10 December 2020

DS SMITH PLC – 2020/21 HALF YEAR RESULTS

Growing momentum into H2

6 months to 31 October 2020 *Continuing operations*		Change (reported)	Change (constant currency)
Revenue	£2,889m	(9%)	(10%)
Adjusted operating profit[1]	£230m	(34%)	(35%)
Profit before tax	£97m	(54%)	(55%)
Adjusted EPS[1]	10.8p	(38%)	(38%)
Statutory basic EPS	5.4p	(55%)	(55%)
Free cash flow ("FCF")	£207m	+16%	+16%
Interim dividend per share	4.0p	NA	NA
Return on sales[4]	8.0%	(300bps)	(300bps)
ROACE[5]	8.7%	(310bps)	(300bps)

See notes to the financial table below

Financial highlights

- Resilient volume performance despite challenging environment
- Progressive improvement in volumes throughout H1
  - October +3%, overall H1 -1.0%
  - Good start to H2, November >+5%
- Revenue and profitability adversely impacted by effects of Covid-19 particularly in Q1
- Progressive US momentum with good Indiana plant progress
- Significant return on sales progression in period: H1 8.0%, Q2 9.5%
- Strong cash flow: FCF +16% reflecting prudent management of cash
- Robust financial position and long-term liquidity
- Dividend resumed

Operational and Commercial highlights

- Agile and responsible
  - All plants operational
  - Excellent service and quality throughout H1
  - Furlough being repaid
- Strong growth with large pan-European and US FMCG customers - market share gains; offsetting weaker industrial performance
- Covid-19 has accelerated structural mega-trends in e-commerce and sustainability
  - E-commerce sales up c.30% in period
  - Plastic substitution remains key customer focus
- Leadership in the circular economy – launched new Sustainability strategy

Miles Roberts, Group Chief Executive, said:

"I am really proud of the commitment, professionalism and flexibility of our employees in this extraordinary time, keeping all our plants operational and responding to our customers' needs throughout the period. This has enabled the Group to perform well in the context of an unprecedented environment. Q1 was particularly impacted by Covid-19, but pleasingly we saw real momentum in corrugated box volumes and profitability through Q2

and into H2, together with continued excellent cash flow generation. We have maintained our track record of winning market share through our fibre-based offering focussed on FMCG and e-commerce customers, where the seasonal period has seen solid growth. Growth with our largest customers has been excellent and our US business has seen good underlying progress during the period, reflecting the recent investment in our new plant in Indiana and the award of a number of significant supply contracts from major FMCG companies.

We are as excited as ever about the structural growth drivers for corrugated packaging with a number of trends accelerated by the Covid-19 pandemic. We are well positioned to capitalise and are announcing today the construction of two new state of the art packaging plants in the fast growth regions of Italy and Poland to supply the burgeoning FMCG/ e-commerce sector. While the economic and political environment remains uncertain due to Covid-19 and Brexit, we see continued momentum for our business, underpinning confidence in continued performance in line with our expectations for the year. Strong demand has driven ongoing paper price increases, supporting future box pricing, which, together with customer wins in Europe and the US and our strong position to benefit from attractive structural trends, reinforces our confidence in the business going forward."

Progress against medium-term targets

Medium-term targets *Continuing operations*	Delivery in H1 2020/21[8]
Organic volume growth[2] ≥GDP[3]+1%, being (9%)	(1.0%)
Return on sales[4] 10% – 12%	8.0%
ROACE[5] 12% - 15%	8.7%
Net debt / EBITDA[6] ≤2.0x	2.37x
Cash conversion[7] ≥100%	146%

See notes to the financial tables below

Enquiries

DS Smith Plc +44 (0)20 7756 1800

Investors

Hugo Fisher, Group Investor Relations Director

Rachel Stevens, Investor Relations Director

Media

Greg Dawson, Corporate Affairs Director

Brunswick +44 (0)20 7404 5959

Dan Roberts

Sophia Lazarus

Presentation and dial-in details

There will be a webcast audio presentation at 9:00am with the slides of the half year results, followed by a live Q&A.

To access the webcast, please register here. A copy of the slides presented will also be available on the Group's website, https://www.dssmith.com/investors/results-and-presentations shortly before the start of the presentation.

If you would like to ask a question at the end of the webcast, then you will need to dial into the associated conference call using the following details. Please dial in 15 minutes before the start of the webcast to allow for registration.

Standard International Access: +44 (0) 20 3003 2666
UK Toll Free: 0808 109 0700
Password: DS Smith

The webcast will remain available for replay, accessed via our website per the link above, and a replay is available for 7 days on +44 (0) 20 8196 1998, pin 5838908.

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 items that may impact 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 over time. Note 15 to the financial statements explains the use of non-GAAP performance measures and reconciles them to the closest IFRS measure.

(1) Before adjusting items (see note 3 to the financial statements), and amortisation of intangible assets
(2) Corrugated box volumes (based on area (m^2) of corrugated box sold), adjusted for working days, on an organic basis
(3) GDP growth (year-on-year) for the countries in which DS Smith operates, weighted by our sales by country = -10.0%. Source: Eurostat (13 Nov 2020)
(4) Operating profit before adjusting items and amortisation of intangible assets as a percentage of revenue
(5) Return on average capital employed being operating profit for the prior 12 month period 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, right-of-use assets, intangible assets (including goodwill), working capital, provisions, capital debtors/creditors and assets/liabilities held for sale.
(6) Net debt at average exchange rates over Group operating profit before depreciation, adjusting items and amortisation of intangible assets for the previous 12 month period, calculated in accordance with banking covenants. The Group's banking covenant requirements currently exclude IFRS 16 lease liabilities from the definition of net debt as well as requiring that EBITDA is calculated under the previous IAS 17 basis
(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 corrugated box volume growth, cash conversion and return on sales given for the six months to 31 October 2020; ROACE and net debt / EBITDA given for the 12 months to 31 October 2020

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 relates to the continuing operations of the Group, on constant currency basis.

Overview

During the six month period to 31 October we experienced a very difficult economic environment due to the impact of Covid-19. We responded responsibly and with agility, focusing on keeping our staff safe, working with our communities to keep all our plants open and by meeting the changing needs of our customers with exceptional service.

We have eliminated non-essential expenditure and costs, while protecting necessary operational investment into our business particularly during the first 3 months of the financial period.

The response of our customers has been significant; after an initial challenging start where many of our customers' operations were either closed or disrupted due to Covid-19, sales volumes recovered strongly throughout the first half of this financial year in both Europe and the US. Overall corrugated box volumes in May were 4.7% below May 2019 but recovered to growth of 3% in October resulting in the half year being 1.0% down on the corresponding period last year.

As a consequence of the above, together with a deflationary pricing environment, overall profitability fell against last year. However, profitability progressed strongly during the half year with the result that Q2 return on sales averaged 9.5% compared to the half year average of 8.0%.

We delivered strong free cash flow generation during the period and ahead of the last year comparative. This has resulted from reducing working capital through excellent debtor and supplier management, together with reductions in capital expenditure. The balance sheet of the Company remains strong with an Investment Grade rating for our publicly traded debt.

Our business model has demonstrated resilient trading and strong cash flow despite the unprecedented pandemic situation and GDP for our markets declining by c.10% compared to the six months to 31 October 2019. Our strength is built on the foundations of our broad FMCG and e-commerce customer base, which together comprise c.84 per cent of our total volumes, where our differentiated offer and commitment to quality and service during mass lockdowns has seen us win further customer business and build our market share. Corrugated box volume growth among our large multi-national customers remains significantly ahead of the average volume growth rate as we work with them to develop their Environmental, Social and Governance ("ESG") agenda and also to optimise their e-commerce offering.

Our service delivery levels have improved further along with our product quality scores, despite the disruption to working patterns in the initial lockdowns. All our sites remained operational during the half year period due to the continued excellent commitment and

professionalism of all our employees. Staffing levels have remained consistent and any money received from the UK government's Furlough scheme is being repaid.

Over the half year period, there was an initial further reduction in paper prices as European corrugated demand fell during lockdowns, which, combined with the temporary but sharp peak in OCC prices, due to the impact of lockdowns on the recycling infrastructure, and other Covid-19 related costs in Q1, impacted margins in that quarter. In Q2, OCC prices have largely normalised and towards the end of the second quarter, European paper prices have risen following strong domestic demand. While the average corrugated box price has declined modestly compared to the prior H1 period, as the impact of the decline in paper prices over the last two years has rolled through, we believe the more recent increases in European paper pricing should provide a support against further erosion as we look forward.

Performance in North America reflects the ramping up of our greenfield box plant in Indiana. The recently announced increases in paper prices have not affected the H1 result as they came too late in the period. Having reported H2 FY20 adjusted operating profit of £9 million, in this half year adjusted operating profit improved to £24 million, representing a significant sequential improvement and underlying progress compared to H1 last year. While lower than the £30 million reported in H1 FY20, this reflects some ongoing Covid-19 impact costs and the continued costs while ramping up initial production in the Indiana site, which opened in December 2019. Customer feedback on this new facility has been excellent and we are very pleased with the combination of new customer acquisition and existing customer growth. By the end of this financial year, we expect to be operating at a run-rate of around 40% volume capacity, or c.50 thousand tonnes per annum, further reducing the amount of paper that we sell to the export market.

The Covid-19 pandemic has accelerated a number of the underlying market trends, in particular towards the use of the e-commerce channel, with the spike in online sales of goods (from c.19% to a peak of c.34%, in the UK) which is expected to result in a more permanent step up in this channel with online sales now c.28%, an increase of c.900bps. This trend is now contributing to the strong volume growth being seen throughout the whole business. Our design and innovation teams are working with customers to bring bespoke e-commerce solutions to the market as customers increasingly demand high quality sustainable packaging for this increasingly important market segment. The acquisitions undertaken over the past three years are proving integral to the strength of our customer offering across Europe and North America. Looking forward, with both the growth of e-commerce, the market requirement for sustainable solutions to replace single use plastic and the impressive growth we have achieved over the last three years, we now see opportunities to grow organically through investment in constructing two new greenfield sites in Europe with an estimated combined cost of approximately £100 million, which will be financed through non-core asset disposals and cash flow. Land has been secured in Italy and Poland with the facilities expected to be operational in the coming two years.

Performance for six months to 31 October 2020

Organic corrugated box volume declined slightly by 1.0% for the six month period which comprised a sharp decrease in Q1 due to Covid-19 lockdowns substantially hitting customers with businesses deemed "non-essential", offset by a strong rebound in Q2 as economies restarted. The weighted average GDP progression over the first two quarters of the year is c.-10% and, as such, our performance is significantly ahead of this benchmark, reflecting our focus on resilient categories and channels such as FMCG and e-commerce.

For the half year period, revenues declined by 10% (9% on a reported basis), principally reflecting the impact of lower box and paper prices and the decline in both box volumes and other volumes which includes sheet and externally sold paper.

Return on sales for the period was 8.0%, down 300 basis points on the comparable prior period. Underlying this, disruption costs and volume declines driven by Covid-19 in Q1 had a significant impact, with a material recovery during Q2, where the return on sales averaged 9.5%.

Adjusted operating profit was down 35% (34% on a reported basis). While the volume declines fed through to profit, and synergies from Europac contributed positively, the substantial proportion of the decline came from the fall in sales price and mix of £149 million, of which approximately £119 million related to corrugated box mix and pricing, partially offset by savings in input costs of £55 million, largely paper costs. These declines in box pricing represented the annualisation of box price reductions driven by the decline in paper prices over the past two years. Overall, box price decreases have been modest relative to movements in paper pricing and are expected to begin to stabilise due to the recent increases in paper prices as the annualisation of pre-agreed box prices tails off through the remainder of the year.

Return on average capital employed was down 190 basis points to 8.7% compared to that at 30 April 2020 (10.6%), principally reflecting the decline in adjusted operating profit for the prior 12 months. The improving trend in profitability combined with our structured approach, and the improving returns from recent acquisitions and investments, gives us confidence in progression to our medium term ROACE target of 12-15%.

Balance Sheet

Free cash flow has improved by £29 million, despite a lower EBITDA, following a heightened approach to managing cash through the pandemic. In the period, working capital discipline resulted in an inflow compared to an outflow in the comparable prior period with factored receivables broadly unchanged at constant currency. Capex was also held tight to reflect the uncertain economic environment and represented £135 million compared to £179 million last year. After other items, including the settlement of the 10% Interstate Resources put option which was exercised in 2019/20, there was a £101 million net movement on debt prior to FX, fair value and other non-cash movements, which took the change in net debt to a reduction of £14 million from 30 April 2020. DS Smith now

owns a 90% share in Interstate Resources; the remaining 10% remains subject to a put option exercisable in 2021 or 2022. The ratio of net debt / EBITDA has increased slightly to 2.37x, reflecting the decline in the rolling-12-month EBITDA, impacted by the decline in profitability, particularly in Q1 due to Covid-19.

Operating Review

Northern Europe

	Half year ended 31 October 2020	Half year ended 31 October 2019	Change – reported	Change – constant currency
Revenue	£1,146m	£1,227m	(7%)	(7%)
Adjusted operating profit*	£69m	£104m	(34%)	(34%)
Return on sales	6.0%	8.5%	(250bps)	(250 bps)

*Operating profit before amortisation and adjusting items (refer to note 3 of the financial statements)

In Northern Europe, organic corrugated box volume growth was strong, with good performances in the UK, the Nordics and Germany, partially offset by Benelux where volumes were more impacted by customers with exposure to the hospitality industry. UK growth was driven in particular by the extremely strong growth and our e-commerce leadership in that market.

Revenues have decreased by 7% in the region due to a combination of the decline in corrugated box pricing and the impact from a reduced sales price for externally sold paper. Adjusted operating profit fell 34%. The decline in adjusted operating profit over the period was substantially due to lower paper prices in our paper mills and the impact of the pass through of this into box prices.

Southern Europe

	Half year ended 31 October 2020	Half year ended 31 October 2019	Change – reported	Change – constant currency
Revenue	£1,026m	£1,175m	(13%)	(14%)
Adjusted operating profit*	£100m	£170m	(41%)	(42%)
Return on sales	9.7%	14.5%	(480bps)	(480bps)

* Operating profit before amortisation and adjusting items (refer to note 3 of the financial statements)

Southern Europe saw the greatest impact on volumes as a result of Covid-19 with a significantly impacted agricultural and tourist season in Q1. Q2 volumes are recovering well and have improved progressively.

Revenue decreased by 14%, due to declines in both box and paper pricing and the impact of lower box volumes. Adjusted operating profit fell by 42% compared to the prior period, with the packaging operations impacted by the pass through of lower paper prices and the effect of lower paper prices in the paper mills in the region. The region continued to benefit from the continuation of the synergies being realised from the Europac acquisition, in the period £14 million, and the network of box plants acquired in the acquisition are now profitable.

Eastern Europe

	Half year ended 31 October 2020	Half year ended 31 October 2019	Change – reported	Change – constant currency
Revenue	£438m	£469m	(7%)	(5%)
Adjusted operating profit*	£37m	£47m	(21%)	(20%)
Return on sales	8.4%	10.0%	(160bps)	(150bps)

* Operating profit before amortisation and adjusting items (refer to note 3 of the financial statements)

Organic corrugated box volumes in Eastern Europe have been broadly in line with the Group average, with particularly good volume growth in Poland and the Baltic region. Revenues fell 5%, principally reflecting changes in corrugated box pricing. Adjusted operating profit fell 20%, reflecting the pass through of paper price reductions to box prices, which were partially offset by lower costs. This region has a greater exposure to industrial and e-commerce customers than the rest of the European business and is exiting the half year period very strongly as economic activity in the region recovers well.

North America

	Half year ended 31 October 2020	Half year ended 31 October 2019	Change – reported	Change – constant currency
Revenue	£279m	£317m	(12%)	(10%)
Adjusted operating profit*	£24m	£30m	(20%)	(17%)
Return on sales*	8.6%	9.5%	(90bps)	(80bps)

*Operating profit before amortisation and adjusting items (refer to note 3 of the financial statements)

Corrugated box volume declines have been more substantial than the Group average in Q1 reflecting the particular difficulties that customers faced during the initial lockdown and the state by state approach to Covid-19 containment. Q2 volume growth has been good with several key contract wins and the ramp-up of our Indiana greenfield facility. Revenues decreased by 10%, principally reflecting the decline in export paper prices, although this situation is now reversing with paper prices rising again both domestically and for export driven by strong demand for paper in both the USA and China. Adjusted operating profit declined by 17%, reflecting the very close correlation between paper prices and the ramp-up losses in Indiana, which was not operational in the comparable period last year.

Outlook

We are as excited as ever about the structural growth drivers for corrugated packaging with a number of trends accelerated by the Covid-19 pandemic. We are well positioned to capitalise and are announcing today the construction of two new state of the art packaging plants in fast growth regions to supply the burgeoning FMCG/ e-commerce sector. While the economic and political environment remains uncertain due to Covid-19 and Brexit, we see continued momentum for our business, underpinning confidence in continued performance in line with our expectations for the year. Strong demand has driven ongoing paper price increases, supporting future box pricing, which, together with customer wins in Europe and the US and our strong position to benefit from attractive structural trends, reinforces our confidence in the business going forward.

Financial Review

Prior year comparatives within the following commentary relate to the continuing operations of the Group.

Revenue decreased by 9% on a reported basis and 10% on a constant currency basis to £2,889 million for the half year ended 31 October 2020 (H1 2019/20: £3,188 million), driven by the continued effects of the Covid-19 pandemic on volumes in the first quarter and a reduction in average selling prices of both paper and boxes. The decline in revenues was partially offset by the recovery of overall volumes in the second quarter, which returned to positive growth versus the prior year across all regions. Despite significant headwinds in the period, volumes were down just 1% on the prior period, with positive growth in the second quarter leading to an extremely strong result in the first month of the second half (5.7% growth). This strong recovery was aided by the ability of all plants to remain operational throughout the pandemic. Within North America, the ramp-up of production out of the new Indiana facility continues to increase the level of vertical integration of paper into packaging within that region, reducing exposure to export paper prices.

Operating profit of £138 million decreased by 47% versus the prior year (H1 2019/20: £259 million), and adjusted operating profit decreased to £230 million, a 34% and 35% reduction on a reported and constant currency basis respectively (H1 2019/20: £351 million), principally due to the impact of lower paper prices being passed through to box pricing and Covid-19 on volumes and mix. The effect of a decrease in the average sales price and mix (£149 million) and overall reduction in volumes (£41 million) was partially offset by a reduction in costs (£55 million). Labour costs remained broadly in line with the prior year, reflecting the continued operation of all sites in the period. Reductions in the market prices of energy across Europe were a positive to profitability, although increased distribution costs in Q2 partially offset the benefit. The reduction in reported costs is after the significant direct and indirect costs incurred as a consequence of Covid-19 specific measures taken to ensure all factories remained operational throughout the period. The ramping up of the new facility in Indiana and the impact of export paper pricing continued to impact North American results compared to the prior first half period. The Group continued to benefit from Europac synergies (£14 million incremental benefit) and ongoing efficiency programmes throughout the Group.

Amortisation remained in line with that of the prior year at £72 million (H1 2019/20: £71 million), with the current period charge primarily related to the continued amortisation of intangible assets acquired as part of past acquisitions.

Depreciation increased by £8 million to £155 million (H1 2019/20: £147 million), principally related to the commissioning of new capital investments as the Group continues to target growth and efficiency opportunities, which includes the additional contribution from the new facility in Indiana.

Free cash flow, comprising adjusted operating profit plus depreciation, movements in working capital (in addition to provisions and employee benefits), net capital expenditure, taxes and net interest paid increased to £207 million (H1 2019/20: £178 million), owing to an increased focus on managing cash through the pandemic which resulted in a favourable inflow of cash from working capital and reductions in capital expenditure and taxes paid, which more than offset the reduction in adjusted operating profit. Factored receivables remained broadly flat at constant currency at £447 million. This result highlights the strength of the cash management programmes implemented across the Group in response to the unprecedented Covid-19 pandemic.

The Group's net debt position decreased by £14 million to £2,087 million (30 April 2020: £2,101 million; 31 October 2019: £2,444 million), due to the increased free cash flow for the period, offset by payments made for the 10% settlement of the Interstate put option of £82 million, £19 million of adjusting items and foreign exchange, fair value and other non-cash movements of £80 million.

Net capital expenditure reduced by £42 million to £132 million (H1 2019/20: £174 million) as spending on some non-maintenance capital projects was delayed until greater confidence in the economic outlook was established.

Return on average capital employed (ROACE) decreased by 310 basis points to 8.7%, which is below the Group's target rate of 12 to 15% (12 months to 31 October 2019: 11.8%). Despite challenging trading conditions and uncertainty in the wider economic recovery across regions, the Group remains committed to meeting the medium-term targets established by the Board.

Certain items are presented within the financial statements as adjusting items, in order to assist in understanding the trading results of the Group. Costs of £23 million (H1 2019/20: £24 million) relating to restructuring programmes (£11 million), ongoing integration programmes (£5 million), impairment charges (£3 million), finance costs relating to the unwind of the discount on the Interstate put option (£3 million) and acquisition-related costs (£1 million) have been incurred in the first half, with costs for the full year expected to be £50 million.

Net financing costs before adjusting items of £41 million (H1 2019/20: £46 million) primarily relate to interest on borrowings and lease liabilities, with an additional £3 million related to the continued unwinding of the discount of the Interstate Resources put option classified as adjusting (H1 2019/20: £3 million).

Profit before income tax decreased to £97 million (H1 2019/20: £213 million) due to lower operating profit, partially offset by a £5 million reduction in net financing costs.

The rate of tax on adjusted profits before amortisation and adjusting items is 23%, an increase from the full year 19/20 rate of 22%.

Due to the reduction in operating profit, profit after tax decreased to £74 million (H1 2019/20: £164 million), reflecting a reduction in income tax of £26 million. Income from associates of £3 million remained in line with that of the comparative period.

Basic earnings per share before amortisation and adjusting items reduced by 38% to 10.8 pence (H1 2019/20: 17.4 pence), impacted by the reduction in operating profit. Basic unadjusted earnings per share decreased to 5.4 pence (H1 2019/20: 12.0 pence).

Covid-19

Whilst all regions in which the Group operates were affected by the Covid-19 pandemic in the half, all sites remained fully operational as an essential supplier to critical supply chains. In the first quarter, overall box volumes trailed the prior period comparative, principally due to reduced demand across the industrial sector and the impact of customer plant closures due to Covid-19 outbreaks or lockdowns. Volume growth in the second quarter demonstrated the resilience of the business and the success of the Group's strategy to focus on FMCG and e-commerce customers. Overall, the Group's performance in the first half has exceeded expectations, despite incurring material cost increases due to lower paper recycling collections, labour cost increases and further additional costs to ensure the continued health and safety of our employees. Working capital management remained a focus for the Group, in particular accounts receivable collections. Whilst there remains some uncertainty in the economic outlook, the Group remains committed to achieving its medium-term targets, and has set out management's plan to achieve these in the coming year within the Going Concern disclosure. The resumption of the payment of the interim dividend further highlights the strength in the Group's ability to deliver its business model and in its statement of financial position.

Financial position

Total shareholder funds increased to £3,484 million (30 April 2020: £3,351 million; 31 October 2019: £3,187 million). The movement is due to profit attributable to shareholders of £74 million (H1 2019/20: £171 million), actuarial losses on employee benefits of £16 million (2019/20: £7 million loss), the suspension of the dividend programme resulting in nil outflow in the current period (H1 2019/20: £71 million) and a net increase in the translation reserve of £55 million (being foreign currency translation gains of £111 million, offset by a £56 million movement in the net investment hedge).

Reported net debt of £2,087 million has decreased from year end (30 April 2020: £2,101 million), with working capital inflows of £25 million following targeted programmes across the Group, and a reduction in capital expenditure following Covid-19 related cash measures. The Group calculates its net debt to adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) ratio in accordance with the methodology prescribed by its bank and private placement debt covenants, which excludes the effects of IFRS 16 Leases. The ratio has increased to 2.37 times (30 April 2020: 2.14 times), owing mainly to a reduction in EBITDA as a result of unprecedented trading conditions amidst the Covid-19 pandemic and the settlement of the exercise of the first tranche of the Interstate

put option in the first half. The ratio remains well within the banking covenant requirements, which were permanently amended from 3.25 times to 3.75 times on 26 June 2020. The Group has also negotiated extensions for £1.1 billion of the £1.4 billion committed rolling credit facility maturity date with its lenders to November 2025, with £300 million maturing in November 2024.

The Group continues to sell trade receivables without recourse, a process by which the trade receivable balance sold is de-recognised, with proceeds then presented within operating cash flows. Such arrangements enable the Group to optimise its working capital position and reduces the quantum of early payment discounts given. At constant currency, trade receivables sold under the factoring programme remained broadly flat at £447 million, with the actual movement over the prior year end position of £428 million being driven primarily by exchange (£12 million).

Dividend

The Board took the difficult decision to not pay a dividend for FY20 based on uncertainty of outlook and the need to preserve financial flexibility. Reflecting the strong demand for packaging, and increasing visibility and confidence over the future the Board accordingly declares an interim dividend for this half year of 4.0 pence per share. The dividend will be paid on 4 May 2021 to ordinary shareholders on the register at the close of business on 9 April 2021.

The Board considers the dividend to be an important component of shareholder returns. 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. In considering future dividends the Board will continue to be mindful of the Group's earnings growth potential, future expansion and leverage.

Brexit

We have been working on robust contingency plans for every potential Brexit outcome for some time, and we are well positioned to manage in the new environment. We have experienced strong growth in Europe for many years and that has been aided by free movement of skilled workers, free trade and movement of goods, and a predictable regulatory landscape.

Risks and uncertainties

The Board has reconsidered the principal risks and uncertainties affecting the Group in the second half of the year. The principal risks and uncertainties discussed on pages 51 to 59 of the 2020 Annual Report, available on the Group's website at www.dssmith.com, remain relevant.

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

- Eurozone and macroeconomic markets;

- Paper price volatility;
- Disruptive markets;
- Liquidity;
- Shopping habits;
- Organisation flexibility;
- Regulation and governance;
- Sustainability promise;
- Security of Paper supply;
- Cyber;
- Workforce capability;
- Packaging transformation; and
- Fibre technology changes.

Going concern

The Board have reviewed a detailed consideration of going concern, based on the Group's recent trading and forecasts, and including scenario analysis. This takes into account reasonably foreseeable changes in trading performance, including the significant uncertainty of the long-term impacts on the economic landscape presented by Covid-19. More detail of the assessment performed is included in note 1 to the financial statements.

The Group is considered an essential supplier with sites continuing to operate throughout the most restrictive lockdown periods. At 31 October 2020 there was significant headroom on the Group's committed debt facilities of c.£1.5 billion. The going concern assessment covered a forecast period of 12 months from the date of this half-yearly financial report. Based on the resilience of the Group's operations to continued Covid-19 impact, as well as the current and forecast liquidity available, the Board believes that the Group is well placed to manage its business risks successfully despite the uncertainties inherent in the current economic outlook, and to operate within its current debt facilities.

The Group's current committed bank facility headroom, its forecast liquidity headroom over the going concern period of assessment and potential mitigating activities available to management have been considered by the Directors in forming their view that it is appropriate to conclude 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 Group Chief Executive	Adrian Marsh Group Finance Director

9 December 2020

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 2020 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 16. 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.

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 Guidance 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 Financial Reporting Council 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 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

USE OF OUR REPORT

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 Financial Reporting Council. 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.

Deloitte LLP
Statutory Auditor
London, United Kingdom
9 December 2020

Condensed consolidated income statement

Continuing operations	Note	Half year ended 31 October 2020 Unaudited			Half year ended 31 October 2019 Unaudited			Year ended 30 April 2020 Audited		
		Before adjusting items £m	**Adjusting items (note 3) £m**	**After adjusting items £m**	Before adjusting items £m	Adjusting items (note 3) £m	After adjusting items £m	Before adjusting items £m	Adjusting items (note 3) £m	After adjusting items £m
Revenue	2	**2,889**	**–**	**2,889**	3,188	–	3,188	6,043	–	6,043
Operating costs		**(2,659)**	**(19)**	**(2,678)**	(2,837)	(20)	(2,857)	(5,383)	(58)	(5,441)
Operating profit before amortisation, acquisitions and divestments	2	**230**	**(19)**	**211**	351	(20)	331	660	(58)	602
Amortisation of intangible assets; acquisitions and divestments	2	**(72)**	**(1)**	**(73)**	(71)	(1)	(72)	(143)	(4)	(147)
Operating profit		**158**	**(20)**	**138**	280	(21)	259	517	(62)	455
Finance income	5	**1**	**–**	**1**	–	–	–	4	–	4
Finance costs	5, 3	**(41)**	**(3)**	**(44)**	(44)	(3)	(47)	(88)	(7)	(95)
Employment benefit net finance expense		**(1)**	**–**	**(1)**	(2)	–	(2)	(3)	–	(3)
Net financing costs		**(41)**	**(3)**	**(44)**	(46)	(3)	(49)	(87)	(7)	(94)
Profit after financing costs		**117**	**(23)**	**94**	234	(24)	210	430	(69)	361
Share of profit of equity accounted investments, net of tax		**3**	**–**	**3**	3	–	3	7	–	7
Profit before income tax		**120**	**(23)**	**97**	237	(24)	213	437	(69)	368
Income tax (expense)/credit	6, 3	**(27)**	**4**	**(23)**	(54)	5	(49)	(92)	14	(78)
Profit for the period from continuing operations		**93**	**(19)**	**74**	183	(19)	164	345	(55)	290
Discontinued operation										
Profit for the period from discontinued operation, net of tax	14	**–**	**–**	**–**	9	(2)	7	10	227	237
Profit for the period		**93**	**(19)**	**74**	192	(21)	171	355	172	527
Profit for the period attributable to:										
Owners of the parent		**93**	**(19)**	**74**	192	(21)	171	355	172	527
Non-controlling interests		**–**	**–**	**–**	–	–	–	–	–	–
Earnings per share										
Earnings per share from continuing and discontinued operation										
Basic	7			**5.4p**			12.5p			38.5p
Diluted	7			**5.4p**			12.4p			38.2p
Earnings per share from continuing operations										
Basic	7			**5.4p**			12.0p			21.2p
Diluted	7			**5.4p**			11.9p			21.0p
Adjusted earnings per share from continuing operations										
Basic	7		**10.8p**			17.4p			33.2p	
Diluted	7		**10.8p**			17.3p			33.0p	

Condensed consolidated statement of comprehensive income

	Half year ended 31 October 2020 Unaudited £m	Half year ended 31 October 2019 Unaudited £m	Year ended 30 April 2020 Audited £m
Profit for the period	**74**	171	527
Items which will not be reclassified subsequently to profit or loss			
Actuarial loss on employee benefits	**(16)**	(7)	(46)
Equity interests at FVOCI – net change in fair value	**(3)**	–	–
Income tax on items which will not be reclassified subsequently to profit or loss	**5**	2	15
Items which may be reclassified subsequently to profit or loss			
Foreign currency translation differences	**111**	(13)	39
Reclassification from translation reserve to income statement arising on divestment	**–**	–	(30)
Cash flow hedges fair value changes	**(8)**	(21)	(31)
Reclassification from cash flow hedge reserve to income statement	**23**	–	(1)
Movement in net investment hedge	**(56)**	10	(23)
Income tax on items which may be reclassified subsequently to profit or loss	**(2)**	2	11
Other comprehensive income/(expense) for the period, net of tax	**54**	(27)	(66)
Total comprehensive income for the period	**128**	144	461
Total comprehensive income attributable to:			
Owners of the parent	**128**	144	461
Non-controlling interests	**–**	–	–

Condensed consolidated statement of financial position

	Note	**At 31 October 2020 Unaudited £m**	At 31 October 2019 Unaudited £m	At 30 April 2020 Audited £m
Assets				
Non-current assets				
Intangible assets		**3,185**	3,165	3,197
Biological assets		**9**	9	9
Property, plant and equipment		**3,100**	2,989	3,042
Right-of-use assets		**241**	223	256
Equity accounted investments		**38**	37	35
Other investments		**15**	11	12
Deferred tax assets		**77**	71	77
Other receivables		**10**	15	19
Derivative financial instruments		**13**	4	27
Total non-current assets		**6,688**	6,524	6,674
Current assets				
Inventories		**513**	541	518
Biological assets		**6**	6	6
Income tax receivable		**42**	18	42
Trade and other receivables		**828**	836	753
Cash and cash equivalents	10	**534**	445	595
Derivative financial instruments		**14**	21	34
Assets classified as held for sale		**24**	280	3
Total current assets		**1,961**	2,147	1,951
Total assets		**8,649**	8,671	8,625
Liabilities				
Non-current liabilities				
Borrowings	10	**(2,145)**	(2,279)	(2,300)
Employee benefits	4	**(209)**	(167)	(199)
Other payables		**(15)**	(15)	(15)
Provisions		**(12)**	(11)	(12)
Lease liabilities	10	**(173)**	(163)	(182)
Deferred tax liabilities		**(298)**	(302)	(305)
Derivative financial instruments		**(32)**	(12)	(41)
Total non-current liabilities		**(2,884)**	(2,949)	(3,054)
Current liabilities				
Bank overdrafts	10	**(59)**	(130)	(90)
Borrowings	10	**(207)**	(291)	(98)
Trade and other payables		**(1,690)**	(1,744)	(1,708)
Income tax liabilities		**(157)**	(151)	(149)
Provisions		**(72)**	(26)	(58)
Lease liabilities	10	**(72)**	(72)	(73)
Derivative financial instruments		**(18)**	(15)	(44)
Liabilities classified as held for sale		**(6)**	(106)	-
Total current liabilities		**(2,281)**	(2,535)	(2,220)
Total liabilities		**(5,165)**	(5,484)	(5,274)
Net assets		**3,484**	3,187	3,351
Equity				
Issued capital		**137**	137	137
Share premium		**2,239**	2,238	2,238
Reserves		**1,107**	811	975
Total equity attributable to owners of the parent		**3,483**	3,186	3,350
Non-controlling interests		**1**	1	1
Total equity		**3,484**	3,187	3,351

Condensed consolidated statement of changes in equity

	Share capital £m	Share premium £m	Hedging reserve £m	Translation reserve £m	Own shares £m	Retained earnings[1] £m	Total equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
At 1 May 2020 (audited)	**137**	**2,238**	**(39)**	**14**	**(3)**	**1,003**	**3,350**	**1**	**3,351**
Profit for the period	–	–	–	–	–	74	74	–	74
Actuarial loss on employee benefits	–	–	–	–	–	(16)	(16)	–	(16)
Equity interests at FVOCI – net change in fair value	–	–	–	–	–	(3)	(3)	–	(3)
Foreign currency translation differences	–	–	–	111	–	–	111	–	111
Cash flow hedges fair value changes	–	–	(8)	–	–	–	(8)	–	(8)
Reclassification from cash flow hedge reserve to income statement	–	–	23	–	–	–	23		23
Movement in net investment hedge	–	–	–	(56)	–	–	(56)	–	(56)
Income tax on other comprehensive income	–	–	(2)	–	–	5	3	–	3
Total comprehensive income	**–**	**–**	**13**	**55**	**–**	**60**	**128**	**–**	**128**
Issue of share capital	–	1	–	–	–	–	1	–	1
Employee share trust	–	–	–	–	1	(1)	–	–	–
Share-based payment expense (net of tax)	–	–	–	–	–	4	4	–	4
Other changes in equity in the period	**–**	**1**	**–**	**–**	**1**	**3**	**5**	**–**	**5**
At 31 October 2020 (unaudited)	**137**	**2,239**	**(26)**	**69**	**(2)**	**1,066**	**3,483**	**1**	**3,484**
At 1 May 2019 (audited)	137	2,236	(13)	23	(1)	729	3,111	1	3,112
Profit for the period	–	–	–	–	–	171	171	–	171
Actuarial loss on employee benefits	–	–	–	–	–	(7)	(7)	–	(7)
Foreign currency translation differences	–	–	–	(13)	–	–	(13)	–	(13)
Cash flow hedges fair value changes	–	–	(21)	–	–	–	(21)	–	(21)
Movement in net investment hedge	–	–	–	10	–	–	10	–	10
Income tax on other comprehensive income	–	–	2	–	–	2	4	–	4
Total comprehensive (expense)/ income	–	–	(19)	(3)	–	166	144	–	144
Issue of share capital	–	2	–	–	–	–	2	–	2
Employee share trust	–	–	–	–	(2)	(2)	(4)	–	(4)
Share-based payment expense (net of tax)	–	–	–	–	–	4	4	–	4
Dividends paid	–	–	–	–	–	(71)	(71)	–	(71)
Other changes in equity in the period	–	2	–	–	(2)	(69)	(69)	–	(69)
At 31 October 2019 (unaudited)	137	2,238	(32)	20	(3)	826	3,186	1	3,187

1. Retained earnings include a reserve related to merger relief.

Condensed consolidated statement of cash flows

Continuing operations	Note	**Half year ended 31 October 2020 Unaudited £m**	Half year ended 31 October 2019 Unaudited £m	Year ended 30 April 2020 Audited £m
Operating activities				
Cash generated from operations	9	**402**	428	836
Interest received		**–**	–	2
Interest paid		**(52)**	(53)	(79)
Tax paid		**(30)**	(49)	(94)
Cash flows from operating activities		**320**	326	665
Investing activities				
Acquisition of subsidiary businesses, net of cash and cash equivalents	13	**(88)**	(4)	(4)
Divestment of discontinued operation, net of cash and cash equivalents	13	**–**	–	422
Divestment of subsidiary businesses, net of cash and cash equivalents	13	**–**	62	62
Capital expenditure		**(135)**	(179)	(376)
Proceeds from sale of property, plant and equipment and intangible assets		**3**	5	12
Cash flows (used in)/from restricted cash and other deposits		**(1)**	49	56
Other		**–**	–	6
Cash flows (used in)/from investing activities		**(221)**	(67)	178
Financing activities				
Proceeds from issue of share capital		**1**	2	2
Repayment of borrowings		**(1,078)**	(2,342)	(3,497)
Proceeds from borrowings		**990**	2,283	3,235
Payments in respect of derivative financial instruments		**–**	(6)	(5)
Repayment of principal on lease liabilities		**(36)**	(39)	(71)
Dividends paid to Group shareholders	8	**–**	(71)	(222)
Other		**–**	(4)	(4)
Cash flows used in financing activities		**(123)**	(177)	(562)
(Decrease)/increase in cash and cash equivalents from continuing operations		**(24)**	82	281
Discontinued operation				
Cash flows used in discontinued operation	14	**(10)**	(19)	(29)
(Decrease)/increase in cash and cash equivalents		**(34)**	63	252
Net cash and cash equivalents at beginning of the period		**505**	253	253
Exchange gains/(losses) on cash and cash equivalents		**4**	(1)	–
Net cash and cash equivalents at end of the period	10	**475**	315	505

1. Basis of preparation

The unaudited condensed consolidated interim financial statements for the half year ended 31 October 2020 have been prepared in accordance with IAS 34 *Interim Financial Reporting* and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority. These interim financial statements should be read in conjunction with the Group's annual financial statements for the year ended 30 April 2020, 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 condensed information presented for the year ended 30 April 2020 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 2020 is unaudited but has been reviewed in accordance with ISRE 2410 *Review of Interim Financial Information* by Deloitte LLP, the Group's auditor, and a copy of their review report forms part of this half year report.

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 2020, apart from as detailed below.

The following new accounting standards, amendments or interpretations have been adopted by the Group as of 1 May 2020:

- Amendments to IFRS 3 *Business Combinations*;
- Amendments to IFRS 9, IAS 39 and IFRS 7 *Interest Rate Benchmark Reform*;
- Amendments to IAS 1 and IAS 8 *Definition of Material;* and
- Amendments to the Conceptual Framework for Financial Reporting.

The adoption of the amendments above has not had a material effect on the results for the Group's financial statements.

Foreign exchange rates

	Half year ended 31 October 2020		Half year ended 31 October 2019		Year ended 30 April 2020	
	Average	**Closing**	Average	Closing	Average	Closing
Euro	**1.110**	**1.109**	1.124	1.161	1.139	1.151
US dollar	**1.276**	**1.297**	1.253	1.295	1.251	1.252

Going concern

Overview

The financial statements have been prepared on the going concern basis, after a detailed consideration with, this half year, a particular focus on appropriate incorporation of the global economic uncertainty of the Covid-19 pandemic.

Further details, including the analysis performed and conclusion reached, are set out below.

Liquidity and financing position

The Group's total drawn debt facilities at 31 October 2020 were £2.4 billion, of which £1.9 billion is publicly listed debt with no attached covenants, £0.2 billion carries a covenant of net debt/EBITDA of less than 3.25 times, and £0.2 billion carries a covenant of net debt/EBITDA of less than 3.75 times. In addition, the Group has access to c. £1.5 billion committed bank facilities, which were undrawn at 31 October 2020, which provide liquidity to the Group and carry the same covenant of net debt/EBITDA of less than 3.75 times. The Group is not forecast to increase net debt in the period of the going concern analysis to 31 October 2022.

There is significant liquidity/financing headroom across the going concern forecast period in all three scenarios considered and outlined in more detail below. For this reason, the going concern review has focused primarily on forecast covenant compliance.

Operational and business impact of Covid-19

As a critical part of the supply chain across each of the geographies in which it operates the Group has been and continues to be designated as an 'essential business' throughout the lockdown periods, continuing to trade throughout the most stringent lockdown restrictions and beyond, adapting operations to ensure the business can respond to and meet specific local requirements, whether restrictions are reducing or increasing.

Although the duration and severity of the lockdown restrictions have varied from country to country, in general Covid-19 impacted trading most heavily between March and June 2020, with overall modest positive growth in the latter months of the half year, reflecting the business mix of the Group with the heavy weighting on supplying packaging for food and drink customers and a strong e-commerce business. The actual experience of trading across the six months is a key data point that has been used to inform forecasting and modelling in the going concern assessment.

Financial modelling

The Group has modelled three scenarios in its assessment of going concern: a base case, a downside case, and an extreme downside case.

The base case takes into account the estimated impact of the Covid-19 pandemic across the going concern period and reflects the actual trading experience to date. The base case assumes, on a Group basis, that packaging volumes remain broadly flat in H2 of the current year, with a slow recovery with low single digit growth in 2021/22. This overall annual decline in volumes is consistent with the reduction in volume experienced at the height of the crisis and is, therefore, felt by the Board to be a prudent base case, taking into account the experience of the resilience of packaging for the food and drink sector and a strong performance in e-commerce during the crisis to date, offset by continued uncertainty as local and national Covid-19 restrictions continue to be subject to frequent change.

The price assumptions reflect expectations of broadly consistent packaging prices, maintaining the shift towards the food and drink and e-commerce sectors, as industrial segments are expected to continue their recovery from lockdown at a slower pace. Paper prices are modelled to reduce marginally in Europe in the short term before stabilising, although this reduction is more than offset by movements in the price of paper for recycling (PfR, the principal input cost in producing testliner), which is expected to reduce from the spike in pricing seen during the early phase of the initial national and regional lock-downs.

The trading performance in the base case considered for the purposes of the interim financial statements represents a slight improvement on the base case presented to the Board at the time of approving the Group's annual financial statements for 2020, as experience demonstrated trading recovery under the slightly reduced restrictions across most jurisdictions. The base case also now assumes resumption of a normal programme of dividend payment.

The downside case shows a more pronounced decline in volumes in the second half of 2020/21, assuming another significant Covid-19 related period of downturn similar to H1, and then reverts back to the modest recovery foreseen in the base case forecast for 2021/22.

The extreme downside case models year-on-year contraction in packaging volumes through 2021/22 that then stabilise in 2022/23, as well as increased PfR costs above those seen in the lockdown spike in early 2020/21 with no mitigation from increased paper prices, and a significant worsening of the Group's working capital position.

The purpose of the scenarios was to consider if there was a significant risk that the Group would breach its financial covenants on the committed bank facilities of net debt/EBITDA less than 3.75 times. Under the base case and the two sensitised scenarios, the covenant is not breached at any of the forecast testing dates, being 30 April 2021, 31 October 2021 and 30 April 2022.

The extreme downside case has been used as the reverse stress test consideration for the point at which covenants may be breached. Whilst the case did not breach covenants, a significant and sustained reduction in packaging volumes, beyond what is considered reasonable, would require management to take further actions to conserve cash. Whilst the Board considers the forecasts and assumptions in the extreme downside case to be extremely remote, a programme of further actions to mitigate the impact would be actioned should such a scenario occur.

Mitigating actions

As outlined above, in addition to the cost actions that are built into the base case, and subsequently into the downside case and the extreme downside case, there are a number of potential management actions which could be employed but are not included in the scenarios modelled:

- Action in respect of variable and controllable costs such as discretionary bonuses, pay rises, recruitment freezes and wider labour force actions in response to higher levels of volume reductions;
- Limiting capital expenditure to minimum maintenance levels, pausing growth spend;
- Satisfaction of the outstanding Interstate put option for shares instead of cash; and
- Strategic actions in respect of the Group's asset base could be considered in respect of disposals, mothballing and closures.

The Group could also consider actions to assist covenant compliance, such as increased utilisation of debt factoring facilities, optimising working capital by negotiating longer payment terms whilst continuing to pay suppliers in full and in line with contractual terms and reconsidering the level of dividends to be paid. The Group's adjusted operating profit would have to fall by more than half from the £660m achieved in the year ended 30 April 2020 before the covenant would be breached.

Going concern basis

Considering the above, the Directors believe that the Group has significant covenant and liquidity headroom in respect of its borrowing facilities to continue in operational existence for the foreseeable future, despite the uncertainties inherent in the current economic outlook.

Accordingly, the Directors concluded from this assessment that it was appropriate to continue to adopt the going concern basis in preparing the interim financial statements, and that no material uncertainty exists that casts significant doubt over the going concern assumption. The long-term impact of Covid-19 is uncertain and should the impact of the pandemic on trading conditions be more prolonged or severe than currently forecast by the Directors under the extreme downside case scenario, the Group would need to implement additional operational or financial measures.

Estimates and judgements

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect whether and how policies are applied, and the reported amounts of assets and liabilities, income and expenses.

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 and the critical accounting judgement were the same as those that applied to the Group's consolidated financial statements for the year ended 30 April 2020. Key estimates were taxation, impairments and employee benefits. The critical accounting judgement is applying the adjusting items policy.

Goodwill impairment assessment - key assumptions and methodology

The cash-generating unit groups (CGU) that represent the lowest level at which goodwill is monitored for impairment indicators and internal management purposes remain consistent with the CGUs disclosed in the 2020 Annual Report.

In accordance with IAS 36 *Impairment of Assets*, the Group assesses goodwill annually for impairment, or more frequently should any potential indicators of impairment exist. External factors, such as the unprecedented impact of Covid-19 on the economies in which the Group operates, are required to be considered as part of this assessment and, as such, the Group has performed an update of the exercise performed at April 2020. This included a review of the 2020/21 forecast adopted for each CGU in the testing completed at April 2020 against the latest view of the current year's performance. For each CGU, the latest outlooks on cash flows are expected to exceed those previously anticipated and applied in the April 2020 testing performed.

Updated assessments utilised the latest cash flow projections prepared by management, which reflect the anticipated Covid-19 recovery trends, mitigation activities in progress and impacts of likely movements in paper pricing and material input costs, taking into account the cyclical nature of the business. These, and the additional scenarios modelled and applied to sensitivity analyses performed, are described further in the going concern note above.

The methodology used to determine the pre-tax discount rates (derived from the weighted average cost of capital ('WACC') for the Group of 9.5%) and country-specific, long-term growth rates remained consistent with those adopted at April 2020, as disclosed in the 2020 financial statements. Similarly, there were no changes to the rates applied in the updated assessment performed at 31 October 2020.

The value-in-use is based upon anticipated discounted future cash flows. At 31 October 2020, assessments performed indicated sufficient headroom existed. Whilst the Directors believe the assumptions used are realistic, it is possible that a reduction in the headroom would occur if any of the above key assumptions applied were adversely changed. Factors which could cause an impairment are:

- significant and prolonged underperformance relative to the forecast; and
- deteriorations in the economies in which the Group operates.

To support their assertions, the Directors have reviewed the sensitivity analyses to determine the impact that would result from the above situations, including reduction or delays in future growth and increased discount rates. In these cases, if estimates of future recovery from the Covid-19 pandemic were delayed, or if the estimated discount rates applied to the cash flows were increased by 0.5%, there would continue to be adequate headroom to support the carrying value of the assets assessed. Accordingly, the Directors believe that a reasonably possible change in any of the key assumptions detailed above would not cause the carrying value of CGU groups assessed to exceed their recoverable amounts, although the headroom would decrease. Therefore, no impairment was required against the carrying value of goodwill at 31 October 2020.

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, including reasons for their use and reconciliations to IFRS figures are included as appropriate in note 15.

2. Segment reporting

Operating segments

The Plastics segment was classified as a discontinued operation during the year ended 30 April 2019 and was disposed in the year ended 30 April 2020, and as such is reported separately. Details relating to the Plastics segment are set out in note 14.

Half year ended 31 October 2020	**Northern Europe £m**	**Southern Europe £m**	**Eastern Europe £m**	**North America £m**	**Total continuing operations £m**
External revenue	**1,146**	**1,026**	**438**	**279**	**2,889**
Adjusted operating profit[1]	**69**	**100**	**37**	**24**	**230**
Unallocated items:					
Amortisation					**(72)**
Adjusting items in operating profit					**(20)**
Total operating profit (continuing operations)					**138**
Unallocated items:					
Net financing costs					**(44)**
Share of profit of equity accounted investments, net of tax					**3**
Profit before income tax					**97**
Income tax expense					**(23)**
Profit for the period (continuing operations)					**74**

Half year ended 31 October 2019	Northern Europe £m	Southern Europe £m	Eastern Europe £m	North America £m	Total continuing operations £m
External revenue	1,227	1,175	469	317	3,188
Adjusted operating profit[1]	104	170	47	30	351
Unallocated items:					
Amortisation					(71)
Adjusting items in operating profit					(21)
Total operating profit (continuing operations)					259
Unallocated items:					
Net financing costs					(49)
Share of profit of equity accounted investment, net of tax					3
Profit before income tax					213
Income tax expense					(49)
Profit for the period (continuing operations)					164

2. Adjusted to exclude 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.

Continuing operations	**Half year ended 31 October 2020 Unaudited £m**	Half year ended 31 October 2019 Unaudited £m	Year ended 30 April 2020 Audited £m
Acquisition related costs	**(1)**	(7)	(10)
Gains on acquisitions and divestments	**–**	6	6
Acquisitions and divestments	**(1)**	(1)	(4)
Integration costs	**(5)**	(12)	(30)
Other restructuring costs	**(11)**	(8)	(24)
Impairment of assets	**(3)**	–	(4)
Total pre-tax adjusting items (recognised in operating profit)	**(20)**	(21)	(62)
Finance costs adjusting items	**(3)**	(3)	(7)
Adjusting tax items	**–**	–	(1)
Current tax credit on adjusting items	**4**	5	14
Deferred tax credit on adjusting items	**–**	–	1
Total post-tax adjusting items	**(19)**	(19)	(55)

Half year ended 31 October 2020

Acquisition related costs of £1m comprise professional advisory, legal and consultancy fees for review of potential deals.

Integration costs relate to integration projects underway, primarily to achieve cost synergies from the major acquisitions made in the previous financial years (of which £3m relates to Europac and £2m relates to Interstate Resources). They include redundancies, professional fees, IT costs and those directly attributable internal salary costs which would otherwise not be incurred.

Other restructuring costs of £11m primarily comprise a reorganisation and restructuring project across the Packaging business (£8m), focusing predominantly on reduction of indirect costs, begun in the prior year and expected to last three years, and a restructuring project in North America (£2m).

Impairment of assets of £3m is directly related to the restructuring project in North America and includes impairment of property, plant and equipment and right-of-use assets.

Finance costs adjusting items relate to the unwind of the discount on the redemption liability related to the purchase of Interstate Resources.

The current tax credit on adjusting items of £4m for the half year ended 31 October 2020 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 divestments.

Year ended 30 April 2020 and half year ended 31 October 2019

Acquisition related costs of £10m (half year ended 31 October 2019: £7m) comprised professional advisory, legal and consultancy fees for review of potential deals, deferred consideration and retention bonuses.

Gains on acquisition and divestments related primarily to the remedy disposal of legacy Group sites required as part of the Europac acquisition. The profit on disposal of the Plastics business in the prior year is classified under discontinued operation.

Integration costs related to integration projects underway, primarily to achieve cost synergies from the major acquisitions made in the previous financial years. For the year ended 30 April 2020, £19m related to Europac (half year ended 31 October 2019: £10m), and £11m related to Interstate Resources (half year ended 31 October 2019: £2m). They include redundancies, professional fees, IT costs and those directly attributable internal salary costs which would otherwise not be incurred.

For the year ended 30 April 2020 (half year ended 31 October 2019: £8m), other restructuring costs primarily comprised a reorganisation and restructuring project across the Packaging business, focusing predominantly on reduction of indirect costs.

Impairment of assets comprised impairment, primarily of property, plant and equipment, directly related to restructuring projects.

Finance costs adjusting items related to the unwind of the discount on the redemption liability related to the purchase of Interstate Resources.

The current tax credit on adjusting items of £14m in the year ended 30 April 2020 (half year ended 31 October 2019: £5m) was 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 divestments.

The adjusting tax item of £1m in the year ended 30 April 2020 was an increase in the State Aid provision in relation to the estimate of interest on overdue tax covering the year to 30 April 2020.

4. Employee benefits

Movements in the net employee benefit deficit recognised in the Condensed consolidated statement of financial position:

	Half year ended 31 October 2020 Unaudited £m	Half year ended 31 October 2019 Unaudited £m	Year ended 30 April 2020 Audited £m
Opening employee benefit deficit	**(199)**	(170)	(170)
Divestments	**–**	2	2
Expense recognised in operating profit	**(3)**	(4)	(7)
Employment benefit net finance expense (excluding Pension Protection Fund levy)	**(1)**	(1)	(2)
Employer contributions	**10**	11	20
Other payments and contributions	**3**	3	6
Actuarial losses	**(16)**	(7)	(46)
Currency translation	**(3)**	(1)	(2)
Closing employee benefit deficit	**(209)**	(167)	(199)
Deferred tax asset	**47**	38	45
Closing net employee benefit deficit	**(162)**	(129)	(154)

During the period ended 31 October 2020, the Group received government support for employee costs, in particular for furloughed employees, amounting to £5m.

5. Finance income and costs

Continuing operations	**Half year ended 31 October 2020 Unaudited £m**	Half year ended 31 October 2019 Unaudited £m	Year ended 30 April 2020 Audited £m
Interest income from financial assets	**–**	–	(2)
Other	**(1)**	–	(2)
Finance income	**(1)**	–	(4)
Interest on borrowings and overdrafts	**27**	36	62
Interest on lease liabilities	**6**	6	12
Other	**8**	2	14
Finance costs before adjusting items	**41**	44	88
Finance costs adjusting items (note 3)	**3**	3	7
Finance costs	**44**	47	95

6. Income tax expense

Tax on profit from continuing operations has been charged at an underlying rate before adjusting items and amortisation of 23.0% (half year ended 31 October 2019: 23.0%), being the expected full year rate.

7. Earnings per share

Basic earnings per share from continuing operations

	Half year ended 31 October 2020 Unaudited	Half year ended 31 October 2019 Unaudited	Year ended 30 April 2020 Audited
Profit from continuing operations attributable to ordinary shareholders	**£74m**	£164m	£290m
Weighted average number of ordinary shares	**1,372m**	1,371m	1,371m
Basic earnings per share	**5.4p**	12.0p	21.2p

Diluted earnings per share from continuing operations

	Half year ended 31 October 2020 Unaudited	Half year ended 31 October 2019 Unaudited	Year ended 30 April 2020 Audited
Profit from continuing operations attributable to ordinary shareholders	**£74m**	£164m	£290m
Weighted average number of ordinary shares	**1,372m**	1,371m	1,371m
Potentially dilutive shares issuable under share-based payment arrangements	**3m**	4m	7m
Weighted average number of ordinary shares (diluted)	**1,375m**	1,375m	1,378m
Diluted earnings per share	**5.4p**	11.9p	21.0p

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 2019: nil, year ended 30 April 2020: 1m).

	Half year ended 31 October 2020 Unaudited		Half year ended 31 October 2019 Unaudited		Year ended 30 April 2020 Audited	
	Basic pence per share	**Diluted pence per share**	Basic pence per share	Diluted pence per share	Basic pence per share	Diluted pence per share
Earnings per share from continuing operations	**5.4p**	**5.4p**	12.0p	11.9p	21.2p	21.0p
Earnings per share from discontinued operation	**–**	**–**	0.5p	0.5p	17.3p	17.2p
Earnings per share from continuing and discontinued operation	**5.4p**	**5.4p**	12.5p	12.4p	38.5p	38.2p

Adjusted earnings per share from continuing operations

Adjusted earnings per share is a key performance measure for management long-term remuneration and is widely used by the Group's shareholders. Adjusted earnings is calculated by adding back the post-tax effects of both amortisation and adjusting items.

Further detail about the use of non-GAAP performance measures, including details of why amortisation is excluded, is given in note 15.

A reconciliation of basic to adjusted earnings per share is as follows:

	Half year ended 31 October 2020 Unaudited			Half year ended 31 October 2019 Unaudited			Year ended 30 April 2020 Audited		
	£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	**74**	**5.4p**	**5.4p**	164	12.0p	11.9p	290	21.2p	21.0p
Add back:									
Amortisation of intangible assets	**72**	**5.2p**	**5.2p**	71	5.2p	5.2p	143	10.4p	10.4p
Tax credit on amortisation	**(17)**	**(1.2p)**	**(1.2p)**	(16)	(1.2p)	(1.2p)	(33)	(2.4p)	(2.4p)
Adjusting items, before tax	**23**	**1.7p**	**1.7p**	24	1.8p	1.8p	69	5.0p	5.0p
Tax on adjusting items and adjusting tax items	**(4)**	**(0.3p)**	**(0.3p)**	(5)	(0.4p)	(0.4p)	(14)	(1.0p)	(1.0p)
Adjusted earnings	**148**	**10.8p**	**10.8p**	238	17.4p	17.3p	455	33.2p	33.0p

8. Dividends proposed and paid

	Pence per share	**£m**	Pence per share	£m
2018/19 interim dividend – paid	**–**	**–**	5.2p	71
2018/19 final dividend – paid	**–**	**–**	11.0p	151
2019/20 interim dividend – cancelled	**5.4p**	**74**	–	–
2019/20 final dividend – proposed	**nil**	**–**	–	–
2020/21 interim dividend – proposed	**4.0p**	**55**	–	–

	Half year ended 31 October 2020 Unaudited £m	Half year ended 31 October 2019 Unaudited £m	Year ended 30 April 2020 Audited £m
Paid during the year	**–**	71	222

The 2018/19 interim and final dividends were paid during the 2019/20 financial year. The Group announced on 8 April 2020 that the interim dividend in respect of 2019/20 of 5.4 pence per share (£74m), which was due to be paid after the year end on 1 May 2020, would no longer be paid, as a prudent action to respond to the significant uncertainty in the global environment as a result of Covid-19. The Directors did not propose a final dividend in respect of 2019/20 for the same reasons. An interim dividend in respect of the half year ended 31 October 2020 of 4.0p per share (£55m) has been proposed by the Directors after the reporting date.

9. Cash generated from operations

Continuing operations	**Half year ended 31 October 2020 Unaudited £m**	Half year ended 31 October 2019 Unaudited £m	Year ended 30 April 2020 Audited £m
Profit for the period	**74**	164	290
Adjustments for:			
Pre-tax integration costs and other adjusting items	**19**	20	58
Amortisation of intangible assets; acquisitions and divestments	**73**	72	147
Cash outflow for adjusting items	**(19)**	(26)	(53)
Depreciation	**155**	147	296
Profit on sale of non-current assets	**–**	(2)	(2)
Share of profit of equity accounted investments, net of tax	**(3)**	(3)	(7)
Employment benefit net finance expense	**1**	2	3
Share-based payment expense	**4**	3	5
Finance income	**(1)**	–	(4)
Finance costs	**44**	47	95
Other non-cash items	**1**	–	–
Income tax expense	**23**	49	78
Change in provisions	**16**	1	(21)
Change in employee benefits	**(10)**	(10)	(19)
Cash generation before working capital movement	**377**	464	866
Changes in:			
Inventories	**14**	23	45
Trade and other receivables	**(64)**	10	86
Trade and other payables	**75**	(69)	(161)
Working capital movement	**25**	(36)	(30)
Cash generated from continuing operations	**402**	428	836

10. Net debt

	At 31 October 2020 Unaudited £m	At 31 October 2019 Unaudited £m	At 30 April 2020 Audited £m
Cash and cash equivalents	**534**	445	595
Bank overdrafts	**(59)**	(130)	(90)
Net cash and cash equivalents	**475**	315	505
Other investments – restricted cash	**3**	3	3
Other deposits	**34**	41	33
Borrowings – after one year	**(2,145)**	(2,279)	(2,300)
Borrowings – within one year	**(207)**	(291)	(98)
Lease liabilities	**(245)**	(235)	(255)
Derivative financial instruments			
assets	**3**	4	13
liabilities	**(5)**	(2)	(2)
	(2,562)	(2,759)	(2,606)
Net debt – reported basis	**(2,087)**	(2,444)	(2,101)
Net debt excluding IFRS 16 liabilities	**(1,847)**	(2,218)	(1,852)

Net debt is a non-GAAP measure not defined by IFRS. While the Group has included lease liabilities after transition to IFRS 16 *Leases* within total lease liabilities (in addition to arrangements previously classified as finance leases under IAS 17), IFRS 16 liabilities are currently excluded from the definition of net debt as set out in the Group's banking covenant requirements. Within lease liabilities of £245m at 31 October 2020 are £240m of lease liabilities that would have been classified as operating leases and £5m of lease liabilities that would have been classified as finance lease liabilities under IAS 17.

Further detail on the use of non-GAAP measures and a reconciliation showing the calculation of adjusted net debt, as defined in the Group's banking covenants, is included in note 15.

Derivative financial instruments above relate to forward foreign exchange contracts and cross-currency swaps used to hedge foreign exchange exposure on the Group's borrowings and net assets of foreign operations. 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 firm commitments, and the Group's purchases of energy.

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

During the half year ended 31 October 2020, the Group repaid private placement notes of $10m and €59m. In addition, a bilateral term loan facility of €60m was repaid and a new bilateral revolving credit facility of €60m was established.

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

	Half year ended 31 October 2020 Unaudited £m	Half year ended 31 October 2019 Unaudited £m	Year ended 30 April 2020 Audited £m
Profit for the period	**74**	164	290
Income tax expense	**23**	49	78
Share of profit of equity accounted investments, net of tax	**(3)**	(3)	(7)
Net financing costs	**44**	49	94
Amortisation of intangible assets; acquisitions and divestments	**73**	72	147
Pre-tax integration costs and other adjusting items	**19**	20	58
Adjusted operating profit	**230**	351	660
Depreciation	**155**	147	296
Adjusted EBITDA	**385**	498	956
Working capital movement	**25**	(36)	(30)
Change in provisions	**16**	1	(21)
Change in employee benefits	**(10)**	(10)	(19)
Other	**5**	1	3
Cash generated from operations before adjusting cash items	**421**	454	889
Capital expenditure	**(135)**	(179)	(376)
Proceeds from sale of property, plant and equipment and intangible assets	**3**	5	12
Tax paid	**(30)**	(49)	(94)
Net interest paid	**(52)**	(53)	(77)
Free cash flow	**207**	178	354
Cash outflow for adjusting items	**(19)**	(26)	(53)
Dividends paid	**–**	(71)	(222)
Acquisition of subsidiary businesses, net of cash and cash equivalents	**(88)**	(4)	(4)
Divestment of discontinued operation, net of cash and cash equivalents	**–**	–	422
Divestment of subsidiary businesses, net of cash and cash equivalents	**–**	62	62
Other	**–**	(4)	2
Net cash flow	**100**	135	561
Proceeds from issue of share capital	**1**	2	2
Borrowings divested, including deposits	**–**	3	2
Net movement on debt	**101**	140	565
Foreign exchange, fair value and other non-cash movements	**(80)**	(46)	(118)
Net debt movement – continuing operations	**21**	94	447
Net debt movement – discontinued operation	**(10)**	(19)	(29)
Opening net debt	**(2,101)**	(2,277)	(2,277)
Transfer to held for sale	**3**	–	–
Transition to IFRS 16	**–**	(242)	(242)
Closing net debt – reported basis	**(2,087)**	(2,444)	(2,101)

Adjusted operating profit, adjusted EBITDA, free cash flow, and net debt are non-GAAP measures not defined by IFRS. Further detail on the use of non-GAAP measures is included in note 15.

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:

		At 31 October 2020 Unaudited		At 31 October 2019 Unaudited	
	Category	**Carrying amount £m**	**Fair value £m**	Carrying amount £m	Fair value £m
Financial assets					
Cash and cash equivalents	Amortised cost	**534**	**534**	445	445
Other investments	Amortised cost	**12**	**12**	3	3
Other investments	Fair value through other comprehensive income	**3**	**3**	8	8
Trade and other receivables	Amortised cost	**838**	**838**	851	851
Derivative financial instruments	Fair value – hedging instruments	**27**	**27**	25	25
Total financial assets		**1,414**	**1,414**	1,332	1,332
Financial liabilities					
Trade and other payables	Amortised cost, except as detailed below	**(1,705)**	**(1,705)**	(1,759)	(1,759)
Bank and other loans	Amortised cost	**(11)**	**(11)**	(16)	(16)
Commercial paper	Amortised cost	**(30)**	**(30)**	(220)	(220)
Medium-term notes and other fixed-term debt	Amortised cost	**(2,311)**	**(2,400)**	(2,334)	(2,400)
Lease liabilities	Amortised cost	**(245)**	**(245)**	(235)	(235)
Bank overdrafts	Amortised cost	**(59)**	**(59)**	(130)	(130)
Derivative financial instruments	Fair value – hedging instruments	**(50)**	**(50)**	(27)	(27)
Total financial liabilities		**(4,411)**	**(4,500)**	(4,721)	(4,787)

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 fixed rate borrowings and cross-currency swaps. All derivative financial instruments are shown at fair value in the consolidated statement of financial position.

The majority of the Group's medium-term notes and other fixed-term debt are in effective cash flow and net investment hedges. The fair values of financial assets and liabilities which bear floating rates of interest or are short-term in nature are estimated to be equivalent to their carrying amounts.

The Group's financial assets and financial liabilities are categorised within the fair value hierarchy that reflects the significance of the inputs used in making the assessments. The majority of the Group's financial instruments are Level 2 financial instruments in accordance with the fair value hierarchy, meaning that 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). The Group's medium-term notes are Level 1 financial instruments, as the notes are listed on the Luxembourg Stock Exchange. Certain other investments and the redemption liability arising on the acquisition of Interstate Resources (within trade and other payables) are Level 3 financial instruments. The fair value of other investments at fair value through other comprehensive income is derived from fair value calculations based on their cash flows.

13. Acquisitions and divestments

(a) Acquisitions in the half year ended 31 October 2020

On 26 June 2020, the purchase of a further 10% stake in Interstate Resources was completed after the exercise of a portion of the put option held by the sellers. Of the £106m consideration, £82m was paid in cash, with, by agreement, the remainder deferred to October 2021. The final 10% stake remains subject to the put option. As a substantial shareholder of the Group, the seller met the definition of a related party.

In total, during the half year ended 31 October 2020, cash consideration for acquisition of subsidiary businesses, net of cash and cash equivalents, was £88m, and borrowings acquired, including deposits, were £nil. Apart from the acquisition of the 10% stake in Interstate Resources, the remaining acquisitions are not material to the Group individually or in aggregate.

(b) 2019/20 acquisitions and divestments

In February 2020, the Group completed the disposal of the Group's Plastics division, classified as a discontinued operation (see note 14).

In June 2019, the Group completed the remedy disposals required as part of the acquisition of Europac for €73m. Cash consideration received, net of transaction costs, was £62m, and including net debt disposed of, the total impact on net debt from disposals was £64m. Acquisition of subsidiary businesses in the statement of cash flows, net of cash and cash equivalents, of £4m related to completion accounts adjustments on prior year acquisitions. Neither the remedy disposals nor the acquisition adjustments were material to the Group individually or in aggregate.

(c) Acquisition related costs

The Group incurred acquisition related costs in the half year ended 31 October 2020 of £1m (half year ended 31 October 2019: £7m, year ended 30 April 2020: £10m), primarily consisting of professional fees relating to review of potential deals, which have been included in administrative expenses within adjusting items.

14. Discontinued operation

Plastics division

On 27 February 2020, in the prior financial year, the sale of the Group's Plastics division to Olympus Partners and its affiliate Liqui-Box Holdings was completed.

Plastics principally comprised flexible packaging and dispensing solutions, extruded and injection moulded products and foam products.

The consolidated income statement presents the Plastics segment as a discontinued operation with a single line amount of profit from discontinued operation, net of tax. At 31 October 2020 and 30 April 2020, the Plastics division had been sold, but in the comparative 31 October 2019 consolidated statement of financial position the discontinued assets and liabilities are classified as 'assets held for sale' and 'liabilities held for sale' respectively. The consolidated statement of cash flows presents a single amount of net cash flow from discontinued operation.

Cash flows used in discontinued operation

	Half year ended 31 October 2020 Unaudited £m	Half year ended 31 October 2019 Unaudited £m	Year ended 30 April 2020 Audited £m
Net cash used in operating activities	**–**	(9)	(18)
Net cash used in investing activities	**(10)**	(7)	(11)
Net cash used in financing activities	**–**	(3)	–
Net cash flows for the period	**(10)**	(19)	(29)

Cash flows during the period ended 31 October 2020 relate to settlement of professional fees and transaction costs relating to the sale of the division.

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 (refer to note 3) 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, are by nature either highly variable or can also have a similar distorting effect. Therefore, the Directors consider that presenting non-GAAP measures which exclude these adjusting items enables comparability of the recurring core business, complementing the IFRS measures presented.

Amortisation relates primarily to customer contracts and relationships and infrastructure optimisation projects arising from or as a result of 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 as well as, in the case of customer contracts and relationships, providing comparability over the accounting treatment of customer contracts and relationships arising from the acquisition of businesses and those generated internally.

The Group's key non-GAAP measures are used both internally and externally to evaluate business performance against the Group's KPIs and banking and debt covenants, 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 12-month balances or average exchange rates.

Key non-GAAP performance measures

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

Adjusted operating profit

Adjusted operating profit is operating profit excluding the pre-tax effects of both amortisation and adjusting items. Adjusting items include business divestment 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.

Adjusted EBITDA

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

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. Adjusted earnings per share is a key performance measure for management long-term remuneration and is widely used by the Group's shareholders.

A reconciliation between basic and adjusted earnings per share is provided in note 7.

Return on sales

Return on sales is adjusted operating profit measured as a percentage of revenue. Return on sales is used to measure the value we deliver to customers and the Group's ability to charge for that value.

	Half year ended 31 October 2020 £m	Half year ended 31 October 2019 £m	Year ended 30 April 2020 £m
Adjusted operating profit	**230**	351	660
Revenue	**2,889**	3,188	6,043
Return on sales	**8.0%**	11.0%	10.9%

Adjusted 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, right-of-use assets, goodwill and intangible assets, working capital, capital debtors/creditors, provisions, biological assets and assets/liabilities held for sale. Assets and liabilities relating to the discontinued operation are excluded.

	Half year ended 31 October 2020 £m	Half year ended 31 October 2019 £m	Year ended 30 April 2020 £m
Capital employed	**6,092**	5,988	6,010
Currency, inter-month and acquisition/divestment movements	**124**	(224)	244
Last 12 months' average capital employed	**6,216**	5,764	6,254
Last 12 months' adjusted operating profit	**539**	678	660
Adjusted return on average capital employed	**8.7%**	11.8%	10.6%

Net debt and net debt/EBITDA

Net debt is the measure by which the Group assesses its level of overall indebtedness within its financial position. The components of net debt as they reconcile to the primary financial statements and notes to the accounts are disclosed in note 10.

Net debt/EBITDA is the ratio of net debt to adjusted EBITDA, calculated in accordance with the Group's banking covenant requirements.

Net debt/EBITDA is considered a key measure of balance sheet strength and financial stability by which the Group assesses its financial position.

The Group's banking covenant requirements currently exclude IFRS 16 liabilities from the definition of net debt, as well as requiring that EBITDA is calculated before the effects of IFRS 16, so an adjustment to the previous IAS 17 basis is made in the calculation.

In calculating the ratio, net debt is stated at average rates as opposed to closing rates, and adjusted EBITDA is adjusted operating profit before depreciation from the previous 12 month period adjusted for the full year effect of acquisitions and divestments in the period, and adjusted to an IAS 17 basis.

	Half year ended 31 October 2020 £m	Half year ended 31 October 2019 £m	Year ended 30 April 2020 £m
Net debt – reported basis (see note 10)	**2,087**	2,444	2,101
IFRS 16 lease liabilities (see note 10)	**(240)**	(226)	(249)
Adjustment to average rate	**(40)**	47	17
Net debt – adjusted basis	**1,807**	2,265	1,869
Adjusted EBITDA – last 12 months' reported basis (continuing operations)	**843**	921	956
Adjust to IAS 17 basis	**(82)**	(40)	(80)
Acquisition and divestment effects	**–**	39	(2)
Add back of discontinued operation	**–**	47	–
Adjusted EBITDA – banking covenant basis	**761**	967	874
Net debt/EBITDA	**2.37x**	2.34x	2.14x

Free cash flow

Free cash flow is the net movement on debt before cash outflow for adjusting items, dividends paid, acquisition and divestment of subsidiary businesses (including borrowings acquired), and proceeds from issue of share capital.

A reconciliation from Adjusted EBITDA to free cash flow is set out in note 11.

Cash conversion

Cash conversion is free cash flow, as defined above, adjusted to exclude tax, net interest, growth capital expenditure and pension payments as a percentage of adjusted operating profit and can be derived directly from note 11, other than growth capital expenditure, which is capital expenditure necessary for the development or expansion of the business as follows:

	Half year ended 31 October 2020 £m	Half year ended 31 October 2019 £m	Year ended 30 April 2020 £m
Growth capital expenditure	**36**	70	137
Non-growth capital expenditure	**99**	109	239
Total capital expenditure	**135**	179	376
Free cash flow (note 11)	**207**	178	354
Tax paid (note 11)	**30**	49	94
Net interest paid (note 11)	**52**	53	77
Growth capital expenditure	**36**	70	137
Change in employee benefits (note 11)	**10**	10	19
Adjusted free cash flow	**335**	360	681
Adjusted operating profit	**230**	351	660
Cash conversion	**146%**	103%	103%

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 average 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 and divestment related debtors and creditors.

	Half year ended 31 October 2020 £m	Half year ended 31 October 2019 £m	Year ended 30 April 2020 £m
Inventories	**513**	541	518
Trade and other receivables	**804**	807	736
Trade and other payables	**(1,520)**	(1,494)	(1,419)
Inter-month movements and exclusion of capital and acquisition and divestment related items	**183**	175	195
Last 12 months' average working capital	**(20)**	29	30
Last 12 months' revenue	**5,744**	6,286	6,043
Average working capital to sales	**(0.3%)**	0.5%	0.5%

Constant currency and organic growth

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 items. Constant currency comparatives recalculate the prior year revenue and adjusted operating profit as if they had been generated using the current year exchange rates. In addition, the Group then separates the incremental effects of acquisitions made in the current year, and the incremental effects of acquisitions made in the previous year, to determine underlying organic growth. The table below shows the calculations:

	Revenue £m	**Adjusted operating profit £m**
Reported basis – comparative half year ended 31 October 2019	**3,188**	**351**
Currency effects	**11**	**1**
Constant currency basis – comparative half year ended 31 October 2019	**3,199**	**352**
Prior year divestments	**(13)**	**(1)**
	3,186	**351**
Synergies	**–**	**14**
Organic growth	**(297)**	**(135)**
Reported basis – half year ended 31 October 2020	**2,889**	**230**

16. Subsequent events

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