercial reserves and are included in the asset category oil and gas exploration and development.
- Upon determination that commercially viable quantities of hydrocarbons are not found, the costs are charged immediately to the income statement.
- Depreciation of oil and gas expenditure commences when production commences. The costs are depreciated using the unit of production method.

#### (10) Goodwill

- Goodwill arises when the fair value of the consideration paid for a business exceeds the fair value of the Group's share of the net assets acquired.
- Goodwill is recognised as an asset and is carried at cost less accumulated impairment losses.
- Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to the cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.
- On the disposal of a business, goodwill relating to that business that remains on the balance sheet at the date of disposal is included in the determination of the profit or loss on disposal.

**43. Principal Accounting Policies** *continued***(11) Other Intangible Assets**

- Other intangible assets are stated at cost less accumulated amortisation and impairment losses where applicable.
- These assets have a finite life and are amortised in accordance with the pattern of expected future economic benefits, or when this cannot be reliably estimated, by using the straight-line method.
- Intangible assets are amortised over the following periods:

|                             |                       |
|-----------------------------|-----------------------|
| Customer relationships      | – eight to ten years  |
| Patents                     | – ten to twelve years |
| Unpatented technology       | – ten years           |
| Trademarks and domain names | – one to five years   |

**(12) Impairments**

- The Group performs goodwill impairment reviews at least annually.
- The Group also assesses at least annually whether there have been any events or changes in circumstances that indicate that property, plant and equipment and intangible assets other than goodwill may be impaired. An impairment review is carried out whenever the assessment indicates that the carrying amount may not be fully recoverable.
- For the purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows.
- Where impairment exists, the asset is written down to the higher of (a) its fair value minus costs to sell; and (b) its value in use. Impairments are recognised immediately in the income statement.
- An impairment to goodwill is never reversed. When applicable, an impairment of any other asset is reversed, but only to the extent that the consequent carrying value does not exceed what would have been the carrying value had the impairment not originally been made.

**(13) Inventories**

- Inventories are stated at the lower of cost and net realisable value.
- Cost is determined using the first-in-first-out method and net realisable value is the estimated selling price less costs of disposal in the ordinary course of business. The cost of inventories includes direct costs plus production overheads.

**(14) Cash and Cash Equivalents**

- Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with a maturity of less than three months from the date of deposit that are readily convertible to a known amount of cash.
- For cash flow statement purposes, cash and cash equivalents include bank overdrafts and short-term deposits with a maturity of less than three months from the date of deposit. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

**(15) Loans and Receivables**

- Loans and receivables are initially recognised at fair value at the trade date which is normally the consideration paid plus transaction costs.
- Loans and receivables are carried at amortised cost using the effective interest method. If collection is expected in one year or less they are classified as current assets, otherwise they are presented as non-current assets.
- The Group assesses at each balance sheet date whether a loan or receivable is impaired and if necessary the carrying amount is reduced to the appropriate value. The loss is recognised immediately in the income statement.
- Loans and receivables cease to be recognised when the right to receive cash flows has expired or the Group has transferred substantially all the risks and rewards of ownership.

**(16) Financial Liabilities**

- Financial liabilities are initially recognised at fair value at the trade date which is normally the consideration received less, in the case of financial liabilities that are not measured at fair value through profit or loss, transaction costs. The Group subsequently remeasures all of its non-derivative financial liabilities, including trade payables, at amortised cost.
- Payables are classified as current liabilities if payment is due within one year, otherwise they are presented as non-current liabilities.

**(17) Provisions**

- Provisions are liabilities for which the amount or timing of future expenditure is uncertain.
- Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation.
- Whenever the time value of money is material, provisions are discounted to their present value.

## NOTES TO THE FINANCIAL STATEMENTS

### CONTINUED

#### 43. Principal Accounting Policies *continued*

##### (18) Post-employment Benefits

###### (a) Defined Contribution Retirement Schemes

- Payments to defined contribution retirement schemes are charged to the income statement when they fall due.

###### (b) Defined Benefit Retirement Schemes

- Payments to defined benefit retirement schemes are recognised as increments to the assets of the schemes.
- The amount charged to the income statement with respect to these schemes, within profit from operations, is the increase in the retirement benefit obligation resulting from the additional service provided by the participating employees during the current year, which for the funded scheme is measured using the Projected Unit method and for the unfunded scheme is equal to the contributions paid.
- Net interest arising on the net assets of the schemes is also recognised in the income statement within net finance costs.
- Remeasurement gains and losses are recognised fully and immediately in the statement of comprehensive income.
- The assets of the funded scheme which are invested in insurance policies have been valued using the same methodology and assumptions used to calculate the defined benefit obligation so that, where the assets match the liabilities, the value of the assets is equal to the value of the corresponding obligation.

##### (19) Share-based Payments

- The Group issues LTIP awards that are share-based payments which can be settled in either cash or equity to certain employees as consideration for services received from the employees. A liability is recognised equal to the current fair value of the services received, determined at each balance sheet date. The fair value of the liability is remeasured at each subsequent reporting date and at the date of settlement, with any changes in fair value recognised in the income statement.
- The Group also issues equity-settled share-based payments (HPSP awards) to certain employees as consideration for services received from the employees. The fair value of the employees' services is recognised as an expense in the income statement on a straight-line basis over the vesting period based on the Group's estimate of awards that will ultimately vest. The obligation to settle these awards is recognised within other reserves.

##### (20) Share Capital

- The Company's share capital comprises a single class of Ordinary shares, which are classified as equity.
- Incremental costs directly attributable to the issue of new shares are charged to equity as a deduction from the proceeds, net of tax.

##### (21) Dividend Distributions

- Dividend distributions to the Company's shareholders are recognised as liabilities in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders and are dealt with in the statement of changes in equity.

# FINANCIAL RECORD<sup>\*/\*\*</sup>

(UNAUDITED)

|   |                | Restated       |                |                |                |
|---|----------------|----------------|----------------|----------------|----------------|
|   | 2014<br>\$m    | 2013<br>\$m    | 2012<br>\$m    | 2011<br>\$m    | 2010<br>\$m    |
| <b>Revenue</b>  | <b>1,386.5</b> | <b>1,293.6</b> | <b>1,265.4</b> | <b>933.4</b>   | <b>621.0</b>   |
| EBITDA  | 269.8          | 244.0          | 240.7          | 160.0          | 94.8           |
| Depreciation and non-exceptional impairment               | (52.0)         | (44.0)         | (40.1)         | (34.1)         | (27.0)         |
| Profit from continuing operations                         | 217.8          | 200.0          | 200.6          | 125.9          | 67.8           |
| Finance (charges) income                                  | (4.9)          | (2.9)          | (8.7)          | (2.7)          | 2.2            |
| Share of associates' post-tax (losses) profits            | (0.5)          | 0.4            | 1.5            | 1.7            | 1.6            |
| Profit before taxation from continuing operations         | 212.4          | 197.5          | 193.4          | 124.9          | 71.6           |
| Taxation  | (57.2)         | (52.1)         | (53.9)         | (34.8)         | (21.2)         |
| Profit for the year from continuing operations            | 155.2          | 145.4          | 139.5          | 90.1           | 50.4           |
| Profit (loss) for the year from discontinued operations   | 0.3            | (1.4)          | 1.1            | 2.7            | 9.4            |
| <b>Profit for the year</b>                                | <b>155.5</b>   | <b>144.0</b>   | <b>140.6</b>   | <b>92.8</b>    | <b>59.8</b>    |
| <b>Basic earnings per share</b>                           |                |                |                |                |                |
| Continuing operations                                     | 102.6c         | 96.8c          | 92.2c          | 62.0c          | 35.4c          |
| Continuing and discontinued operations                    | 102.8c         | 95.8c          | 93.0c          | 63.9c          | 42.6c          |
| <b>Diluted earnings per share</b>                         |                |                |                |                |                |
| Continuing operations                                     | 100.0c         | 94.5c          | 90.0c          | 60.7c          | 34.7c          |
| Continuing and discontinued operations                    | 100.2c         | 93.5c          | 90.8c          | 62.6c          | 41.7c          |
| Dividend per share <sup>#</sup>                           | 31.0c          | 29.5c          | 28.4c          | 23.9c          | 19.5c          |
| <b>Total assets</b>                                       |                |                |                |                |                |
| Non-current assets  | 1,187.1        | 1,249.1        | 1,254.9        | 1,234.1        | 566.9          |
| Net current assets  | 471.5          | 483.0          | 464.4          | 357.9          | 448.5          |
|   | <b>1,658.6</b> | <b>1,732.1</b> | <b>1,719.3</b> | <b>1,592.0</b> | <b>1,015.4</b> |
| <b>Financed by:</b>                                       |                |                |                |                |                |
| Shareholders' funds (including non-controlling interests) | 1,438.3        | 1,414.8        | 1,332.7        | 1,146.9        | 942.6          |
| Non-current liabilities                                   | 220.3          | 317.3          | 386.6          | 445.1          | 72.8           |
|   | <b>1,658.6</b> | <b>1,732.1</b> | <b>1,719.3</b> | <b>1,592.0</b> | <b>1,015.4</b> |
| <b>Net assets per share</b>                               | <b>968.6c</b>  | <b>957.9c</b>  | <b>906.6c</b>  | <b>783.9c</b>  | <b>711.4c</b>  |

\* Prior years have been restated for the designation of Gibson Shipbrokers as a discontinued operation.

\*\* Information is stated before exceptional items and amortisation of intangible assets.

# Dividend per share is stated on a declared basis. Following the change in functional currency from Sterling to US dollar in 2013, dividends are declared in US dollars and paid in Sterling. The Sterling value of dividends paid is fixed and announced approximately two weeks prior to the payment date. For 2012 and prior years, dividends were declared in Sterling and have been presented in cents using the exchange rate on the date they were paid or approved for interim and final dividends respectively.

## SHAREHOLDER INFORMATION

(UNAUDITED)

### Financial Calendar 2015

|          |                                   |
|----------|-----------------------------------|
| 15 April | Annual General Meeting            |
| 26 May   | Final Ordinary Dividend Payment   |
| August   | Announcement of Interim Results   |
| November | Interim Ordinary Dividend Payment |

In common with many public companies in the UK, the Company no longer publishes a printed version of its half year report. The half year report is only available online from the Company's website at [www.huntingplc.com](http://www.huntingplc.com).

### Analysis of Ordinary shareholders

At 31 December 2014, the Company had 2,000 Ordinary shareholders (2013 – 2,037) who held 148.5 million (2013 – 147.7 million) Ordinary shares analysed as follows:

|                  | 2014                    |                   | 2013                    |                   |
|------------------|-------------------------|-------------------|-------------------------|-------------------|
|                  | % of total shareholders | % of total shares | % of total shareholders | % of total shares |
| Size of holdings |                         |                   |                         |                   |
| 1–4,000          | 72.9                    | 1.0               | 72.4                    | 1.0               |
| 4,001–20,000     | 12.4                    | 1.6               | 12.6                    | 1.6               |
| 20,001–40,000    | 3.2                     | 1.2               | 3.4                     | 1.3               |
| 40,001–200,000   | 6.3                     | 8.4               | 5.8                     | 7.8               |
| 200,001–500,000  | 2.5                     | 10.8              | 2.9                     | 12.9              |
| 500,001 and over | 2.7                     | 77.0              | 2.9                     | 75.4              |

### Share Information

The Ordinary shares of the Company are quoted on the London Stock Exchange.

The Company's registrars, Equiniti, offer a range of shareholder information and dealing services on [www.shareview.co.uk](http://www.shareview.co.uk).



## GLOSSARY

|                                 |  |
|---------------------------------|--|
| AMG                             | Advanced Manufacturing Group – combines the precision engineering and manufacturing capabilities in the Well Construction segment for the Electronics division (Hunting Innova) and Hunting Dearborn product lines. Hunting is aiming to become a leading single source of MWD/LWD tools.        |
| API                             | American Petroleum Institute.  |
| Average gross capital employed* | The monthly average of the aggregate of capital employed.  |
| Basic EPS                       | Basic earnings per share – calculated by dividing the earnings from continuing operations attributable to Ordinary shareholders by the weighted average number of Ordinary shares in issue during the year.  |
| bbl                             | Barrel of oil – one barrel of oil equals 159 litres or 42 US gallons.  |
| BOE                             | Barrel of oil equivalent.  |
| Capital employed*               | The amount of capital available to the Group to invest in its business and comprises the total equity plus net debt.   |
| Capital expenditure – “Capex”   | Expenditure on tangible non-current assets.  |
| CO <sub>2</sub>                 | Carbon dioxide.  |
| CO <sub>2</sub> e               | Carbon dioxide equivalent.   |
| DPS*                            | Dividend per share – the amount in pence/cents returned to Ordinary shareholders. Figures shown are calculated on an accruals basis.   |
| Diluted EPS                     | Diluted earnings per share – earnings from continuing operations before amortisation and exceptional items, attributable to Ordinary shareholders, divided by the weighted average number of Ordinary shares in issue during the year, as adjusted for all potentially dilutive Ordinary shares. |
| Dividend cover*                 | An indication of the Company's ability to maintain the level of its dividend and is calculated as earnings from continuing operations attributable to Ordinary shareholders divided by the cash dividend to be returned to Ordinary shareholders, on an accruals basis.                          |
| Downhole                        | Downhole refers to something that is located within the wellbore.  |
| EBITDA*                         | Pre-exceptional earnings before share of associates' post-tax results, interest, tax, depreciation, impairment and amortisation.   |
| ESOP                            | Executive Share Option Plan.   |
| Free cash flow*                 | Profit from continuing operations adjusted for working capital, tax, replacement capital expenditure and interest.   |
| GAAP                            | Generally Accepted Accounting Principles.  |
| Gearing*                        | Net debt as a percentage of total equity.  |
| GHG                             | Greenhouse gas.  |
| Growth capital expenditure      | Capital expenditure to grow the business from current operating levels and enhance operating activity.   |
| HEMS                            | Hunting Equipment Management Services – provide downhole tool rental equipment in the Well Construction segment.   |
| HPSP                            | Hunting Performance Share Plan.  |
| HS&E                            | Health, Safety and Environment.  |
| IAS                             | International Accounting Standards.  |
| IFRIC                           | International Financial Reporting Interpretations Committee.   |
| IFRS                            | International Financial Reporting Standards.   |
| Intensity Factor                | The total controlled scope 1 and scope 2 emissions divided by the total facilities footprint of the Group.   |
| Inventory and WIP days*         | Inventory and WIP at the year end divided by revenue per day, adjusted for the impact of acquisitions.   |
| ISO                             | International Standards Organisation.  |

## GLOSSARY

### CONTINUED

|  |   |
|--|---|
| <b>LEAN or Lean</b>                    | A production practice that eliminates wasteful processes, thereby reducing production time and costs, and improving efficiency.   |
| <b>LNG</b>                             | Liquefied Natural Gas.  |
| <b>LPG</b>                             | Liquefied Petroleum Gas.  |
| <b>LTIP</b>                            | Long-Term Incentive Plan.   |
| <b>m<sup>3</sup></b>                   | Cubic metre.  |
| <b>mcf</b>                             | 1,000 cubic feet.   |
| <b>mmBtu</b>                           | Million British Thermal Units.  |
| <b>MWD/LWD</b>                         | Measurement-while-drilling/Logging-while-drilling.  |
| <b>MWh</b>                             | Megawatt hours.   |
| <b>NEB</b>                             | Net equivalent barrels of oil.  |
| <b>Net debt*</b>                       | Net debt comprises bank overdrafts, current and non-current borrowings and finance leases less cash and cash equivalents and investments.   |
| <b>NYMEX</b>                           | New York Mercantile Exchange.   |
| <b>OCTG</b>                            | Oil Country Tubular Goods – pipe and tubular goods and products used in the oil and gas industry, such as drill pipe, pipe casings and production pipes.  |
| <b>Replacement capital expenditure</b> | Capital expenditure necessary to maintain existing levels of operating activity.  |
| <b>ROCE*</b>                           | Return on average capital employed – measures profit before interest and tax before amortisation and exceptional items, as a percentage of average gross capital employed.  |
| <b>Scope 1</b>                         | Scope 1 emissions are direct GHG emissions from sources that are owned or controlled by the entity. Scope 1 emissions include fossil fuels burned on site, emissions from vehicles and other direct sources.  |
| <b>Scope 2</b>                         | Scope 2 emissions are indirect GHG emissions resulting from the generation of electricity, heating and cooling or steam generated off site but purchased by the entity.   |
| <b>Trade payable days*</b>             | The average number of days' credit taken by the Group, calculated as trade payables at the year end divided by cost of sales per day, adjusted for the impact of acquisitions.  |
| <b>Trade receivable days*</b>          | The average number of days' credit given to the Group's customers, calculated as trade receivables at the year end divided by revenue per day, adjusted for the impact of acquisitions.   |
| <b>TSR*</b>                            | Total Shareholder Return – the net share price change plus the dividends paid during that period.   |
| <b>TWh</b>                             | Terawatt hours.   |
| <b>Underlying</b>                      | Results for the year, as reported under IFRS, adjusted for amortisation and exceptional items, which is the basis used by the Directors in assessing performance.   |
| <b>Wellbore</b>                        | The wellbore refers to the drilled hole.  |
| <b>Well completion</b>                 | Well completion refers to the processes of preparing a well for production. This involves the assembly of downhole tubulars and equipment required to enable safe and efficient production from an oil or gas well.   |
| <b>Well construction</b>               | Well construction refers to the initial drilling and processes of constructing the wellbore in an oil and gas well. These processes typically include drilling and logging the hole; running, cementing and logging the casing; hydraulic fracturing or stimulating the well and monitoring well performance and integrity. |
| <b>Well intervention</b>               | Well intervention refers to any operation carried out on an oil or gas well that maintains or enhances the production of the well or provides well diagnostics.   |
| <b>Working capital*</b>                | Trade and other receivables, excluding receivables from associates, derivative financial assets, environmental escrow and promissory notes, plus inventories less trade and other payables, excluding payables due to associates, derivative financial liabilities, dividend liabilities and retirement plan obligations.   |
| <b>WTI</b>                             | West Texas Intermediate – the price per barrel of Texas light sweet crude oil.  |

\* Non-GAAP measure.

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