

# CORPORATE GOVERNANCE REPORT

**“HUNTING CONTINUED TO APPLY THE PRINCIPLES OF THE UK CORPORATE GOVERNANCE CODE DURING 2016. WHILE THE COMPOSITION OF THE BOARD REMAINED UNCHANGED THROUGHOUT THE YEAR, IMPROVEMENTS TO INFORMATION FLOWS WERE INTRODUCED, TO ALLOW THE DIRECTORS TO UNDERSTAND THE IMPACT OF THE PROLONGED ENERGY MARKET DOWNTURN AND THE ACTIONS TAKEN BY MANAGEMENT TO ADDRESS THE SUBDUED MARKET ENVIRONMENT.**

**“THE BOARD ALSO UNDERTOOK AN INTERNALLY FACILITATED EVALUATION DURING THE FINAL MONTHS OF THE YEAR, WHICH CONFIRMED IT STILL OPERATED EFFECTIVELY, WITH A CLEAR STRATEGY IN PLACE TO WEATHER THE SEVERE MARKET ENVIRONMENT SEEN SINCE 2014.”**

**RICHARD HUNTING C.B.E.**  
CHAIRMAN

## **Compliance**

The Board of Hunting PLC has adopted governance principles aligned with the 2014 UK Corporate Governance Code (the “Code” which can be found at [www.frc.org.uk](http://www.frc.org.uk)). The Company is reporting its corporate governance compliance against this Code. In April 2016, the Financial Reporting Council issued an update to the Code. Hunting will report its governance compliance against the revised Code in its 2017 Annual Report and Accounts.

During the year, Hunting was compliant with the provisions of the Code, with the exception of the following:

Provision A.3.1 requires the Chairman, on appointment, to be independent. For information regarding non-compliance with this provision see below. Provision C.3.7 requires the Company to put the external audit contract out to tender at least once every 10 years. For information regarding non-compliance with this provision refer to page 60 of the Audit Committee report.

## **Governance Framework**

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 Hunting PLC Board. The Board is responsible for the management and strategic direction of the Company, with three committees to which it delegates key governance and compliance procedures: the Nomination Committee, whose activities are incorporated into this report; the Audit Committee, whose report can be found on pages 57 to 60 and the Remuneration Committee, whose report can be found on pages 61 to 79.

## **Board Composition**

The Board comprises the Chairman, Chief Executive, Finance Director and four independent non-executive Directors, which includes the Senior Independent Director.

There is a clear division of responsibilities between the Chairman and Chief Executive. The Chairman is responsible for leading the Board, including setting its agendas and ensuring that materials are distributed in a timely manner. He also facilitates the discussion of key matters between all the Directors. The Chief Executive’s responsibilities include managing the day-to-day running of the Company and recommending the strategic direction of Hunting’s activities, while ensuring internal controls and operating and financial reporting procedures are implemented and remain appropriate.

The independent non-executive Directors are a key source of expertise and contribute to the delivery of the Company’s strategic goals. Non-executive Directors are chosen from the oil and gas industry and regulatory sectors in which Hunting operates. Three non-executive Directors have a strong track record within the US energy industry, where the majority of Hunting’s operations are based and where a high proportion of the Company’s results are derived.

All non-executive Directors of the Company are believed to be independent, with the exception of the Chairman, who was an executive Director of the Company from the formation of Hunting PLC in 1989 until 2011. As at 31 December 2016, and excluding the Chairman, the Board was comprised of 67% independent non-executive Directors. All the non-executive Directors have access to professional advisers, at the Company’s expense, to fulfil their various Board and Committee duties.

The Directors, together with brief biographical details, are identified on pages 50 and 51. All independent non-executive Directors are appointed to all Board committees.

The Company Secretary is appointed by the Board and supports the Chairman in providing all board materials and information flows between the executive and non-executive Directors, specifically in matters of governance and regulatory compliance. The Company Secretary is also available to the Board and all its Committees for advice and ensures that all procedures are followed.

### Directors' and Officers' Liability Insurance

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

### Work Undertaken by the Board During 2016

The Board met seven times in 2016, on six occasions as regularly timetabled, and on one further occasion, on 20 October 2016 to approve plans for an equity placing, which was completed on 31 October 2016.

All Directors attended the regularly scheduled Board meetings. Mr Glick was absent from the additional Board meeting that discussed the equity placing, due to an unavoidable prior commitment. Mr Glick was fully briefed on the equity placing, reviewing copies of all meeting papers and subsequent minutes of the meeting.

The attendance of the Directors at Board and Committee meetings during 2016 is detailed in the table below:

	Board	Nomination Committee	Audit Committee	Remuneration Committee
<b>Number of meetings held</b>	7	5	4	6
<b>Number of meetings attended actual/possible:</b>				
Richard Hunting	7/7	5/5	–	–
Dennis Proctor	7/7	5/5	–	–
Peter Rose	7/7	–	–	–
Annell Bay	7/7	5/5	4/4	6/6
Jay Glick	6/7	5/5	4/4	6/6
John Hofmeister	7/7	5/5	4/4	6/6
John Nicholas	7/7	5/5	4/4	6/6

At each Board meeting, the Chief Executive updates the Board on key operational developments, provides an overview of the market, reports on health and safety, and highlights important milestones reached towards the delivery of Hunting's strategic objectives.

The Finance Director provides an update on the Group's financial performance and position, banking arrangements, legal issues, analyst discussions and statutory reporting developments relevant to Hunting. These topics lead to discussion, debate and challenge amongst the Directors.

During 2016, the standing items and other items for regular Board meetings included the following business:

	Mar	Apr	Jun	Sep	Oct	Dec
<b>Standing items</b>						
Chief Executive Update	✓	✓	✓	✓	✓	✓
Finance Director Report	✓		✓	✓	✓	✓
Operational Reports	✓		✓	✓		✓
Quality, HSE Reports	✓		✓	✓		✓
Shareholder Report	✓	✓	✓	✓	✓	✓
<b>Other items</b>						
Annual Report and Accounts	✓					
Board Evaluation	✓					✓
Risk Review	✓					
AGM Preparation			✓			
Trading Statement		✓			✓	
Strategy				✓		
Financial Personnel Succession				✓		
Half Year Report					✓	
Annual Budget						✓
Non-executive Director Remuneration						✓
Chairman/Senior Independent Director						
Investor Feedback						✓

### Board Appointments and Nomination Committee

Hunting's Nomination Committee comprises the Company's non-executive Chairman (Committee Chairman), Chief Executive and the independent non-executive Directors. The terms of reference of the Nomination Committee can be found on the Company's website at [www.huntingplc.com](http://www.huntingplc.com). At 31 December 2016, 67% of the Committee comprised of independent non-executive Directors.

During 2016, the Nomination Committee met five times to consider senior management development and general succession matters, as recommended by the Code.

The Committee met in June to consider the reappointment of Richard Hunting for a further three-year term from 1 August 2016. The Committee, led by the Senior Independent Director, undertook a formal performance evaluation of Mr Hunting as part of the process, concluding that he remained an effective and able Chairman of the Company.

All appointments to the Board are in accordance with the Company's Articles of Association and the Code.

The Chairman has also met with the non-executive Directors throughout the year to discuss and agree, among other matters, training and development.

On appointment, each non-executive Director is provided with a letter of appointment, outlining the time commitments, responsibilities and fiduciary duties required under Company Law and, following Company policy, are appointed for a three-year term. All appointment letters are available for inspection at the Company's AGM or at Hunting's registered office.

As prescribed by the Code, all the Directors submit themselves for annual re-election at the Company's AGM and at the 2016 AGM all Directors were re-elected by shareholders.

During the year, management succession was a regular discussion topic of the Board and Nomination Committee, with key positions and succession plans being considered.

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 best practice recommendations.

Following the appointment of Annell Bay in 2015, Hunting has met its stated diversity target and is more aligned with current recommendations.

### Board Evaluation

The Directors undertake an annual evaluation of the Board and its Committees, which includes completion of a detailed questionnaire on the operation and governance responsibilities in relation to the Company's governance framework. Both the executive and non-executive Directors are appraised collectively and individually, with the results of the process reported to the Board through the Chairman. This process was undertaken in December 2016, with the Board concluding that each Director, the Committees of the Board and the Board itself remained effective.

Furthermore, the Chairman's performance was evaluated in a separate exercise by the non-executive Directors led by John Hofmeister, the Company's Senior Independent Director. The non-executive Directors concluded that Mr Hunting had been an effective and able Chairman of the Company throughout the year.

In 2015, the Company completed an externally facilitated evaluation which was managed by IDDAS. This process will be repeated in 2018.

### Board Accountability

The Board has procedures in place to review all shareholder communications, including the financial statements and Stock Exchange announcements issued by the Company. Hunting's business model and strategy is detailed on pages 12 to 29. The Board has delegated the responsibility of assessing whether the financial statements are fair, balanced and understandable to the Audit Committee. Further details of the responsibilities of the Audit Committee can be found within its report.

### Going Concern Basis and Viability Statement

The Audit Committee and Board review the Going Concern Basis twice a year and the Group's Viability Statement annually, in parallel to supporting reports from the executive Directors and Hunting's central finance function.

On 2 March 2017, the Board approved the Going Concern Basis and Viability Statement for the 2016 year end, which is detailed on page 38.

### Risk Management Procedures

The Board acknowledges its responsibility for monitoring the Group's principal risks and system of internal control and for reviewing its effectiveness as required by the Code, with key authorities being delegated to the Audit Committee.

Hunting's principal risks, risk management framework and systems of internal control are reviewed by the Board annually and are detailed in the Strategic Report on pages 30 to 37.

### Annual General Meeting ("AGM")

The AGM of the Company will take place on Wednesday, 12 April 2017 at The Royal Automobile Club, 89 Pall Mall, London SW1Y 5HS, commencing at 10.30 a.m. to which all shareholders are invited. Shareholder voting procedures follow the provisions of the Articles of Association and the Code, including a separate resolution on each material item of business, the availability of voting via proxy and the offer of a "vote withheld". At the 2017 AGM, all resolutions will be voted on by way of a poll.

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.

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 2016, 289,407 Ordinary shares were issued pursuant to the Company's various share plans. Further, on 31 October 2016, the Company issued 14,608,771 Ordinary shares as part of an equity placing, raising \$86.0m before expenses, which was undertaken to reduce net debt and increase financial flexibility.

The Company has authority, renewed annually, to purchase up to 14.99% of the issued share capital, equating to 22,311,342 shares. Any shares purchased will either be cancelled, and the number of Ordinary shares in issue reduced accordingly, or held in Treasury. During 2016, no Ordinary shares were purchased by the Company, under this authority.

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 2017 AGM.

### Employee Share Trust

The Group operates an Employee Share Trust (the "Trust") as a vehicle to satisfy share options and awards granted to employees who participate in the Company's share-based incentive schemes. At 31 December 2016, the Trust held 791,852 Ordinary shares in the Company (2015 – 914,225). The Trust has a policy to purchase shares in the market or subscribe for new shares to partially meet the future requirements of these incentive schemes. During the year, the Trust subscribed for 289,407 Ordinary shares at the nominal value of 25 pence per share.

In accordance with Listing Rule 9.8.4C, the Trust has waived all dividends payable by the Company and voting rights in respect of the Ordinary shares held by it. Total dividends waived by the Trust in the financial year to 31 December 2016 were \$33,490.