

Audit Committee Report

For the year ended 31 December 2020

Hunting's core oil and gas markets suffered a major downturn during 2020, as a consequence of reduced economic activity due to the COVID-19 pandemic, but also prior to this as the US onshore drilling market slowed as the year commenced. The result of this market environment led to a significant decline in revenue for the Group compared to 2019 and operating losses being reported during 2020.

The work of the Audit Committee and Board in the year therefore focused on the review of the Group's monthly trading results as management aligned the Group's cost base with this lower level of activity, with close monitoring of its cash balances and overall liquidity given the challenging trading conditions. The healthy year-end cash position demonstrates the ability of the Group's business to successfully manage the rapidly changing market environment.

The Committee also reviewed detailed reports on the Group's Going Concern assumption ahead of its half year and full year results and in the year received reports on various trading scenarios to support the Going Concern and Viability Statements which are included within the 2020 Annual Report and Accounts. The Audit Committee remains comfortable that the disclosures are appropriate and that the Group has the necessary resources to continue trading for the periods under assessment.

The market downturn necessitated a comprehensive balance sheet review to be completed at the half and full year, with detailed impairment testing completed on the Group's non-current and current assets.

The Group's auditor has also performed well, with good levels of support and challenge provided to management during the half and full year audit processes, again providing comfort to the Committee of the Group's performance and position being reported.

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 82 and 83.

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.

In 2020, the Committee met four times, in February, July, August and December, and the attendance record of Committee members and Board invitees during the year is noted below:

	Member	Invitation
Number of meetings held	4	
Number of meetings attended (actual/possible):		
Annell Bay	4/4	
Carol Chesney (Committee Chair)	4/4	
Bruce Ferguson (from 15 April 2020)		3/3
John (Jay) Glick		4/4
Richard Hunting		4/4
Jim Johnson		4/4
Keith Lough	4/4	
Peter Rose (to 15 April 2020)		1/1

All 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.

Audit Committee Report

continued

Work Undertaken by the Committee During 2020

The Committee discussed, reviewed and made a number of decisions on key areas throughout 2020, which are set out below:

	Feb	Jul	Aug	Dec
Financial Report				
Annual Report and Full Year Results announcement	•			
Going Concern basis	•		•	
Viability Statement	•			
Interim Report and Interim Results announcement			•	
Review accounting policies				•
Internal control and risk management				
Risk management and internal control report	•		•	•
Key risks and mitigating controls	•			
Effectiveness of internal controls and internal audit function	•			
Internal audit report	•		•	•
Internal audit programme and resourcing				•
Procedures for preventing bribery and corruption			•	•
Procedures for complying with the Modern Slavery Act			•	•
Sanctions compliance			•	•
Whistleblowing summary reports			•	•
External auditor				
Auditor's objectives, 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				•
Other business				
Whistleblowing and Bribery Policy Review			•	
Committee effectiveness and terms of reference				•

COVID-19

The Committee's annual schedule of work was disrupted by the COVID-19 pandemic, with the normal meeting in April being delayed until early July. All items of normal business have been completed by the Committee during the year.

As noted elsewhere in the Annual Report, the Board met fortnightly between March and June 2020, where regular management reports were received on the current market environment, trading performance, mitigating actions and health and safety updates. In addition to these operational reports, cash and liquidity reports were presented by the Finance Director, which contained three-month forward cash projections and bank facility arrangements. Throughout this period, the reports showed that the Group's net cash balances would remain healthy and, with the efforts to reduce working capital underway from Q2 2020, showed a steady increase throughout the balance of year, giving the Committee and the Board confidence of the financial stability of the Group and its liquidity.

Management has updated its projected trading expectations twice in 2020 and has prepared medium-range financial forecasts that extend to 2025. Projections were reviewed by the Committee in draft at its July 2020 meeting prior to Board approval in August 2020; these also supported the impairments recorded with the Group's half year results. The projections were subsequently updated as part of the year-end preparations and did not result in any further impairments being recorded. The projections were also used in determining the Going Concern and Viability Statements.

Acquisition of Enpro Subsea

In February 2020, the Group announced the acquisition of Enpro Subsea Limited ("Enpro") for a cash consideration of \$32.8m, excluding cash acquired of \$5.5m. Enpro provides subsea equipment to global exploration and production companies. The main assets recognised on the acquisition were property, plant and equipment of \$5.8m, other intangible assets of \$19.2m and goodwill of \$13.4m. These balances have not been impaired in the year. As part of the acquisition agreement, a maximum \$3.0m earn-out was agreed, subject to achieving a required threshold for an adjusted EBITDA measure in the 2020 financial year. The fair value of the earn out was determined to be \$2.5m at the acquisition date and, given the reduction in trading activity in H1 2020, the earn out consideration was fully released within the Group's half year results, as the financial target was not expected to be met. At the year-end, the required threshold was not met. The business has, however, made good progress since acquisition and management considers its results to be excellent, given the industry challenges widely reported in the year.

Disposal of Drilling Tools Business

In December 2020, the Group announced the disposal of the US segment's Drilling Tools business unit to Rival Downhole Tools LC ("Rival"), in exchange for a 23.5% equity interest in the enlarged Rival business. The disposal was achieved through the transfer of the key operating assets, such as the rental fleet, and the majority of employees to Rival, who also agreed to lease from the Group certain facilities occupied by the Drilling Tools business. The accounting for the transaction, including the valuation of Hunting's share of the enlarged Rival business, was reviewed by the Committee as part of the year-end accounts preparation.

Review of the 2020 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 2020 Annual Report and Accounts were as follows:

Impairment Reviews

As noted in the letter from the Chair of the Committee, the Group's trading results in 2020 were adversely impacted by the significant market downturn, leading to reduced revenue and operating losses being reported in the year.

As a consequence of this lower trading environment, impairment reviews in respect to the Group's current and non-current assets were completed, leading to impairment charges being recorded during the year.

Independent market projections providing an indication of drilling investment and activity levels over the medium term are published by Spears and Associates, which form a reference for the Group's forecasts. These projections support the impairment modelling completed by management. Management can make adjustments to these market projections to take into account its expectations for specific product lines or other geographic considerations relevant to Hunting's operational footprint. The impairments recorded in the year in respect of the Group's current and non-current assets are therefore:

	As at 31 December 2019 \$m	Exceptional impairments \$m	Other movements \$m	As at 31 December 2020 \$m
Property, plant and equipment	354.7	(19.4)	(28.2)	307.1
Right-of-use assets	36.7	(4.1)	(2.8)	29.8
Goodwill	230.2	(79.8)	13.8	164.2
Other intangible assets	78.5	(39.2)	3.6	42.9
Inventories	350.8	(34.2)	(28.2)	288.4
Net trade receivables	155.5	(1.2)	(47.4)	106.9
Total	1,206.4	(177.9)	(89.2)	939.3

\$174.9m of impairments were charged to exceptional items in the Group's Half Year Results issued in August 2020, with additional net charges of \$3.0m being recognised as part of the year-end review and audit process.

Property, Plant and Equipment ("PPE")

The year-end balance sheet includes \$307.1m (2019 – \$354.7m) for PPE. This represents approximately 31% of the Group's net assets (2019 – 29%). The movement in PPE reflects \$14.8m of additions and \$5.8m recognised as part of the acquisition of Enpro, offset by impairments of \$19.4m, the derecognition of the Drilling Tools assets of \$14.7m, and \$34.1m of other movements, including depreciation. The majority of the impairments, which were recorded in the half-year accounts, were in respect of the Group's US Drilling Tools and UK well intervention businesses, where the future utilisation of these assets was expected to be lower, given the medium-term outlook for these businesses. 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.

Right-of-use Assets

The year-end balance sheet includes right-of-use assets of \$29.8m (2019 – \$36.7m). This represents approximately 3% of the Group's net assets (2019 – 3%). Following the decision in August 2020 to close the Group's Calgary manufacturing in Canada, the Group recorded an impairment of \$3.9m given the impact of the closure on the terms of the lease held. An impairment of \$0.2m was also recognised in Hunting Titan. The Committee considered and confirmed the appropriateness of the assumptions and factors used in the review process and were comfortable with the charges, as recorded.

Goodwill

The year-end balance sheet includes \$164.2m (2019 – \$230.2m) of goodwill. This represents approximately 17% of the Group's net assets (2019 – 19%). Given the material decline in global markets, as noted in the Market Review section on pages 40 to 44, the carrying values for goodwill for each relevant cash generating unit were tested for impairment, resulting in a charge of \$79.8m being recorded.

Of this figure, \$65.6m is in relation to the Hunting Titan operating segment, in addition to impairments within the Dearborn, Specialty and European Well Intervention businesses. The Hunting Titan cash generating unit retains \$114.9m of goodwill following this exercise. The Committee considered and challenged the discount rates and the factors used in the review process. After discussion, it was satisfied that the charges recorded and the disclosures in the year-end accounts were appropriate.

Other Intangible Assets

The year-end balance sheet includes other intangible assets of \$42.9m (2019 – \$78.5m). This represents approximately 4% of the Group's net assets (2019 – 6%). The amortisation charge recorded in the consolidated income statement was \$20.8m (2019 – \$32.3m), of which \$17.3m arose on acquired intangible assets. The impairment review work assessed the carrying values held in respect of customer relationships held within the Hunting Titan operating segment, in addition to the future values of internally generated technology, and, given the market decline, recorded impairments of \$39.2m. The Committee considered and confirmed the appropriateness of the assumptions and factors used in the review process and were comfortable with the charges, as recorded.

Inventories

At the year-end, the Group held \$288.4m (2019 – \$350.8m) of inventory. This represents approximately 30% of the Group's net assets (2019 – 29%). Inventory levels are lower at the year-end due to reduced activity levels and reviews of carrying values carried out during the year that led to net impairments of \$36.4m being recorded (2019 – \$5.9m), with \$34.2m recognised as exceptional. Given this outcome, the Committee concluded that inventory carrying values were fairly stated.

Receivables

Given the market decline, the Group reviewed and impaired its outstanding receivables by a net \$1.8m (2019 – \$1.1m) during the year, with \$1.2m shown as exceptional. As part of the review of the Group's half and full year results, the Committee noted that this work aligned with the review of other assets.

Pre-Tax 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. The Group has recorded \$177.9m of impairments as exceptional, as noted above. In addition to the impairments, amortisation of acquired intangible assets and other exceptional items have been recognised as follows:

	2020 \$m	2019 \$m
Impairments	177.9	19.0
Amortisation of acquired intangible assets	17.3	28.5
Restructuring charges	10.3	–
Acquisition costs	1.4	–
Reversal of contingent consideration	(2.5)	–
Profit on disposal of Canadian assets	(0.8)	–
Total amortisation and exceptional items	203.6	47.5

In 2019, the impairment recorded in respect of the Group's operations for the full year totalled \$19.0m and was wholly related to the impairment of PPE within the Group's US Drilling Tools business.

Audit Committee Report

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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. In the year, management reviewed the trading outlook for the Group's US operations, and, given the decline in market activity, decided to derecognise \$21.5m of deferred tax assets, as realisation of the tax benefit is not probable within a reasonable time frame. The Committee noted this critical judgement and confirmed the appropriateness of this item.

Going Concern Basis and Viability Statement

Given the trading losses recorded at the half and full year, the Committee considered the Going Concern assumption to be disclosed within the 2020 Half Year and Annual Reports.

Detailed modelling of the Group's trading expectations were completed, including the review of base, downside and "breaking point" trading scenarios. Key to the Group's Going Concern assumption is its ability to retain a positive total cash and bank position and minimise trading losses until wider market conditions improve.

The Committee monitored these assumptions and the disclosures around Going Concern at the half and full year, as well as those around the Group's Viability Statement for the full year.

The Committee concluded that, given the flexibility of the Group's business model, in particular its ability to reduce its cost base to align with market conditions, good support for Hunting's longer-term viability exists. Further, the assessment is supported by the year-end total cash and bank position of \$101.7m (2019 – \$127.0m).

These factors supported the Committee's assessment of the Going Concern Statement and the Viability Statement, as detailed on pages 77 to 79. 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 December 2022, and the Company can increase the facility by a further \$75m to \$235m subject to approval of the lending group and also extend the facility's maturity date to December 2023, based on mutual agreement between all parties.

On 1 March 2021, the Audit Committee approved the Viability Statement, detailed on pages 77 and 78 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 61 to 72, and believes that the 2020 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 2020 Annual Report and Accounts, taken as a whole, was fair, balanced and understandable at a Meeting of Directors on 1 March 2021.

Internal Audit

The Committee receives reports from the Internal Audit function. The Chair of the Committee also has regular dialogue with the function throughout the year. During the year, the activities of the function were curtailed by the COVID-19 pandemic in Q2 2020, however, activities did resume in H2 2020. In 2020, the Group has implemented a new ERP system within a number of businesses. To support this initiative, the Head of Internal Audit provided consulting services to the Chief IT Officer in respect of best practice control procedures and segregation of duties.

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. For 2020, the Committee noted that the internal audit focus altered due to the inability to travel to all of the planned audit locations. As a result, resources were leveraged towards ongoing software implementation programmes ensuring that sufficient controls were embedded in these systems and those planned for the future. 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/March meeting, which concluded that the function remained effective.

External Audit

Deloitte LLP was appointed by the Group's shareholders as external auditor in April 2019 and therefore no tenders have been undertaken in the year due to their current tenure. This position also applies to the engagement partner attached to the Group's account.

The external auditor presented reports at the February, July, August and December meetings of the Audit Committee during 2020. Further, the Chair of the Committee also has had regular dialogue with the audit partner throughout the year.

In March 2021, a full year report by Deloitte was considered ahead of publication of the Group's 2020 Annual Report and Accounts. In July 2020, Deloitte presented its Management Controls Report, which highlighted control improvements that could be made by the Group.

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 81% of the Group's reported revenue and over 81% of absolute loss after tax and 89% of the Group's net assets were audited, covering 21 reporting units, including a number of investment holding companies, across seven 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 \$3.5m (2019 – \$3.8m). This equates to approximately 0.4% of the Group's net assets for 2020. Furthermore, the auditor agreed to draw to the Audit Committee's attention all identified, uncorrected misstatements greater than \$175,000.

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 and announcement 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, and reviewed a transparency report prepared by 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 (2019 – \$0.1m), there were no non-audit services fees paid during the year (2019 – \$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.

Auditor Reappointment

Following discussion in March 2021, the Committee approved of the recommendation to propose the reappointment of Deloitte LLP at the Company's 2021 Annual General Meeting.

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 51 to 54.

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 2020, 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 Modern Slavery Act report in March 2020, located at 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

4 March 2021