# Condensed Consolidated Income Statement

| | Notes | Unaudited Six months ended 30 June 2020 Before amortisation[i] and exceptional items $m | Amortisation[i] and exceptional items (note 4) $m | Total $m | Unaudited Six months ended 30 June 2019 Before amortisation[i] and exceptional items $m | Amortisation[i] and exceptional items (note 4) $m | Total $m |
|---|---|---|---|---|---|---|---|
| **Revenue** | 2,3 | **377.7** | **–** | **377.7** | 508.9 | – | 508.9 |
| Cost of sales | | **(295.1)** | **(49.5)** | **(344.6)** | (363.3) | – | (363.3) |
| **Gross profit (loss)** | | **82.6** | **(49.5)** | **33.1** | 145.6 | – | 145.6 |
| Other operating income | 21 | **5.6** | **–** | **5.6** | 6.4 | – | 6.4 |
| Operating expenses[ii] | | **(82.5)** | **(139.8)** | **(222.3)** | (96.4) | (14.5) | (110.9) |
| **Profit (loss) from operations** | 2 | **5.7** | **(189.3)** | **(183.6)** | 55.6 | (14.5) | 41.1 |
| Finance income | | **1.8** | **–** | **1.8** | 1.7 | – | 1.7 |
| Finance expense | | **(3.6)** | **–** | **(3.6)** | (2.7) | – | (2.7) |
| **Profit (loss) before tax from operations** | | **3.9** | **(189.3)** | **(185.4)** | 54.6 | (14.5) | 40.1 |
| Taxation | 5 | **(2.6)** | **(19.9)** | **(22.5)** | (13.3) | 3.6 | (9.7) |
| **Profit (loss) for the period** | | **1.3** | **(209.2)** | **(207.9)** | 41.3 | (10.9) | 30.4 |
| | | | | | | | |
| **Profit (loss) attributable to:** | | | | | | | |
| Owners of the parent | | **1.5** | **(208.0)** | **(206.5)** | 40.7 | (10.9) | 29.8 |
| Non-controlling interests | | **(0.2)** | **(1.2)** | **(1.4)** | 0.6 | – | 0.6 |
| | | **1.3** | **(209.2)** | **(207.9)** | 41.3 | (10.9) | 30.4 |

| **Earnings (loss) per share** | | **cents** | | **cents** | cents | | cents |
|---|---|---|---|---|---|---|---|
| Basic | 6 | **1.0** | | **(125.7)** | 24.6 | | 18.0 |
| Diluted | 6 | **1.0** | | **(125.7)** | 23.6 | | 17.3 |

i. Relates to amortisation of intangible assets arising on the acquisition of businesses (referred to hereafter as amortisation of acquired intangible assets).
ii. Included in operating expenses is the net impairment loss on trade and other receivables recognised in the period of $1.9m (30 June 2019 – $0.4m).

| | Notes | Audited Year ended 31 December 2019 Before amortisation[i] and exceptional items $m | Amortisation[i] and exceptional items (note 4) $m | Total $m |
|---|---|---|---|---|
| **Revenue** | 2,3 | 960.0 | – | 960.0 |
| Cost of sales | | (693.6) | (19.0) | (712.6) |
| **Gross profit (loss)** | | 266.4 | (19.0) | 247.4 |
| Other operating income | 21 | 10.8 | – | 10.8 |
| Operating expenses[ii] | | (182.9) | (28.5) | (211.4) |
| **Profit (loss) from operations** | 2 | 94.3 | (47.5) | 46.8 |
| Finance income | | 4.2 | – | 4.2 |
| Finance expense | | (5.4) | – | (5.4) |
| **Profit (loss) before tax from operations** | | 93.1 | (47.5) | 45.6 |
| Taxation | 5 | (17.0) | 12.8 | (4.2) |
| **Profit (loss) for the year** | | 76.1 | (34.7) | 41.4 |
| | | | | |
| **Profit (loss) attributable to:** | | | | |
| Owners of the parent | | 74.4 | (34.7) | 39.7 |
| Non-controlling interests | | 1.7 | – | 1.7 |
| | | 76.1 | (34.7) | 41.4 |

| **Earnings per share** | | cents | | cents |
|---|---|---|---|---|
| Basic | 6 | 45.0 | | 24.0 |
| Diluted | 6 | 43.9 | | 23.5 |

i. Relates to amortisation of intangible assets arising on the acquisition of businesses (referred to hereafter as amortisation of acquired intangible assets).
ii. Included in operating expenses is the net impairment loss on trade and other receivables recognised in the year of $1.1m.

The notes on pages 16 to 31 are an integral part of these condensed consolidated financial statements.

# Condensed Consolidated Statement of Comprehensive Income

| | **Unaudited Six months ended 30 June 2020 $m** | Unaudited Six months ended 30 June 2019 $m | Audited Year ended 31 December 2019 $m |
|---|---|---|---|
| **Comprehensive income** | | | |
| (Loss) profit for the period | **(207.9)** | 30.4 | 41.4 |
| | | | |
| **Components of other comprehensive income (expense) after tax** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange adjustments | **(7.7)** | 1.0 | 5.4 |
| Fair value gains and losses: | | | |
| – gains (losses) originating on net investment hedges arising during the period | **1.1** | (0.4) | (0.7) |
| | **(6.6)** | 0.6 | 4.7 |
| *Items that have been reclassified to profit or loss:* | | | |
| Release of foreign exchange on liquidation of subsidiaries | **–** | – | (0.2) |
| | | | |
| *Items that will not be reclassified to profit or loss:* | | | |
| Remeasurement of defined benefit pension schemes | **0.2** | (0.2) | (0.3) |
| Other comprehensive (expense) income after tax | **(6.4)** | 0.4 | 4.2 |
| **Total comprehensive (expense) income for the period** | **(214.3)** | 30.8 | 45.6 |
| | | | |
| **Total comprehensive (expense) income attributable to:** | | | |
| Owners of the parent | **(212.7)** | 30.2 | 43.5 |
| Non–controlling interests | **(1.6)** | 0.6 | 2.1 |
| | **(214.3)** | 30.8 | 45.6 |

Total comprehensive (expense) income attributable to owners of the parent arises from the Group's continuing operations.

# Condensed Consolidated Balance Sheet

| | Notes | Unaudited At 30 June 2020 $m | Unaudited At 30 June 2019 $m | Audited At 31 December 2019 $m |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 7,11 | **331.0** | 362.0 | 354.7 |
| Right-of-use assets | 8,11 | **30.5** | 39.6 | 36.7 |
| Goodwill | 9,11 | **162.8** | 230.0 | 230.2 |
| Other intangible assets | 10,11 | **44.2** | 85.9 | 78.5 |
| Investments | | **2.3** | 2.7 | 2.3 |
| Trade and other receivables | 12 | **3.3** | 3.3 | 2.7 |
| Deferred tax assets | | **3.0** | 22.7 | 29.9 |
| | | **577.1** | 746.2 | 735.0 |
| **Current assets** | | | | |
| Inventories | 11,13 | **331.1** | 336.6 | 350.8 |
| Trade and other receivables | 12 | **173.6** | 263.4 | 202.0 |
| Cash and cash equivalents | 16 | **50.2** | 87.4 | 128.6 |
| Current tax assets | | **2.7** | 0.1 | 0.2 |
| Held-for-sale assets | | **1.3** | – | – |
| Investments | | **–** | – | 0.5 |
| | | **558.9** | 687.5 | 682.1 |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Trade and other payables | | **76.7** | 139.2 | 121.2 |
| Lease liabilities | 16 | **9.5** | 10.0 | 9.8 |
| Borrowings | 16 | **1.4** | 3.0 | 1.6 |
| Provisions | | **3.0** | 2.6 | 3.2 |
| Current tax liabilities | | **0.9** | 12.1 | 9.5 |
| | | **91.5** | 166.9 | 145.3 |
| **Net current assets** | | **467.4** | 520.6 | 536.8 |
| **Non-current liabilities** | | | | |
| Trade and other payables | | **2.9** | 4.6 | 2.7 |
| Lease liabilities | 16 | **29.9** | 37.1 | 35.4 |
| Borrowings | 16 | **3.9** | 3.9 | 3.9 |
| Provisions | | **5.9** | 5.6 | 5.2 |
| Deferred tax liabilities | | **5.0** | 1.3 | 0.8 |
| | | **47.6** | 52.5 | 48.0 |
| **Net assets** | | **996.9** | 1,214.3 | 1,223.8 |
| **Equity attributable to owners of the parent** | | | | |
| Share capital | 14 | **66.5** | 67.3 | 67.3 |
| Share premium | 14 | **153.0** | 153.0 | 153.0 |
| Other components of equity | | **39.2** | 63.2 | 56.5 |
| Retained earnings | | **724.6** | 916.4 | 931.1 |
| | | **983.3** | 1,199.9 | 1,207.9 |
| **Non-controlling interests** | | **13.6** | 14.4 | 15.9 |
| **Total equity** | | **996.9** | 1,214.3 | 1,223.8 |

# Condensed Consolidated Statement of Changes in Equity

| | Unaudited Six months ended 30 June 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Share capital $m** | **Share premium $m** | **Other components of equity $m** | **Retained earnings $m** | **Total $m** | **Non-controlling interests $m** | **Total equity $m** |
| **At 1 January 2020** | **67.3** | **153.0** | **56.5** | **931.1** | **1,207.9** | **15.9** | **1,223.8** |
| Loss for the period | **–** | **–** | **–** | **(206.5)** | **(206.5)** | **(1.4)** | **(207.9)** |
| Other comprehensive (expense) income | **–** | **–** | **(6.4)** | **0.2** | **(6.2)** | **(0.2)** | **(6.4)** |
| **Total comprehensive expense** | **–** | **–** | **(6.4)** | **(206.3)** | **(212.7)** | **(1.6)** | **(214.3)** |
| Dividends to equity shareholders (note 15) | **–** | **–** | **–** | **(4.9)** | **(4.9)** | **–** | **(4.9)** |
| Dividends to non-controlling interest | **–** | **–** | **–** | **–** | **–** | **(0.9)** | **(0.9)** |
| Share buyback (note 14) | **(0.8)** | **–** | **0.6** | **(5.1)** | **(5.3)** | **–** | **(5.3)** |
| Treasury shares | | | | | | | |
| – purchase of treasury shares (note 14) | **–** | **–** | **–** | **(6.0)** | **(6.0)** | **–** | **(6.0)** |
| – disposal of treasury shares | **–** | **–** | **–** | **0.1** | **0.1** | **–** | **0.1** |
| Share options and awards | | | | | | | |
| – value of employee services | **–** | **–** | **4.6** | **–** | **4.6** | **–** | **4.6** |
| – discharge | **–** | **–** | **(11.2)** | **11.0** | **(0.2)** | **–** | **(0.2)** |
| Acquisition of non-controlling interest (note 20) | **–** | **–** | **–** | **(0.2)** | **(0.2)** | **0.2** | **–** |
| Transfer between reserves[i] | **–** | **–** | **(4.9)** | **4.9** | **–** | **–** | **–** |
| **Total transactions with owners** | **(0.8)** | **–** | **(10.9)** | **(0.2)** | **(11.9)** | **(0.7)** | **(12.6)** |
| **At 30 June 2020** | **66.5** | **153.0** | **39.2** | **724.6** | **983.3** | **13.6** | **996.9** |

i. $4.9m of the merger reserve is now considered to be realised, as the equivalent amount of the proceeds from the share placing in 2016 has now met the definition of qualifying consideration, and has been transferred to retained earnings.

| | Unaudited Six months ended 30 June 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital $m | Share premium $m | Other components of equity $m | Retained earnings $m | Total $m | Non-controlling interests $m | Total equity $m |
| At 31 December 2018 as previously reported | 66.7 | 153.0 | 75.8 | 881.6 | 1,177.1 | 14.0 | 1,191.1 |
| Adjustment on adoption of IFRS 16 | – | – | – | (0.6) | (0.6) | (0.2) | (0.8) |
| **At 1 January 2019 restated** | 66.7 | 153.0 | 75.8 | 881.0 | 1,176.5 | 13.8 | 1,190.3 |
| Profit for the period | – | – | – | 29.8 | 29.8 | 0.6 | 30.4 |
| Other comprehensive income (expense) | – | – | 0.6 | (0.2) | 0.4 | – | 0.4 |
| **Total comprehensive income (expense)** | – | – | 0.6 | 29.6 | 30.2 | 0.6 | 30.8 |
| Dividends to equity shareholders (note 15) | – | – | – | (8.3) | (8.3) | – | (8.3) |
| Shares issued | | | | | | | |
| – share option schemes and awards (note 14) | 0.6 | – | – | – | 0.6 | – | 0.6 |
| Treasury shares | | | | | | | |
| – purchase of treasury shares | – | – | – | (4.9) | (4.9) | – | (4.9) |
| Share options and awards | | | | | | | |
| – value of employee services | – | – | 6.6 | – | 6.6 | – | 6.6 |
| – discharge | – | – | (11.5) | 10.7 | (0.8) | – | (0.8) |
| – taxation | | | | | | | |
| Transfer between reserves[ii] | – | – | (8.3) | 8.3 | – | – | – |
| **Total transactions with owners** | 0.6 | – | (13.2) | 5.8 | (6.8) | – | (6.8) |
| **At 30 June 2019** | 67.3 | 153.0 | 63.2 | 916.4 | 1,199.9 | 14.4 | 1,214.3 |

ii. $8.3m of the merger reserve is now considered to be realised, as the equivalent amount of the proceeds from the share placing in 2016 has now met the definition of qualifying consideration, and has been transferred to retained earnings.

# Condensed Consolidated Statement of Changes in Equity continued

| | Audited Year ended 31 December 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital $m | Share premium $m | Other components of equity $m | Retained earnings $m | Total $m | Non-controlling interests $m | Total equity $m |
| At 31 December 2018 as previously reported | 66.7 | 153.0 | 75.8 | 881.6 | 1,177.1 | 14.0 | 1,191.1 |
| Adjustment on adoption of IFRS 16 | – | – | – | (1.1) | (1.1) | (0.2) | (1.3) |
| **At 1 January 2019 amended** | 66.7 | 153.0 | 75.8 | 880.5 | 1,176.0 | 13.8 | 1,189.8 |
| Profit for the year | – | – | – | 39.7 | 39.7 | 1.7 | 41.4 |
| Other comprehensive income (expense) | – | – | 4.1 | (0.3) | 3.8 | 0.4 | 4.2 |
| **Total comprehensive income** | – | – | 4.1 | 39.4 | 43.5 | 2.1 | 45.6 |
| Dividends to equity shareholders (note 15) | – | – | – | (16.6) | (16.6) | – | (16.6) |
| Shares issued | | | | | | | |
| – share option schemes and awards (note 14) | 0.6 | – | – | – | 0.6 | – | 0.6 |
| Treasury shares | | | | | | | |
| – purchase of treasury shares | – | – | – | (5.0) | (5.0) | – | (5.0) |
| – disposal of treasury shares | – | – | – | 0.3 | 0.3 | – | 0.3 |
| Share options and awards | | | | | | | |
| – value of employee services | – | – | 9.0 | – | 9.0 | – | 9.0 |
| – discharge | – | – | (11.6) | 10.8 | (0.8) | – | (0.8) |
| – taxation | – | – | – | 0.9 | 0.9 | – | 0.9 |
| Transfer between reserves[iii] | – | – | (20.8) | 20.8 | – | – | – |
| **Total transactions with owners** | 0.6 | – | (23.4) | 11.2 | (11.6) | – | (11.6) |
| **At 31 December 2019** | 67.3 | 153.0 | 56.5 | 931.1 | 1,207.9 | 15.9 | 1,223.8 |

iii. $20.8m of the merger reserve is now considered to be realised, as the equivalent amount of the proceeds from the share placing in 2016 has now met the definition of qualifying consideration, and has been transferred to retained earnings.

# Condensed Consolidated Statement of Cash Flows

| | Notes | **Unaudited Six months ended 30 June 2020 $m** | Unaudited Six months ended 30 June 2019 $m | Audited Year ended 31 December 2019 $m |
|---|---|---|---|---|
| **Operating activities** | | | | |
| **Reported (loss) profit from operations** | | **(183.6)** | 41.1 | 46.8 |
| Acquisition amortisation and exceptional items | 4 | **189.3** | 14.5 | 47.5 |
| Depreciation and non-acquisition amortisation | | **22.7** | 21.8 | 45.4 |
| Underlying EBITDA (NGM A) | | **28.4** | 77.4 | 139.7 |
| Share-based payment expense | | **4.9** | 6.6 | 9.1 |
| (Increase) decrease in inventories | | **(11.8)** | 12.2 | (0.2) |
| Decrease (increase) in receivables | | **30.1** | (32.7) | 29.0 |
| (Decrease) in payables | | **(49.3)** | (0.8) | (21.2) |
| Increase (decrease) in provisions | | **0.1** | (1.6) | (2.4) |
| Net taxation paid | | **(6.0)** | (3.6) | (7.7) |
| Net gain on disposal of property, plant and equipment | | **(1.0)** | (0.6) | (1.5) |
| Proceeds from disposal of property, plant and equipment held for rental | | **0.5** | 1.7 | 2.7 |
| Purchase of property, plant and equipment held for rental | | **(1.6)** | (4.1) | (5.6) |
| Gain on disposal of intangible assets | | **–** | – | (2.3) |
| Gain on disposal of business | | **–** | (1.6) | (2.0) |
| Restructuring costs shown as exceptional item | 4 | **(2.4)** | – | – |
| Acquisition costs shown as exceptional item | 4 | **(1.2)** | – | – |
| Other non-cash flow items | | **(0.2)** | – | (0.4) |
| **Net cash (outflow) inflow from operating activities** | | **(9.5)** | 52.9 | 137.2 |
| **Investing activities** | | | | |
| Interest received | | **0.5** | 0.6 | 1.3 |
| Net movement on loans to and from associates | | **–** | 0.1 | 0.3 |
| Proceeds from disposal of property, plant and equipment | | **1.1** | 0.5 | 0.9 |
| Proceeds from disposal of intangible technology | | **–** | – | 2.3 |
| Proceeds from disposal of business | | **0.6** | 2.5 | 3.0 |
| Purchase of subsidiaries | 19 | **(38.3)** | – | (12.5) |
| Cash in subsidiaries purchased | 19 | **5.5** | – | – |
| Purchase of property, plant and equipment | | **(8.9)** | (16.2) | (30.4) |
| Purchase of intangible assets | | **(1.5)** | (2.2) | (10.2) |
| **Net cash outflow from investing activities** | | **(41.0)** | (14.7) | (45.3) |
| **Financing activities** | | | | |
| Interest and bank fees paid | | **(0.7)** | (0.7) | (1.2) |
| Payment of lease liabilities | | **(6.0)** | (6.2) | (10.6) |
| Repayment of borrowings | | **–** | – | (0.9) |
| Proceeds from new borrowings | | **–** | 0.2 | – |
| Dividends paid to equity shareholders | 15 | **(4.9)** | (8.3) | (16.6) |
| Dividends paid to non-controlling interest | | **(0.9)** | – | – |
| Share buyback | 14 | **(5.3)** | – | – |
| Share capital issued | 14 | **–** | 0.6 | 0.6 |
| Purchase of treasury shares | | **(6.0)** | (4.2) | (5.0) |
| Disposal of treasury shares | | **0.1** | – | 0.3 |
| **Net cash outflow from financing activities** | | **(23.7)** | (18.6) | (33.4) |
| | | | | |
| **Net cash (outflow) inflow in cash and cash equivalents** | | **(74.2)** | 19.6 | 58.5 |
| Cash and cash equivalents at the beginning of the period | | **127.0** | 66.1 | 66.1 |
| Effect of foreign exchange rates | | **(4.0)** | (0.2) | 2.4 |
| **Cash and cash equivalents at the end of the period** | | **48.8** | 85.5 | 127.0 |
| | | | | |
| **Cash and cash equivalents at the end of the period comprise:** | | | | |
| Cash at bank and in hand | | **49.7** | 42.3 | 66.6 |
| Money market funds | | **0.5** | 45.1 | 26.2 |
| Short-term deposits | | **–** | – | 35.8 |
| Cash and cash equivalents per the balance sheet | 16 | **50.2** | 87.4 | 128.6 |
| Bank overdrafts included in borrowings | 16 | **(1.4)** | (1.9) | (1.6) |
| | | **48.8** | 85.5 | 127.0 |

# Notes

## 1. Basis of Accounting

The financial information contained in this Half Year Report is presented in US dollars and complies with IAS 34 Interim Financial Reporting, as adopted by the European Union, and with the Disclosure and Transparency Rules of the Financial Conduct Authority. The condensed set of consolidated financial statements should be read in conjunction with the 2019 Annual Report and Accounts, which have been prepared in accordance with the Companies Act 2006, and those International Financial Reporting Standards ("IFRSs") and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") as adopted by the European Union. In preparing this condensed set of consolidated financial statements, the significant judgements, estimates and assumptions made by management in applying the Group's accounting policies were the same as those applied in the 2019 Annual Report and Accounts.

For interim periods, taxes on income are accrued using an estimated weighted average tax rate that would be applicable to the full year profit or loss.

A number of amendments to IFRS became effective for the financial year beginning on 1 January 2020, however the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these amendments.

IFRS 17 Insurance Contracts is effective subsequent to the period end, and is being assessed to determine whether there is a significant impact on the Group's results or financial position.

Terms used in this condensed set of consolidated financial statements are defined in the Glossary on pages 189 to 191 contained in the 2019 Annual Report and Accounts.

The information for the year ended 31 December 2019 contained in this Half Year Report does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The independent auditor's report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain any statement under section 498(2) or (3) of the Companies Act 2006. This condensed set of consolidated interim financial statements has been reviewed, not audited.

### Critical Judgements and Key Estimates

Critical judgements are those that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Group's financial statements. Key assumptions are those assumptions concerning the future and other key sources of estimation uncertainty at the reporting period are those that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Judgements were made regarding the recognition of impairment of non-financial assets that impacted the carrying values of: goodwill; other intangible assets; property, plant and equipment; right-of-use assets and inventory (see note 11) and estimates were regarding future cash flows for the purposes of CGU impairment testing (see note 11). The Directors also applied their judgement in determining that there are no disclosable material uncertainties in relation to the Group's ability to continue as a going concern as described further below. The Directors believe that there are no other critical judgements or estimates applied in the preparation of the financial statements.

### Going Concern and Liquidity

*Introduction*

The Group's principal cash outflows include capital investment, labour costs, inventory purchases and dividends. The timing and extent of these cash flows is controlled by local management and the Board. The Group's principal cash inflows are generated from the sale of its products and services, the level of which is dependent on the overall market conditions, the variety of its products and its ability to retain strong customer relationships. Cash inflows are further supported by the Group's credit insurance cover against customer default that, at 30 June 2020, covered the majority of its trade receivables, subject to certain limits.

Current and forecast cash/debt balances are reported on a weekly basis by each of the business units to a centralised treasury function that uses the information to manage the Group's day-to-day liquidity and longer-term funding needs.

The Group has access to sufficient financial resources, including $160m of secured committed facilities, which has been undrawn throughout 2020 to date. The Group's internal financial projections indicate that the Group will retain sufficient liquidity to meet its funding requirements over the next twelve months.

*Review*

In conducting its review of the Group's ability to remain as a going concern, the Board assessed the Group's recent trading performance and its latest forecasts and took account of reasonably predictable changes in future trading performance in light of the Group's strong cash and bank position at 30 June 2020. The Board also considered the potential financial impact of the estimates, judgements and assumptions that were used to prepare these financial statements. Management sensitised these forecasts to reflect plausible downside scenarios as a result of the COVID-19 impact on global economies. These demonstrated that the Group is able to maintain sufficient cash resources to meet its liabilities as they fall due over the next twelve months. Management, also prepared further forecasts to identify the conditions required to fully consume the Group's cash reserves and cause a breach of the banking covenants thus restricting access to the Group's undrawn RCF in the going concern assessment period, including a significant drop in revenue and EBITDA margins, an increase in inventory days, delays in crystallising trade receivables and faster settlement of trade payables. The Board assessed the severity of these forecasts and concluded that the likelihood of such a combined occurrence over the next twelve months is remote. The Board is therefore satisfied that no material uncertainties have been identified.

*Conclusion*

The Board is satisfied that it has conducted a robust review of the Group's going concern and has a high level of confidence that the Group has the necessary liquid resources to meet its liabilities as they fall due. Consequently, the Board considered it appropriate to adopt the going concern basis of accounting in preparing the Half Year Report.

## 2. Segmental Reporting

For the six months ended 30 June 2020, the Group has been reporting on five operating segments in its internal management reports, which are used to make strategic decisions by the Hunting PLC Board, the Group's Chief Operating Decision Maker ("CODM").

The Group's operating segments are strategic business units that offer different products and services primarily to international oil and gas companies and who undertake exploration and production activities. The Board assesses the performance of the operating segments based on revenue and underlying operating results. Underlying operating result is a profit-based measure and excludes the effects of amortisation of acquired intangible assets and any exceptional items (see note 4). The Directors believe that using the underlying operating result provides a more consistent and comparable measure of the operating segment's performance.

Interest income and expenditure are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the funding position of the Group.

Inter-segment sales are priced in line with the transfer pricing policy on an arm's length basis. Central costs and overheads are apportioned to the operating segments on the basis of time attributed to those operations by senior executives.

Further, the Board is also provided revenue information by product group, in order to help with an understanding of the drivers of Group performance trends.

Hunting Titan: Hunting Titan manufactures and distributes a broad range of well completion products and accessories. The segment's products include both integrated and conventional gun systems and hardware, a complete portfolio of shaped charges and other energetics products, addressable and analogue switch technology and electronic instrumentation for certain measurements required in the oil and gas industry. Key products include H–1 gun systems, ControlFire® switches, EQUAfrac® shaped charges, the T–Set™ line of setting tools and the PowerSet family of power charges. The business has manufacturing facilities in the US and Mexico, and is supported by strategically-located distribution centres across North America.

US: The US businesses supply premium connections, oil country tubular goods ("OCTG"), drilling tools, subsea equipment, intervention tools, electronics and complex deep hole drilling and precision machining services for the US and overseas markets. The segment also manufactures perforating system products for Hunting Titan. Enpro has been classified as part of this segment, as it falls under the management of the Subsea business in the US. The segment also includes the Group's legacy exploration and production activities in the Southern US and offshore Gulf of Mexico.

Canada: Hunting's Canadian business manufactures premium connections and accessories for oil and gas operators in Canada, often focused on heavy oil plays, which require specialist tubing technologies. Canada also manufactures perforating guns for Hunting Titan. Following a review of the medium-term outlook for the business, the Board decided to cease manufacturing operations in Canada and close its facility in Calgary, Alberta. Operations will be wound down during H2 2020. A sales function will remain in Calgary to support the Group's presence in Canada, however, all ongoing customer requirements will be completed and reported within the Group's Hunting Titan US operating segments going forward.

Europe, Middle East and Africa ("EMEA"): Revenue from this segment is generated from the supply of OCTG and well intervention equipment to operators in the North Sea as well as the sale and rental of in-field well intervention products across the Middle East region. In the Middle East, the operations also act as a sales hub for other products manufactured globally by the Group, including OCTG and Perforating Systems.

Asia Pacific: Revenue from the Asia Pacific segment is primarily from the manufacture of premium connections and OCTG supply. Asia Pacific also manufactures perforating guns for sale to Hunting Titan and for sale in its domestic markets.

Due to its size and nature of operations, Hunting Titan's activities are reported separately. Although the Canada segment does not meet the quantitative thresholds required by IFRS 8 for reportable segments, this segment is separately reported as it is separately monitored by the Board.

Accounting policies used for segmental reporting reflect those used for the Group. The UK is the domicile of Hunting PLC.

# Notes continued

## 2. Segmental Reporting continued

The following tables present the results of the operating segments on the same basis as that used for internal reporting purposes to the CODM.

### (a) Segment Revenue and Profit

| | Six months ended 30 June 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Total segment revenue $m | Inter-segment revenue $m | Total external revenue $m | Underlying result $m | Amortisation[i] and exceptional items $m | Reported result $m |
| Hunting Titan | **102.5** | **(2.5)** | **100.0** | **1.7** | **(116.1)** | **(114.4)** |
| US | **167.0** | **(18.4)** | **148.6** | **4.6** | **(41.9)** | **(37.3)** |
| Canada | **12.8** | **(4.1)** | **8.7** | **(1.0)** | **(9.3)** | **(10.3)** |
| EMEA | **50.9** | **(0.3)** | **50.6** | **(3.1)** | **(19.9)** | **(23.0)** |
| Asia Pacific | **71.3** | **(1.5)** | **69.8** | **3.5** | **(2.1)** | **1.4** |
| **Total from operations** | **404.5** | **(26.8)** | **377.7** | **5.7** | **(189.3)** | **(183.6)** |
| Net finance expense | | | | **(1.8)** | **–** | **(1.8)** |
| **Profit (loss) before tax from operations** | | | | **3.9** | **(189.3)** | **(185.4)** |

i. Relates to amortisation of intangible assets arising on the acquisition of businesses (referred to hereafter as amortisation of acquired intangible assets).

| | Six months ended 30 June 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Total segment revenue $m | Inter-segment revenue $m | Total external revenue $m | Underlying result $m | Amortisation[i] and exceptional items $m | Reported result $m |
| Hunting Titan | 206.1 | (2.1) | 204.0 | 42.2 | (12.9) | 29.3 |
| US | 181.1 | (20.3) | 160.8 | 12.9 | (1.6) | 11.3 |
| Canada | 19.5 | (4.4) | 15.1 | (3.0) | – | (3.0) |
| EMEA | 67.0 | (4.1) | 62.9 | 0.2 | – | 0.2 |
| Asia Pacific | 75.1 | (9.0) | 66.1 | 3.3 | – | 3.3 |
| **Total from operations** | 548.8 | (39.9) | 508.9 | 55.6 | (14.5) | 41.1 |
| Net finance expense | | | | (1.0) | – | (1.0) |
| **Profit (loss) before tax from operations** | | | | 54.6 | (14.5) | 40.1 |

i. Relates to amortisation of intangible assets arising on the acquisition of businesses (referred to hereafter as amortisation of acquired intangible assets).

| | Year ended 31 December 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Total segment revenue $m | Inter-segment revenue $m | Total external revenue $m | Underlying result $m | Amortisation[i] and exceptional items $m | Reported result $m |
| Hunting Titan | 375.5 | (4.3) | 371.2 | 68.6 | (26.5) | 42.1 |
| US | 363.2 | (44.5) | 318.7 | 26.9 | (21.0) | 5.9 |
| Canada | 35.7 | (8.6) | 27.1 | (4.3) | – | (4.3) |
| EMEA | 123.0 | (7.2) | 115.8 | (1.3) | – | (1.3) |
| Asia Pacific | 146.3 | (19.1) | 127.2 | 4.4 | – | 4.4 |
| **Total from operations** | 1,043.7 | (83.7) | 960.0 | 94.3 | (47.5) | 46.8 |
| Net finance expense | | | | (1.2) | – | (1.2) |
| **Profit (loss) before tax from operations** | | | | 93.1 | (47.5) | 45.6 |

i. Relates to amortisation of intangible assets arising on the acquisition of businesses (referred to hereafter as amortisation of acquired intangible assets).

## 2. Segmental Reporting continued

A breakdown of external revenue by products and services is presented below:

| | **Six months ended 30 June 2020 $m** | Six months ended 30 June 2019 $m | Year ended 31 December 2019 $m |
|---|---|---|---|
| Perforating Systems | **97.2** | 199.4 | 363.0 |
| OCTG | **169.2** | 181.7 | 357.0 |
| Advanced Manufacturing | **40.9** | 59.4 | 104.5 |
| Intervention Tools | **17.0** | 24.9 | 44.3 |
| Subsea | **33.8** | 18.9 | 44.5 |
| Drilling Tools | **6.3** | 11.3 | 22.3 |
| Other | **13.3** | 13.3 | 24.4 |
| **Total** | **377.7** | 508.9 | 960.0 |
| Revenue from products is further analysed between: | | | |
| Oil and gas | **357.6** | 486.9 | 918.7 |
| Non-oil and gas | **20.1** | 22.0 | 41.3 |
| **Total** | **377.7** | 508.9 | 960.0 |

## 3. Revenue

In the following tables, a breakdown of the Group's different revenue streams by segment has been given, including the disaggregation of revenue from contracts with customers.

| | **Six months ended 30 June 2020** | | | |
|---|---|---|---|---|
| | **Revenue from contracts with customers $m** | **Rental revenue $m** | **Other revenue $m** | **Total external revenue $m** |
| Hunting Titan | **100.0** | **–** | **–** | **100.0** |
| US | **140.3** | **7.2** | **1.1** | **148.6** |
| Canada | **8.7** | **–** | **–** | **8.7** |
| EMEA | **48.5** | **2.1** | **–** | **50.6** |
| Asia Pacific | **69.8** | **–** | **–** | **69.8** |
| **Total** | **367.3** | **9.3** | **1.1** | **377.7** |

| | Six months ended 30 June 2019 | | | |
|---|---|---|---|---|
| | Revenue from contracts with customers $m | Rental revenue $m | Other revenue $m | Total external revenue $m |
| Hunting Titan | 204.0 | – | – | 204.0 |
| US | 147.6 | 12.2 | 1.0 | 160.8 |
| Canada | 15.1 | – | – | 15.1 |
| EMEA | 59.3 | 3.6 | – | 62.9 |
| Asia Pacific | 66.1 | – | – | 66.1 |
| **Total** | 492.1 | 15.8 | 1.0 | 508.9 |

| | Year ended 31 December 2019 | | | |
|---|---|---|---|---|
| | Revenue from contracts with customers $m | Rental revenue $m | Other revenue $m | Total external revenue $m |
| Hunting Titan | 371.2 | – | – | 371.2 |
| US | 292.0 | 24.6 | 2.1 | 318.7 |
| Canada | 27.0 | 0.1 | – | 27.1 |
| EMEA | 109.1 | 6.7 | – | 115.8 |
| Asia Pacific | 127.2 | – | – | 127.2 |
| **Total** | 926.5 | 31.4 | 2.1 | 960.0 |

There is no material difference in the timing of revenue recognition between contracts with customers at a point in time and contracts with customers over time, as the majority of Hunting's performance obligations are relatively short. Invoices for products are issued when the product is shipped or made available to customers for collection and invoices for services are issued either on completion of the service or, at a minimum, monthly for services covering more than one month.

# Notes continued

## 4. Amortisation and exceptional items

| | **Six months ended 30 June 2020 $m** | Six months ended 30 June 2019 $m | Year ended 31 December 2019 $m |
|---|---|---|---|
| Impairments of property, plant and equipment | **14.4** | – | 19.0 |
| Impairments of inventories | **33.3** | – | – |
| Restructuring costs | **1.8** | – | – |
| Charged to cost of sales | **49.5** | – | 19.0 |
| Amortisation of acquired intangible assets | **12.3** | 14.5 | 28.5 |
| Impairments of goodwill | **79.8** | – | – |
| Impairments of other intangible assets | **39.2** | – | – |
| Impairments of property, plant and equipment | **4.9** | – | – |
| Impairments of right-of-use assets | **2.1** | – | – |
| Impairments of receivables | **1.2** | – | – |
| Acquisition costs | **1.2** | – | – |
| Remeasurement of contingent consideration on Enpro acquisition | **(2.5)** | – | – |
| Restructuring costs | **1.6** | – | – |
| Charged to operating expenses | **139.8** | 14.5 | 28.5 |
| Total amortisation and exceptional items charged to profit from operations | **189.3** | 14.5 | 47.5 |
| Taxation on amortisation and exceptional items (note 5) | **19.9** | (3.6) | (12.8) |
| | **209.2** | 10.9 | 34.7 |

Due to their size and nature, the following items have been disclosed as exceptional items in the financial statements:

Following a carrying value review given current trading conditions and future expectations, impairment of goodwill, property, plant and equipment, right-of-use assets, other intangible assets and inventories have been recognised in the six months to 30 June 2020. Further details are provided in note 11.

Acquisition-related costs of $1.2m have been charged to operating expenses and paid in the six months ended 30 June 2020.

The contingent consideration recognised on the acquisition of Enpro has a fair value of $nil at 30 June 2020 and so the amount recognised at the date of the acquisition (see note 19) has been reversed.

Management continues to implement cost-base reduction measures at all levels across the Group, resulting in restructuring costs of $3.4m being incurred, with $2.4m being paid during the period. Restructuring costs also include a $0.5m write-down to the carrying value of a property classified as held-for-sale at the beginning of the year, to reflect its recoverable amount.

During 2019, impairment of our drilling tools motor fleet and associated parts of $19.0m was recognised, with the majority of assets expected to be scrapped.

## 5. Taxation

The taxation charge for the six months ended 30 June 2020 is calculated by applying the estimated annual Group effective rate of tax to the profit or loss for the period. The underlying estimated weighted average tax rate for the year ending 31 December 2020 is 67% (NGM B) and has been used for the six months ended 30 June 2020 (six months ended 30 June 2019 – 24%).

The underlying tax charge for the six months ended 30 June 2020 is $2.6m (six months ended 30 June 2019 – $13.3m; year ended 31 December 2019 – $17.0m). A tax charge of $19.9m has been included in the condensed consolidated income statement in respect of amortisation of acquired intangible assets and exceptional items (six months ended 30 June 2019 – $3.6m credit; year ended 31 December 2019 – $12.8m credit). This charge largely reflects the reversal of net deferred tax assets of $22.9m no longer recognised for the US businesses as realisation of the tax benefit is not probable within a reasonable time frame. The reported tax charge for the six months ended 30 June 2020 is $22.5m (six months ended 30 June 2019 – $9.7m charge; year ended 31 December 2019 – $4.2m charge), and the reported estimated weighted average tax rate for the year ending 31 December 2020 is 12%.

The reduction to the main rate of corporation tax to reduce the rate to 17% from 1 April 2020 in the Finance Bill 2016 was revoked in the Budget on 11 March 2020. A resolution under the Provisional Collection of Taxes Act 1968 was temporarily enacted on 17 March 2020 and the rate of corporation tax rate is to remain at 19%. This change did not have a material impact on the Group's tax balances.

### 6. (Loss) earnings per share

Basic (loss) earnings per share ("EPS") is calculated by dividing the earnings attributable to Ordinary shareholders by the weighted average number of Ordinary shares outstanding during the period.

For diluted (loss) earnings per share, the weighted average number of outstanding Ordinary shares is adjusted to assume conversion of all dilutive potential Ordinary shares. Dilution arises through the possible issue of shares to satisfy awards made under the Group's long-term incentive plans.

Reconciliations of the earnings and weighted average number of Ordinary shares used in the calculations are set out below:

| | **Six months ended 30 June 2020 $m** | Six months ended 30 June 2019 $m | Year ended 31 December 2019 $m |
|---|---|---|---|
| **Reported (loss) earnings attributable to Ordinary shareholders** | **(206.5)** | 29.8 | 39.7 |
| Add amortisation[i] and exceptional items after taxation | **208.0** | 10.9 | 34.7 |
| **Underlying earnings attributable to Ordinary shareholders** | **1.5** | 40.7 | 74.4 |
| | **millions** | millions | millions |
| **Basic weighted average number of Ordinary shares** | **164.2** | 165.1 | 165.2 |
| Long-term incentive plans | **3.9** | 7.0 | 3.9 |
| **Adjusted weighted average number of Ordinary shares** | **168.1** | 172.1 | 169.1 |
| | **cents** | cents | cents |
| **Reported (loss) earnings per share** | | | |
| Basic EPS | **(125.7)** | 18.0 | 24.0 |
| Diluted EPS | **(125.7)** | 17.3 | 23.5 |
| **Underlying earnings per share** | | | |
| Basic EPS | **1.0** | 24.6 | 45.0 |
| Diluted EPS[ii] | **1.0** | 23.6 | 43.9 |

i. Relates to amortisation of intangible assets arising on the acquisition of businesses (referred to hereafter as amortisation of acquired intangible assets).
ii. For the six months ended 30 June 2020, the effect of dilutive share options and long-term incentive plans was anti-dilutive and, therefore, they have not been used to calculate diluted earnings per share.

### 7. Property, Plant and Equipment

During the first six months of 2020, the net book value of property, plant and equipment decreased from $354.7m to $331.0m. Additions of $10.7m and additions from acquisitions of $5.8m (note 19) were offset by disposals of $0.5m, depreciation of $16.5m, impairment of $19.3m, reclassifications of $1.5m and foreign exchange movements of $2.4m. Details of the impairment review carried out can be found in note 11.

Additions include $3.4m for land and buildings, $5.7m for plant, machinery and motor vehicles and $1.6m for rental tools.

Group capital expenditure committed, for the purchase of property, plant and equipment, but not provided for at 30 June 2020 amounted to $1.9m (30 June 2019 – $13.4m; at 31 December 2019 – $2.2m).

In accordance with the amendments made to the Group's core committed bank facility in July 2016, security has been granted over certain trade properties, plant and equipment in the UK and US, which have a carrying value of $205.2m (six months ended 30 June 2019 – $232.3m; year ended 31 December 2019 – $217.2m).

### 8. Right-of-use Assets

The net book value of right-of-use assets has decreased from $36.7m at 31 December 2019 to $30.5m as at 30 June 2020. Additions in the year of $1.5m and additions from acquisitions of $0.3m (note 19) were offset by depreciation of $3.8m, impairment of $2.1m, modifications of $1.1m and foreign exchange adjustments of $1.0m. Details of the impairment review carried out can be found in note 11.

### 9. Goodwill

The net book value has decreased by $67.4m to $162.8m as at 30 June 2020. The addition in the year of $13.4m from the acquisition of Enpro (note 19) was offset by impairment of $79.8m and foreign exchange adjustments of $1.0m. Details of the impairment review carried out can be found in note 11. Goodwill at the end of the period is $527.7m (six months ended 30 June 2019 – $516.2m; year ended 31 December 2019 – $516.9m) and accumulated impairment is $364.9m at the period end (six months ended 30 June 2019 – $286.2m; year ended 31 December 2019 – $286.7m).

# Notes continued

## 10. Other Intangible Assets

During the first six months of 2020, the net book value of other intangible assets decreased by $34.3m from $78.5m to $44.2m due to impairment charges of $39.2m (see note 11), amortisation charges of $12.3m on intangible assets arising on business acquisitions (note 4) and $2.4m on purchased intangible assets, and $1.1m foreign exchange adjustments, which are offset by $1.5m of additions and $19.2m other intangible assets recognised on the acquisition of Enpro (note 19).

## 11. Impairment of Non-financial Assets

### (a) Impairment Testing Process

*(i) Cash-generating Units ("CGUs")*

As at 31 December 2019, a limited number of cases of an unknown virus had been reported to the World Health Organisation (the "WHO"). Following the subsequent spread of the virus, on 11 March 2020, the WHO declared the coronavirus ("COVID-19") outbreak to be a pandemic. As a result of COVID-19, we have seen macroeconomic uncertainty with regards to prices and demand for oil and gas, with the largest one-day fall in the oil price since 1991 being recorded in March 2020. The effect on the Group of the downturn in the global economy due to COVID-19 and the impact that this has had on the oil and gas sector began in late Q1 2020.

In preparing the 2019 year-end Group financial statements, a goodwill impairment review was conducted but did not result in any impairment. However, for our European Well Intervention CGU a downside sensitivity was disclosed. During 2020, current market conditions are significantly worse, business activity levels have declined very quickly and more severely than was expected at this time due to the global impact of COVID-19. The scale and duration of the adverse impact remains uncertain, and furthermore, the recovery is expected to be a gradual process. Therefore, management has tested goodwill for impairment across all CGUs in preparing the interim financial statements. Management has reacted to the downturn, implementing restructuring actions, and revised projections, including projected cost savings, which have been used in the calculation of recoverable amounts.

The recoverable amount for each CGU has been determined using a fair value less costs of disposal ("FVLCD") method, which represents the value of the CGU in a sales transaction on an arm's-length basis. As there is no active market for the Group's CGUs, the FVLCD is determined using discounted cash flow techniques based on the estimated future cash flows that are expected to be generated by the CGU and discounted at a rate that is determined for each CGU in isolation by consideration of their business risk profiles. This method allows approved capital projects that are in progress to be included. The recoverable amount calculations use discounted pre-tax nominal cash flow projections. The FVLCD is a Level 3 measurement as per the fair value hierarchy as defined within IFRS 13 due to unobservable inputs used in the valuation.

The key assumptions for the recoverable amount calculations are revenue growth rates, taking into account the impact these have on margins, terminal growth rates and the discount rates applied.

For 2020, cash flows are based on the latest detailed forecast, using actual results to May 2020. For 2021 to 2025, management has made revenue projections using Spears & Associates "Drilling and Production Outlook" independent reports as a default basis, selecting the most appropriate geographic markets and drivers (rig count, footage drilled or E&P spend) for each CGU. Management has then applied judgemental changes to revenue growth expectations, if appropriate, to reflect circumstances specific to the CGU. Having determined the projected revenues, management has then modelled the expected impact on margins and cash flow from the resulting revenue projections. This process can give a diverse range of outcomes depending on market or business specific conditions. Compound annual growth rates ("CAGR") for revenue for the CGUs from 2020 to 2025 vary between 1% and 29% (31 December 2019 – CAGR from 2019 to 2024 between 3% and 12%). After 2025, a terminal value has been calculated assuming growth of 50 basis points above assumed inflation (31 December 2019 – 25 basis points), giving nominal growth rates between 1% and 3% (31 December 2019 – between 1% and 2%).

Cash flows have been discounted using nominal pre-tax rates between 11% and 18% (31 December 2019 – 9% and 10%). The discount rates reflect current market assessments of the equity market risk premiums, the volatility of returns, the risks associated with the cash flows, the likely external borrowing rate of the CGU and expected levels of leverage. As a result of the significant reduction in the Company's share price, the "small-cap premium" applied in determining discount rates has increased markedly and is the main contributor to the higher rates applied in 2020. Consideration has also been given to other factors such as currency risk, operational risk and country risk.

*(ii) Individual Assets*

For individual assets, an impairment test is conducted if there are indicators of impairment. Impairment arises when the carrying value of the asset is greater than the higher of its fair value less costs of disposal or its value in use. If the cash flows of an asset cannot be assessed individually, then the asset or a group of assets are aggregated into a CGU and tested as described above.

## **11. Impairment of Non-financial Assets** continued

### (b) Impairment Tests for Goodwill

Goodwill is allocated to the Group's cash-generating units ("CGUs") as follows:

| CGU | Operating segment | At 30 June 2020 $m | At 30 June 2019 $m | At 31 December 2019 $m |
|---|---|---|---|---|
| Hunting Titan | Titan | **114.9** | 180.5 | 180.5 |
| Hunting Stafford "Subsea" (formally National Coupling Company) | US | **15.0** | 15.0 | 15.0 |
| Enpro | US | **12.8** | – | – |
| Dearborn | US | **7.6** | 12.5 | 12.5 |
| US Manufacturing | US | **12.5** | 12.5 | 12.5 |
| Hunting Specialty | US | **–** | 5.0 | 5.0 |
| European Well Intervention (Welltonic acquisition) | EMEA | **–** | 4.5 | 4.7 |
| **Total** | | **162.8** | 230.0 | 230.2 |

Goodwill is tested at least annually for impairment. Impairment charges of $79.8m (six months ended 30 June 2019 – $nil; year ended 31 December 2019 – $nil) have been recorded as a result of the goodwill impairment review carried out in the period. In all CGUs, the impairment arose as a result of reduced mid-term economic expectations following the current downturn and increased discount rates as discussed above.

*(i) Hunting Titan*

The Hunting Titan CGU has been considerably impacted by the significant and rapid decline in US onshore activity levels. An impairment of $65.6m (six months ended 30 June 2019 – $nil; year ended 31 December 2019 – $nil) has been charged. The Titan CGU represents 71% (at 30 June 2019 and 31 December 2019 – 78%) of the goodwill balance. The CGU has a total carrying value, including amounts recognised on consolidation such as goodwill, of $348.6m (30 June 2019 – $427.5m; 31 December 2019 – $444.1m). Cash flows have been discounted using a nominal pre-tax rate of 11%.

An increase in discount rates of 1% would add a further $15.7m of impairment. A decrease in the expected CAGR between 2020 and 2025 of 1% would add a further $7.8m of impairment.

*(ii) Hunting Stafford "Subsea"*

Hunting Stafford "Subsea" cash flows have been discounted using a nominal pre-tax rate of 14%. No impairment has been recognised following the impairment review.

An increase in discount rates of 1% would create an impairment of $3.6m. A decrease in the expected CAGR between 2020 and 2025 of 1% would create an impairment of $1.3m.

*(iii) Enpro*

Goodwill of $13.4m was recognised on the acquisition of Enpro (see note 19). After foreign exchange movements of $0.6m, Enpro's goodwill balance at the period-end is $12.8m. Cash flows have been discounted using a nominal pre-tax rate of 12%, with no impairment being recognised following the impairment review.

An increase in discount rates of 1% would create an impairment of $1.7m. A decrease in the expected CAGR between 2020 and 2025 of 1% would create an impairment of $0.7m.

*(iv) Dearborn*

An impairment charge of $4.9m has been incurred in respect of the Dearborn CGU (six months ended 30 June 2019 – $nil; year ended 31 December 2019 – $nil). Cash flows have been discounted using a nominal pre-tax rate of 13%.

An increase in discount rates of 1% would add a further $4.6m of impairment. A decrease in the expected CAGR between 2020 and 2025 of 1% would add a further $2.8m of impairment.

*(v) US Manufacturing*

No impairment charge has been required for this CGU (six months ended 30 June 2019 – $nil; year ended 31 December 2019 – $nil). Cash flows have been discounted using a nominal pre-tax rate of 14%.

Management does not believe there is a reasonably foreseeable change in discount rates, or decrease in the expected CAGR between 2020 and 2025, that would give rise to an impairment charge for this CGU.

*(vi) Other CGUs*

Goodwill in Specialty and European Well Intervention has been fully impaired, giving rise to a charge of $5.0m in Specialty and, after foreign exchange movements of $0.4m, a charge of $4.3m was reflected in European Well Intervention.

# Notes continued

## 11. Impairment of Non-financial Assets continued

### (c) Impairment of Property, Plant and Equipment

A total impairment of $19.3m was recorded against property, plant and equipment in the period (six months ended 30 June 2019 – $nil; year ended 31 December 2019 – $19.0m). In the US operating segment, $10.1m of impairment was charged relating to rental tools and property. In the EMEA operating segment, $9.0m was charged, with $0.8m related to equipment that is not expected to be utilised in the Netherlands following the fall in demand, and $8.2m was charged to property in the European Well intervention, as a result of the CGU test referred to above. In Canada, $0.1m was charged as a result of the closure of operations and $0.1m in Hunting Titan in relation to the closure of a distribution centre.

### (d) Impairment of Right-of-use Assets

Following the closure of leased properties, impairment charges of $1.9m in Canada and $0.2m in Titan, totalling $2.1m were recognised in the six months to 30 June 2020 (six months ended 30 June 2019 – $nil; year ended 31 December 2019 – $nil).

### (e) Impairment of Other Intangible Assets

Impairments of other intangible assets in the six months to 30 June 2020 have given rise to a charge of $39.2m (six months ended 30 June 2019 – $nil; year ended 31 December 2019 – $nil). As a result of the reduced revenue and profitability in Titan, the remaining balance for customer relationships recognised on the acquisition in 2011 has been written off, generating a charge of $24.6m. The fall in expected future demand has led to a $14.4m impairment of self-developed technologies, with $5.1m related to perforating products in Titan, $5.2m for OCTG in the US, $2.5m for well intervention products in EMEA and $1.6m for OCTG arising on the closure of Canada. The Canadian closure also resulted in a $0.2m write-off related to IT systems.

### (f) Impairment of Inventory

Certain inventory has been written down to its net realisable value due to the reduced movement in inventories, lower oil and gas prices reducing demand and inventory selling prices being lowered. A net impairment charge of $33.6m has been recognised in the six months to 30 June 2020 (six months ended 30 June 2019 – $2.1m; year ended 31 December 2019 – $5.9m). $33.3m of the impairment charge has been recognised as an exceptional item (note 4), with $7.0m relating to Hunting Titan, $15.2m in the US, $5.0m in Canada, $4.0m in EMEA and $2.1m in Asia Pacific.

## 12. Trade and Other Receivables

| | **At 30 June 2020 $m** | At 30 June 2019 $m | At 31 December 2019 $m |
|---|---|---|---|
| **Non-current:** | | | |
| Prepayments | **2.7** | 1.7 | 2.0 |
| Loan note | **–** | 0.6 | – |
| Other receivables | **0.6** | 1.0 | 0.7 |
| | **3.3** | 3.3 | 2.7 |

| | **At 30 June 2020 $m** | At 30 June 2019 $m | At 31 December 2019 $m |
|---|---|---|---|
| **Current:** | | | |
| Contract assets | **9.4** | 14.7 | 8.3 |
| Trade receivables | **140.5** | 209.0 | 159.4 |
| Accrued revenue | **8.1** | 8.4 | 12.3 |
| Gross receivables | **158.0** | 232.1 | 180.0 |
| Less: provision for impairment | **(5.8)** | (3.4) | (3.9) |
| Net receivables | **152.2** | 228.7 | 176.1 |
| Prepayments | **14.1** | 27.5 | 21.9 |
| Loan note | **0.9** | 0.6 | 0.7 |
| Other receivables | **6.4** | 6.6 | 3.3 |
| | **173.6** | 263.4 | 202.0 |

In accordance with the amendments made to the Group's core committed bank facility in July 2016, security has been granted over certain trade receivables and other receivables in the UK, US and Canada, which have a gross value of $106.8m (six months ended 30 June 2019 – $162.8m; year ended 31 December 2019 – $127.3m).

## 13. Inventories

| | At 30 June 2020 $m | At 30 June 2019 $m | At 31 December 2019 $m |
|---|---|---|---|
| Raw materials | **123.7** | 106.1 | 105.4 |
| Work in progress | **59.1** | 62.0 | 65.4 |
| Finished goods | **202.3** | 193.9 | 206.5 |
| Gross inventories | **385.1** | 362.0 | 377.3 |
| Less: provision for losses | **(54.0)** | (25.4) | (26.5) |
| **Net inventories** | **331.1** | 336.6 | 350.8 |

Gross inventories have increased by $7.8m from $377.3m at 31 December 2019 to $385.1m at 30 June 2020. Additions to inventories of $260.5m, additions from acquisitions of $0.7m and foreign exchange movements of $0.8m were offset by inventories expensed to cost of sales of $248.5m, the utilisation of inventory provisions of $5.5m and balance sheet reclassifications of $0.2m.

The inventory provision has increased by $27.5m from $26.5m at 31 December 2019 to $54.0m at 30 June 2020. A net charge of $33.6m has been recognised in cost of sales in the period. This has been offset by the utilisation of the provision in the period of $5.5m and foreign exchange movements of $0.6m. Overall, Hunting's provision for inventory losses of 14% of gross inventory balances at 30 June 2020 has increased from 7% at 31 December 2019. Details of the impairment review can be found in note 11.

In accordance with the amendments to the Group's core committed bank facility in July 2016, security has been granted over inventories in certain subsidiaries in the UK, US and Canada, which have a gross value of $246.3m (six months ended 30 June 2019 – $231.3m; year ended 31 December 2019 – $229.9m).

## 14. Share Capital and Share Premium

| | Six months ended 30 June 2020 | | |
|---|---|---|---|
| | **Ordinary shares of 25p each Number** | **Ordinary shares of 25p each $m** | **Share premium $m** |
| At 1 January | **166,940,082** | **67.3** | **153.0** |
| Share buyback | **(2,000,000)** | **(0.8)** | **–** |
| | **164,940,082** | **66.5** | **153.0** |

Hunting PLC commenced an on-market share buyback programme on 27 February 2020 to purchase up to 2 million Ordinary shares of 25p each in the Company. Between 27 February and 19 March 2020, the Company purchased 2 million Ordinary shares of 25p each at an average price of 228.43p, for a total of $5.2m and incurred costs of $0.1m. Shares purchased under the programme were cancelled and, as a result, have reduced the Company's issued share capital. A capital redemption reserve of $0.6m has been created following the cancellation of the share capital.

At 30 June 2020, 1,421,405 Ordinary shares were held by the Employee Benefit Trust (30 June 2019 – 1,618,600; 31 December 2019 – 1,609,150). The Company purchased 1.5 million additional Treasury shares in March 2020 for $6.0m.

| | Six months ended 30 June 2019 | | |
|---|---|---|---|
| | Ordinary shares of 25p each Number | Ordinary shares of 25p each $m | Share premium $m |
| At 1 January | 165,073,603 | 66.7 | 153.0 |
| Shares issued – share option schemes and awards | 1,866,479 | 0.6 | – |
| | 166,940,082 | 67.3 | 153.0 |

| | Year ended 31 December 2019 | | |
|---|---|---|---|
| | Ordinary shares of 25p each Number | Ordinary shares of 25p each $m | Share premium $m |
| At 1 January | 165,073,603 | 66.7 | 153.0 |
| Shares issued – share option schemes and awards | 1,866,479 | 0.6 | – |
| | 166,940,082 | 67.3 | 153.0 |

# Notes continued

## 15. Dividends Paid to Equity Shareholders

| | **Six months ended 30 June 2020 $m** | Six months ended 30 June 2019 $m | Year ended 31 December 2019 $m |
|---|---|---|---|
| Ordinary dividends: | | | |
| 2020 interim paid – 3.0c (paid in place of the proposed 2019 final dividend of 6.0c) | **4.9** | – | – |
| 2019 interim paid – 5.0c | **–** | – | 8.3 |
| 2018 final paid – 5.0c | **–** | 8.3 | 8.3 |
| | **4.9** | 8.3 | 16.6 |

The Board declared and paid an interim dividend of 3.0 cents on 15 May 2020 in lieu of paying the 2019 final dividend. The Board is declaring a second interim dividend of 2.0 cents (2019 – 5.0 cents) per share, which will absorb an estimated $3.3m, and be paid on 23 October 2020 to shareholders on the register at the close of business on 2 October 2020. The ex-dividend date is 1 October 2020.

## 16. Changes in Net Cash (Debt)

Hunting operates a centralised treasury function that manages all cash and loan positions throughout the Group and ensures funds are used efficiently through the use of cash concentration account structures and other such measures. As the Group manages funding on a total cash and bank basis, internal reporting focuses on changes in net cash and bank and this is presented in the Management Report. The net cash/debt reconciliation below provides an analysis of the movement in the year for each component of net debt split between cash and non-cash items. Net cash/debt comprises cash at bank and in hand, short-term deposits and Money Market Funds less bank overdrafts, current and non-current borrowings, and current and non-current lease liabilities.

| | **At 1 January 2020 $m** | **Cash flow $m** | **Non-cash movement of lease liabilities[i] $m** | **Exchange movements $m** | **At 30 June 2020 $m** |
|---|---|---|---|---|---|
| Cash and cash equivalents | **128.6** | **(74.4)** | **–** | **(4.0)** | **50.2** |
| Bank overdrafts | **(1.6)** | **0.2** | **–** | **–** | **(1.4)** |
| Cash and cash equivalents – per cash flow statement | **127.0** | **(74.2)** | **–** | **(4.0)** | **48.8** |
| | | | | | |
| Total lease liabilities | **(45.2)** | **6.0** | **(1.5)** | **1.3** | **(39.4)** |
| Non-current borrowings | **(3.9)** | **–** | **–** | **–** | **(3.9)** |
| Liabilities arising from financing activities | **(49.1)** | **6.0** | **(1.5)** | **1.3** | **(43.3)** |
| | | | | | |
| **Total net cash (debt)** | **77.9** | **(68.2)** | **(1.5)** | **(2.7)** | **5.5** |
| | | | | | |
| Analysed between: | | | | | |
| Total cash and bank | **127.0** | **(74.2)** | **–** | **(4.0)** | **48.8** |
| Total lease liabilities | **(45.2)** | **6.0** | **(1.5)** | **1.3** | **(39.4)** |
| Shareholder loans from non-controlling interests | **(3.9)** | **–** | **–** | **–** | **(3.9)** |
| | | | | | |
| **Total net cash (debt)** | **77.9** | **(68.2)** | **(1.5)** | **(2.7)** | **5.5** |

i. Non-cash movements on lease liabilities comprise new leases of $1.4m, interest expense of $1.0m and new leases from the acquisition of Enpro of $0.3m, offset by lease modifications of $1.0m and other adjustments of $0.2m.

During the period ended 30 June 2020, $0.2m loan facility fees were amortised.

## 16. Changes in Net Cash (Debt) continued

| | At 1 January 2019 $m | Adoption of IFRS 16 $m | Restated at 1 January 2019 $m | Cash flow $m | Non-cash movement of lease liabilities[ii] $m | Exchange movements $m | At 30 June 2019 $m |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 67.9 | – | 67.9 | 19.7 | – | (0.2) | 87.4 |
| Bank overdrafts | (1.8) | – | (1.8) | (0.1) | – | – | (1.9) |
| Cash and cash equivalents – per cash flow statement | 66.1 | – | 66.1 | 19.6 | – | (0.2) | 85.5 |
| Total lease liabilities | – | (49.0) | (49.0) | 6.2 | (3.8) | (0.5) | (47.1) |
| Unsecured bank loans | (0.9) | – | (0.9) | (0.2) | – | – | (1.1) |
| Non-current borrowings | (3.9) | – | (3.9) | – | – | – | (3.9) |
| Liabilities arising from financing activities | (4.8) | (49.0) | (53.8) | 6.0 | (3.8) | (0.5) | (52.1) |
| **Total net cash (debt)** | 61.3 | (49.0) | 12.3 | 25.6 | (3.8) | (0.7) | 33.4 |
| Analysed between: | | | | | | | |
| Total cash and bank | 65.2 | – | 65.2 | 19.4 | – | (0.2) | 84.4 |
| Total lease liabilities | – | (49.0) | (49.0) | 6.2 | (3.8) | (0.5) | (47.1) |
| Shareholder loans from non-controlling interests | (3.9) | – | (3.9) | – | – | – | (3.9) |
| **Total net cash (debt)** | 61.3 | (49.0) | 12.3 | 25.6 | (3.8) | (0.7) | 33.4 |

ii. Non–cash movements on lease liabilities comprise new leases of $2.4m, interest expense of $1.1m and lease modifications of $0.3m.

During the period ended 30 June 2019, $0.4m loan facility fees were paid and $0.2m fees were amortised.

| | At 1 January 2019 $m | Adoption of IFRS 16 $m | Restated at 1 January 2019 $m | Cash flow $m | Non-cash movement of lease liabilities[iii] $m | Exchange movements $m | At 31 December 2019 $m |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 67.9 | – | 67.9 | 58.3 | – | 2.4 | 128.6 |
| Bank overdrafts | (1.8) | – | (1.8) | 0.2 | – | – | (1.6) |
| Cash and cash equivalents – per cash flow statement | 66.1 | – | 66.1 | 58.5 | – | 2.4 | 127.0 |
| Total lease liabilities | – | (49.0) | (49.0) | 10.6 | (5.9) | (0.9) | (45.2) |
| Unsecured bank loans | (0.9) | – | (0.9) | 0.9 | – | – | – |
| Non-current borrowings | (3.9) | – | (3.9) | – | – | – | (3.9) |
| Liabilities arising from financing activities | (4.8) | (49.0) | (53.8) | 11.5 | (5.9) | (0.9) | (49.1) |
| **Total net cash (debt)** | 61.3 | (49.0) | 12.3 | 70.0 | (5.9) | 1.5 | 77.9 |
| Analysed between: | | | | | | | |
| Total cash and bank | 65.2 | – | 65.2 | 59.4 | – | 2.4 | 127.0 |
| Total lease liabilities | – | (49.0) | (49.0) | 10.6 | (5.9) | (0.9) | (45.2) |
| Shareholder loans from non-controlling interests | (3.9) | – | (3.9) | – | – | – | (3.9) |
| **Total net cash (debt)** | 61.3 | (49.0) | 12.3 | 70.0 | (5.9) | 1.5 | 77.9 |

iii. Non-cash movements on lease liabilities comprise new leases of $3.4m, interest expense of $2.2m and lease modifications of $0.3m.

During the year ended 31 December 2019, $0.4m loan facility fees were paid, $nil fees were accrued and $0.4m were amortised.

# Notes continued

## 17. Financial Risk Management

The Group's activities expose it to a variety of financial risks, namely market risk (including currency risk, fair value interest rate risk and cash flow interest risk), credit risk and liquidity risk. The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's 2019 Annual Report and Accounts.

### (a) Liquidity Risk

*(i) Bank Revolving Credit Facility*

The Group has a $160m Revolving Credit Facility ("RCF") that is due to mature in December 2022, with an option to extend for a further one year to December 2023. Security is granted over certain properties, plant and equipment, receivables and inventory. The carrying amounts of the assets pledged as security is discussed in notes 7, 12 and 13. Throughout 2020 and at 30 June 2020, both of the covenants attached to the RCF were met. The RCF remains undrawn as at 30 June 2020. Management has also prepared further forecasts to identify the conditions required to fully consume the Group's cash reserves and cause a breach of the banking covenants thus restricting access to the Group's undrawn RCF. Management have detailed their wider considerations regarding going concern and future covenant compliance in note 1.

The Group's undrawn borrowing facilities were as follows:

| | **At 30 June 2020 $m** | At 30 June 2019 $m | At 31 December 2019 $m |
|---|---|---|---|
| Secured committed facilities – RCF | **160.0** | 159.3 | 160.0 |
| Secured uncommitted facilities | **3.9** | 4.1 | 4.2 |
| | **163.9** | 163.4 | 164.2 |

*(ii) Government Funding*

Hunting PLC has benefited from a number of government schemes to support companies as a result of the COVID-19 pandemic. These schemes include the COVID-19 Job Support Scheme and property tax rebate in Singapore, the Coronavirus Job Retention Scheme ("CJRS") in the UK, and the Canada Emergency Wage Subsidy in Canada. The Group has received $1.8m during the six months ended 30 June 2020, which has been recognised within other operating income (note 21). There are no conditions attached to any government grants or assistance.

### (b) Credit Risk

The Group's credit risk continues to arise from its cash at bank and in hand, Money Market Funds, short-term deposits, investments, derivative financial instruments, the loan note, accrued revenue, outstanding receivables and contract assets.

*(i) Financial Assets*

At 30 June 2020, the ageing of the Group's gross financial assets, based on days overdue, is as follows:

| | **Not overdue $m** | **1–30 days $m** | **31–60 days $m** | **61–90 days $m** | **91–120 days $m** | **More than 120 days $m** | **Total gross financial assets at 30 June 2020 $m** |
|---|---|---|---|---|---|---|---|
| Contract assets | **9.4** | **–** | **–** | **–** | **–** | **–** | **9.4** |
| Trade receivables – contracts with customers | **54.0** | **23.2** | **15.8** | **11.5** | **19.4** | **8.3** | **132.2** |
| Trade receivables – rental receivables | **3.3** | **1.4** | **1.3** | **1.0** | **0.1** | **1.0** | **8.1** |
| Trade receivables – other | **0.2** | **–** | **–** | **–** | **–** | **–** | **0.2** |
| Accrued revenue – contracts with customers | **7.9** | **–** | **–** | **–** | **–** | **–** | **7.9** |
| Accrued revenue – rental receivables | **0.2** | **–** | **–** | **–** | **–** | **–** | **0.2** |
| Loan note | **0.9** | **–** | **–** | **–** | **–** | **–** | **0.9** |
| Other receivables | **2.0** | **0.1** | **–** | **–** | **–** | **0.3** | **2.4** |
| | **77.9** | **24.7** | **17.1** | **12.5** | **19.5** | **9.6** | **161.3** |

Since the year-end 31 December 2019, there has been an increase in the ageing of receivables, with trade receivables not overdue at 30 June 2020 comprising 41% of gross trade receivables compared to 52% at 31 December 2019. However, total gross trade receivables have decreased by $18.9m since the year-end. This increase in ageing is due to a number of different factors, including the increase in time taken in resolving any disputes, delays in payments being made due to social distancing requirements and having to work remotely, government moratoriums on payments being made and some debtors experiencing cash flow difficulties.

## 17. Financial Risk Management continued

(b) Credit Risk continued

*(i) Financial Assets continued*

At 30 June 2019, the ageing of the Group's gross financial assets, based on days overdue, was as follows:

| | Not overdue $m | 1–30 days $m | 31–60 days $m | 61–90 days $m | 91–120 days $m | More than 120 days $m | Total gross financial assets at 30 June 2019 $m |
|---|---|---|---|---|---|---|---|
| Contract assets | 14.7 | – | – | – | – | – | 14.7 |
| Trade receivables – contracts with customers | 109.4 | 51.7 | 9.5 | 11.9 | 6.4 | 6.4 | 195.3 |
| Trade receivables – rental receivables | 6.2 | 1.7 | 2.0 | 2.8 | 0.2 | 0.5 | 13.4 |
| Trade receivables – other | 0.3 | – | – | – | – | – | 0.3 |
| Accrued revenue – contracts with customers | 5.0 | – | – | – | – | – | 5.0 |
| Accrued revenue – rental receivables | 3.4 | – | – | – | – | – | 3.4 |
| Loan note | 1.2 | – | – | – | – | – | 1.2 |
| Other receivables | 2.0 | – | – | – | – | – | 2.0 |
| | 142.2 | 53.4 | 11.5 | 14.7 | 6.6 | 6.9 | 235.3 |

At 31 December 2019, the ageing of the Group's gross financial assets, based on days overdue, was as follows:

| | Not overdue $m | 1–30 days $m | 31–60 days $m | 61–90 days $m | 91–120 days $m | More than 120 days $m | Total gross financial assets at 31 December 2019 $m |
|---|---|---|---|---|---|---|---|
| Contract assets | 8.3 | – | – | – | – | – | 8.3 |
| Trade receivables – contracts with customers | 79.4 | 28.5 | 16.3 | 8.6 | 8.2 | 8.0 | 149.0 |
| Trade receivables – rental receivables | 2.7 | 4.5 | 1.2 | 0.9 | 0.4 | 0.7 | 10.4 |
| Accrued revenue – contracts with customers | 12.0 | – | – | – | – | – | 12.0 |
| Accrued revenue – rental receivables | 0.3 | – | – | – | – | – | 0.3 |
| Loan note | 0.7 | – | – | – | – | – | 0.7 |
| Other receivables | 1.2 | – | – | 0.1 | – | – | 1.3 |
| | 104.6 | 33.0 | 17.5 | 9.6 | 8.6 | 8.7 | 182.0 |

*(ii) Provision for Impairment – Trade and Other Receivables*

During the year, the following gains and losses were recognised in profit or loss in relation to impaired financial assets:

| | **Six months ended 30 June 2020 $m** | Six months ended 30 June 2019 $m | Year ended 31 December 2019 $m |
|---|---|---|---|
| At 1 January | **3.9** | 3.1 | 3.1 |
| Charge to the condensed consolidated income statement – lifetime expected credit losses | **2.2** | 0.8 | 1.6 |
| Unused provisions released to the condensed consolidated income statement | **(0.3)** | (0.4) | (0.5) |
| Utilised against receivables written off | **–** | (0.1) | (0.3) |
| | **5.8** | 3.4 | 3.9 |

Of the above net impairment losses charged to the condensed consolidated income statement of $1.9m, $1.6m (six months ended 30 June 2019 – $0.5m; year ended 31 December 2019 – $1.2m) relates to receivables arising from contracts with customers, with $1.2m shown as an exceptional item (see note 4). Following the global economic downturn, the provision for the impairment of trade and other receivables has increased by $1.9m to $5.8m at 30 June 2020, as debtors face cash flow difficulties and the risk of bad debts in the coming months increases.

## 18. Financial Instruments: Fair Values

The carrying value of investments, the loan note, contract assets, trade receivables, accrued revenue, other receivables, short-term deposits, cash and cash equivalents, trade payables, accruals and other payables considered to be financial liabilities, bank overdrafts and other unsecured loans approximates their fair value. Drawdowns under the revolving credit facility are typically for periods of one month or less and, as a result, the carrying value and the fair value are considered to be the same.

The fair value of forward foreign exchange contracts is determined by comparing the cash flows generated by the contract with the coterminous cash flows potentially available in the forward exchange market on the balance sheet date. The inputs used to determine the fair value of derivative financial instruments are inputs other than quoted prices that are observable and so the fair value measurement is categorised in Level 2 of the fair value hierarchy. Fair value gains of $1.1m have been recognised in net finance expense in the condensed consolidated income statement in the period for derivatives not designated in a hedge. For derivatives designated in a cash flow hedge, an immaterial fair value loss has been recognised in equity.

# Notes continued

## 18. Financial Instruments: Fair Values continued

The fair value of Money Market Funds and listed equities and mutual funds is based on their current bid prices in an active market, which is considered to be the most representative of fair value, at the balance sheet date. The fair value of Money Market Funds and listed equity investments and mutual funds is based on quoted market prices and so the fair value measurement is categorised in Level 1 of the fair value hierarchy. Fair value gains of $0.1m have been recognised in finance income in the period.

The fair value of the contingent consideration payable was determined by discounting future expected cash flows. The inputs used to determine the fair value is not based on observable data and therefore the fair value measurement can be categorised in Level 3 of the fair value hierarchy. The fair value of the contingent consideration was calculated to be $nil as at 30 June 2020, with the movement in the fair value of $2.5m taken to operating expenses as an exceptional item (see note 4) in the condensed consolidated income statement.

There were no transfers between levels of the fair value hierarchy used in the measurement of the fair values of financial instruments.

The fair values of non-US dollar denominated financial instruments are translated into US dollars using the period-end exchange rate.

The Group also has lease liabilities of $39.4m, which are not measured at fair value, in the balance sheet. The fair value of these financial liabilities has not been disclosed as their fair value cannot be measured reliably as there is no active market for these financial instruments. There is no expectation that the lease liabilities will be disposed of in the future.

## 19. Acquisitions

The Group acquired 100% of the share capital of Enpro Subsea Limited ("Enpro") for a consideration of $38.3m, excluding costs, with an additional maximum earn-out of $3.0m agreed, subject to key financial milestones being met, on 21 February 2020. The total consideration of $40.8m comprised $38.0m cash paid in February 2020 (which included an estimate of $5.0m for cash in the business and therefore was $33.0m on a cash free/debt free basis), a further payment of $0.3m in April 2020 for adjustments specified in the agreement and $2.5m for contingent consideration. An earn-out in the agreement entitles the former owners of Enpro to additional consideration of up to $3.0m if EBITDA targets are achieved in 2020. If the EBITDA is below a set value, as set out in the agreement, then no further payment is to be made. If EBITDA is between the lower and upper limits, as set out in the agreement, then a payment between $2.4m and $3.0m will be made. If EBITDA is above the upper limit, then the maximum payment to be made is $3.0m. Therefore, the potential undiscounted amount of all future payments that the Group could be required to make under this arrangement is between $nil and $3.0m. The fair value of the contingent consideration arrangement of $2.5m was estimated by calculating the present value of the future expected cash flows using the income approach and appropriate discount rates.

Enpro was founded in 2011 and, since this time, has developed leading subsea production technology that has been adopted by offshore operators within the global oil and gas industry. Enpro's products focus on delivering production-enhancing technologies and include Flow Access Modules, Flow Intervention Services and Decommissioning. These products offer low-cost, flexible, field development solutions to clients including production and intervention modules to enhance recovery from oil and gas wells. The business has been classified as part of the US segment.

Details of the acquired net assets, goodwill and consideration are set out below:

| | Provisional fair values $m |
|---|---|
| Property, plant and equipment | 5.8 |
| Right-of-use assets | 0.3 |
| Other intangible assets | 19.2 |
| Cash and cash equivalents | 5.5 |
| Inventories | 0.7 |
| Trade and other receivables | 5.2 |
| Trade and other payables | (5.4) |
| Lease liability | (0.3) |
| Deferred tax liabilities | (4.0) |
| Current tax assets | 0.4 |
| Net assets acquired | 27.4 |
| Goodwill | 13.4 |
| **Consideration** | 40.8 |

Goodwill on the acquisition of Enpro represents the value of the assembled workforce at the time of acquisition, specific knowledge and technical skills that will enhance Hunting's products and services and the prospective future economic benefits expected to accrue from the portfolio of products and services to the Group's customers and increased exposure to offshore operators. There is an opportunity to bring Enpro's manufacturing in-house and utilise Hunting's existing global manufacturing platform to commercialise further the technology across all of the Group's key regional operating hubs. In addition, Hunting's broad customer base offers significant opportunities to extend Enpro's current market reach. The provisional amount of goodwill that is expected to be deductible for tax purposes is $nil.

## 19. Acquisitions continued

Other intangible assets recognised on acquisition include the following:

| | $m |
|---|---|
| Customer relationships | 7.6 |
| Patented technology | 10.5 |
| Other | 1.1 |
| **Consideration** | 19.2 |

The fair value of trade and other receivables is $5.2m and includes trade receivables with a fair value of $4.8m. The gross contractual amount for trade receivables due is $4.8m, all of which is expected to be collectable.

The pre-acquisition carrying value of inventories and the fair value at acquisition was $0.7m.

The fair values of the net assets acquired are provisional as work is continuing in respect of the fair value exercise.

Acquisition related costs of $1.2m have been included in operating expenses as an exceptional item (note 4) in the condensed consolidated income statement for the six months ended 30 June 2020.

Enpro has contributed the following to the Group's performance from 14 February 2020 to 30 June 2020:

| | **Before amortisation and exceptional items $m** | **Amortisation and exceptional items $m** | **Total $m** |
|---|---|---|---|
| Revenue | **6.2** | **–** | **6.2** |
| Profit (loss) from operations | **0.4** | **(1.0)** | **(0.6)** |
| Profit (loss) before tax | **0.6** | **(1.0)** | **(0.4)** |
| Profit (loss) for the period | **0.6** | **(0.8)** | **(0.2)** |

If Enpro had been acquired on 1 January 2020, the Group's performance during 2020 to 30 June 2020 would have been as follows:

| | **Before amortisation and exceptional items $m** | **Amortisation and exceptional items $m** | **Total $m** |
|---|---|---|---|
| Revenue | **7.0** | **–** | **7.0** |
| Profit (loss) from operations | **0.4** | **(1.0)** | **(0.6)** |
| Profit (loss) before tax | **0.5** | **(1.0)** | **(0.5)** |
| Profit (loss) for the period | **0.5** | **(0.8)** | **(0.3)** |

## 20. Related Party Transactions

On 8 March 2020, the Group acquired 5% of the share capital of Hunting Energy Saudi Arabia LLC from the non-controlling interest, thereby increasing its shareholding to 65%, for $nil consideration.

## 21. Other Operating Income

| | **Six months ended 30 June 2020 $m** | Six months ended 30 June 2019 $m | Year ended 31 December 2019 $m |
|---|---|---|---|
| Operating lease rental income | **1.0** | 1.0 | 1.4 |
| Gain on disposal of property, plant and equipment | **0.7** | 1.4 | 2.0 |
| Gain on disposal of intangible technology | **–** | – | 2.3 |
| Gain on disposal of business | **–** | 1.6 | 2.0 |
| Government grants related to COVID-19 (see note 17(a)(ii)) | **1.8** | – | – |
| Foreign exchange gains | **1.5** | 0.7 | 0.5 |
| Other income | **0.6** | 1.7 | 2.6 |
| | **5.6** | 6.4 | 10.8 |

## 22. Events After the Balance Sheet Date

Following review of its operational footprint, coupled with an assessment of the future expectations of profitability, the Board announced on 10 August 2020 its decision to close its Hunting Energy Services Canada manufacturing business in Calgary, Alberta, which forms the Canada operating segment. The facility will cease operations by the end of 2020, with current and future customer requirements to be met by the Group's Hunting Titan and US operations.

Hunting will retain a sales presence in Calgary, given its range of premium and semi-premium connections used by customers, and will continue to sell onshore completion products, predominantly manufactured by Hunting Titan, through its network of three distribution centres in Alberta, the results of which will continue to be reported within the Hunting Titan operating segment.

# Non-GAAP Measures

The Directors believe it is appropriate to include in the Half Year Report a number of non-GAAP measures (“NGMs”) that are commonly used within the business. These measures supplement the information provided in the IFRS “reported” financial statements and accompanying notes, providing additional insight to the users of the Half Year Report. The condensed interim financial statements do not include all non-GAAP measures of the Group; this section should be read in conjunction with the Group’s 2019 Annual Report and Accounts.

*A. EBITDA*

*Purpose:* This profit measure is used as a simple proxy for pre-tax cash flows from operating activities.

*Calculation Definition:* Underlying results before share of associates’ post-tax results, interest, tax, depreciation, impairment and amortisation.

| | **Six months ended 30 June 2020 $m** | Six months ended 30 June 2019 $m | Year ended 31 December 2019 $m |
|---|---|---|---|
| Reported (loss) profit from operations (condensed consolidated income statement) | **(183.6)** | 41.1 | 46.8 |
| Add: | | | |
| Depreciation charge for property, plant and equipment | **16.5** | 16.1 | 33.7 |
| Depreciation charge for right-of-use assets | **3.8** | 4.0 | 7.9 |
| Amortisation of other intangible assets | **14.7** | 16.2 | 32.3 |
| Impairment of goodwill | **79.8** | – | – |
| Impairment of property, plant and equipment | **19.3** | – | 19.0 |
| Impairment of right-of-use assets | **2.1** | – | – |
| Impairment of other intangible assets | **39.2** | – | – |
| Impairment of inventories included in exceptional items | **33.3** | – | – |
| Impairment of receivables included in exceptional items | **1.2** | – | – |
| Fair value adjustment to held-for-sale property (included in restructuring costs) | **0.5** | – | – |
| Add exceptional items impacting EBITDA: | | | |
| Restructuring costs | **2.9** | – | – |
| Acquisition costs | **1.2** | – | – |
| Reversal of contingent consideration recognised on acquisition of Enpro | **(2.5)** | – | – |
| **Underlying EBITDA** | **28.4** | 77.4 | 139.7 |

*B. Underlying Tax Rate*

*Purpose:* The weighted average tax rate represents the level of tax, both current and deferred, being borne by operations on an underlying basis.

*Calculation definition:* Taxation on underlying profit before tax divided by underlying profit before tax, expressed as a percentage.

| | **Six months ended 30 June 2020 $m** | Six months ended 30 June 2019 $m | Year ended 31 December 2019 $m |
|---|---|---|---|
| Underlying taxation charge (condensed consolidated income statement) | **2.6** | 13.3 | 17.0 |
| Underlying profit before tax for the year (condensed consolidated income statement) | **3.9** | 54.6 | 93.1 |
| **Underlying tax rate** | **67%** | 24% | 18% |

*C. Working Capital*

*Purpose:* Working Capital is a measure of the Group’s liquidity identifying whether the Group has sufficient assets to cover liabilities as they fall due.

*Calculation Definition:* Trade and other receivables excluding receivables from associates, derivative financial assets and the loan note, plus inventories less trade and other payables, excluding payables due to associates, derivative financial liabilities and retirement plan obligations.

| | **Six months ended 30 June 2020 $m** | Six months ended 30 June 2019 $m | Year ended 31 December 2019 $m |
|---|---|---|---|
| Trade and other receivables – non-current | **3.3** | 3.3 | 2.7 |
| Trade and other receivables – current | **173.6** | 263.4 | 202.0 |
| Inventories | **331.1** | 336.6 | 350.8 |
| Trade and other payables – current | **(76.7)** | (139.2) | (121.2) |
| Trade and other payables – non-current | **(2.9)** | (4.6) | (2.7) |
| Less: non-working capital loan note | **–** | (1.2) | (0.7) |
| Add: non-working capital US deferred compensation plan obligation | **1.6** | 2.0 | 2.1 |
| Less: non-working capital current other receivables and other payables | **(0.3)** | (1.0) | 0.3 |
| | **429.7** | 459.3 | 433.3 |

*D. Trade Receivables Days*

*Purpose:* This is a working capital efficiency ratio that measures receivable balances relative to business activity levels.

*Calculation definition:* Net trade receivables, contract assets and accrued revenue at the period-end divided by revenue for the last three months of the period multiplied by the number of days in the last quarter, adjusted for the impact of acquisitions and disposals when applicable.

| | **Six months ended 30 June 2020 $m** | Six months ended 30 June 2019 $m | Year ended 31 December 2019 $m |
|---|---|---|---|
| Net trade receivables | **134.7** | 205.6 | 155.5 |
| Contract assets | **9.4** | 14.7 | 8.3 |
| Accrued revenue | **8.1** | 8.4 | 12.3 |
| Net receivables (note 12) | **152.2** | 228.7 | 176.1 |
| Revenue for the last three months of the period | **150.2** | 268.0 | 205.7 |
| **Trade receivables days** | **92 days** | 78 days | 79 days |

*E. Inventory Days*

*Purpose:* This is a working capital efficiency ratio that measures inventory balances relative to business activity levels.

*Calculation definition:* Inventory at the period end divided by underlying cost of sales for the last three months of the period multiplied by the number of days in the last quarter, adjusted for the impact of acquisitions and disposals when applicable.

| | **Six months ended 30 June 2020 $m** | Six months ended 30 June 2019 $m | Year ended 31 December 2019 $m |
|---|---|---|---|
| Net inventories (note 13) | **331.1** | 336.6 | 350.8 |
| Underlying cost of sales for the last three months of the period | **121.5** | 191.5 | 150.6 |
| Inventory days | **248 days** | 160 days | 214 days |

*F. Free Cash Flow*

*Purpose:* Free cash flow is a measure of financial performance and represents the cash that the Group is able to generate. Free cash flow represents the amount of cash the Group has available to either retain for investment, whether organic or by way of acquisition, or to return to shareholders.

*Calculation definition:* All cash flows before transactions with shareholders, investment in non-current assets and lease financing costs.

| | **Six months ended 30 June 2020 $m** | Six months ended 30 June 2019[i] $m | Year ended 31 December 2019[i] $m |
|---|---|---|---|
| Underlying EBITDA (NGM A) | **28.4** | 77.4 | 139.7 |
| Add: share-based payment charge | **4.9** | 6.6 | 9.1 |
| | **33.3** | 84.0 | 148.8 |
| Working capital movements | **(31.0)** | (21.3) | 7.6 |
| Net tax paid (condensed consolidated statement of cash flows) | **(6.0)** | (3.6) | (7.7) |
| Proceeds from business and asset disposals (condensed consolidated statement of cash flows) | **2.2** | 4.7 | 8.9 |
| Gains on business and asset disposals | **(1.0)** | (2.2) | (5.8) |
| Lease payments | **(6.0)** | (6.2) | (10.6) |
| Restructuring costs | **(2.4)** | – | - |
| Other operating cash and non-cash movements | **(0.3)** | (1.6) | (2.4) |
| | **(11.2)** | 53.8 | 138.8 |

i. Free cash flow for 2019 has been revised to include lease payments of $6.2m in the six months ended 30 June and $10.6m in the year ended 31 December.

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