Mincon Group plc
2019 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 2019.

	30 June 2019 €'000	30 June 2018 €'000	Percentage change in Period
Product revenue:			
Sale of Mincon product (€'000)	50,464	47,406	6%
Sale of third-party product (€'000)........	9,458	8,315	14%
Total revenue (€'000)	59,922	55,721	8%
Sale of Mincon product as a % of total revenue	*84%*	*85%*	
Profit for the period (€'000)	7,185	6,308	14%
Profit attributable to shareholders of the parent company (€'000) …..	7,144	6,122	17%
Earnings per share	3.39c	2.91c	16%

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

"The first half of 2019 marked a period where the production capacity of the Group caught up with the order book of last year, but where the market has softened during the period. This has led to a build-up in inventory, a capacity coming on-stream in excess of current sales levels and an overhead level that requires growth to support it against the backdrop of a softening market.

This has impacted on our gross margin, our operating margin and our momentum. In addition to this, we changed our market access model in the second quarter, moving from one used by the market leaders with customer centres as distribution points and factories as production entities, to the **"Challenger"** model of building regional management teams responsible for all the business in their region.

As a result of the acquisition of Driconeq, we can deliver the entire suite of consumables for drill strings for the sectors we service, and we can now tender directly to mines for multi-year contracts of scale, and to the primary contractors in large construction projects. We have moved from being excluded from competing for these contracts, to being included, and with the advent of the next generation of mining tools we are developing, we expect in some cases, to be preferred.

In H1 2019 the following has been delivered compared to the H1, 2018;

- **Revenue** **up 8%** **to €60 million**
- **Mincon manufactured product** **up 6%** **to €50 million**
- **Gross profit (excluding impairments)** **down 5%** **to €21 million**
- **Operating profit (excluding impairments)** **down 14%** **to €6.9 million**
- **Profit for the period** **up 14%** **to €7.2 million**
- **Earnings per share** **up 16%** **to 3.39 cent**

Our revenue growth moderated after several years of strong organic and acquisition growth, but we still registered growth in the first half of 8%. We see much of the increase arising from the impact of previous acquisitions being held for the full trading period this year.

Excluding the impairments, the gross margin was reduced by the revenue mix changes as lower margin businesses were owned for the full period, some excess production costs were carried as we maintained employment and the capacity for higher volume through the earlier part of the year and some softness in market pricing due to competitor behaviour.

As we recognised the change in market tone we initiated a full-scale review of our business model. This led to setting a €3 million targeted reduction in costs above and below the gross margin line, at all levels of employees and cost categories in the company, and a reduction in the complexity of the Group. This work is being funded from our own resources and is now substantially complete but will continue throughout the rest of the year. Further commentary on the programme and the impairments and realisations from it, is provided below.

Development of the operating model

Under the "Challenger" model, we engage directly with mines in a similar way as the market leaders, and with primary contractors in construction activities, and this approach is winning us business. The distribution centre model of the market leaders will be discontinued where this is not adding sufficient value. We have recently won, and have started billing, two multi-million-dollar contracts, where we have replaced the market leaders.

One of the benefits of the acquisition of Driconeq is that we are now in a position to give mines a full consumables offering. As a result of this range improvement and the offering of a full customer service, we are being considered for inclusion among those suppliers who have the resources to handle larger contracts, dealing directly with mines.

With a full consumables offering, we can address the end-customer needs, working with prime contractors or the end customers themselves. We are evolving from being excluded on the grounds of our size, product range or service capability, to being included, and, in some cases, being chosen as the preferred supplier. As a result of our service and engineering offerings, we may be able to bring the best solution for the customers.

This decision on our model has driven a substantial overhaul of our businesses, and a far-reaching reorganisation that has taken considerable time and funding to execute.

The Reorganisation Projects

We looked at our business holistically to see not just where we should reduce costs, but also what businesses and structures would not fit the evolving "Challenger" model.

Disposal of a non-core business, and distribution point closures

As part of streamlining our business, we have disposed of Härdtekno, which, while a fine company, was not a business that we were going to develop. We viewed it as a non-core activity, since most of the customer base lay outside our sector, as did its processes and technology. Härdtekno was acquired as part of the €7.8 million acquisition of the Driconeq Group in 2018, and provided heat treatment services in Sweden. Driconeq will continue to be a customer of that business in the coming years.

We made a profit on disposal of €7.3 million as we sold Härdtekno for €8.6 million, receiving an initial €8.1 million cash on completion in June. This has been booked as an exceptional gain on disposal.

We have applied these profits largely to finance the various cost reduction programmes, the absorption of inventory write-downs and the write-offs of uncollectible receivables. We have re-organised our business in Europe and Southern Africa as we returned to a simple regional format, and we continue to review the portfolio of activities, products and businesses to identify which of them is not part of the "Challenger" focus of the Group.

Review of assets and employment

A team of experienced senior executives has been charged with working through the inventories in order to simplify the product range to concentrate on fewer variations of our products. This team will also consider write-offs, the disposal of excess product and work-in-progress and review our ranges and markets to make sure we allocate the production to where we have the best manufacturing advantage. Part of this ongoing process will be to identify the markets where we can make the best, sustainable, margins.

We have reviewed the teams that we had built up and reduced headcount where we were dismantling a structure such as product management, or where throughput did not support headcount. The average staff number for the Group was 492 in this reporting period, but we finished H1 with 441 staff. We have substantially carried out the planned rightsizing for the Group and reduced headcount by some 10% across the Group at all levels and employment categories. This should lead to an improvement in gross margin and a reduction in the "General and selling expense" categories in the coming year.

Impairments
As we worked through the business model we identified some stranded assets where recovery is problematic, for example; debtors as we discontinue some distribution points, inventory where the range is being simplified, or third-party product we don't intend to continue to distribute. We have decided to recognise these assets as impaired.

The treatment of the impairments in the accounts varies depending on their nature, some qualify as exceptional, for example the reorganisation costs, and debtors where businesses are being discontinued and these are viewed as irrecoverable. The total here was €2.98 million and this is presented in the income statement in the exceptional column. Most of these charges were actual cash costs.

Other impairments, such as the approximately €2 million write down in inventory, and some debtors that have gone into liquidation after struggling to pay, have crystallised losses, and the total here was €582,000. Again, these are separately identified in the income statement, but generally incur no further cash cost.

Streamlining the business
With the reduction of headcount, the closure of non-performing businesses and the delayering of our management we have made substantial progress on our €3 million annualised cost reduction target. The various programme costs have impacted in the first half, and the benefits will come through in the second half and beyond.

We will continue to overhaul the businesses through 2019 and our three regions; **Americas**, **Australia Pacific** (APAC), and **EMEA** with the subset of **Africa** are well developed in their planning and consolidation. We are simplifying our distribution structures and delayering the management teams.

We can then continue to focus on margins, cash flows and the return on investment accurately in each of these regions, and, assign local objectives for inventory management and cash generation.

Cash management and cash
We have executed a significant capital investment programme in the last three years in renewal of our productive capacity and in ensuring the same quality of output from our key factories in Perth, Australia, Benton Illinois and in Shannon, Ireland. The internal heat-treatment process has come online in America this US$5 million investment in plant and facilities was commissioned after the half year, and the quality is in line with our expectations and delivering a better outcome for our customers in the improved economic life of our products.

We have absorbed €3.75 million in capital expenditure in the first half, for commitments made in previous periods, and depreciation in the period was €2.6 million, an increase over the prior year of €0.7m. Capital expenditure is held in prepayments as it is incurred, and prior to the plant and facilities being commissioned, so while the capital expenditure for the year will be significantly above depreciation, little of this will be actual cash outflow in the period.

The detailed workings in the attached cash flow show that last year, while making acquisitions, investing in capital equipment and running up the inventory in keeping with the revenue growth, we absorbed nearly €17 million in cash in the six-month period. In the first half of 2019, largely through the disposal of a non-core business , we have generated €8 million, with a timing difference in tax payment reducing this by €2 million. The programme and outlook through the rest of the year is to continue to build this cash reservoir. The nadir in cash has been passed, cash generation is well in hand for the rest of the year, with a particular objective of releasing cash from inventory.

Natural hedging through local debt
We have also drawn bank debt for plant additions as part of a local hedging strategy for the assets in various countries, and while debt has gone up with the capital expenditure programme, the actual cash at centre has begun to accumulate. This supports the very substantial commitments needed to fund large contracts, the working capital, the tranche payments for previous acquisitions and the ability of the Group to continue to make targeted acquisitions from its own cash resources as part of the ongoing growth strategy.

The consequence of these decisions is the higher finance charges in our profit and loss account, but the benefits are the generation of free cash, and the local hedging advantage. These hedging decisions arose as part of a localisation ambition, and the ongoing awareness of the impact of foreign exchange volatility on our results. The impact of foreign exchange movements in H1 was immaterial.

Ongoing review
The growth over the last two years has been significant, and we spent much of that time, and allocated a large amount of cash to building out the capital equipment to support that growth and provide adequate inventory to fill orders. We continued at higher levels of production while sales orders softened until it became clear this was an ongoing issue, and not a temporary phenomenon.

Against this, we have won large contracts recently which should see a return to organic growth as they come on stream. The lead time is substantial for these contracts due to the tendering processes that accompany them, the transition period required by a change in suppliers, and the need for delivery assurance by the end customer. In some cases we need to physically deliver product to the sites, and demonstrate that the support teams are in place.

We are also finding that large contracts can create a substantial cash requirement to support them. This can arise through the provision of cash collateralised performance guarantees, the requirements of inventory reservoirs proximate to the customer, the capital equipment to support service delivery, and the recruitment of local experienced teams to be available to maintain the service. The service requirements of large contracts are very high, the buy side teams tend to be very experienced and professional, and the customers are not fault tolerant since their entire business schedules may rely on our delivery.

The ability of the Group to support these multi-million-dollar trading relationships, provide these performance guarantees, and deliver the required working capital investment enables us to overcome what, for other companies, is a very substantial barrier to entry to this business segment.

The hydraulic hammer systems
We capitalised some €0.6m of development expenditure on this project in the first half and carry the investment in the balance sheet at just short of €4 million. We are scheduled for a substantial sustained drilling programme in Australia starting in the middle of August and we should be able to report on this in due course. We believe we are in the final stage of commercial development and we continue to refine the hammers, the systems and the service delivery.

The hydraulic hammer systems are designed to deliver a substantial commercial advantage to customers facing hard rock and high-altitude conditions. Some of the contracts that we have and the contracts that we are winning, are suitable for these systems. By establishing the primary relationships through our "Challenger" model and servicing these large customers and contracts directly we have the opportunity to deliver the hydraulic systems where there is value for the end customer.

We are aiming to have the resources in cash terms, the engineering and service levels to deliver the competitive advantage, and the direct customer relationships in order to maximise the opportunity for the Group to the commercial advantage of our customers.

Dividend
The Board of Mincon Group plc has recommended the payment of an interim dividend in the amount of 1.05 cent per ordinary share, which will be paid on the 27 September 2019 to shareholders on the register at the close of business on the 30 August 2019.

Outlook
We are not immune to the increased volatility of world markets as large economies engage in tariff battles, exchange rates fluctuate, and low wage producers aggressively target markets in which we sell as they redirect production away from where they face higher barriers to trade. We have seen softening in the margins, which we have taken steps to mitigate through the wide-ranging, deep review of our businesses, business model, and cost base.

We have established this "Challenger" thinking, and we are tendering for more substantial multi-million-dollar contracts. However, we have to win these from the market leaders, not our former peer group, so it will take time and investment to build that portfolio.

We have substantially finished looking inside our businesses at this point, save for the ongoing inventory and manufacturing advantage review referred to above, and we aim to return to growth as the new contracts come on stream through the second half. Our factories are very well specified and equipped with modern plant, and we have the capacity required for further growth.

Concluding comments
We are well engaged in the process of dismantling the customer centre approach, returning to regional leadership and responsibility, and then driving the cash and asset management in those regions through their owners, our local management. We are confident in our business model and the competence of our teams.

We have managed our way through this fitful market. We have disposed of a non-core business for cash, and we have cut our overheads. We will continue to review our businesses for best fit as our business model evolves, and to engage with potential acquisition opportunities where we see commercial advantage.

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.

12 AUGUST 2019

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Mincon Group plc
2019 Half Year Financial Results

Unaudited condensed consolidated income statement
For the 6 months ended 30 June 2019

	Notes	2019 Excluding exceptional items €'000	2019 Exceptional items (note 8) €'000	2019 Including exceptional items €'000	2018 Excluding exceptional items €'000	2018 Exceptional items (Note 8) €'000	2018 Including exceptional items €'000
Continuing operations							
Revenue	5	59,922	-	59,922	55,721	-	55,721
Cost of sales	7	(39,106)	-	(39,106)	(33,760)	-	(33,760)
Impairment of inventory	7	(1,992)	-	(1,992)	-	-	-
Gross profit		**18,824**	**-**	**18,824**	**21,961**	**-**	**21,961**
General and selling expenses	7	(13,877)	(2,521)	(16,398)	(13,874)	(268)	(14,142)
Impairment of trade receivables	7	(582)	(457)	(1,039)	-	-	-
Operating profit		**4,365**	**(2,978)**	**1,387**	**8,087**	**(268)**	**7,819**
Finance income		72	-	72	59	-	59
Finance cost		(303)	-	(303)	(60)	-	(60)
Foreign exchange gain/(loss)		41	-	41	35	-	35
Contingent consideration		(50)	-	(50)	(33)	-	(33)
Profit before tax		**4,125**	**(2,978)**	**1,147**	**8,088**	**(268)**	**7,820**
Profit from discontinued operation, net of tax		-	7,261	7,261	**-**	**-**	**-**
Income tax expense		(1,223)	-	(1,223)	(1,512)	-	(1,512)
Profit for the period		**2,902**	**4,283**	**7,185**	**6,576**	**(268)**	**6,308**

	Notes	2019	2018
Profit attributable to:			
- owners of the Parent		7,144	6,122
- non-controlling interests		41	186
Earnings per Ordinary Share			
Basic earnings per share,	12	3.39	2.91c
Diluted earnings per share,	12	3.35	2.87c

Unaudited condensed consolidated statement of comprehensive income
For the 6 months ended 30 June 2019

	2019 H1 €'000	2018 H1 €'000
Profit for the period	7,185	6,308
Other comprehensive income/(loss):		
Items that are or may be reclassified subsequently to profit or loss:		
Foreign currency translation – foreign operations	878	(2,389)
Other comprehensive profit / (loss) for the period	878	(2,389)
Total comprehensive income for the period	**8,063**	**3,919**
Total comprehensive income attributable to:		
- owners of the Parent	**8,022**	**3,733**
- non-controlling interests	**41**	**186**

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

Unaudited consolidated statement of financial position
As at 30 June 2019

	Notes	30 June 2019 €'000	31 December 2018 €'000
Non-Current Assets			
Intangible assets and goodwill	14	31,181	30,753
Property, plant and equipment	15	39,840	34,930
Deferred tax asset	10	527	278
Total Non-Current Assets		**71,548**	**65,961**
Current Assets			
Inventory and capital equipment	16	49,850	49,357
Trade and other receivables	17	23,609	20,711
Prepayments and other current assets		7,558	6,578
Contingent consideration		450	-
Current tax asset	10	373	252
Cash and cash equivalents		13,762	8,042
Total Current Assets		**95,602**	**84,940**
Total Assets		**167,150**	**150,901**
Equity			
Ordinary share capital	11	2,110	2,105
Share premium		67,647	67,647
Undenominated capital		39	39
Merger reserve		(17,393)	(17,393)
Restricted equity reserve		459	1,511
Share based payment reserve	13	1,706	1,274
Foreign currency translation reserve		(5,143)	(6,021)
Retained earnings		71,477	66,543
Equity attributable to owners of Mincon Group plc		**120,902**	**115,705**
Non-controlling interests		1,102	1,061
Total Equity		**122,004**	**116,766**
Non-Current Liabilities			
Loans and borrowings	18	9,759	4,461
Deferred tax liability	10	374	1,222
Deferred contingent consideration	9	6,103	5,470
Other liabilities		4,360	151
Total Non-Current Liabilities		**20,596**	**11,304**
Current Liabilities			
Loans and borrowings	18	2,019	2,735
Trade and other payables		12,378	12,027
Accrued and other liabilities		8,282	6,996
Current tax liability	10	1,871	1,073
Total Current Liabilities		**24,550**	**22,831**
Total Liabilities		**45,146**	**34,135**
Total Equity and Liabilities		**167,150**	**150,901**

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 2019

	H1 2019 €'000	H1 2018 €'000
Operating activities:		
Profit for the period	7,185	6,308
Adjustments to reconcile profit to net cash provided by operating activities:		
Depreciation	2,551	1,879
Fair value movement on deferred contingent consideration	50	33
Foreign exchange gain / loss	(41)	(35)
Finance cost	303	60
Finance income	(72)	(59)
Gain on the sale of discontinued operations, net of tax	(7,261)	-
Income tax expense	1,223	1,512
Reduction in goodwill	(532)	-
Other non-cash movements	(292)	(477)
	3,114	9,221
Changes in trade and other receivables	(2,079)	(347)
Changes in prepayments and other assets	(948)	(2,289)
Changes in inventory	1,071	(9,011)
Changes in trade and other payables	1,587	3,448
Cash provided by operations	2,745	1,022
Interest received	72	59
Interest paid	(303)	(60)
Income taxes paid	(2,027)	(317)
Net cash provided by/(used in) operating activities	**487**	**704**
Investing activities		
Purchase of property, plant and equipment	(3,746)	(5,280)
Investment in intangibles	(589)	(711)
Share-based payments	432	333
Payment of deferred contingent consideration	(500)	(1,439)
Acquisitions, net of cash required	(800)	(7,603)
Proceeds from sale of discontinued operations	8,075	-
Net cash provided by/(used in) investing activities	**2,872**	**(14,700)**
Financing activities		
Dividends paid	(2,210)	(2,210)
Repayment of loans and finance leases	(891)	(337)
Drawdown of loans	5,472	-
Net cash provided by/(used in) financing activities	**2,371**	**(2,547)**
Effect of foreign exchange rate changes on cash	(10)	(360)
Net increase/(decrease) in cash and cash equivalents	**5,720**	**(16,903)**
Cash and cash equivalents at the beginning of the year	8,042	28,215
Cash and cash equivalents at the end of the period	**13,762**	**11,312**

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 2019

	Share capital €'000	Share premium €'000	Merger reserve €'000	Restricted equity reserve €'000	Un-denominated capital €'000	Share based payment reserve €'000	Foreign currency translation reserve €'000	Retained earnings €'000	Total €'000	Non-controlling interests €'000	Total equity €'000
Balances at 1 July 2018	**2,105**	**67,647**	**(17,393)**	**-**	**39**	845	**(5,329)**	**61,303**	**109,217**	**972**	**110,189**
Comprehensive income:											
Profit for the period	-	-	-	-	-	-	-	7,451	**7,451**	89	**7,540**
Other comprehensive income/(loss):											
Foreign currency translation	-	-	-	-	-	-	(692)	-	**(692)**	-	**(692)**
Total comprehensive income							**(692)**	**7,451**	**6,759**	**89**	**6,848**
Non-taxable income	**-**	**-**	**-**	**1,511**	**-**	**-**	**-**	**-**	**1,511**	**-**	**1,511**
Transactions with Shareholders:											
Share-based payments	-	-	-	-	-	429	-	-	**429**	-	**429**
Dividend payment	-	-	-	-	-	-	-	(2,211)	**(2,211)**	-	**(2,211)**
Balances at 31 December 2018	**2,105**	**67,647**	**(17,393)**	**1,511**	**39**	**1,274**	**(6,021)**	**66,543**	**115,705**	**1,061**	**116,766**
Comprehensive income:											
Profit for the period	-	-	-	-	-	-	-	7,144	**7,144**	41	**7,185**
Other comprehensive income/(loss):											
Foreign currency translation	-	-	-	-	-	-	878	-	**878**	-	**878**
Total comprehensive income							878	7,144	**8,022**	41	**8,063**
Non-taxable income	-	-	-	(1,052)	-	-	-	-	(1,052)	-	(1,052)
Transactions with Shareholders:											
Equity-settled share-based payment	5	-	-	-	-	-	-	-	**5**	-	**5**
Share-based payments	-	-	-	-	-	432	-	-	**432**	-	**432**
Dividend payment	-	-	-	-	-	-	-	(2,210)	**(2,210)**	-	**(2,210)**
Balances at 30 June 2019	**2,110**	**67,647**	**(17,393)**	**459**	**39**	**1,706**	**(5,143)**	**71,477**	**120,902**	**1,102**	**122,004**

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

Notes to the consolidated interim financial statements

1 Reporting entity

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 2019 (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 08 August 2019.

2. Basis of accounting

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 2018 as set out in the 2018 Annual Report (the "2018 Accounts"). The Interim Financial Statements do, however, include selected explanatory notes to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

The Interim Financial Statements do not constitute statutory financial statements. The statutory financial statements for the year ended 31 December 2018, 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 2018 annual return. They are available from the Company website 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 2018 Accounts.

3. Use of 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 2018 Financial Statements.

4. Changes in significant accounting policies

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the last annual financial statements.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year-ending 31 December 2019.

The Group has initially adopted IFRS 16, *Leases*, from 1 January 2019. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

IFRS 16 introduces a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented as previously reported under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

A. Definition of a lease

Previously, Mincon determined at contract inception whether an arrangement was or contained a lease under IFRIC 4, *Determining Whether an Arrangement contains a Lease.* The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease component as a single lease component.

B. The Group's leasing activities and how these were accounted for

The Group leases many assets, including properties, production equipment, vehicles and IT equipment.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on balance sheet.

However, on transition to IFRS 16, the Group has applied practical expedients under IFRS 16 not to recognise right-of-use assets and leases liabilities for some leases of low-value assets (e.g. IT equipment) and for operating leases with a remaining lease term of less than 12 months as at 1 January 2019. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group presents the right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment', the same line item as it presents underlying assets of the same nature that it owns. The carrying amounts of right-of-use assets are as below:

€'000	**Property, plant and equipment**
Balance at 1 January 2019	4,401
Balance at 30 June 2019	4,472

The Group presents lease liabilities in 'loans and borrowings' in the statement of financial position

i. Summary of new accounting policies

The Group recognises a right-of-use asset and a lease liability at the commencement date. The right-of-use asset is initially measured as:

- The initial measurement of the lease liability; plus
- Initial indirect costs; plus
- Prepaid lease payments; plus
- Estimated costs to dismantle, remove or restore; less
- Lease incentives received.

The lease liability is initially measured at:

- The present value of lease payments payable over the lease term plus the present value of expected payments at the end of the lease, discounted at the interest rate implicit in the lease, or the incremental borrowing rate, where the interest rate implicit in the lease cannot be readily determined.

  Generally the Group uses its incremental borrowing rate as the discount rate. The lease liability is subsequently increased by the interest cost and decreased by the lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

  The Group has applied judgement to determine the lease term for some lease contracts which include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

C. *Adjustments recognised on adoption of IFRS 16*

i. Impact on transition

On transition to IFRS 16, the Group recognised right-of-use assets and lease liabilities. The impact on transition is summarised below.

	1 January 2019
	€'000
Right of use assets presented in property, plant and equipment	4,401
Lease liabilities	4,401

ii. Impacts for the period

As a result of applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised €4.5m of right of use assets and €4.5m of lease liabilities as at 30 June 2019.

Also, in relation to those leases under IFRS 16, the Group has recognised depreciation and interest costs, instead of operating lease expense. During the six months ended 30 June 2019, the Group recognised €0.9m of depreciation charges and interest costs, cumulatively, from these leases.

5. Revenue

	H1 2019 €'000	H1 2018 €'000
Product revenue:		
Sale of Mincon product	50,464	47,406
Sale of third party product	9,458	8,315
Total revenue	**59,922**	**55,721**

6. 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, Sweden, South Africa, UK, Western Australia, the United States and Canada and sales offices in eleven other locations including Eastern and Western Australia, South Africa, UK, Finland, Spain, Namibia, Tanzania, Sweden, 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 2019 €'000	H1 2018 €'000
Region:		
Americas	12,773	10,229
Australasia	17,202	18,482
Europe, Middle East, Africa	29,947	27,010
Total revenue from continuing operations	**59,922**	**55,721**

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

	30 June 2019 €'000	31 December 2018 €'000
Region:		
Americas	16,986	17,271
Australasia	7,962	8,795
Europe, Middle East, Africa	46,073	39,617
Total non-current assets[1]	**71,021**	**65,683**

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

7. 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 2019 €'000	H1 2018 €'000
Raw materials	16,888	16,246
Third party product purchases	7,743	6,569
Employee costs	8,370	6,939
Depreciation	1,567	1,461
Impairment of finished goods inventory	1,992	-
Other	4,538	2,545
Total cost of sales	**41,098**	**33,760**

The level of finished goods inventory impairment within cost of sales amounted to €2 million (30 June 2018: €Nil). This write down in inventory in the period end 30 June 2019 arose on various non-Mincon and Mincon manufactured product that became obsolete due to the availability of more advanced products that have now become available on the market.

General and selling expenses

	H1 2019 €'000	H1 2018 €'000
Employee costs	8,564	8,771
Depreciation	984	418
Exceptional items (note 8)	2,978	-
Impairment of trade receivables	582	-
Other	4,329	4,953
Total other operating costs	**17,437**	**14,142**

The Group provides for all receivables where there is objective evidence, including historical loss experience, that amounts are irrecoverable. The Group now considers that receivables of €582,000 million from various customers are no longer recoverable.

Employee information

	H1 2019 €'000	H1 2018 €'000
Wages and salaries	13,670	13,255
Social security costs	1,592	1,318
Pension costs of defined contribution plans	985	669
Redundancy payments (note 8)	1,241	-
Share based payments (note 13)	432	333
Total employee costs	**17,920**	**15,575**

The Group capitalised payroll costs of €30k in H1 2019 in relation to research and development.
The average number of employees was as follows:

	H1 2019 Number	H1 2018 Number
Sales and distribution	129	124
General and administration	51	61
Manufacturing, service and development	312	309
Average number of persons employed	**492**	**494**

8. Exceptional Items

	H1 2019 €'000	H1 2018 €'000
Operating costs		
Reorganisational costs	(2,842)	-
Acquisition and related costs	(136)	(268)
Total operating costs	**(2,978)**	**(268)**
Profit from discontinued operations	**7,261**	**-**
Total exceptional items	**4,283**	**(268)**

The Group has undertaken a reorganisation of its activities across all regions and, in H1 2019, incurred costs of €2.8 million (30 June 2018: €Nil). The reorganisation includes relocation of activities; closing of regional offices; and redundancies where necessary. Redundancy costs amounted to €1.2m for H1 2019.

The Group considers acquisition and related costs as exceptional items. During the course of acquiring Pacific Bit of Canada, the Group incurred costs of €55,000, and during the sale of Härdtekno the Group incurred costs of €81,000.

In June 2019, Mincon sold Härdtekno i Kristinehamn AB, a heat treatment plant located in Kristinehamn, Sweden for a total consideration of €8.6 million and a profit of €7.3 million. This company was purchased by Mincon as part of the Driconeq Group acquisition in March 2018.

9. Acquisitions and disposals

Acquisitions

In January 2019, Mincon acquired 100% shareholding in Pacific Bit, a Canadian-based mining and construction product distributor, for a consideration of €1.9m. This was made up of a cash consideration of €0.8m and deferred consideration of €1.0m.

A. Consideration transferred for acquisitions

	Pacific Bit €'000	Total €'000
Cash	800	800
Deferred contingent consideration	1,001	1,001
Total consideration transferred	1,801	1,801

B. Goodwill

Goodwill arising from the acquisition of Pacific Bit has been recognised as follows:

	Total €'000
Consideration transferred	1,801
Fair value of identifiable net assets	(915)
Goodwill	886

C. Acquisition related costs

Acquisition related costs for the acquisition of Pacific Bit amounted to €55,000 and were included in "operating expenses" in the income statement for the 6 months to the 30 June 2019.

Disposals

In June 2019 Mincon disposed of its 100% shareholding in Härdtekno i Kristinehamn AB, a subsidiary that specialises in providing heat treatment services, based in Kristinehamn, Sweden, for a consideration of €8.6m. There was a cash payment of €8.1m at the date of disposal, with the remaining €0.5m being deferred for 18 months from the date of closing, subject to any unresolved claims as laid out in the Share Purchase Agreement.

A. Profit on Disposal

The profit from the disposal of Härdtekno amounted to €7.3m, and is set out as follows

	H1 2019 €'000
Cash	8,075
Deferred contingent consideration	450
Goodwill	(715)
Carrying value of assets and liabilities at date of disposal	(549)
Profit on disposal	**7,261**

Under the terms of the Share Purchase Agreement €0.5m is being held in escrow for 15 months to be offset against any unforeseen warranties or liabilities post acquisition. Mincon's Management team estimated the probability of receiving this deferred contingent consideration and calculated the fair value to be €450,000.

B. Disposal related costs

Disposal related costs for the disposal of Härdtekno amounted to approximately €81,000 and were included in "exceptional items" as laid out in note 8.

10. Income Tax

The Group's consolidated effective tax rate in respect of operations for the six months ended 30 June 2019 was 14.6% (30 June 2018: 19.3%). The effective rate of tax is forecast at 19% for 2019. The tax charge for the six months ended 30 June 2019 of €1.1 million (30 June 2018: €1.5 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:

	30 June 2019 €'000	31 December 2018 €'000
Current tax prepayments	373	252
Current tax payable	(1,871)	(1,077)
Net current tax	1,498	825

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

	30 June 2019 €'000	31 December 2018 €'000
Deferred tax asset	527	672
Deferred tax liability	(374)	(1,613)
Net deferred tax	153	941

11. Share capital

Allotted, called- up and fully paid up shares	Number	€000
01 January 2019	210,541,102	2,105
Allotted in June 2019	432,000	5
30 June 2019	210,973,102	2,110

Share issuances

On 26 November 2013, Mincon Group plc was admitted to trading on the Enterprise Securities Market (ESM) of the Euronext Dublin and the Alternative Investment Market (AIM) of the London Stock Exchange.

In June 2019, 432,000 Restricted Share Awards (RSAs) met the vesting conditions set down by the board of directors and were allotted to the recipients of the awards.

12. 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 years ended 30 June:

	H1 2019	H1 2018
Numerator (amounts in €'000):		
Profit attributable to owners of the Parent	7,144	6,122
Denominator (Number):		
Basic shares outstanding	210,973,102	210,541,102
Restricted shares awards	2,037,176	2,469,176
Diluted weighted average shares outstanding	213,010,278	213,010,278
Earnings per Ordinary Share		
Basic earnings per share, €	3.39c	2.91c
Diluted earnings per share, €	3.35c	2.87c

13. Share based payment

In June 2016, 500,000 Restricted Share Awards (RSAs) were granted to members of the senior management team, these RSAs were subject to certain vesting conditions being met. These vesting conditions state that the minimum growth in EPS shall be CPI plus 5% per annum, compounded annually, over the relevant three accounting years up to the share award of 100% of the participants basic salary. Where awards have been granted to a participant in excess of 100% of their basic salary, the performance condition for the element that is in excess of 100% of basic salary is that the minimum growth in EPS shall be CPI plus 10% per annum, compounded annually, over the three accounting years.

Of the 500,000 RSAs that were granted in June 2016, 432,000 met the vesting conditions and were allotted to the recipients of the senior management team during the period. The remaining 68,000 RSAs that did not vest from the June 2016 grant were cancelled in 2018 due to members of the senior management team departing the Group.

Reconciliation of outstanding share options	**Number of Options in thousands**
Outstanding on 1 January 2019	2,469
Forfeited during the period	-
Exercised during the period	(432)
Granted during the period	-
Outstanding at 30 June 2019	**2,037**

14. Intangible Assets

	Product development €'000	Goodwill €'000	Total €'000
Balance at 1 January 2019	**3,377**	**27,376**	**30,753**
Investments / Internally developed	589	-	589
Acquisitions	-	915	915
Disposals	-	(715)	(715)
Impairment of goodwill	-	(532)	(532)
Foreign currency translation differences	-	171	171
Balance at 30 June 2019	**3,966**	**27,215**	**31,181**

15. Property, Plant and Equipment

Capital expenditure in the first half-year amounted to €3.7 million (30 June 2018 €5.3 million). excluding the increase of ROU assets (note 4).

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

	H1 2019 €'000	H1 2018 €'000
Cost of sales	1,567	1,461
Selling, general and administrative expenses	984	418
Total depreciation charge for property, plant and equipment	**2,551**	**1,879**

16. Inventory

	30 June 2019 €'000	31 December 2018 €'000
Finished goods and work-in-progress	37,312	36,158
Capital equipment	1,008	2,365
Raw materials	11,530	10,834
Total inventory	**49,850**	**49,357**

Write-down of inventories during the period ended 30 June 2019 amount to €2.0m (30 June 2018: €Nil and is explained in note 7).

17. Trade and other receivables

	30 June 2019 €'000	31 December 2018 €'000
Gross receivable	25,520	21,519
Provision for impairment	(1,911)	(808)
Net trade and other receivables	**23,609**	**20,711**

	30 June 2019 €'000	31 December 2018 €'000
Less than 60 days	18,277	14,451
61 to 90 days	2,846	3,437
Greater than 90 days	2,486	2,823
Net trade and other receivables	**23,609**	**20,711**

At 30 June 2019, €6.9m million (27%) of trade receivables balance were past due but not impaired (31 December 2018, €5.6m million (27%).

18. Loans, borrowings and lease liabilities

	Maturity	30 June 2019 €'000	31 December 2018 €'000
Loans and borrowings	2019-2026	11,778	4,576
Lease liabilities	2019-2026	4,586	2,620
Total Loans, borrowings and lease liabilities		**16,364**	**7,196**
Current		2,019	2,735
Non-current		14,345	4,461

The Group has a number of bank loans and lease liabilities in Ireland, the United Kingdom, USA, Sweden, Chile, Peru, Australia 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.

19. 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 2018 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 2019 and 31 December 2018 were as follows:

	30 June 2019	**31 December 2018**
	€'000	**€'000**
Cash and cash equivalents	13,762	8,042
Loans and borrowings	11,778	7,196
Shareholders' equity	120,902	115,705

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 63% 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. The changes in the USD, South African Rand, Australian Dollar, Swedish Krona and British Pound have either weakened or strengthened, resulting in a 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.

Euro exchange rates	30 June 2019 Closing	H1 2019 Average	31 December 2018 Closing	H1 2018 Average
US Dollar	1.14	1.13	1.14	1.21
Australian Dollar	1.62	1.62	1.62	1.57
Sterling	0.89	0.89	0.90	0.88
South African Rand	15.97	16.16	16.46	14.86
Swedish Krona	10.56	10.59	10.21	10.15

There has been no material change in the Group's currency exposure since 31 December 2018. Such exposure comprises the monetary assets and monetary liabilities that are not denominated in the functional currency of the operating unit involved.

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
Balance at 1 January 2019	**5,470**
Arising on acquisition	1,073
Cash payment	(500)
Fair value movement	-
Foreign currency translation differences	(50)
Balance at 30 June 2019	**5,993**

20. Commitments

The following capital commitments for the purchase of property, plant and equipment had been authorised by the directors at 30 June 2019:

	Total €'000
Contracted for	709
Not contracted for	168
Total	877

21. Litigation

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

22. 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 2019 and 31 December 2018, 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. In June 2019, the Group paid a final dividend of €2.1m (1.05 cent) to all shareholders on the register at 24 May 2019, of this dividend payment Kingbell Limited was paid €1.3m.

There were no other related party transactions in the half year ended 30 June 2019 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 2018 Annual Report that could have a material effect on the financial position or performance of the Company in the same period.

23. Events after the reporting date

Dividend

On 9 August 2019, 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 27 September 2019 to shareholders on the register at the close of business on 30 August 2019.

24. Approval of financial statements

The Board of Directors approved the interim condensed consolidated financial statements for the six months ended 30 June 2019 on 9 August 2019.