

7 September 2017

AIM: MLIN



This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No. 596/2014

Molins PLC
(“Molins” or “Company” or “Group”)

Molins, the global packaging solutions group, today announces its results for the six months to 30 June 2017

“Group now focused on growth markets with order intake from continuing operations considerably ahead of prior year period.”

Key points

- Sale of Instrumentation & Tobacco Machinery (I&TM) division for £30m (gross) on a cash/debt free basis announced in June 2017 and completed on 1 August 2017
- Net proceeds from the I&TM sale has provided the financial resources necessary to accelerate the execution of the Group’s strategy to expand its presence within the packaging machinery sector and further exploit the growth opportunities that exist
- Increase in Group sales (continuing operations) of 40% to £25.4m (2016: £18.2m)
- Underlying profit before tax from continuing operations of £0.3m (2016: £0.9m loss)
Profit from discontinued operations of £0.6m (2016: £0.7m)
Statutory profit for the period of £0.9m (2016: £0.3m loss)
- Underlying earnings per share from continuing operations of 3.1p (2016: 4.2p loss per share)
Basic earnings per share of 4.3p (2016: 1.5p loss per share)
- Net debt of £1.1m (30 June 2016: £4.6m; 31 December 2016: £0.8m net cash)
 - Supplemented post period end by £23.1m of net cash proceeds from the sale of I&TM (assuming fees, taxes and the pension fund contribution had all been paid)
- Group now focused on growth markets with order intake from continuing operations considerably ahead of the prior year period

Tony Steels, Chief Executive, commented:

“We continue to make good progress in positioning Molins for sustained long-term growth.

“The sale of I&TM provides Molins with the platform to accelerate the execution of its strategy to invest in growth packaging machinery sectors. Molins has a presence in large and attractive growth markets, an enviable portfolio of global multinational customers, an impressive range of innovative technologies and above all a very talented and engaged workforce. I am pleased with the performance in the first half which is beginning to reflect some of the early initiatives we have undertaken as part of the strategic review.

“Sales from continuing operations were 40% ahead of the same period last year, which was matched by the increase in order intake, and resulted in the improvement in underlying operating profit for the period.”

There will be a management webinar for investors on 7 September 2017 at 1pm. If you would like to join, please register here: <https://www.equitydevelopment.co.uk/2017/08/03/molins-plc-interim-results-webinar-7th-september-2017-1300/>

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HALF-YEAR MANAGEMENT REPORT

Introduction

Following the appointment of Tony Steels as Chief Executive in June 2016, the Group embarked on a comprehensive strategic review of its future direction, with a focus on market opportunities and operational efficiencies. The conclusions of that review, which were set out in the Company's announcement of its final results for the year ended 31 December 2016, are summarised below and the sale of the Group's tobacco related businesses, which completed on 1 August 2017, is consistent with the strategic review.

Trading in the continuing group has been encouraging, with order intake and sales both strongly ahead of the same period last year.

Strategic review

The strategic review recognised that the Group's accessible markets had two contrasting dynamics:

- the Pharmaceutical, Healthcare, Nutrition and Beverage end-markets for the Group's Packaging Machinery division are expanding at around 5 per cent. per annum and have attractive underlying long-term growth drivers such as urbanisation, convenience and health awareness; and
- the nicotine delivery market, although cash generative and relatively stable, is undergoing a shift as sales of traditional products are under pressure due to health awareness, government tax schemes and the introduction to the market of a large number of new nicotine delivery products.

Sale of Instrumentation & Tobacco Machinery (I&TM) division

In light of these contrasting market dynamics, together with positive progress in the Packaging Machinery division arising from the initial implementation of the plans identified from the strategic review, the Board recommended that shareholders vote in favour of selling I&TM to G.D S.p.A. (G.D) following an unsolicited approach from Coesia S.p.A. (the ultimate owner of G.D). Shareholder approval was received on 27 June 2017 and the sale of I&TM was completed as expected on 1 August 2017. The sale of this division was consistent with the strategy adopted by the Board and will enhance the platform from which to accelerate the growth of the continuing group.

The net consideration received by the Company, after fees and taxes, is approximately £27.3m (subject to final confirmation of costs and taxes). £1.5m of these net cash proceeds will be retained within an escrow account, £0.75m of which will be released after 12 months and the balance after 24 months, subject to any deductions arising from valid warranty or indemnity claims made by G.D under the Sale Agreement. The Company agreed with the Trustees of the Molins UK Pension Fund (Fund) to make a one-off contribution to the Fund of 10% of the net cash proceeds of approximately £2.7m. The net proceeds of £23.1m has been used to repay a small amount of net bank debt and the balance will be retained by the Company to execute its growth strategy for the continuing group.

As part of this transaction the Company has sold the right to use the Molins name and will therefore, in accordance with the terms of the transaction, change its name before the end of January 2018.

Sale of property in Canada

In line with the plans to improve the operational efficiency of the Group, the Company's Canadian subsidiary company, Langen Packaging Inc (Langen), entered into an unconditional agreement on 16 June 2017 to sell its manufacturing facility at 6154 Kestrel Road, Mississauga, Ontario for a gross consideration of C\$11.7m (£6.7m) payable in cash on completion (save for a deposit that has been paid of C\$0.5m (£0.3m)). The net proceeds, after fees and taxes, are expected to be approximately C\$10.2m (£5.9m). The book value of the asset subject to the sale as at 31 December 2016 was C\$2.6m (£1.5m). Completion of the transaction is expected to take place by the end of November 2017. Langen has entered into a 10 year contract to lease a new facility, approximately 8 miles from its current location, from an independent third party at an annual cost of approximately C\$0.6m (£0.35m). The lease term and payments will commence from 1 November 2017. Langen is expected to start its move into the new building in the fourth quarter of the year, to coincide with its departure from its existing building. Langen is expected to spend approximately C\$1.7m (£1.0m) to adapt the building to its needs. The balance of the proceeds from the sale is expected to be used for the development of the Company in line with its strategic objectives.

The newly built facility will provide a superb new environment from which to operate, including a customer showroom to showcase its capabilities, assembly and acceptance facilities that will enable Langen to serve its customers even more effectively, and a workplace for employees to be proud of. This will be a platform for growth to assist in the development of the Americas region.

Acquisition strategy

The Board will be evaluating potential acquisition opportunities, the focus of which is to find businesses that will enhance our presence in packaging solutions in the Pharmaceutical, Healthcare, Food and Beverage markets and add value to the Group.

Financial results

Sales from continuing operations in the six months to 30 June 2017 were £25.4m (2016: £18.2m), a 40% increase on the prior period in local currencies and 29% after the translation impact of sterling, and the underlying profit before tax was £0.3m (2016: £0.9m loss). After a net tax credit of £0.4m (2016: £0.1m), the underlying profit after tax for the period was £0.7m (2016: £0.8m loss). Underlying earnings per share on continuing operations were 3.1p (2016: 4.2p underlying loss per share).

These underlying results are stated before pension related charges of £0.5m (2016: £0.4m), comprising charges in respect of administering the Group's defined benefit pension schemes of £0.4m (2016: £0.4m) and financing expense on pension scheme balances of £0.1m (2016: £nil).

On a statutory basis, the profit for the period from continuing operations was £0.3m (2016: £1.0m loss). Discontinued operations generated a profit after tax for the period of £0.6m in 2017 (2016: £0.7m), details of which are shown in note 16. The basic earnings per share, which includes profit on discontinued operations, amounted to 4.3p (2016: 1.5p loss per share).

Finances

Net debt at 30 June 2017 was £1.1m (30 June 2016: £4.6m; 31 December 2016: £0.8m cash). Net cash outflow from operating activities (continuing operations) in the first half of the year was £4.4m. This is after an increase in working capital levels of £4.6m, reflecting growth in orders and sales, and also after deficit recovery payments to the Group's defined benefit pension scheme of £0.9m. Tax paid in the period was £0.2m. Capital and product development expenditure was £0.2m (net). Net operating cash generated by the discontinued operations in the period was £3.8m.

Dividend

At the time of the final results for 2016 the Board recommended that no final dividend be paid. The Chairman also stated that, "Future dividend payments and the development of a new dividend policy will be considered by the Board in the context of 2017 trading performance and when the Board believes it is prudent to do so."

The Board has considered the first half results and is of the view that whilst the continuing group begins to execute on its growth strategy and following the very recent sale of I&TM it is appropriate to consider the future dividend policy at the time of announcing the 2017 full year results and therefore has decided that no interim dividend will be paid. In the six months to 30 June 2016 an interim dividend of 1.25p was declared. No dividend was paid to shareholders in the six months to 30 June 2017 (2016: 1.5p).

Operating performance

Molins entered the 2017 financial year with an order book that was substantially stronger than at the start of 2016, with the increase arising in the Packaging Machinery division. The first half of the year has resulted in order intake in the continuing group being at levels considerably ahead of the same period last year. Trading was ahead of the first half of last year in all parts of the continuing group.

Following the disposal of I&TM, the Group is now managed primarily on a regional basis, and segmental reporting, disclosed in note 4, is based on three regions: Americas, EMEA (Europe, Middle East & Africa) and Asia Pacific.

Americas

Sales in the period were £10.3m (2016: £10.4m) and gross profit was £3.0m (2016: £3.4m). Order intake in the region was ahead of sales and reflects a strong level of market activity within most market sectors. Order prospects remain strong, and activity levels in the region are high, such that anticipated sales in the second half are well supported by the current order book.

EMEA

Sales in the period were £9.5m (2016: £6.0m) and gross profit was £3.1m (2016: £0.9m). Order intake in the period was at similar levels as sales, although below expectations at the beginning of the year, with a number of potential projects being discussed with customers but generally an elongated period to convert these prospects to orders. As in the Americas, order prospects are strong, and although the activity levels in the second half of the year are not as high, the region is well positioned moving into 2018.

Asia Pacific

Sales in the period were £5.6m (2016: £1.8m) and gross profit was £1.0m (2016: £0.5m). The region experienced a low level of sales in the first half of last year, but with an increased level of order intake towards the end of 2016, sales increased considerably in the six months to June 2017. Order intake has been a little lower than sales but ahead of expectations at the start of the year and the region is well placed to continue to develop.

Pension schemes

The Group is responsible for defined benefit pension schemes in the UK and the USA, in which there are no active members. The Company is responsible for the payment of a statutory levy to the Pension Protection Fund.

The IAS 19 valuation of the UK scheme at 30 June 2017 shows a surplus of £11.1m (£7.2m net of deferred tax), compared with a surplus of £4.6m (£3.0m net of deferred tax) at the beginning of the period. The main cause of the improvement was that asset returns were favourable. The UK scheme was subject to a formal triennial actuarial valuation as at 30 June 2015, which was completed in the first half of 2017, in anticipation of the sale of I&TM. The principal terms of the deficit funding agreement between the Company and the Trustees are set out in note 7. The next funding valuation will be carried out as at 30 June 2018 and every three years thereafter, and the agreement between the Company and the Fund will be reassessed at each of those valuations.

The net valuation of the USA pension schemes at 30 June 2017, with total assets of £16.7m, showed a deficit of £6.6m (£4.0m net of deferred tax), compared with a deficit of £6.8m (£4.1m net of deferred tax) at the beginning of the period.

The aggregate expense of administering the pension schemes was £0.4m (2016: £0.4m). The net financing expense on pension scheme balances was £0.1m (2016: £nil).

Outlook

Following the sale of a substantial part of the Group, the continuing business is now focused on growth markets in which it currently operates.

The Group has both the financial and managerial resources available to develop its continuing operations, with the prime focus being on organic growth, through the leveraging of its global position, development of its products and most particularly through an improved services offering to its customers. An acquisition strategy is beginning to be implemented, where the Group will seek complementary businesses which can enhance the full solution customer proposition in our focused growth markets of Pharmaceutical, Healthcare, Nutrition and Beverage, and which will support the Group's development.

Overall progress in the development of the continuing operations, with order intake and sales both strongly ahead of the same period last year, is expected to continue and the continuing group's future prospects remain strong.

Tony Steels

Chief Executive

7 September 2017

CONDENSED CONSOLIDATED INCOME STATEMENT

	6 months to 30 June 2017			6 months to 30 June 2016			
	Notes	Underlying £m	Non- underlying (note 5) £m	Total £m	Underlying £m	Non- underlying (note 5) £m	Total £m
Continuing operations							
Revenue	4	25.4	-	25.4	18.2	-	18.2
Cost of sales		(18.3)	-	(18.3)	(13.4)	-	(13.4)
Gross profit		7.1	-	7.1	4.8	-	4.8
Distribution expenses		(2.8)	-	(2.8)	(2.4)	-	(2.4)
Administrative expenses		(3.7)	(0.4)	(4.1)	(3.0)	(0.4)	(3.4)
Other operating expenses		(0.2)	-	(0.2)	(0.2)	-	(0.2)
Operating profit/(loss)	4, 5	0.4	(0.4)	-	(0.8)	(0.4)	(1.2)
Financial income	6	-	-	-	-	-	-
Financial expenses	6	(0.1)	(0.1)	(0.2)	(0.1)	-	(0.1)
Net financing expense	4, 6	(0.1)	(0.1)	(0.2)	(0.1)	-	(0.1)
(Loss)/profit before tax	4	0.3	(0.5)	(0.2)	(0.9)	(0.4)	(1.3)
Taxation	8	0.4	0.1	0.5	0.1	0.2	0.3
Profit/(loss) for the period from continuing operations		0.7	(0.4)	0.3	(0.8)	(0.2)	(1.0)
Profit for the period from discontinued operations	16	-	0.6	0.6	-	0.7	0.7
Profit/(loss) for the period		0.7	0.2	0.9	(0.8)	0.5	(0.3)
Earnings/(loss) per ordinary share							
Basic	9			4.3p			(1.5)p
Diluted	9			4.3p			(1.5)p
Earnings/(loss) per ordinary share from continuing operations							
Basic	9			1.2p			(5.1)p
Diluted	9			1.2p			(5.1)p

CONDENSED CONSOLIDATED INCOME STATEMENT (CONTINUED)

12 months to 31 December 2016				
	Notes	Underlying £m	Non- underlying (note 5) £m	Total £m
Continuing operations				
Revenue	4	41.5	-	41.5
Cost of sales		(30.5)	-	(30.5)
Gross profit		11.0	-	11.0
Distribution expenses		(5.3)	-	(5.3)
Administrative expenses		(6.6)	(1.7)	(8.3)
Other operating expenses		(0.3)	-	(0.3)
Operating loss	4, 5	(1.2)	(1.7)	(2.9)
Financial income	6	-	0.4	0.4
Financial expenses	6	(0.3)	(0.3)	(0.6)
Net financing (expense)/income	4, 6	(0.3)	0.1	(0.2)
Loss before tax	4	(1.5)	(1.6)	(3.1)
Taxation	8	0.4	0.3	0.7
Loss for the period from continuing operations		(1.1)	(1.3)	(2.4)
Profit for the period from discontinued operations	16	-	1.8	1.8
(Loss)/profit for the period		(1.1)	0.5	(0.6)
Loss per ordinary share				
Basic	9			(3.3)p
Diluted	9			(3.3)p
Loss per ordinary share from continuing operations				
Basic	9			(12.3)p
Diluted	9			(12.3)p

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	6 months to 30 June 2017 £m	6 months to 30 June 2016 £m	12 months to 31 Dec 2016 £m
Profit/(loss) for the period	0.9	(0.3)	(0.6)
Other comprehensive income/(expense)			
Items that will not be reclassified to profit or loss			
Actuarial gains/(losses)	5.8	(13.9)	(6.3)
Tax on items that will not be reclassified to profit or loss	(2.0)	4.5	2.0
	<u>3.8</u>	<u>(9.4)</u>	<u>(4.3)</u>
Items that may be reclassified subsequently to profit or loss			
Currency translation movements arising on foreign currency net investments	0.2	2.9	3.7
Effective portion of changes in fair value of cash flow hedges	0.5	0.9	0.7
Tax on items that may be reclassified to profit or loss	-	-	(0.2)
	<u>0.7</u>	<u>3.8</u>	<u>4.2</u>
Other comprehensive income/(expense) for the period	<u>4.5</u>	<u>(5.6)</u>	<u>(0.1)</u>
Total comprehensive income/(expense) for the period	<u>5.4</u>	<u>(5.9)</u>	<u>(0.7)</u>
Total comprehensive income/(expense) for the period arises from:			
Continuing operations	4.8	(6.6)	(2.5)
Discontinued operations	0.6	0.7	1.8
	<u>5.4</u>	<u>(5.9)</u>	<u>(0.7)</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Translation reserve £m	Capital redemption reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
6 months to 30 June 2017							
Balance at 1 January 2017	5.0	26.0	2.2	3.9	(0.2)	(1.5)	35.4
Profit for the period	-	-	-	-	-	0.9	0.9
Other comprehensive income for the period	-	-	0.2	-	0.5	3.8	4.5
Total comprehensive income for the period	-	-	0.2	-	0.5	4.7	5.4
Purchase of own shares	-	-	-	-	-	(0.1)	(0.1)
Total transactions with owners, recorded directly in equity	-	-	-	-	-	(0.1)	(0.1)
Balance at 30 June 2017	5.0	26.0	2.4	3.9	0.3	3.1	40.7
6 months to 30 June 2016							
Balance at 1 January 2016	5.0	26.0	(1.5)	3.9	(0.7)	3.9	36.6
Loss for the period	-	-	-	-	-	(0.3)	(0.3)
Other comprehensive (expense)/income for the period	-	-	2.9	-	0.9	(9.4)	(5.6)
Total comprehensive (expense)/income for the period	-	-	2.9	-	0.9	(9.7)	(5.9)
Dividends to shareholders	-	-	-	-	-	(0.3)	(0.3)
Total transactions with owners, recorded directly in equity	-	-	-	-	-	(0.3)	(0.3)
Balance at 30 June 2016	5.0	26.0	1.4	3.9	0.2	(6.1)	30.4
12 months to 31 December 2016							
Balance at 1 January 2016	5.0	26.0	(1.5)	3.9	(0.7)	3.9	36.6
Loss for the period	-	-	-	-	-	(0.6)	(0.6)
Other comprehensive (expense)/income for the period	-	-	3.7	-	0.5	(4.3)	(0.1)
Total comprehensive (expense)/income for the period	-	-	3.7	-	0.5	(4.9)	(0.7)
Dividends to shareholders	-	-	-	-	-	(0.5)	(0.5)
Total transactions with owners, recorded directly in equity	-	-	-	-	-	(0.5)	(0.5)
Balance at 31 December 2016	5.0	26.0	2.2	3.9	(0.2)	(1.5)	35.4

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2017 £m	30 June 2016 £m	31 Dec 2016 £m
Non-current assets				
Intangible assets		1.0	15.3	15.2
Property, plant and equipment		3.2	8.7	8.5
Investment property		0.8	0.8	0.8
Employee benefits	7	11.1	-	4.6
Deferred tax assets		5.2	5.0	4.6
		21.3	29.8	33.7
Current assets				
Inventories		2.7	16.9	13.0
Trade and other receivables		14.5	17.2	24.5
Current tax assets		0.2	0.2	0.2
Cash and cash equivalents		6.0	4.5	9.0
Assets in disposal group held for sale	16	40.1	-	-
		63.5	38.8	46.7
Current liabilities				
Bank overdraft		(0.2)	(0.2)	(0.3)
Trade and other payables		(13.5)	(17.5)	(25.9)
Current tax liabilities		-	(0.3)	(0.4)
Provisions		(0.7)	(1.0)	(1.7)
Provisions held within discontinued operations		-	(0.2)	-
Liabilities in disposal group held for sale	16	(11.8)	-	-
		(26.2)	(19.2)	(28.3)
Net current assets		37.3	19.6	18.4
Total assets less current liabilities		58.6	49.4	52.1
Non-current liabilities				
Interest-bearing loans and borrowings		(6.9)	(8.9)	(7.9)
Employee benefits	7	(6.6)	(10.0)	(6.8)
Deferred tax liabilities		(4.4)	(0.1)	(2.0)
		(17.9)	(19.0)	(16.7)
Net assets	4	40.7	30.4	35.4
Equity				
Issued capital		5.0	5.0	5.0
Share premium		26.0	26.0	26.0
Reserves		6.6	5.5	5.9
Retained earnings		3.1	(6.1)	(1.5)
Total equity		40.7	30.4	35.4

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		6 months to 30 June 2017 £m	6 months to 30 June 2016 £m	12 months to 31 Dec 2016 £m
	Notes			
Operating activities				
Operating profit/(loss) from continuing operations		-	(1.2)	(2.9)
Non-underlying items included in operating profit		0.4	0.4	1.7
Amortisation		0.2	0.1	0.3
Depreciation		0.3	0.3	0.7
Loss on disposal of property, plant and equipment		0.1	-	-
Other non-cash items		0.1	-	0.2
Defined benefit pension payments		(0.9)	(0.9)	(2.0)
Working capital movements:				
- decrease/(increase) in inventories		0.4	(0.8)	0.7
- decrease/(increase) in trade and other receivables		1.3	0.9	(3.5)
- (decrease)/increase in trade and other payables		(6.2)	(0.7)	7.2
- decrease in provisions		(0.1)	(0.1)	-
		(4.4)	(2.0)	2.4
Cash (used)/generated from operations before reorganisation and discontinued operations				
Cash generated from discontinued operations	16	3.8	2.4	4.2
Reorganisation costs paid		(0.5)	-	(0.2)
		(1.1)	0.4	6.4
Cash flows from operations				
Taxation paid		(0.2)	(0.3)	(0.2)
		(1.3)	0.1	6.2
Cash flows from operating activities				
Investing activities				
Proceeds from sale of property, plant and equipment		-	0.2	0.3
Acquisition of property, plant and equipment		(0.2)	(0.3)	(0.5)
Capitalised development expenditure		-	(0.5)	(0.9)
Net cash flow on disposal of discontinued operations		(0.2)	(0.7)	(0.9)
		(0.4)	(1.3)	(2.0)
Cash flows from investing activities				
Financing activities				
Interest paid		(0.1)	(0.2)	(0.3)
Purchase of own shares		(0.1)	-	-
Net (decrease)/increase against revolving facilities		(1.0)	(4.3)	(5.2)
Dividends paid	10	-	(0.3)	(0.5)
		(1.2)	(4.8)	(6.0)
Cash flows from financing activities				
		(2.9)	(6.0)	(1.8)
Net decrease in cash and cash equivalents				
Cash and cash equivalents at 1 January	11	8.7	9.8	9.8
Effect of exchange rate fluctuations on cash held		-	0.5	0.7
		5.8	4.3	8.7
Cash and cash equivalents at period end				

NOTES TO THE CONDENSED SET OF FINANCIAL STATEMENTS

1. General information

The Half-year results for the current and comparative period are unaudited but have been reviewed by the auditors, KPMG LLP, and their report is set out after the notes. The comparative information for the year ended 31 December 2016 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The Group's statutory accounts have been reported on by the Group's auditor and delivered to the Registrar of Companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006. The Group's statutory accounts for the year ended 31 December 2016 are available from the Company's registered office at Rockingham Drive, Linford Wood East, Milton Keynes MK14 6LY or from the Group's website at www.molins.com.

Having made due enquiries the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the condensed set of financial statements.

The condensed set of financial statements was approved by the Board of directors on 7 September 2017.

2. Basis of preparation

(a) Statement of compliance

The condensed set of financial statements for the 6 months ended 30 June 2017 has been prepared in accordance with IAS 34 *Interim financial reporting* as adopted by the EU. It does not include all of the information required for full annual financial statements and should be read in conjunction with the financial statements of the Group for the year ended 31 December 2016.

(b) Judgements and estimates

The preparation of the condensed set of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the condensed set of financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were of the same type as those that applied to the financial statements for the year ended 31 December 2016.

3. Significant accounting policies

The accounting policies, presentation and methods of computation applied by the Group in this condensed set of financial statements are the same as those applied in the Group's latest audited financial statements.

4. Operating segments

Following the Group's strategic review process which was concluded in 2016 the business changed from reporting divisionally to regionally. The regions form the basis of the Group's management structure and internal reporting structure. Unallocated costs include distribution and administrative expenditure. Further details in respect of the Group structure and performance of the regions are set out in the Half-year management report.

	Revenue			Profit		
	6 months to 30 June 2017 £m	6 months to 30 June 2016 £m	12 months to 31 Dec 2016 £m	6 months to 30 June 2017 £m	6 months to 30 June 2016 £m	12 months to 31 Dec 2016 £m
	Continuing operations					
Americas	10.3	10.4	19.9	3.0	3.4	7.0
EMEA	9.5	6.0	15.8	3.1	0.9	2.9
Asia Pacific	5.6	1.8	5.8	1.0	0.5	1.1
	25.4	18.2	41.5			
Gross profit				7.1	4.8	11.0
Unallocated costs				(6.7)	(5.6)	(12.2)
Underlying operating profit/(loss)				0.4	(0.8)	(1.2)
Non-underlying items included in operating profit				(0.4)	(0.4)	(1.7)
Operating profit/(loss)				-	(1.2)	(2.9)
Net financing expense				(0.2)	(0.1)	(0.2)
Loss before tax from continuing operations				(0.2)	(1.3)	(3.1)

Net financing expense includes dividends paid on preference shares. The Company has in issue 900,000 6% fixed cumulative preference shares. The preference dividend is payable on 30 June and 31 December and amounted to £0.1m in the 12 months ended 31 December 2016.

	30 June 2017 £m	30 June 2016 £m	31 Dec 2016 £m
Segment assets			
Americas	9.3	10.6	15.3
EMEA	16.4	36.3	35.3
Asia Pacific	0.5	2.8	2.0
Total segment assets	26.2	49.7	52.6
Segment liabilities			
Americas	(4.9)	(3.9)	(7.1)
EMEA	(12.3)	(13.1)	(19.1)
Asia Pacific	(0.4)	(1.5)	(1.2)
Total segment liabilities	(17.6)	(18.5)	(27.4)
Segment net assets – continuing operations	8.6	31.2	25.2
Net assets – discontinued operations	28.3	-	-
Unallocated net assets/(liabilities)	3.8	(0.8)	10.2
Total net assets	40.7	30.4	35.4

5. Non-underlying items

	6 months to 30 June 2017 £m	6 months to 30 June 2016 £m	12 months to 31 Dec 2016 £m
Defined benefit pension scheme administration costs (note 7)	(0.4)	(0.4)	(0.9)
Reorganisation costs	-	-	(0.8)
Net financing (expense)/income on pension scheme balances	(0.1)	-	0.1
Total non-underlying expenditure before tax	(0.5)	(0.4)	(1.6)

6. Net financing expense

	6 months to 30 June 2017 £m	6 months to 30 June 2016 £m	12 months to 31 Dec 2016 £m
Financial income			
Defined benefit pension scheme finance income	-	-	0.4
	-	-	0.4
Financial expenses			
Defined benefit pension scheme finance expense	(0.1)	-	(0.3)
Amounts payable on bank loans and overdrafts	(0.1)	(0.1)	(0.2)
Preference dividends paid	-	-	(0.1)
	(0.2)	(0.1)	(0.6)
Net financing expense	(0.2)	(0.1)	(0.2)

7. Employee benefits

The Group accounts for pensions under IAS 19 *Employee benefits*. A formal valuation of the UK defined benefit pension scheme (Fund) was carried out as at 30 June 2015. The principal terms of the deficit funding agreement between the Company and the Fund's Trustees, which is effective until 31 August 2029, but, is subject to reassessment every 3 years are as follows:

- the Company will continue to pay a sum of £1.8m per annum to the Fund (increasing at 2.1 per cent. per annum) in deficit recovery payments;
- if underlying operating profit (operating profit before non-underlying items) in any year is in excess of £5.5m, the Company will pay to the Fund an amount of 33% of the difference between the annual underlying operating profit and £5.5m, subject to a cap on underlying operating profit of £10m for the purpose of calculating this payment; this part of the agreement will fall away in 2021 if the funding deficit is above certain levels;
- the Company will pay a one-off amount to the Fund of 10% of the net proceeds (after costs and taxation) of the Sale on Completion, which is expected to be approximately £2.7 million; and
- payment of dividends by Molins will not exceed the value of payments being made to the Fund in any one year.

Formal valuations of the USA defined benefit schemes were carried out as at 1 January 2016, and their assumptions, updated to reflect actual experience and conditions at 30 June 2017 and modified as appropriate for the purposes of IAS 19, have been applied in the condensed set of financial statements.

Profit before tax for the 6 months to 30 June 2017 includes charges in respect of pension scheme administration costs of £0.4m (6 months to 30 June 2016: £0.4m; 12 months to 31 December 2016: £0.9m) and financing expense on pension scheme balances of £0.1m (6 months to 30 June 2016: £nil; 12 months to 31 December 2016: net financing income £0.1m). Payments to the Group's UK defined benefit pension scheme in the period of £0.9m (6 months to 30 June 2016: £0.9m; 12 months to 31 December 2016: £1.8m) were in respect of the agreed deficit recovery plan.

Employee benefits as shown in the Condensed consolidated statement of financial position were:

	30 June 2017 £m	30 June 2016 £m	31 Dec 2016 £m
UK scheme			
Fair value of assets	403.8	370.9	401.9
Present value of defined benefit obligations	(392.7)	(372.8)	(397.3)
Defined benefit asset/(liability)	11.1	(1.9)	4.6
USA schemes			
Fair value of assets	16.7	16.8	17.1
Present value of defined benefit obligations	(23.3)	(24.9)	(23.9)
Defined benefit liability	(6.6)	(8.1)	(6.8)
Total defined benefit asset/(liability)	4.5	(10.0)	(2.2)

8. Taxation

The tax credit on continuing activities for the 6 months to 30 June 2017 amounted to £0.5m (6 months to 30 June 2016: £0.3m; 12 months to 31 December 2016: £0.7m) and is calculated as follows:

	6 months to 30 June 2017 £m	6 months to 30 June 2016 £m	12 months to 31 Dec 2016 £m
Tax credit on underlying profit	0.4	0.1	0.4
Tax credit on non-underlying items	0.1	0.2	0.3
Total tax credit	0.5	0.3	0.7

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective from 1 April 2020) was announced in the budget on 16 March 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 December 2016 arising in the UK has been calculated based on the rates enacted.

9. Earnings per share

Basic earnings per ordinary share is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period excluding shares held by the employee trust in respect of the Company's long-term incentive arrangements. For diluted earnings per ordinary share, the weighted average number of shares includes the diluting effect, if any, of own shares held by the employee trust.

	6 months to 30 June 2017 £m	6 months to 30 June 2016 £m	12 months to 31 Dec 2016 £m
Basic – weighted average number of ordinary shares	19,812,704	19,708,637	19,939,954
Diluting effect of shares held by the employee trust	167,566	-	-
Diluted – weighted average number of ordinary shares ¹	19,980,270	19,708,637	19,939,954

¹ In the 6 months to 30 June 2016 and 12 months to 31 December 2016 the effect of dilution would be to decrease the loss per ordinary share and is therefore excluded from the dilution calculation.

Underlying EPS, which is calculated on profit before non-underlying items, for the 6 months to 30 June 2017 amounted to 3.1p (6 months to 30 June 2016: underlying loss per share 4.2p; 12 months to 31 December 2016: underlying loss per share 6.0p). Diluted underlying EPS for the 6 months to 30 June 2017 amounted to 3.1p. In the 6 months to 30 June 2016 and 12 months to 31 December 2016 the effect of dilution would be to decrease the underlying loss per ordinary share and is therefore excluded from the dilution calculation.

The calculations of underlying EPS and diluted underlying EPS are based on underlying profit for the 6 months to 30 June 2017 of £0.7m:

	6 months to 30 June 2017 £m	6 months to 30 June 2016 £m	12 months to 31 Dec 2016 £m
Continuing operations:			
Profit/(loss) for the period	0.3	(1.0)	(2.4)
Non-underlying items (net of tax)	0.4	0.2	1.3
Underlying profit/(loss) for the period	0.7	(0.8)	(1.1)

10. Dividends

	6 months to 30 June 2017 £m	6 months to 30 June 2016 £m	12 months to 31 Dec 2016 £m
Dividends to shareholders paid in the period			
Final dividend for the year ended 31 December 2015 of 1.5p per share	-	0.3	0.3
Interim dividend for the year ended 31 December 2016 of 1.25p per share	-	-	0.2
	-	0.3	0.5

11. Reconciliation of net cash flow to movement in net (debt)/funds

	6 months to 30 June 2017 £m	6 months to 30 June 2016 £m	12 months to 31 Dec 2016 £m
Net decrease in cash and cash equivalents	(2.9)	(6.0)	(1.8)
Cash inflow from movement in borrowings	1.0	4.3	5.2
Change in net (debt)/funds resulting from cash flows	(1.9)	(1.7)	3.4
Translation movements	-	0.3	0.6
Movement in net (debt)/funds in the period	(1.9)	(1.4)	4.0
Opening net funds/(debt)	0.8	(3.2)	(3.2)
Closing net (debt)/funds	(1.1)	(4.6)	0.8
Analysis of net (debt)/funds			
Cash and cash equivalents – current assets	6.0	4.5	9.0
Bank overdrafts	(0.2)	(0.2)	(0.3)
Interest-bearing loans and borrowings – non-current liabilities	(6.9)	(8.9)	(7.9)
Closing net (debt)/funds	(1.1)	(4.6)	0.8

12. Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the financial statements for the year ended 31 December 2016.

At 1 January 2017 and 30 June 2017 the Group held all financial instruments at Level 2 (as defined in IFRS 7 *Financial instruments: disclosures*) and there have been no transfers of assets or liabilities between levels of the fair value hierarchy.

Categories of financial instruments	30 June 2017 £m	30 June 2016 £m	31 Dec 2016 £m
Financial assets			
Derivative instruments in designated hedge accounting relationship	0.5	0.3	-
Loans and receivables (including cash and cash equivalents)	8.8	16.9	26.8
	9.3	17.2	26.8
Financial liabilities			
Derivative instruments in designated hedge accounting relationship	0.2	0.1	0.3
Amortised cost	20.3	26.6	33.8
	20.5	26.7	34.1

Amortised cost comprises interest-bearing loans and borrowings and trade and other payables, excluding foreign currency derivatives.

The Group enters into forward foreign exchange contracts solely for the purpose of minimising currency exposures on sale and purchase transactions. The Group classified its forward foreign exchange contracts used for hedging as cash flow hedges and states them at fair value.

The fair value is the gain/loss on all open forward foreign exchange contracts at the period end. These amounts are based on the market values of equivalent instruments at the period end date and all relate to those forward foreign exchange contracts that have been designated as effective cash flow hedges under IAS 39 *Financial instruments – recognition and measurement*.

13. Related parties

The Group has related party relationships with its directors and with the UK and USA defined benefit pension schemes. There has been no material change in the nature of the related party transactions described in note 31 of the 2016 Annual Report and Accounts.

14. Principal risks and uncertainties

Molins is subject to a number of risks which could have a serious impact on the performance of the business. The Board regularly considers the principal risks that the Group faces and how to mitigate their potential impact. The key risks to which the business is exposed are set out on pages 14 and 15 of the Group's 2016 Annual Report and Accounts. Molins completed the disposal of its Instrumentation & Tobacco Machinery division on 1 August 2017 which eliminates exposure to the Nicotine delivery industry.

15. Half-year report

The Half-year report will be made available to shareholders on or before 14 September 2017 on the Group's website at www.molins.com. The Half-year report will not be available in printed form.

16. Assets held for sale and discontinued operations

Sale of Property in Canada

On 16 June 2017 Molins entered into an unconditional agreement to sell its manufacturing facility at 6154 Kestrel Road, Mississauga, Ontario. Completion of the transaction is expected to take place by the end of November 2017. The asset has been presented as held for sale in the Consolidated statement of financial position as at 30 June 2017.

Disposal of Instrumentation & Tobacco Machinery (I&TM) division

On 8 June 2017 Molins entered into a conditional agreement with G.D S.p.A., a wholly owned subsidiary of Coesia S.p.A., to sell its I&TM division. The transaction completed on 1 August 2017. The results of I&TM are presented as results from a discontinued operation in the Condensed consolidated income statement and the comparative information has been re-presented accordingly. The asset and liabilities of I&TM have also been presented as held for sale in the Consolidated statement of financial position as at 30 June 2017.

The results of the discontinued operations which are included in the Group's Condensed consolidated income statement and Condensed consolidated statement of cash flow are as follows:

	6 months to 30 June 2017 £m	6 months to 30 June 2016 £m	12 months to 31 Dec 2016 £m
Revenue from trading activities	18.9	16.8	38.6
Costs from trading activities	(17.1)	(15.9)	(36.4)
Operating profit	1.8	0.9	2.2
Finance income	0.1	-	0.1
Operating profit from trading activities	1.9	0.9	2.3
Costs incurred on disposal	(1.3)	-	-
Profit before tax	0.6	0.9	2.3
Income tax expense	-	(0.2)	(0.5)
Profit after tax	0.6	0.7	1.8

Cash flow	6 months to 30 June 2017 £m	6 months to 30 June 2016 £m	12 months to 31 Dec 2016 £m
Operating activities			
Operating profit	1.8	0.9	2.2
Non-underlying items included in operating profit	-	-	0.1
Amortisation	0.5	0.6	1.1
Depreciation	0.3	0.4	0.6
Net movements in working capital	1.2	0.5	0.3
Cash generated in operations before reorganisation	3.8	2.4	4.3
Reorganisation costs paid	-	-	(0.1)
Cash flows from operating activities	3.8	2.4	4.2
Investing activities			
Cash flows from investing activities	(0.2)	(0.7)	(0.9)
Net increase in cash and cash equivalents	3.6	1.7	3.3

The assets and liabilities which are presented as assets and liabilities in disposal group held for sale are as follows:

	Canada Property Sale £m	Instrumentation & Tobacco Machinery £m	Total Group £m
Intangible assets	-	13.7	13.7
Property, plant and equipment	1.5	3.2	4.7
Inventories	-	10.4	10.4
Trade and other receivables	-	11.3	11.3
Total assets	1.5	38.6	40.1
Trade and other payables	-	11.4	11.4
Current tax liabilities	-	-	-
Provisions	-	0.4	0.4
Total liabilities	-	11.8	11.8

INDEPENDENT REVIEW REPORT TO MOLINS PLC

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly report for the six months ended 30 June 2017 which comprises the Condensed consolidated income statement, Condensed consolidated statement of comprehensive income, Condensed consolidated statement of changes in equity, Condensed consolidated statement of financial position, Condensed consolidated statement of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 30 June 2017 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the AIM Rules.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly report in accordance with the AIM Rules.

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly report based on our review

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Peter Selvey

for and on behalf of KPMG LLP

Chartered Accountants
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7 September 2017