

## Mincon Group plc 2018 Half Year Financial Results

Mincon Group plc (*ESM:MIO AIM:MCON*), the Irish engineering group specialising in the design, manufacture, sale and servicing of rock drilling tools and associated products, announces its half year results for the six months ended 30 June 2018.

	30 June 2018 €'000	30 June 2017 €'000	Percentage change in Period
<b>Product revenue:</b>			
Sale of Mincon product (€'000)	47,406	35,211	35%
Sale of third party product (€'000)	8,316	11,745	(29%)
<b>Total revenue (€'000)</b>	<b>55,722</b>	<b>46,956</b>	<b>19%</b>
<i>Sale of Mincon product as a % of total revenue</i>	<i>85%</i>	<i>75%</i>	
<b>Profit before tax (€'000)</b>	<b>7,820</b>	<b>6,317</b>	<b>24%</b>
<b>Profit attributable to shareholders of the parent company (€'000)</b>	<b>6,122</b>	<b>5,072</b>	<b>21%</b>
<b>Earnings per share</b>	<b>2.91c</b>	<b>2.41c</b>	<b>21%</b>

### Joe Purcell, Chief Executive Officer, commenting on the results, said:

“We continue to build a coherent, complementary product range of consumables to address the surface drilling needs of the mining, geothermal, water well, piling and construction sub sectors. We are on a path to remove third party sales from our line-up where that makes commercial sense, to either manufacture them in our own plants, or discontinue the sales. The gross margin percentage on manufactured products is higher and is a more significant driver of our earnings. This is particularly true where the engineering value add is significant.

Our goal is not revenue growth for its own sake, but sustainable earnings growth, and niche manufacturing to develop defendable intellectual property that underwrites our margins over time. We work to build long term sustainable, defensible market positions by offering value for money rather than price as our central proposition. We see better engineering as core to our product offering.

In H1 2018 the following has been delivered, before exceptional items:

- |                                      |                |                         |
|--------------------------------------|----------------|-------------------------|
| • <b>Revenue</b>                     | <b>up 19 %</b> | <b>to €55.7 million</b> |
| • <b>Mincon manufactured product</b> | <b>up 35 %</b> | <b>to €47.4 million</b> |
| • <b>Gross profit</b>                | <b>up 20 %</b> | <b>to €22.0 million</b> |
| • <b>Operating profit</b>            | <b>up 19 %</b> | <b>to €8.1 million</b>  |
| • <b>Profit before tax</b>           | <b>up 30 %</b> | <b>to €8.1 million</b>  |
| • <b>Earnings per share</b>          | <b>up 21 %</b> | <b>to 2.91 cent</b>     |

Profit before tax (after acquisition costs) in H1, 2018 has increased by 24% to €7.8 million from €6.3 million in H1, 2017, and the earnings per share also increased by 21%. Excluding the acquisition of Driconeq, the operating profit margin rose to 16.5%, compared to 14.5% in the prior year. Driconeq delivered a gross profit margin of 25.2%, while the pre-acquisition Group achieved a gross profit margin of 41.8% compared to the pre-exceptional gross profit margin of 39.1% of 2017. The underlying gross profit of the Group continues to rise in the more value-added end of the Mincon Group product range and the product demand and the requirement to pass on supply side increases, has driven some improvement in margins.

### Driconeq

In March 2018 we announced the acquisition of Driconeq and the business has performed in line with our expectations in the interim period. We continue to invest management time, funds and planning to unpick the problems that have crept into that group over the last few years, and we are very confident we can embed the business safely with our own. Integrating it has delivered a complex set of tasks which will take much of the rest of the year to complete.

Driconeq added some 23% acquisition growth in Mincon product revenue in H1, on top of the c. 12% organic growth, which includes the full half year for PPV and Viqing. Having said that, the contribution to operating profit from the acquisition is not significant, at about 2.5% of its revenue. We are optimistic about the performance of Driconeq with our Viqing business in Sweden, and with our businesses in Australia, and South Africa as we integrate the Driconeq businesses there into our local operations.

We have invested in Broad Based Black Economic Empowerment partners in South Africa now, as part of helping that country move forward, and we are developing, with those partners, the best model for that market. Overall though, this acquisition has suited our product line-up, our management and market reach. The Driconeq gross margin is expected to increase through some price improvements in line with the market, through obtaining better terms from the suppliers as their trading risk falls, and through achieving some efficiency gains as operations are combined with our existing businesses. Driconeq is also working through a structured programme of overhead reduction.

We have approved two additional furnaces for HardTekno as first-round capital approvals which will provide short term relief to their capacity issues. Overall we are delighted to have the Driconeq companies and teams in our Group.

### **Mincon Nordic**

Mincon Nordic reached breakeven in H1 and has started to make a contribution to operating profits. At the deepest point this business had accumulated start-up losses of over €1.5 million, but we were obliged to make the investment in order to replace the former distributor in the Nordic region, and to give us the entry we needed into the construction drilling and piling markets. We would like to thank our former distributor, Robit, for all the work they did, and continue to do, as a non-exclusive representative for the Mincon products in their home market.

We have now built direct distribution in that region through Mincon Nordic OY, and it is now of an economic size. We are taking the Viqing business out of Mincon Nordic OY and combining it with its Driconeq neighbours in Sunne, Sweden. Those businesses make the same products in the same town and the management teams and factories are, through agreement, in the process of amicable consolidation.

The rest of the business comprises the customer centre for the Finland region and the engineering design business, PPV. These are fine companies with good teams, and strong growth ambitions.

### **Capital investment**

We reduced the emphasis on acquisitions two years ago as value was driven out by aggressive bidding, and instead we made significant decisions to invest in a three-year rolling capital investment programme. We are now substantially through that investment plan, having approved some €18 million, 400% of our depreciation rate, in the eighteen-month period. The capital equipment has been arriving, and where this is production machinery it is quickly brought into the manufacturing process.

Where the capital investment is in process improvements such as heat treatment, lead times are very lengthy, up to two years, for specification, delivery, commissioning and bringing on-line, but we are about to go live in Benton, Illinois, followed by Perth, Australia and Marshalls, Sheffield, through the rest of the year. This approved spend was some €6 million of the capital investment plan referred to above, and we expect to see the benefits through the 2019 year. We will be commissioning the pre-heat furnaces in HardTekno in Sweden in Q1, 2019.

Other than that, we see the capital expenditure commitments slowing through H2, 2018 and beyond as the current factory build-outs are completed and the plant and machinery we have bought is commissioned and brought into the production process. With this investment coming online we will review over the coming year the best location to manufacture products to supply the customer base while driving quality and efficiency. We continue to build out core excellent hammer and bit production facilities in Ireland, Australia and the USA to enable flexibility in manufacturing and delivery, while maintaining margin and quality.

### **Acquisitions**

We know that the improvement in the cycle is a rising tide that raises all boats, and that it makes good acquisitions look great and weak acquisitions look acceptable. We will continue with the substantial work on the company portfolio to derive the value that underwrote some of those business decisions. Some of the acquisitions we have made have been great successes for us, some have been adequate, and some still require work for various reasons sometimes beyond the control of local management.

We seek to continuously engineer improvement in our systems, businesses and management teams. Bedding in acquisitions is a process, an extended process in some cases, but we have nearly always managed to keep the management teams we have brought in and blended their experience and knowledge of products and markets to give us a great platform for the continuing development of the Group.

### **Products and markets**

We now manufacture 85% of what we sell and as expected this has given us better control on engineering, quality control and margins. As we mentioned in the 2017 annual report we are seeing a general improvement in margins in the sector, and while there are pressures on the raw materials side, we are beginning to be able to recoup those input cost-increases from the end customers after four years or more of margin squeeze.

The Americas are the only key area that suffered a set back in growth. As we have commented previously we lost a large distributor to receivership in Chile in 2017. The decline in the USA is largely due to not being able to supply against order for the market in H1. That situation has since been recovered by a greatly increased supply from our factories at the end of the half, and we expect an improvement through the rest of the year as the backlog clears.

As we have said, we do not look for price leadership with our products, that is not generally our market position, but neither do we discount our products to drive sales. We continue to develop and drive analysis across the Group on margins by product and customer, to understand our sales and markets better, and to focus where we can add value for our customers on one side, and our shareholders on the other. Our Board requires us to focus on return on capital employed, on cash flow and on return on investment over the long run.

### **The hydraulic hammer systems**

We capitalised some €711,000 of expenditure on this development project for our hydraulic hammer systems in the first half and carry the investment in the balance sheet at €2.4 million. We are committed to work to the schedule of the customer and the mine, and the plan is to install the system and go live at the end of Q3 in accordance with their maintenance schedules for key equipment. We are in the contract and purchase order process at present, though we note that any payment during this production development will be nominal.

We intend to continue to work this system through the commercial development phase in H2, and we expect to spend €1.25 million in that period without earning any revenue. This is the most expensive stage of the launch as we will be using our own materials, staffing the customer with our own commissioning and service team on site, and investing in a broad support service team off site as well. By investing in this way we will gain fundamental knowledge in how to support this system for customers and we will be able to develop and protect the physical and intellectual property of what, if the systems work as engineered and expected, will be among the most valuable assets the Group owns.

The environment in which the system will work is extreme, costly and not fault tolerant, and because of this the engineering has to be innovative and robust.

### **Large hammers and bits**

The equipment in which we invested in order to address our large hammer manufacturing has been applied to producing the current smaller size ranges. We have had insufficient capacity to apply to the manufacture of the new ranges. However the engineering work has been completed on the DTH range to the 24 inch size and where we have delivered these large hammers both the pricing and performance have been well received. The order book for the standard ranges has continued to build so we are still not in a position to sustain delivery at the large end potentially until 2019. In the mean time we will make and sell some of the large hammers to test them with some customers in some markets in order to build the reputation of the hammers and prepare our service side for these products.

### **Profit margins**

Profit margins continue to recover across the entire set of businesses, even as demand reaches levels we have not encountered before. Excluding Driconeq EBITDA percentage for the Group was 19.8%, the gross profit percentage was 41.8% and the operating profit percentage was 16.5% on the same basis when acquisition costs are excluded. These are considerable improvements in the margins over the same period last year despite supply side cost increases. In Mincon Group, excluding the Driconeq acquisition, we kept 70% of any improvement in the gross profit in H1 as an improvement in the operating profit. This is consistent with the 2017 Group out-turn.

The Driconeq Group made a gross profit percentage of 25.2% in the period since acquisition, and an operating profit of c. 2.6%. This is in line with our expectations for the first year, with three months of the integration process now completed. It is noted that the gross profit is already an improvement from the date of acquisition, and we would like to thank the various teams for the work done to date.

Any acquisition can be traumatic for the company bought and the Group buying, if it has significant scale, and it always takes time to relieve the commercial stresses. Our approach is to correct the form of the business, invest to make it a good fit with the Mincon Group before we attempt to speed it up, and invest the time to understand what we have bought and the people joining us.

### **Balance sheet and Cash Flow**

Acquiring and funding the Driconeq acquisition, investing in our capital expenditure programme and meeting the requirement to step up our investment in the working capital cycle reduced our free cash at the end of H1. All of these have been addressed in detail and the working capital investment plan was outlined in the 2017 annual report.

### **Inventory**

We previously flagged that we intended to invest a further €5 million in raw material inventory as we ramped up manufacturing to meet the expanding order book. We invested in plant, we have stepped up manufacturing volumes against orders, and we have very significant inventory in transit and arriving to support the sales growth we realised last year but which we have not been able to support in H1. We estimate that we are approximately half way through the working capital cycle that has absorbed these funds and we are now getting to the point where the increased inventory is hitting our own shelves in the customer centres.

This inventory swell through the working capital cycle should unwind to some degree in the H2 for the Group, though we may maintain the raw material investment to moderate the risk of price increases and basic non-supply due to the sector demands elsewhere. Of the current uplift, €4.6 million came in with Driconeq and we believe is good inventory, €4.5 million is in raw material strongly bought forward to support the increased turnover and to mitigate the supply side price increases, and the rest is in transit or reaching the shelves of the sales offices.

We mentioned in the Q1 statement that we had slowed down order intake since we were disappointing customers as lead times moved out and short run and non-standard products could not be economically manufactured. We have commissioned new plant right across the Group in H1, and we approach the second half with more capacity on-line than the Group has ever had. The three new facilities in; Benton, Illinois, the Prototype and Short Run factory in Shannon, and the new insourced facility in Sheffield on our Marshalls site are coming up to speed and should play a valuable part in delivering capacity in H2. We then have to drive sales through the customer centres by increasing reliability in meeting orders and delivery dates.

### **Dividend**

The Board of Mincon Group plc has recommended the payment of an interim dividend in the amount of 0.0105 (1.05 cent) per ordinary share, which will be paid on the 25 September 2018 to shareholders on the register at the close of business on the 31 August 2018.

### **Outlook**

We had sales of €50 million last year in H2, 2017. Since then we have added the Driconeq revenue (net of intercompany sales) of €20 million in a full year. The potential impacts from trade wars, tariffs and the UK leaving the EU are business uncertainties, but at present we are considering those impacts to be neutral. While we stay alert to the context of our businesses, products and markets, our planning is long term, considered and based around long term objectives.

The team is confident across the businesses, the sector appears strong, lead times have increased for capital goods which should mean strength in the sectors that we serve, and orders remain robust in most of our markets. There are efficiencies to be found in the way we are doing business and that remains a key focus for the executive team. We have a lot of work to do to extract what the Mincon Group can actually deliver when we find our internal efficiencies, and take the opportunities ahead of us for new products and new routes to market.

We have new facilities coming on stream in Perth and Benton in two of our core factories which should deliver margin and quality improvements as we take external processes in-house. That will help us achieve the quality in our products that lie at the core of what we do, and sustain consistently the engineering that creates and develops our margins.

I would like to thank the shareholders for their support through the last few years, and the Mincon staff for their commitment to the success of the business.”

13 AUGUST 2018

**For further information, please contact:**

**Mincon Group plc**

**Joe Purcell,** Chief Executive Officer

**Peter E. Lynch** Chief Operating Officer

**Tel: + 353 (61) 361 099**

**Davy Corporate Finance (Nominated  
Adviser and ESM Adviser)**

Anthony Farrell

Daragh O'Reilly

**Tel: +353 (1) 679 6363**

**Unaudited condensed consolidated income statement**  
**For the 6 months ended 30 June 2018**

	Notes	2018			2017		
		Excluding exceptional items €'000	Exceptional items (Note 6) €'000	Including exceptional items €'000	Excluding exceptional items €'000	Exceptional items (Note 6) €'000	Including exceptional items €'000
<b>Continuing operations</b>							
Revenue	2	55,721	-	55,721	46,956	-	46,956
Cost of sales	4	(33,760)	-	(33,760)	(28,589)	(1,849)	(30,438)
<b>Gross profit</b>		<b>21,961</b>	<b>-</b>	<b>21,961</b>	<b>18,367</b>	<b>(1,849)</b>	<b>16,518</b>
General and selling expenses	4	(13,874)	(268)	(14,142)	(11,578)	(1,198)	(12,776)
<b>Operating profit</b>		<b>8,087</b>	<b>(268)</b>	<b>7,819</b>	<b>6,789</b>	<b>(3,047)</b>	<b>3,742</b>
Finance cost		(60)	-	(60)	(58)	-	(58)
Finance income		59	-	59	14	-	14
Foreign exchange gain/(loss)		35	-	35	(505)	-	(505)
Contingent consideration		(33)	-	(33)	-	-	-
Settlement gain		-	-	-	-	3,124	3,124
<b>Profit before tax</b>		<b>8,088</b>	<b>(268)</b>	<b>7,820</b>	<b>6,240</b>	<b>77</b>	<b>6,317</b>
Income tax expense		(1,512)	-	(1,512)	(1,091)	-	(1,091)
<b>Profit for the period</b>		<b>6,576</b>	<b>(268)</b>	<b>6,308</b>	<b>5,149</b>	<b>77</b>	<b>5,226</b>

**Profit attributable to:**

- owners of the Parent	6,122	5,072
- non-controlling interests	186	154
<b>Earnings per Ordinary Share</b>		
Basic earnings per share, 9	2.91c	2.41c
Diluted earnings per share, 9	2.87c	2.39c

*The accompanying notes are an integral part of these financial statements.*

**Unaudited condensed consolidated statement of comprehensive income**  
**For the 6 months ended 30 June 2018**

	<b>2018 H1 €'000</b>	<b>2017 H1 €'000</b>
<b>Profit for the period</b>	6,308	5,226
<i>Other comprehensive income/(loss):</i>		
<i>Items that are or may be reclassified subsequently to profit or loss:</i>		
Foreign currency translation – foreign operations	(2,389)	(2,609)
Other comprehensive income/(loss) for the period	(2,389)	(2,609)
<b>Total comprehensive income for the period</b>	<b>3,919</b>	<b>2,617</b>
<b>Total comprehensive income attributable to:</b>		
- owners of the Parent	<b>3,733</b>	<b>2,463</b>
- non-controlling interests	<b>186</b>	<b>154</b>

*The accompanying notes are an integral part of these financial statements.*

**Unaudited consolidated statement of financial position**  
**As at 30 June 2018**

	Notes	30 June 2018 €'000	31 December 2017 €'000
<b>Non-Current Assets</b>			
Intangible assets	11	29,510	25,094
Property, plant and equipment	12	27,861	22,576
Deferred tax asset	8	512	150
Other non-current assets		44	100
<b>Total Non-Current Assets</b>		<b>57,927</b>	<b>47,920</b>
<b>Current Assets</b>			
Inventory	13	43,850	31,851
Trade and other receivables	14	19,714	17,560
Other current assets		7,224	4,709
Current tax asset	8	868	842
Cash and cash equivalents		11,312	28,215
<b>Total Current Assets</b>		<b>82,968</b>	<b>83,177</b>
<b>Total Assets</b>		<b>140,895</b>	<b>131,097</b>
<b>Equity</b>			
Ordinary share capital		2,105	2,105
Share premium		67,647	67,647
Undenominated capital		39	39
Merger reserve		(17,393)	(17,393)
Share based payment reserve	10	845	512
Foreign currency translation reserve		(5,329)	(2,940)
Retained earnings		61,303	57,391
<b>Equity attributable to owners of Mincon Group plc</b>		<b>109,217</b>	<b>107,361</b>
Non-controlling interests		972	787
<b>Total Equity</b>		<b>110,189</b>	<b>108,148</b>
<b>Non-Current Liabilities</b>			
Loans and borrowings	15	1,194	1,405
Deferred tax liability	8	367	318
Deferred contingent consideration	16(c)	6,032	6,931
Other liabilities		311	368
<b>Total Non-Current Liabilities</b>		<b>7,904</b>	<b>9,022</b>
<b>Current Liabilities</b>			
Loans and borrowings	15	463	668
Trade and other payables		13,357	7,721
Accrued and other liabilities		7,076	4,403
Current tax liability	8	1,906	1,135
<b>Total Current Liabilities</b>		<b>22,802</b>	<b>13,927</b>
<b>Total Liabilities</b>		<b>30,706</b>	<b>22,949</b>
<b>Total Equity and Liabilities</b>		<b>140,895</b>	<b>131,097</b>

*The accompanying notes are an integral part of these financial statements.*



**Unaudited condensed consolidated statement of cash flows**  
**For the 6 months ended 30 June 2018**

	<b>H1 2018 €'000</b>	<b>H1 2017 €'000</b>
<b>Operating activities:</b>		
Profit for the period	6,308	5,226
Adjustments to reconcile profit to net cash provided by operating activities:		
Depreciation	1,879	1,362
Fair value movement on deferred contingent consideration	33	(3,124)
Finance cost	60	58
Finance income	(59)	(14)
Income tax expense	1,512	1,091
Other non-cash movements	(949)	2,180
	8,784	6,779
Changes in trade and other receivables	(347)	(3,099)
Changes in prepayments and other assets	(2,289)	(1,511)
Changes in inventory	(9,011)	2,426
Changes in trade and other payables	3,448	555
Cash provided by operations	585	5,150
Interest received	59	14
Interest paid	(60)	(58)
Income taxes paid	(317)	(485)
<b>Net cash provided by/(used in) operating activities</b>	<b>267</b>	<b>4,621</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(5,280)	(3,092)
Acquisitions, net of cash acquired	(7,603)	(2,000)
Payment of deferred contingent consideration	(1,439)	-
Investment in short term deposits	-	-
Proceeds from former joint venture investments	59	56
<b>Net cash provided by/(used in) investing activities</b>	<b>(14,263)</b>	<b>(5,036)</b>
<b>Financing activities</b>		
Dividends paid	(2,210)	(2,105)
Repayment of loans and finance leases	(337)	(416)
Drawdown of loans	-	-
<b>Net cash provided by/(used in) financing activities</b>	<b>(2,547)</b>	<b>(2,521)</b>
Effect of foreign exchange rate changes on cash	(360)	(199)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(16,903)</b>	<b>(3,135)</b>
Cash and cash equivalents at the beginning of the year	28,215	36,836
<b>Cash and cash equivalents at the end of the period</b>	<b>11,312</b>	<b>33,701</b>

*The accompanying notes are an integral part of these financial statements.*

Unaudited condensed consolidated statement of changes in equity for the 6 months ended 30 June 2018

	Share capital €'000	Share premium €'000	Merger reserve €'000	Other reserve €'000	Un-denominated capital €'000	Capital contribution €'000	Share based payment reserve €'000	Foreign currency translation reserve €'000	Retained earnings €'000	Total €'000	Non-controlling interests €'000	Total equity €'000
<b>Balances at 1 July 2017</b>	<b>2,105</b>	<b>67,647</b>	<b>(17,393)</b>	-	<b>39</b>	-	<b>251</b>	<b>(1,574)</b>	<b>54,476</b>	<b>105,551</b>	<b>638</b>	<b>106,189</b>
<b>Comprehensive income:</b>												
Profit for the period	-	-	-	-	-	-	-	-	5,020	<b>5,020</b>	149	<b>5,169</b>
<b>Other comprehensive income/(loss):</b>												
Foreign currency translation	-	-	-	-	-	-	-	(1,366)	-	<b>(1,366)</b>	-	<b>(1,366)</b>
<b>Total comprehensive income</b>								<b>(1,366)</b>	<b>5,020</b>	<b>3,654</b>	<b>149</b>	<b>3,803</b>
<b>Transactions with Shareholders:</b>												
Share-based payments	-	-	-	-	-	-	261	-	-	<b>261</b>	-	<b>261</b>
Dividend payment	-	-	-	-	-	-	-	-	(2,105)	<b>(2,105)</b>	-	<b>(2,105)</b>
<b>Balances at 31 December 2017</b>	<b>2,105</b>	<b>67,647</b>	<b>(17,393)</b>	-	<b>39</b>	-	<b>512</b>	<b>(2,940)</b>	<b>57,391</b>	<b>107,361</b>	<b>787</b>	<b>108,148</b>
<b>Comprehensive income:</b>												
Profit for the period	-	-	-	-	-	-	-	-	6,122	<b>6,122</b>	185	<b>6,307</b>
<b>Other comprehensive income/(loss):</b>												
Foreign currency translation	-	-	-	-	-	-	-	(2,389)	-	<b>(2,389)</b>	-	<b>(2,389)</b>
<b>Total comprehensive income</b>								<b>(2,389)</b>	<b>6,122</b>	<b>3,733</b>	<b>185</b>	<b>3,918</b>
<b>Transactions with Shareholders:</b>												
Share-based payments	-	-	-	-	-	-	333	-	-	<b>333</b>	-	<b>333</b>
Dividend payment	-	-	-	-	-	-	-	-	(2,210)	<b>(2,210)</b>	-	<b>(2,210)</b>
<b>Balances at 30 June 2018</b>	<b>2,105</b>	<b>67,647</b>	<b>(17,393)</b>	-	<b>39</b>	-	<b>845</b>	<b>(5,329)</b>	<b>61,303</b>	<b>109,217</b>	<b>972</b>	<b>110,189</b>

The accompanying notes are an integral part of these financial statements.

## Notes to the consolidated interim financial statements

### 1 General information and basis of preparation

Mincon Group plc ("the Company") is a company incorporated in the Republic of Ireland. The unaudited consolidated interim financial statements of the Company for the six months ended 30 June 2018 (the "Interim Financial Statements") include the Company and its subsidiaries (together referred to as the "Group"). The Interim Financial Statements were authorised for issue by the Directors on 9 August 2018.

The Interim Financial Statements have been prepared in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the EU. The Interim Financial Statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2017 as set out in the 2017 Annual Report (the "2017 Accounts").

The Interim Financial Statements do not constitute statutory financial statements. The statutory financial statements for the year ended 31 December 2017, extracts from which are included in these Interim Financial Statements, were prepared under IFRSs as adopted by the EU and will be filed with the Registrar of Companies with the Company's 2017 annual return. They are available from the Company website [www.mincon.com](http://www.mincon.com) and, when filed, from the registrar of companies. The auditor's report on those statutory financial statements was unqualified.

The Interim Financial Statements are presented in Euro, rounded to the nearest thousand, which is the functional currency of the parent company and also the presentation currency for the Group's financial reporting.

The financial information contained in the Interim Financial Statements has been prepared in accordance with the accounting policies applied in the 2017 Accounts.

#### *Critical accounting estimates and judgements*

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates. In preparing the Interim Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2017 Accounts.

#### *IFRS not yet effective*

The Group is required to adopt IFRS 16 Leases from 1 January 2018. The Group has commenced an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. It is expected that the Group will recognise right of use assets and related lease liabilities for its operating leases.

### 2. Revenue

	H1 2018 €'000	H1 2017 €'000
<b>Product revenue:</b>		
Sale of Mincon product	47,406	35,211
Sale of third party product	8,315	11,745
<b>Total revenue</b>	<b>55,721</b>	<b>46,956</b>

### 3. Operating Segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (CODM). Our CODM has been identified as the Board of Directors.

Having assessed the aggregation criteria contained in IFRS 8 operating segments and considering how the Group manages its business and allocates resources, the Group has determined that it has one reportable segment. In particular the Group is managed as a single business unit that sells drilling equipment, primarily manufactured by Mincon manufacturing sites.

#### *Entity-wide disclosures*

The business is managed on a worldwide basis but operates manufacturing facilities and sales offices in Ireland, Australia, the United States, the United Kingdom, Sweden, South Africa and Canada and sales offices in six other locations including Finland, Spain, Namibia, Tanzania, Chile and Peru. In presenting information on geography, revenue is based on the geographical location of customers and non-current assets based on the location of these assets.

*Revenue by region (by location of customers):*

	H1 2018 €'000	H1 2017 €'000
<b>Region:</b>		
Ireland	444	330
Americas	10,229	13,598
Australasia	18,482	11,926
Europe, Middle East, Africa	26,566	21,102
<b>Total revenue from continuing operations</b>	<b>55,721</b>	<b>46,956</b>

*Non-current assets by region (location of assets):*

	30 June 2018 €'000	31 December 2017 €'000
<b>Region:</b>		
Ireland	12,809	10,381
Americas	16,180	14,796
Australasia	7,166	5,241
Europe, Middle East, Africa	21,260	17,352
<b>Total non-current assets<sup>(1)</sup></b>	<b>57,415</b>	<b>47,770</b>

*(1) Non-current assets exclude deferred tax assets.*

#### 4. Cost of Sales and operating expenses

Included within cost of sales, selling and distribution expenses and general and administrative expenses were the following major components:

##### Cost of sales

	H1 2018	H1 2017
	€'000	€'000
Raw materials	16,246	9,892
Third party product purchases	6,569	9,378
Employee costs	6,939	4,449
Depreciation	1,461	1,059
Impairment of capital equipment inventory (note 6)	-	1,081
Impairment of finished goods inventory (note 6)	-	768
Other	2,545	3,811
<b>Total cost of sales</b>	<b>33,760</b>	<b>30,438</b>

##### Other operating expenses

	H1 2018	H1 2017
	€'000	€'000
Employee costs (including director emoluments)	8,771	6,774
Depreciation	418	303
Impairment of trade receivable (note 6)	-	1,198
Other	4,953	4,501
<b>Total other operating costs</b>	<b>14,142</b>	<b>12,776</b>

#### 5. Employee information

	H1 2018	H1 2017
	€'000	€'000
Wages and salaries – including directors	13,255	10,006
Social security costs	1,318	618
Pension costs of defined contribution plans	669	437
Share based payments (note 10)	333	162
<b>Total employee costs</b>	<b>15,575</b>	<b>11,223</b>

The Group capitalised payroll costs of €166,000 in H1 2018 in relation to research and development.

The average number of employees was as follows:

	H1 2018	H1 2017
	Number	Number
Sales and distribution	124	101
General and administration	61	55
Manufacturing, service and development	309	175
<b>Average number of persons employed</b>	<b>494</b>	<b>331</b>

## 6. Exceptional Items

	H1 2018 €'000	H1 2017 €'000
<b>Cost of sales</b>		
Impairment of capital equipment inventory	-	(1,081)
Impairment of finished goods inventory	-	(768)
<b>Total cost of sales</b>	-	<b>(1,849)</b>
<b>General, selling and distribution expenses</b>		
Acquisition costs	(268)	-
Impairment of trade receivable	-	(1,198)
<b>Total general, selling and distribution expenses</b>	<b>(268)</b>	<b>(1,198)</b>
<b>Fair value movement on contingent consideration</b>	-	<b>3,124</b>
<b>Total exceptional items</b>	<b>(268)</b>	<b>77</b>

The Group provides for all receivables where there is objective evidence, including historical loss experience, that amounts are irrecoverable. The Group had €nil write down in receivables in the period ended 30 June 2018, (30 June 2017 €1.2 million from a South American distributor was considered no longer recoverable).

In August 2014 the Group acquired a 65% majority shareholding in Rotacan. In June 2017 the Group acquired the 35% minority interest in this business for cash consideration of €2 million which was settled in July 2017. The acquisition of the minority shareholding in Rotacan resulted in a credit to the income statement as the amount paid to settle the contingent consideration was less than the director's estimate of its fair value at 31 December 2016.

## 7. Acquisitions

In March, 2018 Mincon acquired 100% shareholding in the Driconeq Group, a group that specialises in the design, manufacture, sale and support of drill rods to mining, waterwell and construction industries for a consideration of €7.8 million. The Driconeq Group has manufacturing plants and sales offices in Sweden, South Africa and Australia, it also owns a heattreatment plant in Sweden.

### A. Consideration transferred

	Driconeq €'000	Total €'000
Cash	7,283	7,283
Deferred contingent consideration	500	500
<b>Total consideration transferred</b>	<b>7,783</b>	<b>7,783</b>

In May 2018, €238,746 of the deferred contingent consideration for the Driconeq Group had been paid out.

## B. Goodwill

Goodwill arising from the acquisition of the Driconeq Group has been recognised as follows:

	<b>Total</b>
	<b>€'000</b>
Consideration transferred	7,783
Fair value of identifiable net assets	(3,753)
Goodwill	4,030

## C. Acquisition related costs

Acquisition related costs amounted to approximately €268,000 and were included in the “operating expenses” in the income statement for the 6 months to the 30 June 2018.

## 8. Income Tax

The Group's consolidated effective tax rate in respect of operations for the six months ended 30 June 2018 was 19.3% (30 June 2017: 17.3%). The effective rate of tax is forecast at 19.3% for 2018 which is higher than prior year, this is due to the geographic spread of profits of the Group entities in 2018 compared with 2017. The tax charge for the six months ended 30 June 2018 of €1.5 million (30 June 2017: €1.1 million) includes deferred tax relating to movements in provisions, net operating losses forward and the temporary differences for property, plant and equipment recognised in the income statement.

The net current tax liability at period-end was as follows:

	<b>30 June</b>	<b>31 December</b>
	<b>2018</b>	<b>2017</b>
	<b>€'000</b>	<b>€'000</b>
Current tax prepayments	868	842
Current tax payable	(1,906)	(1,135)
Net current tax	(1,038)	(293)

The net deferred tax liability at period-end was as follows:

	<b>30 June</b>	<b>31 December</b>
	<b>2018</b>	<b>2017</b>
	<b>€'000</b>	<b>€'000</b>
Deferred tax asset	512	150
Deferred tax liability	(367)	(318)
Net deferred tax	145	(168)

## 9. Earnings per share

Basic earnings per share (EPS) is computed by dividing the profit for the period available to ordinary shareholders by the weighted average number of Ordinary Shares outstanding during the period. Diluted earnings per share is computed by dividing the profit for the period by the weighted average number of Ordinary Shares outstanding and, when dilutive, adjusted for the effect of all potentially dilutive shares. The following table sets forth the computation for basic and diluted net profit per share for the six months ended 30 June:

	H1 2018	H1 2017
<b>Numerator (amounts in €'000):</b>		
Profit attributable to owners of the Parent	6,122	5,072
<b>Earnings per Ordinary Share</b>		
Basic earnings per share, €	2.91c	2.41c
Diluted earnings per share, €	2.87c	2.39c
<b>Denominator (Number):</b>		
Basic weighted-average shares outstanding	210,541,102	210,541,102
Diluted weighted-average shares outstanding	213,086,091	212,194,947

## 10. Share based payment

During the half year ended 30 June 2018, the Remuneration Committee made a grant of approximately 891,144 Restricted Share Awards (RSAs) to members of the Group executive and senior management team. The vesting conditions include both service and performance targets. The performance target condition is an average growth of 5% of EPS plus CPI over three years. The fair value of the RSA's granted is equal to the company's share price on grant date which was €1.24 on 516,129 Restricted Share Awards and €1.28 on 375,015 Restricted Share Awards.

## 11. Intangible Assets

	Product development €'000	Goodwill €'000	Total €'000
<b>Balance at 1 January 2017</b>	<b>1,662</b>	<b>23,432</b>	<b>25,094</b>
Investments	711	-	711
Acquisitions	-	4,030	4,030
Foreign currency translation differences	-	(325)	(325)
<b>Balance at 30 June 2017</b>	<b>2,373</b>	<b>27,137</b>	<b>29,510</b>

## 12. Property, Plant and Equipment

Capital expenditure in the first half-year amounted to €5.3 million (30 June 2017 €3.1 million) of which €0.7 million (30 June 2017: €0.6 million) was invested in buildings and €4.5 million (30 June 2017 €2.5 million) was invested in plant and machinery.

The depreciation charge for property, plant and equipment is recognised in the following line items in the income statement:

	H1 2018 €'000	H1 2017 €'000
Cost of sales	1,461	1,059
Selling, general and administrative expenses	418	303
<b>Total depreciation charge for property, plant and equipment</b>	<b>1,879</b>	<b>1,362</b>



### 13. Inventory

	30 June 2018	31 December 2017
	€'000	€'000
Finished goods and work-in-progress	31,170	23,336
Capital equipment	2,284	2,612
Raw materials	10,396	5,903
<b>Total inventory</b>	<b>43,850</b>	<b>31,851</b>

Write-down of inventories during the period ended 30 June 2018 amount to €Nil (30 June 2017: €1.8 million and is explained in note 6).

### 14. Trade and other receivables

	30 June 2018	31 December 2017
	€'000	€'000
Gross receivable	21,754	20,603
Provision for impairment	(2,040)	(3,043)
<b>Net trade and other receivables</b>	<b>19,714</b>	<b>17,560</b>

	30 June 2018	31 December 2017
	€'000	€'000
Less than 60 days	15,942	13,333
61 to 90 days	2,202	3,005
Greater than 90 days	1,570	1,222
<b>Net trade and other receivables</b>	<b>19,714</b>	<b>17,560</b>

At 30 June 2018, €4.0 million (20%) of trade receivables balance was past due but not impaired (31 December 2017, €3.9 million (22%)).

### 15. Loans and borrowings

		30 June 2018	31 December 2017
	Maturity	€'000	€'000
Bank loans	2018-2021	1,558	1,825
Finance leases	2018-2020	99	248
<b>Total Loans and borrowings</b>		<b>1,657</b>	<b>2,073</b>
Current		463	668
Non-current		1,194	1,405

The Group has a number of bank loans and finance leases in the United States, Sweden, Chile, Peru and Namibia with a mixture of variable and fixed interest rates. The Group has been in compliance with all debt agreements during the periods presented. None of the debt agreements carry restrictive financial covenants.

## 16. Financial Risk Management

The Group is exposed to various financial risks arising in the normal course of business. Our financial risk exposures are predominantly related to changes in foreign currency exchange rates as well as the creditworthiness of our financial asset counterparties.

The half-year financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the 2017 Annual Report. There have been no changes in our risk management policies since year-end and no material changes in our interest rate risk.

### a) Liquidity and Capital

The Group defines liquid resources as the total of its cash, cash equivalents and short term deposits. Capital is defined as the Group's shareholders' equity and borrowings.

The Group's objectives when managing its liquid resources are:

- To maintain adequate liquid resources to fund its ongoing operations and safeguard its ability to continue as a going concern, so that it can continue to create value for investors;
- To have available the necessary financial resources to allow it to invest in areas that may create value for shareholders; and
- To maintain sufficient financial resources to mitigate against risks and unforeseen events.

Liquid and capital resources are monitored on the basis of the total amount of such resources available and the Group's anticipated requirements for the foreseeable future. The Group's liquid resources and shareholders' equity at 30 June 2018 and 31 December 2017 were as follows:

	30 June 2018 €'000	31 December 2017 €'000
Cash and cash equivalents	11,312	28,215
Loans and borrowings	(1,657)	(2,073)
Shareholders' equity	109,217	107,361

## 16. Financial Risk Management (continued)

### b) Foreign currency risk

The Group is a multinational business operating in a number of countries and the euro is the presentation currency. The Group, however, does have revenues, costs, assets and liabilities denominated in currencies other than euro. Transactions in foreign currencies are recorded at the exchange rate prevailing at the date of the transaction. The resulting monetary assets and liabilities are translated into the appropriate functional currency at exchange rates prevailing at the reporting date and the resulting gains and losses are recognised in the income statement.

The Group's global operations create a translation exposure on the Group's net assets since the financial statements of entities with non-euro functional currencies are translated to euro when preparing the consolidated financial statements. The Group does not use derivative instruments to hedge these net investments. The principal foreign currency risks to which the Group is exposed relate to movements in the exchange rate of the euro against US dollar, South African rand, Australian dollar, Sterling and Swedish krona.

Almost 71% of Mincon's revenue is generated in these currencies, compared to less than 27% of the Group's cost of sales. This had a significant translational impact on revenue when sales in local currency are converted into euro with a knock-on impact on the Group's gross margin and net margin. The majority of the group's manufacturing base has a euro, US dollar or Swedish krona cost base. While Group management makes every effort to reduce the impact of this currency volatility, it is impossible to eliminate or significantly reduce given the fact that the highest grades of our key raw materials are either not available or not denominated in these markets and currencies. Additionally, the ability to increase prices for our products in these jurisdictions is limited by the current market factors.

Currency also has a significant transactional impact on the group as outstanding balances in foreign currencies are retranslated at closing rates at each period end. There have been material changes in the euro exchange rate since 31 December 2017, with the exception of Sterling. The changes in the USD, South African Rand, Australian dollar and Swedish krona have either weakened or strengthened, resulting in a slight foreign exchange gain being recognised in other comprehensive income and a significant movement in foreign currency translation reserve.

Average and closing exchange rates for the Group's primary currency exposures were as disclosed in the table below for the period presented.

	<b>30 June 2018 Closing</b>	<b>H1 2018 Average</b>	<b>31 December 2017 Closing</b>	<b>H1 2017 Average</b>
<b>Euro exchange rates</b>				
US Dollar	1.16	1.21	1.20	1.12
Australian Dollar	1.58	1.57	1.53	1.52
Sterling	0.88	0.88	0.89	0.79
South African Rand	16.00	14.86	14.80	17.19
Swedish Krona	10.43	10.15	9.83	9.30

There has been no material change in the Group's currency exposure since 31 December 2017. Such exposure comprises the monetary assets and monetary liabilities that are not denominated in the functional currency of the operating unit involved.

## 16. Financial Risk Management (continued)

### c) Fair values

#### *Financial instruments carried at fair value*

The deferred contingent consideration payable represents management's best estimate of the fair value of the amounts that will be payable, discounted as appropriate using a market interest rate. The fair value was estimated by assigning probabilities, based on management's current expectations, to the potential pay-out scenarios. The fair value of deferred contingent consideration is primarily dependent on the future performance of the acquired businesses against predetermined targets and on management's current expectations thereof.

#### *Movements in the year in respect of Level 3 financial instruments carried at fair value*

The movements in respect of the financial assets and liabilities carried at fair value in the period ended to 30 June 2018 are as follows:

	Deferred contingent consideration €'000
<b>Balance at 1 January 2018</b>	<b>6,931</b>
Arising on acquisition (note 7)	500
Other liabilities	(1,439)
Fair value movement	33
Foreign currency translation differences	7
<b>Balance at 30 June 2018</b>	<b>6,032</b>

## 17. Commitments

The following capital commitments for the purchase of property, plant and equipment had been authorised by the directors at 30 June 2018:

	Total €'000
Contracted for	4,372
Not contracted for	2,160
<b>Total</b>	<b>6,532</b>

## 18. Litigation

The Group is not involved in legal proceedings that could have a material adverse effect on its results or financial position.

## 19. Related Parties

We have related party relationships with our subsidiaries, directors and senior key management personnel. All transactions with subsidiaries eliminate on consolidation and are not disclosed.

As at 30 June 2018 and 31 December 2017, the share capital of Mincon Group plc was 56.84% owned by Kingbell Company which is ultimately controlled by Patrick Purcell and members of the Purcell family. Patrick Purcell is also a director and Chairman of the Company. Ballybell Limited, a company controlled by Kevin Barry, held 5.28% of the equity of the Company. In June 2018, the Group paid a final dividend of €0.0105 (1.05 cent) to all shareholders on the register at 27 May 2018, of this dividend payment Kingbell and Ballybell Limited were paid €1,256,551 and €116,724 respectively.

There were no other related party transactions in the half year ended 30 June 2018 that affected the financial position or the performance of the Company during that period and there were no changes in the related party transactions described in the 2017 Annual Report that could have a material effect on the financial position or performance of the Company in the same period.

## **20. Events after the reporting date**

### ***Dividend***

On 09 August 2018, the Board of Mincon Group plc approved the payment of an interim dividend in the amount of €0.0105 (1.05 cent) per ordinary share. This amounts to a dividend payment of €2.2m which will be paid on 25 September 2018 to shareholders on the register at the close of business on 31 August 2018.

## **21. Approval of financial statements**

The Board of Directors approved the interim condensed consolidated financial statements for the six months ended 30 June 2018 on 9 August 2018.