

# Audit Committee Report

For the year ended 31 December 2019

During 2019, Hunting delivered a performance marginally below 2018, as the global oil and gas market continued to experience levels of volatility due to the general commodity price environment, and also due to geopolitical risks increasing in the year. This performance was consistent with the Board's expectations. Despite these headwinds, management delivered increased revenues in the year as a number of operating segments reported improving customer activity. This led to a strong year-end cash position, which is commendable given this trading environment.

The Company adopted IFRS 16 Leases from 1 January 2019, which has led to right of use assets of \$36.7m and lease liabilities of \$45.2m being recognised on the balance sheet as at 31 December 2019, with a net reduction of \$0.8m to profit before tax in the income statement. The Committee has reviewed the work completed by management to implement the standard, having received regular reports throughout the year, and discussed with the Company's auditor the impact on the Company's consolidated balance sheet and income statement.

2019 is the first year with Deloitte as the Company's auditor, having taken over from PricewaterhouseCoopers. The Committee reviewed its audit plans in the year for the interim and full-year accounts, and are pleased to report that good dialogue has developed between management, the Committee and the global audit team.

In summary, the Committee believes the Company continues to operate on a firm footing, with all controls assessed and reporting procedures remaining appropriate.

## Carol Chesney

Chair of the Audit Committee

## Composition and Frequency of Meetings

The Committee currently comprises three independent non-executive Directors and is chaired by Carol Chesney. Mrs Chesney is a qualified Chartered Accountant and is considered to have recent and relevant financial experience. Mr Lough and Ms Bay (Chair of the Remuneration Committee) have experience of the global energy industry, with particular expertise in the UK and US oil and gas markets. Further details of the Committee's experience can be found in the biographical summaries set out on pages 72 and 73.

During the year, there were no changes to the composition of the Committee.

The Committee usually meets four times a year and operates under written terms of reference approved by the Board, which are published on the Company's website at [www.huntingplc.com](http://www.huntingplc.com).

In 2019, the Committee met four times, in February, April, August and December, and the attendance record of Committee members and Board-invitees during the year is noted below.

	Member	Invitation
<b>Number of meetings held</b>	<b>4</b>	
<b>Number of meetings attended (actual/possible):</b>		
Annell Bay	4/4	–
Carol Chesney (Committee Chair)	4/4	–
Jay Glick	–	4/4
Richard Hunting	–	4/4
Jim Johnson	–	4/4
Keith Lough	4/4	–
Peter Rose	–	4/4

The other Directors, internal and external auditors are normally invited to attend meetings.

## 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 the Board with a recommendation regarding the Half-Year and Annual Report and Accounts, including whether they are fair, balanced and understandable;
- review the Company's and Group's Going Concern and Viability Statements;
- monitor, review and assess the Group's systems of risk management and internal control;
- review reports from the Group's external and internal auditors, including details of the audit programmes and scope;
- consider and recommend to the Board the appointment or reappointment of the external auditor as applicable;
- agree the scope and fees of the external audit;
- monitor and approve engagement of the external auditor for the provision of non-audit services to the Group;
- review the external auditor's independence and effectiveness of the audit process;
- monitor corporate governance and accounting developments;
- monitor the Group's Bribery Act compliance procedures;
- review the procedures to comply with the UK Modern Slavery Act; and
- monitor whistleblowing procedures.

### Work Undertaken by the Committee During 2019

The Committee discussed, reviewed and made a number of decisions on key areas throughout 2019, which are set out below:

	Feb	Apr	Aug	Dec
<b>Financial reporting</b>				
Annual Report and Full-Year Results announcement	•			
Going Concern Basis	•		•	
Viability Statement	•			
Interim Report and Interim Results announcement			•	
Review Accounting Policies				•
<b>Internal control and risk management</b>				
Risk management and internal control report	•		•	•
Key risks and mitigating controls	•			
Effectiveness of internal controls and internal audit function	•			
Internal Audit Report	•		•	•
Procedures for preventing bribery and corruption		•		•
Procedures for complying with the Modern Slavery Act		•		•
Sanctions compliance		•		•
Whistleblowing summary reports		•		•
Internal audit programme and resourcing				•
<b>External auditor</b>				
Auditor's objectivity, independence and appointment	•			
Full-Year and Half-Year report to the Audit Committee	•		•	
Final Management Letter on internal controls		•		
Auditor's performance and effectiveness		•		
Proposed year-end audit plan including scope, fees and engagement letter		•		
Risk of auditor leaving the market				•
<b>Other business</b>				
Whistleblowing and Bribery policy review		•		
Committee effectiveness and Terms of Reference				•

### Appointment of New Auditor

At the Company's Annual General Meeting on 17 April 2019, shareholders approved the appointment of Deloitte LLP ("Deloitte") as external auditor. As part of the agreed auditor transition arrangements with PricewaterhouseCoopers ("PwC"), Deloitte attended meetings in 2018 and up to their appointment in 2019.

At the Committee's meeting in April, Deloitte tabled a draft plan for the year-end audit and also a plan for the interim review process, which forms part of the Company's half-year results procedures. The Committee approved these work streams and, since appointment, Deloitte has undertaken a programme of visits to many of the Group's businesses and operating locations to understand local procedures and the internal control environment. Detailed reports from Deloitte were presented at the April, August and December 2019 meetings of the Audit Committee and a final report was presented at the February 2020 meeting of the Committee, ahead of approval of the 2019 Annual Report and Accounts.

The Committee is satisfied with the performance of Deloitte since appointment and confirm that the transition from PwC has been completed appropriately.

### Review of the 2019 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 segments is considered, with key judgements, estimates and accounting policies being approved by the Committee ahead of a recommendation to the Board. In addition to briefings and supporting reports from the central finance team on significant issues, the Committee engages in discussion with Deloitte, the Group's external auditor.

Significant matters reviewed by the Committee in connection with the 2019 Annual Report and Accounts were as follows:

#### Adoption of New Accounting Standard

During the year, the Company adopted IFRS 16 Leases effective from 1 January 2019. The new standard replaces IAS 17 Leases. The Company has adopted the standard on a modified retrospective basis, whereby the opening retained earnings have been amended, with no prior period adjustments being made to the financial statements. The Group has purchased specialist software to track all leases held.

Following adoption of the new standard, \$39.7m of right-of-use assets and \$49.0m of lease liabilities were recognised on the Group's consolidated balance sheet at 1 January 2019. In line with the new standard, operating lease charges were de-recognised, which positively impacted the Group's EBITDA and profit from operations, while reducing the Group's profit before tax, due to the changes to the charges for depreciation and interest, in line with the new standard. At 31 December 2019, right-of-use assets totalled \$36.7m and lease liabilities totalled \$45.2m. The Group's reported net cash position now includes these lease liabilities. The Committee reviewed the implementation work as part of the deliberations for the half-year and full-year results, with Deloitte confirming the new items recorded.

Following discussion, the Committee was satisfied with the work completed and the financial statements as presented.

#### New Statutory and Governance Reporting

The Audit Committee has monitored the Group's procedures to comply with new UK regulation and governance reporting. Following a review of draft disclosures throughout the year, the Committee was satisfied that the Group had adopted the new requirements in an appropriate manner.

#### Impairment Reviews

In the year, the Group reported a broadly similar result compared to 2018. The Committee noted the decline in performance within the Group's onshore focused businesses, including the Hunting Titan and Canada operating segments and the US Drilling Tools and Specialty businesses. Given this trading environment, management conducted a review for indicators of impairment of the carrying values of the assets held on the Group's balance sheet for the half-year and year-end, which has led to an impairment charge to PPE totalling \$19.0m being recorded against the US Drilling Tools business.

#### Property, Plant and Equipment ("PPE")

The year-end balance sheet includes PPE of \$354.7m (2018 – \$360.2m). This represents approximately 29% of the Group's net assets (2018 – 30%). As noted above, an impairment charge against the Group's US Drilling Tools business has been recorded as part of the year-end audit procedures. The Committee reviewed the PPE impairment tests and subsequent charge and, following discussion, was satisfied that the assumptions and the disclosures in the year-end accounts were appropriate.

## Audit Committee Report continued

### Goodwill

The year-end balance sheet includes goodwill of \$230.2m (2018 – \$229.9m). This represents approximately 19% of the Group's net assets (2018 – 19%). Reviews for indicators of impairment of the carrying values of goodwill held by Hunting's relevant businesses were undertaken at the half and full year, which confirmed that Hunting's projections supported no need for impairment. The Committee considered the appropriateness of the assumptions and challenged the discount rates and the factors used in the review process. After discussion, it was satisfied that the assumptions and the disclosures in the year-end accounts were appropriate.

### Other Intangible Assets

The carrying value of the Group's other intangible assets was also reviewed resulting in no impairments (2018 – \$nil) being recorded in the year. The amortisation charge recorded in the income statement was \$32.3m (2018 – \$31.9m). As with the goodwill impairment review, the Committee considered and confirmed the appropriateness of the assumptions, discount rates and factors used in the review process.

### Inventory

At the year-end, the Group held \$350.8m of inventory (2018 – \$348.2m). The year-on-year increase is attributable to the general improvement in trading within Hunting's US, EMEA and Asia Pacific segments. Due to the general medium-term outlook for the industry, the carrying values have been assessed to be adequate. Further, the Committee reviewed year-end inventory carrying values and the work undertaken by management in assessing and supporting the carrying values. Given this, and together with the improved offshore market conditions, the Committee concluded that inventory carrying values were fairly stated.

### Taxation

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

### Exceptional Items Charged to the Consolidated Income Statement

The Committee considered the accounting policy definition of exceptional items and the items included within the financial statements to ensure consistency of treatment and adherence to policy.

Exceptional items recorded in respect of the Group's operations for the full year totalled \$19.0m (2018 – \$nil), wholly related to the impairment to PPE within the Group's US Drilling Tools business.

### Going Concern Basis and Viability Statement

The Committee monitored assumptions around Going Concern at the half and full year, as well as those around the Group's Viability Statement for the full year. Driven by the outturn of the Group in the year, the Committee concluded that good support for Hunting's longer-term viability exists. Further, the assessment is supported by the year-end net cash position of \$77.9m (2018 – \$61.3m), which includes lease liabilities following the adoption of IFRS 16.

These factors supported the Committee's assessment of the Going Concern Statement and the Viability Statement, as detailed on pages 68 and 69. The statements considered by the Committee were supported by reviews of the regular forecast updates provided by management and the bank covenant compliance reports.

In the year, Hunting remained fully compliant with its bank covenants. The Group's \$160m revolving credit facility expires in 2022, and the Company retains the option to increase the facility by a further \$75m to \$235m and extend the facility's maturity date to 2023, subject to approval of the lending group.

On 24 February 2020, the Audit Committee approved the Viability Statement, detailed on page 68 of the Strategic Report, noting that it presented a reasonable outlook for the Group for the next three years.

### Fair, Balanced and Understandable Assessment

The Committee has reviewed the financial statements, together with the narrative contained within the Strategic Report set out on pages 51 to 60, and believes that the 2019 Annual Report and Accounts, taken as a whole, is fair, balanced and understandable.

In arriving at this conclusion the Committee undertook the following:

- review and dialogue in respect of the monthly management accounts and supporting narrative circulated to the Board;
- review of early drafts of the Annual Report and Accounts, providing relevant feedback to the executive Directors;
- 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 2019 Annual Report and Accounts, taken as a whole, was fair, balanced and understandable at a Meeting of the Directors on 25 February 2020.

### Internal Audit

The Committee receives reports from the Internal Audit function, which now comprises two full-time staff. The Chair of the Committee also has regular dialogue with the function throughout the year. The Committee 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 and approved by the Committee. The Committee met with the Head of Internal Audit, without the presence of the executive Directors, on three occasions during the year. The effectiveness of the Internal Audit function was also considered by the Committee at its February meeting, which concluded that the function remained effective.

### External Audit

The external auditor presents reports at the February, April, August and December meetings of the Audit Committee. Further, the Chair of the Committee also has regular dialogue with the audit partner throughout the year.

In February 2020, a full-year report by Deloitte was considered ahead of publication of the Group's 2019 Annual Report and Accounts.

In April 2019, PwC presented its final internal control report prior to their retirement, which was reviewed by Deloitte as part of the agreed transition arrangements. As part of the procedures to appoint Deloitte, a draft full-year audit plan and engagement letter was reviewed by the Committee at its April 2019 meeting, which was approved and recommended to the Board. At the August 2019 meeting, an interim report was presented, which included the proposed full-year audit scope and fees. An update to the full-year plan was presented at the December 2019 meeting.

The Committee meets with the external auditor, without executive Directors present, at the end of each formal meeting.

During the year, the Company complied with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Process and Audit Committee Responsibilities) Order 2014.

### Audit Scope

The Audit Committee considered the audit scope and materiality threshold. The audit scope addressed Group-wide risks and local statutory reporting, enhanced by desk-top reviews for smaller, low risk entities. Approximately 91% of the Group's reported revenue and over 93% of net assets have been audited, covering 22 reporting units across five countries.

### Materiality

The Committee discussed materiality with the auditor regarding both accounting errors that will be brought to the Audit Committee's attention and amounts that would need to be adjusted so that the financial statements give a true and fair view. Overall, audit materiality was set at \$3.8m (2018 – \$4.4m). This equates to approximately 4% of the Group's projected underlying profit before tax result for 2019. Furthermore, the auditor agreed to draw to the Audit Committee's attention all identified, uncorrected misstatements greater than \$0.2m.

### Audit Effectiveness and Independence

The external auditor's 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 undertaken at the April meeting of the Committee. The assessment considers the various matters including:

- the auditor's 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 auditor's response to questions from the Committee, including during private meetings without management present;
- the independence, objectivity and scepticism of the auditors;
- 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 the reports from the Financial Reporting Council on Deloitte LLP. After considering these matters, the Committee was satisfied with the effectiveness of the year-end audit process.

### Non-Audit Services

The Committee closely monitors fees paid to the auditor in respect of non-audit services. With the exception of audit-related assurance services, which totalled \$0.1m (2018 – \$0.1m), there were no non-audit services fees paid during the year (2018 – \$nil). The scope and extent of non-audit work undertaken by the external auditor is monitored by, and requires prior approval from, the Committee to ensure that the provision of such services does not impair their independence or objectivity.

### Internal Controls

The Group has an established risk management framework and internal control environment, which was in operation throughout the year. The Committee monitors these arrangements on behalf of the Board and these are detailed in the Risk Management section of the Strategic Report on pages 39 to 42.

### Bribery Act

In compliance with the UK Bribery Act, Hunting has procedures in place, including the publication of Anti-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 Committee reviews the compliance procedures relating to the Bribery Act at its April and December meetings, which incorporates 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 Committee, where appropriate.

### Modern Slavery Act

The Modern Slavery Act 2015 was enacted in 2016 and requires companies to evaluate internal and external risks related to human trafficking and modern slavery. Procedures were introduced during 2016 and continued in 2019, whereby each business unit across the Group completed due diligence on its workforce to highlight employment risks in relation to trafficking and slavery. All businesses within the Group also completed a risk-mapping exercise of their known supply chain to evaluate those customers and suppliers to the Group who operate in those jurisdictions where trafficking and slavery is more prevalent. Hunting published its third Modern Slavery Act report in March 2019, located at [www.huntingplc.com](http://www.huntingplc.com). Since 2018 the Group's "Code of Conduct" training course has been rolled out to all employees of the Group, which incorporates information on modern slavery and trafficking.

### 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 and is sent to most customers and suppliers.

### Whistleblowing

The Company's Senior Independent Director, Keith Lough, is the primary point of contact for staff or other key partners 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.

### Review of Committee Effectiveness

During the year, the Committee reviewed its effectiveness and the Committee Chairman reported these findings to the Board. No issues were identified in this review process.



**Carol Chesney**  
Chair of the Audit Committee

27 February 2020