DS Smith

7 December 2017

DS SMITH PLC – 2017/18 HALF YEAR RESULTS

Growing with customers

6 months to 31 October 2017		Change (reported)	Change (constant currency)
Revenue	£2,800m	+19%	+14%
Adjusted operating profit(1)	£251m	+11%	+6%
Adjusted EPS(1)	17.4p	+6%	+2%
Interim dividend per share	4.9p	+7%	+7%
Return on sales(4)	9.0%	(60)bps	(60)bps
ROACE(5)	14.6%	(50)bps	(40)bps
Profit before tax	£144m	(1)%	(5)%
Statutory EPS	10.6p	(14)%	(17)%

Highlights

- Strong organic volume growth(2) of 5.2%
  - All regions in growth
  - E-commerce and pan-European strength
- In-line performance, delivering against all financial KPIs
- Recovery of paper price increase progressing as expected
- Excellent start from Interstate, our first fibre-based US business
  - Integration ahead of expectations with positive employee and customer reaction
  - Benefits of global supply chain validated and being delivered
  - Annualised pre-tax cost synergy target raised to $30 million
- Continuing to grow the business organically and inorganically
  - Proposed €208 million acquisition of Ecopack and Ecopaper in Romania (completion expected January 2018)
  - Packaging capacity investment programme for Europe and US

"We are delighted with our volume growth which has significantly accelerated to over 5%, fuelled by success with e-commerce and pan-European customers. Structural shifts, including changes in consumer preferences, the increased relevance of our packaging at point-of-sale, and the rise in e-commerce are all underpinning the growth of packaging. The strong customer demand has driven performance and our operating margin is in line with our expectations, despite the substantial input cost pressures in the period, which we continue to recover as planned.

Integration of our recently acquired North American business is going very well and we have been delighted by the reaction from both employees and customers. The proposed acquisition in Romania is on track to complete in January 2018. We continue to see exciting opportunities for growth, both in Europe and in North America, and, accordingly, the Board remains confident about the outlook for DS Smith."
Miles Roberts, Group Chief Executive

Sustainable delivery against medium term targets

Medium term targets	Delivery in H1 2017/18[8]
Organic volume growth[2] ≥GDP[3]+1%	+5.2%
Return on sales[4] 8% – 10%	9.0%
ROACE[5] 12% - 15%	14.6%
Net debt / EBITDA[6] ≤2.0x	2.0x
Cash conversion[7] ≥100%	118%

See notes to the financial tables below

Enquiries

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Hugo Fisher, Group Communications Director
Rachel Stevens, Investor Relations Director

Presentation and dial-in details

A presentation to investors and analysts will be held at 9:00am today at Allen & Overy, One Bishops Square, London E1 6AD. Dial-in access for the presentation is available with details as follows: +44 (0) 20 3003 2666 (standard access) or 0808 109 0700 (UK Toll Free) Password: DS Smith. The slides accompanying the presentation will be available on our website shortly before the start of the presentation. Dial-in participants will have the opportunity to participate in the Q&A. A replay is available for 7 days on +44 (0) 20 8196 1998, PIN 1778967#.

Notes to the financial tables

The Group uses certain key non-GAAP measures in order to provide an additional view of the Group's overall performance and position, eliminating significant unusual or non-operational items that may obscure understanding of the key trends and position. These measures are used internally to evaluate business performance, as a key constituent of the Group's planning process, as well as comprising targets against which compensation is determined. Reporting of non-GAAP measures alongside reported measures is considered useful to enable investors to understand how management evaluates performance and value creation internally, enabling them to track the Group's adjusted performance and the key business drivers which underpin it. Note 15 explains the use of non-GAAP performance measures.

(1) Before adjusting items and amortisation of intangible assets
(2) Corrugated box volumes, adjusted for working days, on a like-for-like basis
(3) GDP growth (year-on-year) for the countries in which DS Smith operates, weighted by our sales by country = 2.4%. Source: Eurostat (14 Nov 2017)
(4) Operating profit before adjusting items and amortisation of intangible assets as a percentage of revenue
(5) Operating profit before adjusting items and amortisation of intangible assets as a percentage of the average monthly capital employed over the previous 12 month period. Average capital employed includes property, plant and equipment, intangible assets (including goodwill), working capital, provisions, capital debtors/creditors and assets/liabilities held for sale
(6) Net debt at average exchange rates over operating profit before depreciation, adjusting items and amortisation of intangible assets for the previous 12 month period, calculated in accordance with banking covenants
(7) Free cash flow before tax, net interest, growth capital expenditure and pension payments as a percentage of operating profit before adjusting items and amortisation of intangible assets
(8) Organic volume growth, cash conversion and return on sales given for the 6 months to 31 October 2017, ROACE and net debt / EBITDA given for the 12 months to 31 October 2017

Cautionary statement: This announcement contains certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this announcement and DS Smith Plc undertakes no obligation to update these forward-looking statements. Nothing in this statement should be construed as a profit forecast.

Unless otherwise stated, all commentary and comparable analysis in the overview and operating review is based on constant currency performance. Organic volume growth means corrugated box volume growth, on a like-for-like basis.

Overview

In the half year to 31 October 2017, DS Smith has delivered strong organic corrugated box volume growth and maintained return on sales and return on capital employed in line with our medium term targets, despite substantial input cost rises in the period. In addition, we have seen an excellent performance from Interstate Resources since we acquired the business and have had a very positive start to our integration work.

Organic corrugated box volumes have grown at 5.2%, well ahead of our target of GDP+1% which represents a continuation of the momentum of the previous year. Growth is due to market share gains, with strong volumes again from our pan-European customers, particularly within the e-commerce category, together with an improvement in European economic growth. Return on sales for the period was 9.0%, the midpoint of our target range of 8 – 10%. We are pleased with our progress in recovering paper price rises and have also benefited strongly from operational leverage. Return on average capital employed at 14.6% remains near the top of our target range despite the initial dilutive effect of the Interstate acquisition and other acquisitions in the past 12 months. Net debt / EBITDA at the period end was 2.0x reflecting our focus on tight balance sheet management. These results reflect our absolute focus on returns and cash flow in the business and our commitment to bringing net debt back into line with our medium term targets following an acquisition.

On 25 August 2017 we completed our acquisition of Interstate Resources, our first fibre-based packaging business in the United States. We are delighted by the financial performance and operational progress to date, with employees showing great enthusiasm to be part of leveraging our packaging expertise in this exciting market. We are actively engaged in discussions with both international customers of Interstate and DS Smith and have been enjoying positive responses, particularly from large customers of the Interstate Resources group, who recognise the benefit of sourcing from a large company with innovation and expertise in shelf-ready packaging, for example.

We have also increased our estimate of annualised pre-tax cost synergies achievable from the acquisition, from $25 million by the end of the third full year to $30 million over the same period, based principally on greater opportunities to drive operational efficiencies and global supply chain benefits.

For the half year period, Group revenues increased on a constant currency basis by 14%, principally reflecting volume growth in corrugated boxes in Europe, the contribution from acquired businesses, particularly North America, and increased selling prices. Group revenues increased on a reported basis by 19%.

Adjusted operating profit was up 6% (£15 million) on a constant currency basis, reflecting the margin pressure from higher paper prices in part offset by significant volume growth in the period and two months' contribution from Interstate. The profit drop-through from volume growth in corrugated boxes is consistent with prior periods, while sales price and mix increased significantly due to the marked increase in input costs during the period which are being progressively recovered in box prices.

We continue to remain heavily focused on cash and ROACE, delivering 14.6% ROACE, which is towards the top of our target range, despite the initial dilutive impact from the acquisition of Interstate in August 2017, and other smaller businesses in the past 12 months. Net debt / EBITDA increased from 1.8x at 30 April 2017 to 2.0x at 31 October 2017 as net debt increased by £314 million to £1,406 million, due to the impact of acquisitions, (£926 million, including debt assumed of £144 million and £261 million of equity consideration shares issued), particularly Interstate, and the currency translation impact, partially offset by the proceeds from issuing new equity to finance the Interstate acquisition, and by free cash flow (£171m). Underlying cash flow from the business continued to be good, with a further working capital inflow of £25 million generated during the period.

Operating Review

UK

	Half year ended 31 October 2017	Half year ended 31 October 2016	Change
Revenue	£550m	£466m	18%
Operating profit*	£55m	£45m	22%
Return on sales*	10.0%	9.7%	30bps

*Adjusted, before amortisation and adjusting items

In the UK revenues increased 18% to £550 million (H1 2016/17: £466 million) while adjusted operating profit has increased 22% to £55 million (H1 2016/17: £45 million). Corrugated box volumes in the period were good, reflecting continued success with e-commerce customers. We have developed a leading position in e-commerce which is being replicated in other European regions. Margin in the region has been at the top of the Group target range, reflecting the mix of our business, good performance in the acquired TRM and Creo businesses and also good progress in recovering paper price rises.

Western Europe

	Half year ended 31 October 2017	Half year ended 31 October 2016	Change – reported	Change – constant currency
Revenue	£716m	£626m	14%	8%
Operating profit*	£55m	£56m	(2%)	(7%)
Return on sales*	7.7%	8.9%	(120bps)	(120bps)

*Adjusted, before amortisation and adjusting items

In Western Europe organic corrugated box volumes in the period reflected a strong performance in the Iberian businesses and in France, with flatter volumes in the Benelux region. Revenue increased by 8% driven by underlying volume growth and increases in box prices, which partially mitigated the input price rises in the period. There was also a small benefit to revenues from acquisitions in the past 12 months in both France and Iberia. Adjusted operating profit fell by 7%, principally reflecting the lower proportion of paper manufacturing in the region than the Group as a whole, together with the lag between the increase in input costs and the recovery of those costs through corrugated packaging price rises.

DCH and Northern Europe

	Half year ended 31 October 2017	Half year ended 31 October 2016	Change – reported	Change – constant currency
Revenue	£545m	£490m	+11%	+6%
Operating profit*	£43m	£45m	(4%)	(9%)
Return on sales*	7.9%	9.2%	(130bps)	(120bps)

*Adjusted, before amortisation and adjusting items

DCH and Northern Europe has seen very strong volume growth across the region, with good growth in Northern Europe and excellent growth in Germany and Switzerland, reflecting good progress with customers following the recent investment in the new Erlensee display packaging site in Germany. The acquisition of Deku-Pack in September 2016 also gave a small positive benefit. Adjusted operating profit fell 9% reflecting the lag between the increase in input costs and the recovery of those costs through price rises.

Central Europe and Italy

	Half year ended 31 October 2017	Half year ended 31 October 2016	Change – reported	Change – constant currency
Revenue	£700m	£614m	+14%	+8%
Operating profit*	£63m	£62m	+2%	(5%)
Return on sales*	9.0%	10.1%	(110bps)	(120bps)

*Adjusted, before amortisation and adjusting items

Organic corrugated box volumes in Central Europe and Italy have grown ahead of the Group average, reflecting a very good performance from this high growth market, particularly in Poland and the Baltics, and south eastern Europe. Our corrugated box volumes in Italy have also continued to grow well. Revenues increased by 8%, reflecting the volume growth and the benefit of pricing increases in packaging and in external paper sold. Adjusted operating profit decreased 5%, reflecting the organic growth offset by the lag between the increase in input costs and the recovery of those costs through packaging price rises.

North America

	Half year ended 31 October 2017
Revenue	£110m
Operating profit*	£15m
Return on sales*	13.6%

*Adjusted, before amortisation and adjusting items

Corrugated box volumes in the two months of ownership were extremely strong in the period compared to the comparative period in 2016 prior to DS Smith's ownership. This was driven by the strong market for paper and the benefit of beginning to integrate with the wider DS Smith platform. Profit performance is considerably ahead of that in 2016. As expected there has been great customer interest in performance packaging and shelf ready packing. The supply chain benefits between Europe and the east coast of USA will deliver greater benefits than originally assumed.

Plastics

	Half year ended 31 October 2017	Half year ended 31 October 2016	Change – reported	Change – constant currency
Revenue	£179m	£161m	+11%	+7%
Operating profit*	£20m	£18m	+11%	+5%
Return on sales*	11.2%	11.2%	0bps	(20bps)

*Adjusted, before amortisation and adjusting items

Plastics has seen revenue grow by 7%, driven by volume growth in the business. Adjusted operating profit grew 5% reflecting volume growth in the core business and through acquisition, with return on sales margins falling 20 basis points to 11.2%.

Acquisition of Interstate Resources

On 25 August 2017, we completed our acquisition of Interstate Resources, our first fibre-based packaging business in the United States. The rationale for the acquisition is to build a business in North America offering similar packaging solutions as has proved successful in Europe, based on demand for our solutions from our pan-European customers who also operate in the United States, and to capitalise on the opportunities from operating a global supply platform.

We are delighted by the financial performance and operational progress to date, with employees showing great enthusiasm to be part of leveraging our packaging expertise in this exciting market. We are actively engaged in discussions with international customers of both Interstate and DS Smith and have been enjoying very positive responses, particularly from large customers of the Interstate Resources group, who recognise the benefit of sourcing from a large company with innovation and expertise in shelf-ready packaging, for example. Plans are in place to develop a PackRight Centre alongside the largest of the US packaging sites, and we are excited by the growth opportunities for the business.

We have also increased our estimate of annualised pre-tax cost synergies achievable from the acquisition, from $25 million by the end of the third full year to $30 million over the same period, based principally on greater opportunities to drive operational efficiencies and global supply chain benefits. Cash benefits of $95 million are confirmed, mainly driven by working capital management. The cash investment required in total until the end of our financial year 2020/21 to integrate the business and bring it up to European health and safety standards is now expected to be $20 million treated as an adjusting item and $40-45 million treated as capital expenditure.

Outlook

The outlook remains positive as we begin our second half with good momentum. Our packaging proposition that delivers real value to our customers is reflected in our volume growth and, while input cost pressures remain, we continue to recover those costs as planned.

We continue to see exciting opportunities for growth, both in Europe and in North America and, accordingly the Board remains confident about the outlook for DS Smith.

Financial Review

Group revenue for the half year to 31 October 2017 increased by 19% to £2,800 million (H1 2016/17: £2,357 million), reflecting acquisitions (£150 million), volume and sales price growth, and a significant positive currency translation effect (£98 million). On a constant currency basis, revenue increased by 14% due to acquisitions and organic growth of £195 million, approximately evenly split between corrugated box volume growth and sales price and mix growth, reflecting the price increases to recover input cost pricing that took place in the period.

Unadjusted operating profit of £174 million was marginally lower than the prior year (H1 2016/17: £175 million) due to the impact of the inclusion of adjusting items of £35 million (H1 2016/17: £21 million) and higher amortisation of £42 million (H1 2016/17: £30 million) due to acquisitions.

Adjusted operating profit increased 11% to £251 million (H1 2016/17: £226 million), with a £10 million benefit due to currency translation. On a constant currency basis, adjusted operating profit growth was 6%, benefitting from a £15 million contribution from the recently acquired North America business plus a further £4 million from other businesses acquired in the past 12 months. The profit drop-through from higher volumes (£39 million) and the benefit of higher pricing and sales mix (£81 million) was offset by higher input and other costs (£124 million). Input costs were substantially higher period-on-period, reflecting a rise in fibre costs and in paper pricing.

Free cash flow (being EBITDA plus the cash flow effect of working capital, pension payments, capital expenditure (net of proceeds), tax and interest) was £171 million (H1 2016/17: £182 million), driven by EBITDA of £332 million and a further positive contribution from working capital of £25 million, partially offset by capital expenditure, tax and interest payments. Reported cash grew from £123 million at 30 April 2017 to £535 million at 31 October 2017 through cash flows from operating activities of £259 million, share issues of £283 million and net proceeds from borrowings of £571 million, offset by acquisitions of £521 million, net capital expenditure of £121 million and dividends of £44 million.

Net capital expenditure was £121 million in the period (H1 2016/17: £84 million) with a total of c. £280 million expected to be spent in the full financial year. The full year increase compared to previous guidance is primarily driven by the addition of capex relating to the North America business.

Amortisation for the period was £42 million (H1 2016/17: £30 million), with a total of £90 million expected for the full financial year, driven by the effect of the acquisition of Interstate. Depreciation for the period was £81 million (H1 2016/17: £74 million), with the charge for the full financial year expected to be c. £175 - £185 million.

Return on average capital employed of 14.6% for the 12 month period to 31 October 2017 (12 months to 31 October 2016: 15.1%) represents a 40 bps decrease on a constant currency basis and remains near the top end of our target range. This decrease is driven by the initially dilutive impact of recently acquired businesses, partially offset by the continued profitable growth of the business.

Adjusting items after tax of £38 million were incurred in the period (H1 2016/17: £17 million), including £18 million relating to acquisition costs, £5 million of acquisition-related financing costs, £5 million to integration and £5 million relating to other restructuring initiatives. Total adjusting items for the year are expected to be c. £60 - 65 million.

Net financing costs were £26 million (H1 2016/17: £28 million), reflecting the increase in debt over the period due to consideration paid for acquisitions, less the slightly larger impact of receiving the proceeds of the equity issue before paying for Interstate Resources. The pension interest charge for the period was £2 million, similar to last year, with a charge of £5 million expected for the full year. The interest charge for the year as a whole is expected to be around £60 million, inclusive of the pension interest charge. Adjusting finance costs of £5 million relate to costs incurred on the acquisition of Interstate.

Unadjusted profit before tax was lower at £144 million (H1 2016/17: £146 million), through higher financing costs and the lower operating profit, offset slightly by improved share of results of associates. Adjusted profit before tax of £184 million (H1 2016/17: £167 million) was higher through the growth in adjusted operating profit and lower adjusted financing charges.

Unadjusted tax on profits has been charged at a rate on continuing operations before amortisation and adjusting items of 23% (H1 2016/17: 22%), similar to the full year 2016/17.

Unadjusted profit after tax for continuing operations was £107 million (H1 2016/17: £115 million). Adjusted profit after tax was £145 million (H1 2016/17: £132 million).

Earnings per share for continuing operations before amortisation and adjusting items increased 6% to 17.4 pence (H1 2016/17: 16.4 pence) or 2% on a constant currency basis, reflecting the growth in operating profit, boosted by the decrease in interest costs. Earnings per share was disproportionately impacted in the period by the equity issue on 29 June 2017 which raised funds for the Interstate Resources acquisition which completed approximately two months later, on 25 August 2017, in addition to the equity issued to the vendors on completion. Total unadjusted earnings per share was 10.6 pence (H1 2016/17: 12.3 pence) due to higher amortisation and adjusting items, together with the issues of equity noted above.

Financial position

Total equity increased to £2,025 million at 31 October 2017 from £1,355 million at 30 April 2017 due to equity issues of £544 million, retained profits of £107 million, actuarial gain on employee benefits of £25 million and foreign currency translation differences of £26 million, offset by dividends of £44 million.

Net debt at 31 October 2017 was £1,406 million (30 April 2017: £1,092 million), representing 2.0x EBITDA for the prior 12 month period, calculated on the basis of a full year contribution from acquired businesses. Expenditure on acquisitions was £521 million and borrowings of £144 million were also assumed. £283 million was raised by the issue of equity, principally in a placing conducted at the time of the announcement of the Interstate Resources acquisition in June 2017. The Group maintains tight capital discipline, and constant attention to working capital means that, despite the increase in working capital on a translated basis due to foreign exchange changes, £25 million has been released from working capital in the period on a like-for-like basis, and working capital as a percentage of sales as an average over the period is now 0.1% (H1 2016/17: 1.7%).

Dividend

The Board considers the dividend to be an important component of shareholder returns. In considering dividends the Board will be mindful of the Group’s leverage, earnings growth potential and future expansion plans. As first set out in December 2010, our policy is that dividends will be progressive and, in the medium term, dividend cover should be on average 2.0x to 2.5x through the cycle.

The Board declares an interim dividend for this half year of 4.9 pence per share (H1 2016/17: 4.6 pence per share). This represents an increase of 7%, demonstrating the confidence of the Board in the outlook for the Group. The dividend will be paid on 1 May 2018 to ordinary shareholders on the register at the close of business on 6 April 2018.

Risks and uncertainties

The Board has considered the principal risks and uncertainties affecting the Group in the second half of the year. The principal risks and uncertainties discussed in the Business Review on pages 42 to 45 of the 2017 Annual Report, available on the Group’s website at www.dssmith.com, remain relevant.

In summary, the Group’s key risks and uncertainties are:

- Acquisition strategy;
- Access to capital market and liquidity restrictions;
- Increasing market consolidation;
- Governance and compliance;
- Process changes;
- Changes in shopping habits;
- Digital vulnerabilities;
- Eurozone and macroeconomic limits;

- Interference in securing required paper supplies;
- Unanticipated fibre technology changes;
- Sustainability promise; and
- Talent barriers.

Going concern

The Group's recent trading and forecasts, after taking account of reasonably foreseeable changes in trading performance, shows that the Group is able to operate within its current debt facilities. At 31 October 2017 there was significant headroom on the Group's committed debt facilities of £2,778 million. As a consequence, the Board believes that the Group is well placed to manage its business risks (as summarised above) successfully despite the uncertainties inherent in the current economic outlook. After making enquiries, the Board has formed a judgement that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the going concern basis has been adopted in preparing the interim financial statements.

Responsibility statement

We confirm that to the best of our knowledge:

(a) the condensed set of financial statements, prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
(b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication on important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
(c) the interim management report includes a fair review of the information required by DTR4.2.8R (disclosure of related parties' transactions and changes therein).

Miles Roberts	Adrian Marsh
Group Chief Executive	Group Finance Director

6 December 2017

INDEPENDENT REVIEW REPORT TO DS SMITH PLC

We have been engaged by the Company to review the condensed set of financial statements in the half yearly financial report for the six months ended 31 October 2017 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Statement of Cash Flows and related notes 1 to 15. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company 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. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review 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 formed.

DIRECTORS' RESPONSIBILITIES

The half yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half yearly financial report has been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, as adopted by the European Union.

OUR RESPONSIBILITY

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

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 United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. 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.

CONCLUSION

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 financial report for the six months ended 31 October 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
6 December 2017

CONDENSED CONSOLIDATED INCOME STATEMENT

		Half year ended 31 October 2017 Unaudited			Half year ended 31 October 2016 Unaudited			Year ended 30 April 2017 Audited		
		Before adjusting items	Adjusting items (note 3)	After adjusting items	Before adjusting items	Adjusting items (note 3)	After adjusting items	Before adjusting items	Adjusting items (note 3)	After adjusting items
	Note	£m	£m	£m	£m	£m	£m	£m	£m	£m
Revenue	2	2,800	–	2,800	2,357	–	2,357	4,781	–	4,781
Operating costs		(2,549)	(17)	(2,566)	(2,131)	(18)	(2,149)	(4,338)	(57)	(4,395)
Operating profit before amortisation, acquisitions and disposals	2	251	(17)	234	226	(18)	208	443	(57)	386
Amortisation of intangible assets; acquisitions and disposals		(42)	(18)	(60)	(30)	(3)	(33)	(65)	(5)	(70)
Operating profit	2	209	(35)	174	196	(21)	175	378	(62)	316
Finance income	4	–	–	–	1	–	1	1	–	1
Finance costs	4	(26)	(5)	(31)	(29)	–	(29)	(51)	–	(51)
Employment benefit net finance expense		(2)	–	(2)	(3)	–	(3)	(5)	–	(5)
Net financing costs		(28)	(5)	(33)	(31)	–	(31)	(55)	–	(55)
Profit after financing costs		181	(40)	141	165	(21)	144	323	(62)	261
Share of profit of equity accounted investments, net of tax		3	–	3	2	–	2	3	–	3
Profit before income tax		184	(40)	144	167	(21)	146	326	(62)	264
Income tax (expense)/credit	6	(39)	2	(37)	(35)	4	(31)	(69)	13	(56)
Profit for the period		145	(38)	107	132	(17)	115	257	(49)	208
Profit for the period attributable to:										
Owners of the parent		145	(38)	107	133	(17)	116	258	(49)	209
Non-controlling interests		–	–	–	(1)	–	(1)	(1)	–	(1)

Earnings per share		Half year ended 31 October 2017	Half year ended 31 October 2016	Year ended 30 April 2017
Earnings per share				
Basic	7	10.6p	12.3p	22.1p
Diluted	7	10.5p	12.2p	22.0p
Adjusted earnings per share [1]				
Basic	7	17.4p	16.4p	32.5p
Diluted	7	17.3p	16.3p	32.3p

1 Adjusted for amortisation and adjusting items.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Half year ended 31 October 2017 Unaudited £m	Half year ended 31 October 2016 Unaudited £m	Year ended 30 April 2017 Audited £m
Profit for the period	107	115	208
Items which will not be reclassified subsequently to profit or loss			
Actuarial gain/(loss) on employee benefits	25	(112)	(1)
Income tax on items which will not be reclassified subsequently to profit or loss	(3)	17	(3)
Items which may be reclassified subsequently to profit or loss			
Foreign currency translation differences	26	150	71
Movements in cash flow hedges	17	39	9
Share of other comprehensive income of equity accounted associate	–	–	1
Income tax on items which may be reclassified subsequently to profit or loss	(3)	(6)	35
Other comprehensive income for the period, net of tax	62	88	112
Total comprehensive income for the period	169	203	320
Total comprehensive income/(expense) attributable to:			
Owners of the parent	169	204	321
Non-controlling interests	–	(1)	(1)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	At 31 October 2017 Unaudited £m	At 31 October 2016 Unaudited £m	At 30 April 2017 Audited £m
Assets				
Non-current assets				
Intangible assets		2,024	1,231	1,178
Biological assets		3	–	–
Property, plant and equipment		2,231	1,883	1,866
Equity accounted investments		25	6	9
Other investments		11	3	3
Deferred tax assets		77	67	79
Other receivables		8	3	3
Derivative financial instruments		12	63	19
Total non-current assets		4,391	3,256	3,157
Current assets				
Inventories		491	403	406
Biological assets		4	–	–
Income tax receivable		11	2	10
Trade and other receivables		881	815	766
Cash and cash equivalents	10	558	134	139
Derivative financial instruments		27	34	13
Assets held for sale		1	6	2
Total current assets		1,973	1,394	1,336
Total assets		6,364	4,650	4,493
Liabilities				
Non-current liabilities				
Borrowings	10	(1,925)	(1,215)	(1,144)
Employee benefits	5	(161)	(306)	(181)
Other payables		(12)	(14)	(14)
Provisions		(4)	(6)	(5)
Deferred tax liabilities		(270)	(161)	(133)
Derivative financial instruments		(12)	(22)	(11)
Total non-current liabilities		(2,384)	(1,724)	(1,488)
Current liabilities				
Bank overdrafts	10	(23)	(14)	(16)
Borrowings	10	(57)	(130)	(119)
Trade and other payables		(1,713)	(1,311)	(1,358)
Income tax liabilities		(126)	(113)	(120)
Provisions		(21)	(26)	(24)
Derivative financial instruments		(15)	(29)	(13)
Total current liabilities		(1,955)	(1,623)	(1,650)
Total liabilities		(4,339)	(3,347)	(3,138)
Net assets		2,025	1,303	1,355
Equity				
Issued capital		107	95	95
Share premium		1,260	716	728
Reserves		657	490	530
Total equity attributable to owners of the parent		2,024	1,301	1,353
Non-controlling interests		1	2	2
Total equity		2,025	1,303	1,355

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Hedging reserve £m	Translation reserve £m	Own shares £m	Retained earnings £m	Total reserves attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
At 1 May 2017 (audited)	95	728	(22)	40	(4)	516	1,353	2	1,355
Profit for the period	–	–	–	–	–	107	107	–	107
Actuarial gain on employee benefits	–	–	–	–	–	25	25	–	25
Foreign currency translation differences	–	–	–	26	–	–	26	–	26
Cash flow hedges fair value changes	–	–	7	–	–	–	7	–	7
Reclassification from cash flow hedge reserve to income statement	–	–	10	–	–	–	10	–	10
Income tax on other comprehensive income	–	–	(3)	–	–	(3)	(6)	–	(6)
Total comprehensive income	–	–	14	26	–	129	169	–	169
Issue of share capital	12	532	–	–	–	–	544	–	544
Employee share trust	–	–	–	–	2	(6)	(4)	–	(4)
Share-based payment expense (net of tax)	–	–	–	–	–	6	6	–	6
Dividends paid	–	–	–	–	–	(44)	(44)	–	(44)
Transactions with non-controlling interests	–	–	–	–	–	–	–	(1)	(1)
Other changes in equity in the period	12	532	–	–	2	(44)	502	(1)	501
At 31 October 2017 (unaudited)	107	1,260	(8)	66	(2)	601	2,024	1	2,025
At 1 May 2016 (audited)	94	716	(29)	(69)	(3)	428	1,137	3	1,140
Profit for the period	–	–	–	–	–	116	116	(1)	115
Actuarial loss on employee benefits	–	–	–	–	–	(112)	(112)	–	(112)
Foreign currency translation differences	–	–	–	150	–	–	150	–	150
Cash flow hedges fair value changes	–	–	32	–	–	–	32	–	32
Reclassification from cash flow hedge reserve to income statement	–	–	7	–	–	–	7	–	7
Income tax on other comprehensive income	–	–	(7)	1	–	17	11	–	11
Total comprehensive income/(expense)	–	–	32	151	–	21	204	(1)	203
Issue of share capital	1	–	–	–	–	–	1	–	1
Employee share trust	–	–	–	–	(1)	(5)	(6)	–	(6)
Share-based payment expense (net of tax)	–	–	–	–	–	3	3	–	3
Dividends paid	–	–	–	–	–	(38)	(38)	–	(38)
Other changes in equity in the period	1	–	–	–	(1)	(40)	(40)	–	(40)
At 31 October 2016 (unaudited)	95	716	3	82	(4)	409	1,301	2	1,303

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Continuing operations	Note	Half year ended 31 October 2017 Unaudited £m	Half year ended 31 October 2016 Unaudited £m	Year ended 30 April 2017 Audited £m
Operating activities				
Cash generated from operations	9	317	292	629
Interest received		–	1	1
Interest paid		(26)	(31)	(46)
Tax paid		(32)	(25)	(61)
Cash flows from operating activities		259	237	523
Investing activities				
Acquisition of subsidiary businesses, net of cash and cash equivalents	13	(521)	(33)	(71)
Capital expenditure		(130)	(91)	(244)
Proceeds from sale of property, plant and equipment and intangible assets		9	7	18
Cash flows used in investing activities		(642)	(117)	(297)
Financing activities				
Proceeds from issue of share capital		283	1	13
Repayment of borrowings		(353)	(501)	(924)
Proceeds from borrowings		924	422	785
(Payments)/proceeds from settlement of derivative financial instruments		(11)	-	31
Repayment of finance lease obligations		(2)	(7)	(9)
Dividends paid to Group shareholders	8	(44)	(38)	(121)
Other		(6)	(7)	-
Cash flows from/(used in) financing activities		791	(130)	(225)
Increase/(decrease) in cash and cash equivalents		408	(10)	1
Net cash and cash equivalents at 1 May		123	115	115
Exchange gains on cash and cash equivalents		4	15	7
Net cash and cash equivalents	10	535	120	123

1. Basis of preparation

The unaudited condensed consolidated interim financial statements for the half year ended 31 October 2017 have been prepared in accordance with IAS 34 *Interim Financial Reporting* and the disclosure requirements of the Listing Rules. These interim financial statements should be read in conjunction with the Group's annual financial statements for the year ended 30 April 2017, which have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ('IFRSs'). Those accounts were reported on by the Company's auditor and delivered to the Registrar of Companies. The report of the auditor was not qualified or modified, did not draw attention to any matters by way of emphasis and did not contain an adverse statement under section 498 (2) or (3) of the Companies Act 2006.

The interim financial information has been prepared using the same accounting policies as those adopted in the annual financial statements for the year ended 30 April 2017, which are prepared in accordance with IFRSs.

The following new accounting standards, amendments or interpretations have been adopted by the Group as of 1 May 2017:

- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*
- IAS 7 *Disclosure Initiative – Amendments to IAS 7*
- Annual Improvements to IFRSs 2014-2016 Cycle

The adoption of these standards, amendments or interpretations has not had a material effect on the results for the period.

There were no other new accounting standards, amendments or interpretations adopted by the Group as of 1 May 2017.

The condensed information presented for the year ended 30 April 2017 does not constitute full statutory accounts as defined in section 434 of the Companies Act 2006. The financial information for the half year ended 31 October 2017 is unaudited but has been reviewed by Deloitte LLP, the Group's auditor, and a copy of their review report forms part of this half year report.

Foreign exchange rates

The Group's main currency exposure is to the euro and the US dollar, and the following exchange rates have been applied during the periods:

	Half year ended 31 October 2017		Half year ended 31 October 2016		Year ended 30 April 2017	
	Average	Closing	Average	Closing	Average	Closing
euro	1.129	1.138	1.190	1.111	1.179	1.184
US Dollar	1.303	1.325	1.340	1.216	1.285	1.294

Going concern

As explained in the narrative section of this half year financial report under the heading 'Going concern', the financial statements are prepared on the going concern basis. This is considered appropriate given that the Group has adequate resources to continue in operational existence for the foreseeable future.

Estimates and judgements

The application of the Group's accounting policies requires management to make estimates and assumptions; these estimates and assumptions affect the reported assets and liabilities and financial results of the Group. Actual outcomes could differ from the estimates and assumptions used.

In preparing these interim financial statements, the key sources of estimates were the same as those that applied to the Group's consolidated financial statements for the year ended 30 April 2017, being pensions and other employee benefits, taxation and adjusting items.

There are no critical accounting judgements.

Non-GAAP performance measures

In the reporting of financial information, the Group has adopted certain non-GAAP measures of historical or future financial performance, position or cash flows other than those defined or specified under International Financial Reporting Standards (IFRSs).

Non-GAAP measures are either not defined by IFRS or are adjusted IFRS figures, and therefore may not be directly comparable with other companies' reported non-GAAP measures, including those in the Group's industry.

Non-GAAP measures should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measures.

Details of the Group's non-GAAP performance measures are included in note 15.

2. Segment reporting

Operating segments

To accommodate the Group's acquisition of Indevco Management Resources Inc. in August 2017, an additional operating segment, 'North America', has been added for the half year ended 31 October 2017.

Half year ended 31 October 2017	UK £m	Western Europe £m	DCH and Northern Europe £m	Central Europe and Italy £m	North America £m	Plastics £m	Total continuing operations £m
External revenue	550	716	545	700	110	179	2,800
Adjusted operating profit [1]	55	55	43	63	15	20	251
Unallocated items:							
Amortisation							(42)
Adjusting items							(35)
Total operating profit (continuing operations)							**174**

Half year ended 31 October 2016	UK £m	Western Europe £m	DCH and Northern Europe £m	Central Europe and Italy £m	North America £m	Plastics £m	Total continuing operations £m
External revenue	466	626	490	614	-	161	2,357
Adjusted operating profit [1]	45	56	45	62	-	18	226
Unallocated items:							
Amortisation							(30)
Adjusting items							(21)
Total operating profit (continuing operations)							175

[1] Adjusted for amortisation and adjusting items

3. Adjusting items

Items are presented as adjusting in the financial statements where they are significant items of financial performance that the Directors consider should be separately disclosed to assist in the understanding of the trading and financial results of the Group. Such items include business disposals, restructuring and optimisation, acquisition related and integration costs and impairments. With effect from 1 May 2017, the Group has changed the description of these items from 'exceptional' to 'adjusting', to better represent their nature.

Continuing operations	Half year ended 31 October 2017 £m	Half year ended 31 October 2016 £m	Year ended 30 April 2017 £m
Acquisition related costs	(18)	(3)	(7)
Gains on acquisitions and disposals	–	–	2
Acquisitions and disposals	(18)	(3)	(5)
Integration costs	(5)	(6)	(17)
Other restructuring costs	(5)	(9)	(26)
Impairment of assets	(1)	–	(5)
Other	(6)	(3)	(9)
Total pre-tax adjusting items (recognised in operating profit)	(35)	(21)	(62)
Finance cost adjusting items	(5)	–	–
Adjusting tax item	(2)	(1)	(1)
Current tax credit on adjusting items	4	–	13
Deferred tax credit on adjusting items	–	5	1
Total post-tax adjusting items	(38)	(17)	(49)

Half year ended 31 October 2017

Acquisition costs of £18m relate to professional advisory, legal and consultancy fees and directly attributable internal salary costs relating to the review of potential deals, and deals completed during the period, including the acquisition of Interstate Resources and DPF Groupe, and the pending acquisition of Ecopack and Ecopaper. Of the total, £14m relates to the acquisition of Interstate Resources, with the most significant components being transaction and sponsor fees, legal costs, and financial and tax due diligence and advice costs.

Integration costs relate to integration projects underway to achieve cost synergies from the acquisitions made in the current period and previous financial years (of which Interstate Resources comprises £2m).

Other restructuring costs of £5m includes reorganisation and restructuring in DCH and Northern Europe (£1m), the UK (£1m) and Plastics (£1m), primarily completion of projects commenced in the previous year.

Other adjusting items of £6m principally relate to European centralisation and optimisation projects.

Finance cost adjusting items relate to financing costs incurred in the acquisition of Interstate Resources.

The current tax credit on adjusting items of £4m in the half year ended 31 October 2017 is the tax effect at the local applicable tax rate of adjusting items that are subject to tax. This excludes non-tax deductible deal related advisory fees in relation to acquisitions and disposals. The adjusting tax item of £2m is an increase in tax provisions in respect of tax risks in acquired businesses.

Year ended 30 April 2017 and half year ended 31 October 2016

Acquisition costs of £7m relate to professional advisory, legal and consultancy fees and directly attributable internal salary costs relating to the review and execution of potential deals, and deals completed during the periods, including the acquisition of Creo, Deku-Pack, Gopaca, P&I Display and Parish.

Integration costs relate to integration projects underway to ensure appropriate health and safety standards are operating and to achieve cost synergies from the acquisitions made in the current period and previous financial year. They include directly attributable internal salary costs.

Other restructuring costs for the year ended 30 April 2017 includes reorganisation and restructuring in DCH and Northern Europe (£11m), the UK (£6m), Western Europe (£4m) and Plastics (£2m). For the half year ended 31 October 2016, £4m relates to projects in the UK, and £3m relates to DCH and Northern Europe.

Other adjusting items principally relate to infrastructure optimisation and efficiency projects.

The income tax credit on adjusting items in the periods includes an increase in tax provisions arising from the acquisition of a business (£1m), and the tax effect at the local applicable tax rate of adjusting items that are subject to tax. The adjusting items in the year give rise to a net income tax effect, with the exception of non-deductible deal related advisory fees in relation to acquisitions and disposals.

4. Finance income and costs

Continuing operations	Half year ended 31 October 2017 £m	Half year ended 31 October 2016 £m	Year ended 30 April 2017 £m
Interest income from financial assets	–	(1)	(1)
Finance income	–	(1)	(1)
Interest on borrowings and overdrafts	19	22	46
Finance cost adjusting items	5	–	–
Other	7	7	5
Finance costs	31	29	51

5. Employee benefits

Movements in the net employee benefit deficit recognised in the Condensed Consolidated Statement of Financial Position:

	Half year ended 31 October 2017 £m	Half year ended 31 October 2016 £m	Year ended 30 April 2017 £m
Opening employee benefit deficit	(181)	(188)	(188)
Acquisitions	(11)	–	–
Expense recognised in operating profit	(3)	(3)	(5)
Employment benefit net finance expense (excluding Pension Protection Fund levy)	(2)	(2)	(4)
Employer contributions	10	9	17
Other payments and contributions	3	3	7
Actuarial gains/(losses)	25	(112)	(1)
Currency translation	(2)	(13)	(8)
Reclassification	–	–	1
Employee benefit deficit	(161)	(306)	(181)
Deferred tax asset	42	63	42
Net employee benefit deficit	(119)	(243)	(139)

Acquisition movement of £11m relates to schemes acquired as part of Interstate Resources and DPF Groupe.

6. Income tax expense – continuing operations

Tax on profit for continuing operations has been charged at an underlying rate before adjusting items and amortisation of 22.5% (half year ended 31 October 2016: 22.0%; year ended 30 April 2017: 22.0%) being the expected full year rate.

The tax credit on amortisation was £11m (half year ended 31 October 2016: £8m; year ended 30 April 2017: £16m).

7. Earnings per share

Basic earnings per share from continuing operations	Half year ended 31 October 2017	Half year ended 31 October 2016	Year ended 30 April 2017
Profit from continuing operations attributable to ordinary shareholders	£107m	£116m	£209m
Weighted average number of ordinary shares	1,010m	944m	945m
Basic earnings per share	10.6p	12.3p	22.1p

Diluted earnings per share from continuing operations	Half year ended 31 October 2017	Half year ended. 31 October 2016	Year ended 30 April 2017
Profit from continuing operations attributable to ordinary shareholders	£107m	£116m	£209m
Weighted average number of ordinary shares	1,010m	944m	945m
Potentially dilutive shares issuable under share-based payment arrangements	6m	7m	6m
Weighted average number of ordinary shares (diluted)	1,016m	951m	951m
Diluted earnings per share	10.5p	12.2p	22.0p

The number of shares excludes the weighted average number of the Company's own shares held as treasury shares during the period of 1m (half year ended 31 October 2016: 2m; year ended 30 April 2017: 2m).

Adjusted earnings per share from continuing operations

The Directors believe that the presentation of an adjusted earnings per share, being the basic earnings per share adjusted for adjusting items and amortisation of intangible assets, better explains the underlying performance of the Group. Adjusted earnings is calculated by adding back the post-tax effects of both amortisation and adjusting items. A reconciliation of basic to adjusted earnings per share is as follows:

	Half year ended 31 October 2017			Half year ended 31 October 2016			Year ended 30 April 2017		
	£m	Basic pence per share	Diluted pence per share	£m	Basic pence per share	Diluted pence per share	£m	Basic pence per share	Diluted pence per share
Basic earnings	107	10.6p	10.5p	116	12.3p	12.2p	209	22.1p	22.0p
Add back:									
Amortisation of intangible assets	42	4.2p	4.2p	30	3.1p	3.1p	65	6.9p	6.8p
Tax credit on amortisation	(11)	(1.1p)	(1.1p)	(8)	(0.8p)	(0.8p)	(16)	(1.7p)	(1.7p)
Adjusting items, before tax	40	3.9p	3.9p	21	2.2p	2.2p	62	6.6p	6.6p
Tax on adjusting items and adjusting tax items	(2)	(0.2p)	(0.2p)	(4)	(0.4p)	(0.4p)	(13)	(1.4p)	(1.4p)
Adjusted earnings	176	17.4p	17.3p	155	16.4p	16.3p	307	32.5p	32.3p

8. Dividends proposed and paid

	Pence per share	£m	Pence per share	£m
2015/16 interim dividend - paid			4.0p	38
2015/16 final dividend - paid			8.8p	83
2016/17 interim dividend - paid	4.6p	44		
2016/17 final dividend - paid	10.6p	113		
2017/18 interim dividend - proposed	4.9p	52		

	Half year ended 31 October 2017 £m	Half year ended 31 October 2016 £m	Year ended 30 April 2017 £m
Paid in the period	44	38	121

The final dividend in respect of 2016/17 of 10.6 pence per share (£113m) was paid after the half year end on 1 November 2017. The 2016/17 interim dividend was paid during the half year ended 31 October 2017. An interim dividend in respect of the half year ended 31 October 2017 of 4.9p per share (£52m) has been proposed by the Directors after the reporting date.

9. Cash generated from operations

Continuing operations	Half year ended 31 October 2017 £m	Half year ended 31 October 2016 £m	Year ended 30 April 2017 £m
Profit for the period	107	115	208
Adjustments for:			
Pre-tax integration costs and other adjusting items	17	18	57
Amortisation of intangible assets; acquisitions and disposals	60	33	70
Cash outflow for adjusting items	(33)	(32)	(66)
Depreciation	81	74	148
Profit on sale of non-current assets *	(1)	(6)	(14)
Share of profit of equity accounted investments, net of tax	(3)	(2)	(3)
Employment benefit net finance expense	2	3	5
Share-based payment expense	4	3	10
Finance income	–	(1)	(1)
Finance costs	31	29	51
Other non-cash items (including other deposits)	2	3	9
Income tax expense	37	31	56
Change in provisions	(2)	(1)	(6)
Change in employee benefits	(10)	(10)	(19)
Cash generation before working capital movements	292	257	505
Changes in:			
Inventories	(43)	(21)	(49)
Trade and other receivables	(42)	(6)	10
Trade and other payables	110	62	163
Working capital movement	25	35	124
Cash generated from operations	317	292	629

* Includes gains on the sale of surplus property assets of £nil (half year ended 31 October 2016: £3m; year ended 30 April 2017: £7m).

10. Net debt

	Half year ended 31 October 2017 £m	Half year ended 31 October 2016 £m	Year ended 30 April 2017 £m
Cash and cash equivalents	558	134	139
Overdrafts	(23)	(14)	(16)
Net cash and cash equivalents	535	120	123
Other deposits	43	45	40
Borrowings due – after one year	(1,914)	(1,202)	(1,133)
Borrowings due – within one year	(54)	(127)	(115)
Finance leases	(14)	(16)	(15)
Derivative financial instruments			
– assets	9	41	14
– liabilities	(11)	(16)	(6)
	(1,941)	(1,275)	(1,215)
Net debt	(1,406)	(1,155)	(1,092)

Derivative financial instruments above relate to forward foreign exchange contracts, interest rate and cross-currency swaps used to hedge the Group's borrowings and the ratio of net debt to EBITDA. The difference between the amounts shown above and the total derivative financial instrument assets and liabilities in the Consolidated Statement of Financial Position relates to derivative financial instruments that hedge forecast foreign currency transactions and the Group's purchase of energy.

Other deposits balances are included, as these short-term receivables have the characteristics of net debt.

11. Reconciliation of net cash flow to movement in net debt

	Half year ended 31 October 2017 £m	Half year ended 31 October 2016 £m	Year ended 30 April 2017 £m
Continuing operations			
Operating profit before amortisation and adjusting items	251	226	443
Depreciation	81	74	148
Adjusted EBITDA	332	300	591
Working capital movement	25	35	124
Change in provisions	(2)	(1)	(6)
Change in employee benefits	(10)	(10)	(19)
Other	5	(3)	5
Cash generated from operations before adjusting cash items	350	321	695
Capital expenditure	(130)	(91)	(244)
Proceeds from sale of property, plant and equipment and other investments	9	7	18
Tax paid	(32)	(25)	(61)
Net interest paid	(26)	(30)	(45)
Free cash flow	171	182	363
Cash outflow for adjusting items	(33)	(32)	(66)
Dividends paid	(44)	(38)	(121)
Acquisition of subsidiary businesses, net of cash and cash equivalents	(521)	(33)	(71)
Other	(5)	(5)	-
Net cash flow	(432)	74	105
Proceeds from issue of share capital	283	1	13
Borrowings acquired	(144)	(4)	(14)
Net movement on debt	(293)	71	104
Foreign exchange, fair value and other non-cash movements	(21)	(127)	(97)
Net debt movement – continuing operations	(314)	(56)	7
Opening net debt	(1,092)	(1,099)	(1,099)
Closing net debt	(1,406)	(1,155)	(1,092)

12. Financial instruments

Carrying amounts and fair values of financial assets and liabilities
Set out below is the accounting classification of the carrying amounts and fair values of all of the Group's financial assets and liabilities:

	31 October 2017		30 April 2017	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Financial assets				
Cash and cash equivalents	558	558	139	139
Available for sale – other investments	11	11	3	3
Loans and receivables	889	889	769	769
Derivative financial instruments	39	39	32	32
Total financial assets	1,497	1,497	943	943
Financial liabilities				
Trade and other payables	(1,725)	(1,725)	(1,372)	(1,372)
Bank and other borrowings	(1)	(1)	(194)	(194)
Medium-term notes and other fixed-term debt	(1,967)	(2,024)	(1,054)	(1,088)
Finance lease liabilities	(14)	(14)	(15)	(15)
Bank overdrafts	(23)	(23)	(16)	(16)
Derivative financial instruments	(27)	(27)	(24)	(24)
Total financial liabilities	(3,757)	(3,814)	(2,675)	(2,709)

The fair value is the amount for which an asset or liability could be exchanged or settled on an arm's-length basis. For financial instruments carried at fair value, market prices or rates are used to determine fair value where an active market exists. The Group uses forward prices for valuing forward foreign exchange and commodity contracts and uses valuation models with present value calculations based on market yield curves to value note purchase agreements, the medium-term note, cross-currency swaps and interest rate swaps. All derivative financial instruments are shown at fair value in the Consolidated Statement of Financial Position.

The Group's medium-term notes and other fixed-term debt are in effective cash flow and net investment hedges and are therefore held at amortised cost. The fair values of financial assets and liabilities which bear floating rates of interest are estimated to be equivalent to their carrying amounts.

IFRS 7 *Financial Instruments: Disclosures* requires the classification of fair value measurements using the fair value hierarchy that reflects the significance of the inputs used in making the assessments.

All of the Group's financial instruments are Level 2 financial instruments in accordance with the fair value hierarchy, meaning although the instruments are not traded in an active market, inputs to fair value are observable for the asset and liability, either directly (i.e. quoted market prices) or indirectly (i.e. derived from prices).

13. Acquisitions and disposals

(a) Acquisition of Interstate Resources

On 29 June 2017, the Group entered into a conditional agreement to acquire an 80% interest in Indevco Management Resources Inc. (IMRI), the owner of Interstate Resources Inc. (Interstate Resources), from Merpas Co. Sàrl. ('Merpas'), which completed on 25 August 2017.

Interstate Resources is an integrated packaging and paper producer based on the East Coast of the USA. It operates from 19 production sites and has approximately 1,500 employees.

Interstate Resources operates across the entire packaging chain including wood procurement, paper manufacturing, design, packaging manufacturing and customer logistics, with the majority of their customer base for its packaging products being FMCG and food customers.

The acquisition aligns with the global convergence of DS Smith's customers' requirements and is expected to create a higher quality, higher margin group with more growth potential.

The acquisition was funded by the issue of a placing on 29 June 2017 of shares in the Company with proceeds net of commissions and expenses of £280m, existing debt facilities, new debt facilities of £400m agreed by the Company on 28 June 2017, and the issue of 52,474,156 ordinary shares to the seller.

In the half year ended 31 October 2017, Interstate Resources contributed combined revenue of £110m and operating profit before amortisation and adjusting items of £15m to the Group's results. If the acquisition had occurred on 1 May 2017, estimated revenue and operating profit before amortisation and adjusting items for the combined entity would have been £2,989m and £278m respectively.

The following table summarises the consideration paid for the Interstate Resources business and provisional fair value of assets acquired and liabilities assumed:

	Carrying values before acquisition £m	Provisional fair values £m
Intangible assets	1	258
Biological assets	8	8
Property, plant and equipment	272	286
Equity accounted and other investments	16	22
Inventories	33	31
Net income tax assets/(liabilities)	3	3
Trade and other receivables	63	62
Cash and cash equivalents	1	1
Borrowings	(140)	(140)
Trade and other payables	(54)	(41)
Provisions and employee benefits	(11)	(13)
Net deferred tax (liabilities)/assets	(37)	(141)
Total identifiable net assets acquired	155	336
Redemption liability relating to non-controlling interest		(152)
Goodwill		588
Total consideration		772
Satisfied by:		
Cash consideration		511
Equity instruments (52,474,156 ordinary shares)		261
Total consideration transferred		772
Net cash flow arising on acquisition		
Cash consideration		511
Cash and cash equivalents acquired		(1)
Total cash outflow		510

The fair value of the ordinary shares issued was based on the listed share price of the Company at 25 August 2017 of £4.97 per share.

A detailed exercise has been undertaken to assess the provisional fair values of assets acquired and liabilities assumed, with the use of third party experts where appropriate. The provisional fair values of intangible assets and property, plant and equipment has been assessed by reference to work performed by an independent valuation specialist. The intangible assets acquired as part of the acquisition relate to customer relationships.

If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised.

The redemption liability relating to non-controlling interest of £152m relates to the 20% minority stake in IMRI retained by Merpas. On fixed dates over the next four years, Merpas can require the Group to acquire some or all of the remaining shares in IMRI on agreed terms under a put option, and, on the fifth anniversary of Completion, the Group will (unless agreed otherwise) acquire any shares in IMRI that it does not already own. The Group has concluded that the risks and rewards related to the put option have substantially transferred to the Group as acquirer and, as such, a financial liability has been recognised, with no non-controlling interest recognised in the statement of financial position. The redemption liability is held at discounted fair value, with subsequent movements to be taken to the income statement; movements due to re-measurement using the multiple based formula as specified in the contract will be recorded in operating profit in adjusting items; the unwind of the discount will to be taken to finance cost adjusting items. The redemption liability is included in trade and other payables in the Consolidated Statement of Financial Position.

Deferred tax is recognised on the temporary timing differences created by the fair value adjustments.

The trade and other receivables comprise gross contractual amounts due of £63m. At the acquisition date, it is estimated that contractual cash flows of £1m will not be collected.

The provisional goodwill balance of £588m arising on the acquisition of Interstate Resources (which is not expected to be tax deductible) includes anticipated synergies from integrating Interstate Resources into the Group, and the skills and technical talent of the Interstate Resources workforce.

(b) Other 2017/18 acquisitions and disposals

During the half year ended 31 October 2017, the Group also completed various other business acquisitions for a total consideration of £11m, net of cash and cash equivalents, including the acquisition of DPF Groupe on 31 May 2017, which are not material to the Group individually or in aggregate. Loans and borrowings acquired from these other transactions were £4m.

In total, during the half year ended 31 October 2017, cash consideration for acquisition of subsidiary businesses, net of cash and cash equivalents was £521 million, and loans and borrowings acquired were £144 million, giving a total impact on net debt from acquisitions of £665 million.

On 18 October 2017, the Group announced it had entered into an agreement to acquire Ecopack and Ecopaper, (collectively "the Business") for an enterprise value of c. €208 million.

The Business is a leading integrated packaging and paper group in Romania; family owned for many years. It will significantly enhance our capacity to serve customers in this high growth region as well as supporting our wider substantial Eastern European presence. The Business includes both high quality packaging assets, focused on the local FMCG market, as well as a new paper machine, built in 2017, that specialises in high quality, light-weight paper, which is particularly well-suited to supporting our performance packaging solutions.

The acquisition consideration and repayment of debt, together totalling €208 million, will be satisfied from existing cash and debt facilities, and from €35 million of DS Smith shares to be issued to the vendor. The acquisition is expected to be earnings enhancing immediately, is consistent with the Group's medium term financial targets and equates to a post synergy multiple of c. 5 - 6x EBITDA. Completion is expected within DS Smith's third fiscal quarter, following Romanian Competition Authority approval and the satisfaction of other customary closing conditions.

(c) 2016/17 acquisitions and disposals

In the half year ended 31 October 2016, the Group made various business acquisitions, which included the acquisition of two businesses specialising in point of sale and display product and services for in-store marketing, Creo in the UK, and Deku-Pack in Denmark, for a total of £37m (including borrowings acquired of £4m).

During the remainder of the year ended 30 April 2017, the Group acquired Parish (a US manufacturer and supplier of bag-in-box systems), Gopaca (a corrugated producer in Portugal) and P&I Display (a specialist corrugated display business in Portugal).

These acquisitions were not considered material to the Group individually or in aggregate and were for a total of £71m (net of cash and cash equivalents). Borrowings acquired from these transactions were £14m.

(d) Acquisition related costs

The Group incurred acquisition related costs in the half year ended 31 October 2017 of £18m (half year ended 31 October 2016: £3m; year ended 30 April 2017: £7m), which primarily related to the acquisition of Interstate Resources as detailed in 13(a). In addition to the total of £18m which was included in administrative expenses within adjusting items, £5m of costs related to the share placing with existing DS Smith equity holders have been netted against share premium.

14. Subsequent events

There are no subsequent events after the reporting date which require disclosure.

15. Non-GAAP performance measures

The Group presents reported and adjusted financial information in order to provide shareholders with additional information to further understand the Group's operational performance and financial position.

The principal adjustments to financial information are made to exclude the effects of adjusting items and amortisation.

Total reported financial information represents the Group's overall performance and financial position, but can contain significant unusual or non-operational items that may obscure understanding of the key trends and position. These unusual or non-operational items include business disposals, restructuring and optimisation project costs, acquisition-related and integration costs, and impairments. Restructuring and optimisation items treated as adjusting items are major programmes usually spanning more than one year, with uneven impact on the profit and loss for those years affected. Other adjusting items, such as business disposals, impairments, integration and acquisition costs, which are by nature either highly variable or non-recurring, can also have a similar distorting effect. Therefore, the Directors consider that presenting non-GAAP measures which exclude adjusting items enable comparability of the recurring core business, complementing the IFRS measures presented.

Amortisation relates primarily to customer contracts and relationships arising from business combinations. Significant costs are incurred in maintaining, developing and increasing the value of such intangibles, costs which are charged in determining adjusted profit. Exclusion of amortisation remedies this double count.

The Group's key non-GAAP measures are used internally to evaluate business performance against the Group's KPIs, as a key constituent of the Group's planning process, as well as comprising targets against which compensation is determined.

Certain non-GAAP performance measures can be, and are, reconciled to information presented in the financial statements. Other financial key performance measures are calculated using information which is not presented in the financial statements and is based on, for example, average twelve month balances or average exchange rates.

The key non-GAAP performance measures used by the Group and their calculation methods are:

Adjusted operating profit

Adjusted operating profit is operating profit excluding amortisation and adjusting items. Adjusting items include business disposal gains and losses, restructuring and optimisation costs, acquisition related and integration costs and impairments. A reconciliation between reported and adjusted operating profit is set out on the face of the Consolidated Income Statement.

Operating profit before adjusting items

A reconciliation between operating profit and operating profit before adjusting items is set out on the face of the Consolidated Income Statement.

Other similar profit measures before adjusting items are quoted, such as profit before income tax and adjusting items, and are directly derived from the Consolidated Income Statement, from which they can be directly reconciled.

Return on sales

Return on sales is adjusted operating profit measured as a percentage of revenue.

Adjusted earnings per share

Adjusted earnings per share is basic earnings per share adjusted to exclude the post-tax effects of adjusting items and amortisation. A reconciliation between basic and adjusted earnings per share is provided in note 7.

Return on average capital employed (ROACE)

ROACE is the last 12 months' adjusted operating profit as a percentage of the average monthly capital employed over the previous 12 month period. Capital employed is the sum of property, plant and equipment, goodwill and intangible assets, working capital, capital debtors/creditors, provisions and assets/liabilities held for sale.

	Half year ended 31 October 2017 £m	Half year ended 31 October 2016 £m	Year ended 30 April 2017 £m
Capital employed	**3,867**	2,950	2,796
Currency, inter-month and acquisition movements	**(666)**	(160)	182
Last 12 months' average capital employed	**3,201**	2,790	2,978
Last 12 months' adjusted operating profit	**468**	421	443
Return on average capital employed	**14.6%**	15.1%	14.9%

EBITDA

Earnings before interest, tax, depreciation and amortisation (EBITDA) is adjusted operating profit excluding depreciation. A reconciliation from adjusted operating profit to EBITDA is provided in note 11.

Net debt/EBITDA

Net debt/EBITDA is the ratio of net debt to EBITDA, calculated in accordance with the Group's banking covenant requirements. In calculating the ratio, net debt is stated at average rates as opposed to closing rates, and EBITDA is adjusted operating profit before depreciation from the previous 12 month period adjusted for the full year effect of acquisitions and disposals in the period.

	Half year ended 31 October 2017 £m	Half year ended 31 October 2016 £m	Year ended 30 April 2017 £m
Net debt – reported basis (see note 10)	1,406	1,155	1,092
Currency and acquisition effects	(10)	(108)	–
Net debt – adjusted basis	1,396	1,047	1,092
EBITDA – last 12 months' reported basis	624	561	591
Currency and acquisition effects	77	6	6
EBITDA – adjusted basis	701	567	597

Cash conversion

Cash conversion is free cash flow before tax, net interest, growth capital expenditure, pension payments and adjusting items cash flows as a percentage of adjusted operating profit. Growth capital expenditure is capital expenditure necessary for the development or expansion of the business. Free cash flow is set out in note 11.

	Half year ended 31 October 2017 £m	Half year ended 31 October 2016 £m	Year ended 30 April 2017 £m
Growth capital expenditure	58	44	103
Non-growth capital expenditure	72	47	141
Total capital expenditure	130	91	244

Average working capital to sales

Average working capital to sales measures the level of investment the Group makes in working capital to conduct its operations. It is measured by comparing the monthly working capital balances for the previous 12 months as a percentage of revenue over the same period. Working capital is the sum of inventories, trade and other receivables, and trade and other payables, excluding capital and acquisition related debtors and creditors.

	Half year ended 31 October 2017 £m	Half year ended 31 October 2016 £m	Year ended 30 April 2017 £m
Inventories	491	403	406
Trade and other receivables	889	818	769
Trade and other payables	(1,725)	(1,325)	(1,372)
Inter-month movements and exclusion of capital and acquisition related items	351	180	239
Last 12 months' average working capital	6	76	42
Last 12 months' revenue	5,224	4,470	4,781
Average working capital to sales	0.1%	1.7%	0.9%

Constant currency

The Group presents commentary on both reported and constant currency revenue and adjusted operating profit comparatives in order to explain the impact of exchange rates on the Group's key income statement captions. Constant currency comparatives recalculate the prior period revenue and adjusted operating profit as if they had been generated at the current year exchange rates. The table below shows the calculation:

	Half year ended 31 October 2016	
	Revenue £m	Adjusted operating profit £m
Reported basis	2,357	226
Currency effects	98	10
Constant currency basis	2,455	236