

11 December 2002

## 2002/03 Interim Results

### **OPERATING IMPROVEMENTS DRIVE STRONG PROFIT ADVANCE**

DS Smith Plc (LSE:SMDS), the international packaging manufacturer and office products wholesaler, announces its interim results for the six months to 31 October 2002.

#### **KEY POINTS**

##### **Financial**

- Turnover up 4% at £741.1m (First half 2001/02: £711.9m)
- Operating margin\* up from 5.9% to 6.6%
- Profit before tax up 25% at £44.8m (£35.8m)
- Adjusted earnings per share up 31% at 10.1p (7.7p)
- Cash inflow before dividends and acquisitions £18.3m (outflow of £8.6m)

##### **Operational**

- Packaging: profit up, continued development in Plastics
- Office Products: on course with rebuilding profitability
- Good cash performance
- Demand remains weak in many of our markets

Commenting on the half year results, Chairman, Antony Hichens said:

“Against a background of challenging market conditions, our continuing emphasis on operating improvements produced a substantial profit advance in the seasonally stronger first half of the financial year. We met our key objectives of further profit growth in Packaging and the rebuilding of profitability in Office Products.

We will continue to concentrate on driving operational performance across the Group and improving results in Office Products. Demand in many of our markets remains weak and in Corrugated and Paper the outlook for prices is uncertain. Despite this tough market environment we are confident of making encouraging progress over the year as a whole.”

\* All references to profit, operating margins, return on average capital employed and earnings per share throughout are stated before amortisation of intangibles.

#### **Enquiries**

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## OVERVIEW

Against a background of challenging market conditions, our continuing emphasis on operating improvements produced a substantial profit advance in the seasonally stronger first half of the financial year. We met our key objectives of further profit growth in Packaging and the rebuilding of profitability in Office Products.

Group turnover for the half year to 31 October 2002 increased by 4% to £741.1 million. Operating profit advanced by 16% to £48.6 million and the operating margin rose from 5.9% to 6.6%. Return on average capital employed for the six months increased from 10.7% to 12.7%.

The Group's share of profits from associated undertakings was £1.6 million (first half 2001/02: a loss of £0.1 million) principally as a result of the contribution from the Rubezhansk packaging operation in the Ukraine which was included in the first half results for the first time this year. Net interest payable was lower at £5.4 million (£6.0 million).

Profit before tax increased by 25% to £44.8 million and earnings per share increased from 7.7 pence to 10.1 pence.

Expenditure on acquisitions, which in the first half amounted to £19.3 million including acquired debt, principally related to the acquisition of a plastic bag-in-box business in Germany. We maintained our emphasis on cash management, resulting in a cash inflow before dividends and acquisitions of £18.3 million (first half 2001/02: outflow of £8.6 million).

Net borrowings were £217.9 million at the end of the first half 2002/03 (£255.0 million). Gearing was 47.5% (55.6%) and interest cover remained strong at 9.3 times.

We are well advanced with refinancing our banking facilities of £325 million which expire in December 2003, having secured a new 5 year borrowing facility of £75.0 million and a private placement that has raised £92.5 million for 10 years.

## INTERIM DIVIDEND

The Board announces an unchanged interim dividend of 2.8 pence. This dividend will be paid on 11 March 2003 to ordinary shareholders on the register at the close of business on 7 February 2003.

## OPERATING REVIEW

### Packaging

Total sales increased by 7% to £475.2 million. Operating profit advanced by 11% to £39.2 million and operating margin increased from 7.9% to 8.2%. Return on average capital employed rose from 11.6% to 12.6%.

### **Corrugated and Paper**

Sales in the Corrugated and Paper segment increased by 5% to £377.2 million (£358.8 million). Operating profit grew by 10% to £31.6 million (£28.6 million) and operating margin increased from 8.0% to 8.4%.

Overall demand for corrugated board in our major markets remained weak, with demand falling in the first nine months of calendar year 2002 by 0.8% in the UK and 2.7% in France.\*

Recovered paper prices rose sharply through the first half of calendar year 2002, peaking in the second quarter, driven principally by strong demand from Asia. Prices subsequently remained steady in the UK, but fell back in continental Europe, although they are still above the 2001 average level. The price of corrugated case materials (CCM) rose during the second quarter of the calendar year, driven by the increase in recovered paper prices, and this necessitated an increase in corrugated box prices.

These sharp price movements resulted in a squeeze on our margins in both paper and corrugated. However, achievement of price increases across the segment and rigorous cost control helped us to raise the overall result. The current weak outlook for demand and the volatility of recovered paper prices, particularly in continental Europe, creates uncertainty in the outlook for Corrugated and Paper pricing during the second half of our financial year. In addition, the normal seasonal strength of our first half, which typically results in £3-4 million more operating profit than in the second half, is expected to be more marked this year due to unusually high sales of Packaging Recovery Notes (PRNs) in the first half.

### ***DS Smith Packaging***

DS Smith Packaging continued to make good progress and produced an encouraging result, benefiting from operational improvements. The contribution from the former Danisco plants, acquired in September 2001, raised profitability and enabled the division to increase its market share against a background of poor UK demand, particularly in the manufacturing sector of the economy.

The conventional corrugated plants benefited from increased productivity, while in the speciality operations the focus on higher added value products contributed to improved results. In the sheetfeeding and sheet plant sectors, where trading conditions were particularly difficult, profitability was helped by operational improvements and the contribution from the acquired operations. The investment in the heavy duty and speciality printing operations is now nearing completion.

### ***Kaysersberg Packaging***

The Group's continental European packaging division, Kaysersberg Packaging, performed well despite weak markets in France and Germany and economic difficulties in Turkey. The French corrugated operations achieved a particularly good result. In Italy, Toscana Ondulati is benefiting from its new lightweight corrugated factory, opened at Lari in March 2002, and has built a leading position in the European pizza box market. Our Polish business continued to grow sales and increased its productivity. At our Turkish business, Copikas, progress towards achieving sustained operating profitability was held back by the country's difficult economic conditions.

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\* Sources: Corrugated Packaging Association/European Federation of Corrugated Board Manufacturers

## ***St Regis Paper***

St Regis's profit was lower than in the same period last year but was better than expected as a result of higher selling prices and efficiency improvements at a number of the mills. Sales volume was only slightly lower than last year's level, despite the generally weak market conditions. Following a squeeze on our margins in the first quarter of the financial year, as recovered paper prices rose sharply, a CCM price increase was successfully implemented and margins were restored in the second quarter. However, there is continuing uncertainty over recovered paper prices for the second half of the year.

The Severnside recycling operation performed well in the face of strong Asian demand for recovered paper, benefiting from lower costs and increased efficiencies. PRN prices remained firm during the period but they have recently weakened as a consequence of the Government's decision to leave targets for packaging waste recovery in 2003 unchanged.

## **Plastics**

DS Smith Plastics' turnover increased by 13% to £98.0 million. Operating profit advanced strongly by 15% to £7.6 million and operating margin increased from 7.6% to 7.8%.

In liquid packaging and dispensing, strong growth was maintained, particularly in the USA. In July 2002, we acquired Zewathener GmbH, one of Europe's leading manufacturers of bag-in-box packaging. This business further strengthens our leading global position in bag-in-box packaging, complementing our existing operations in the UK, Germany, USA and Australasia, which operate under the Rapak brand.

Demand for industrial returnable transit packaging remained subdued in most markets due to the economic slowdown. In extruded products, sales have been slow and prices under pressure, while in the plastic crate business relatively strong demand in the Dominican Republic, Spain and Poland offset weaker demand in Belgium.

## **Office Products**

Although total sales were flat at £265.9 million (£266.3 million), operating profit increased by 40% to £9.4 million. Operating margin increased from 2.5% to 3.5% and return on average capital employed advanced from 7.7% to 12.8%.

## **Wholesaling**

Spicers' sales increased slightly to £243.0 million (£241.4 million) with lower sales in the UK and Ireland being offset by growth in continental Europe. Operating profit increased from £6.4 million to £6.8 million with a significant improvement in the UK being partly offset by increased start-up losses in Spain and additional costs in France, associated with the Plein Ciel acquisition. First half profit was well up on the £3.3 million recorded in the second half of 2001/02. Operating margin increased slightly from 2.7% in the first half of 2001/02 to 2.8% in the first half of 2002/03.

The weakened demand for office products that started in autumn 2001 has been felt increasingly throughout Europe, due to the economic slowdown and its impact on office activity.

Spicers' focus in the UK has been on building and maintaining high service levels, exiting unprofitable business and reducing operating costs. Good progress has been made in all these areas. In France, where demand has recently slowed, the acquisition of Plein Ciel in October 2001 helped bolster growth. In Germany, having recovered from last year's IT and service issues, customer confidence is recovering well and strong marketing programmes are now in place aimed at gaining further market share. The Spanish operation, launched in April 2002, is steadily building its presence in that market but at a slower rate than originally anticipated.

Continental Europe now accounts for around 40% of Spicers' sales. Preparation is underway for an entry to the Italian market in 2004. Extensive research has indicated a good opportunity for Spicers' business model adapted to meet the needs of Italian retailers and dealers.

## **Manufacturing**

The benefits of the restructuring undertaken earlier in 2002 and the impairment of assets at last year end contributed to a sharp increase in John Dickinson's operating profit to £2.6 million (£0.3 million). Lower sales of £32.2 million (£34.8 million) were largely due to the planned withdrawal from lower margin products. Operating margin increased from 0.9% to 8.1%.

Market conditions remain difficult, particularly for envelopes where intense pressure from imported products continues. Sales of Black n' Red branded notebooks grew strongly in both the UK and export markets such as the USA. Spicer Hallfield performed creditably despite subdued sales levels.

## **PEOPLE**

On 5 November 2002 Gavin Morris was appointed Group Finance Director. He was most recently Chief Financial Officer of Citex Group and prior to that held Chief Financial Officer positions at Philips Lighting Holding BV, Ionica Group Plc, Alfred McAlpine Plc and Norcros Plc. He also previously worked for Bain and Company in the USA and the UK.

David Buttfeld, who had been Group Finance Director since 1994, is taking early retirement but will remain on the Board as an executive director until the end of January 2003 to ensure a smooth hand-over of responsibilities. The Board wishes to thank David for his valuable contribution to the Group over the past eleven years, during the last nine of which he has been Group Finance Director.

## **OUTLOOK**

We will continue to concentrate on driving operational performance across the Group and improving results in Office Products. Demand in many of our markets remains weak and in Corrugated and Paper the outlook for prices is uncertain. Despite this tough market environment we are confident of making encouraging progress over the year as a whole.

## Notes to Editors

DS Smith Plc (LSE:SMDS) is an international Group focused on two major activities - Packaging and Office Products.

The company is:

- The leading UK producer of recycled paper board
- The largest UK collector and merchant of recovered paper
- A leading manufacturer of corrugated packaging in the UK and France
- A leading worldwide supplier of bag-in-box packaging
- The leading European wholesaler of office supplies
- The largest UK manufacturer of envelopes, books and pads

About 60% of turnover originates from UK operations. The Group employs around 10,900 people across operations in the UK, France, Germany, Italy, Spain, Belgium, Ireland, Poland, Turkey, Czech Republic, USA, Australia and New Zealand.

The company changed its name to DS Smith Plc from David S. Smith (Holdings) PLC in September 2001.

For further information: [www.dssmith.uk.com](http://www.dssmith.uk.com)

## Group profit and loss account

	Note	Half year ended 31 October 2002 (unaudited) £m	Half year ended 27 October 2001 (unaudited) £m	Year Ended 30 April 2002 £m
<b>Turnover</b>	2	<b>741.1</b>	711.9	1,440.2
<b>Operating profit</b>				
Before exceptional items and amortisation of intangibles	2	<b>48.6</b>	41.9	72.0
Exceptional items	3	-	-	(32.4)
Amortisation of intangibles		<b>(1.1)</b>	(0.7)	(1.7)
<b>Group operating profit</b>		<b>47.5</b>	41.2	37.9
<b>Share of profits/(losses) of associated undertakings</b>				
Before amortisation of intangibles		<b>1.6</b>	(0.1)	2.2
Amortisation of intangibles		<b>0.2</b>	-	0.3
		<b>1.8</b>	(0.1)	2.5
<b>Profit on ordinary activities before interest</b>		<b>49.3</b>	41.1	40.4
Net interest payable and other similar items		<b>(5.4)</b>	(6.0)	(11.6)
<b>Profit on ordinary activities before taxation</b>				
Before exceptional items and amortisation of intangibles		<b>44.8</b>	35.8	62.6
Exceptional items		-	-	(32.4)
Amortisation of intangibles		<b>(0.9)</b>	(0.7)	(1.4)
		<b>43.9</b>	35.1	28.8
<b>Tax on profit on ordinary activities</b>	4			
Tax on profit before exceptional items		<b>(12.1)</b>	(10.7)	(16.9)
Tax on exceptional items		-	-	6.4
		<b>(12.1)</b>	(10.7)	(10.5)
<b>Profit on ordinary activities after taxation</b>		<b>31.8</b>	24.4	18.3
Minority interests - equity		<b>(0.4)</b>	(0.6)	(0.9)
<b>Profit for the period</b>		<b>31.4</b>	23.8	17.4
Dividends		<b>(9.0)</b>	(9.0)	(28.2)
<b>Retained profit/(loss) for the period</b>		<b>22.4</b>	14.8	(10.8)
<b>Earnings per share:</b>				
Basic	5	<b>9.8p</b>	7.4p	5.4p
Diluted	5	<b>9.8p</b>	7.4p	5.4p
Adjusted	5	<b>10.1p</b>	7.7p	14.0p
<b>Dividends per share</b>		<b>2.8p</b>	2.8p	8.8p

The Group's results shown above are derived from continuing operations. There were no material acquisitions or discontinued operations in the previous year or the current half year.

## Group statement of total recognised gains and losses

	Half year ended 31 October 2002 (unaudited) £m	Half year ended 27 October 2001 (unaudited) £m	Year Ended 30 April 2002 £m
Profit for the period	31.4	23.8	17.4
Exchange differences on foreign currency net investments	(2.5)	(2.2)	2.9
<b>Total recognised gains and losses relating to the period</b>	<b>28.9</b>	<b>21.6</b>	<b>20.3</b>

## Group reconciliation of movements in shareholders' funds

	Half year ended 31 October 2002 (unaudited) £m	Half year ended 27 October 2001 (unaudited) £m	Year ended 30 April 2002 £m
Profit for the period	31.4	23.8	17.4
Dividends	(9.0)	(9.0)	(28.2)
Retained profit/(loss) for the period	22.4	14.8	(10.8)
Exchange differences on foreign currency net investments	(2.5)	(2.2)	2.9
New share capital issued	-	-	0.6
<b>Increase/(decrease) in shareholders' funds</b>	<b>19.9</b>	<b>12.6</b>	<b>(7.3)</b>
Opening shareholders' funds	438.9	446.2	446.2
<b>Closing shareholders' funds</b>	<b>458.8</b>	<b>458.8</b>	<b>438.9</b>

The difference between reported and historical cost profits for the periods reported above is not material.

## Group balance sheet

	At 31 October 2002 (unaudited) £m	At 27 October 2001 (unaudited) £m	At 30 April 2002 £m
<b>Fixed assets</b>			
Intangible assets	47.5	29.0	32.1
Tangible assets	546.7	555.5	551.6
Investments	28.5	23.3	27.8
	622.7	607.8	611.5
<b>Current assets</b>			
Stocks	148.5	141.8	142.4
Debtors	336.3	362.6	319.7
Short term investments	11.7	17.9	16.0
Cash at bank and in hand	45.8	9.7	28.5
	542.3	532.0	506.6
<b>Creditors: amounts falling due Within one year</b>			
Trade and other creditors	(336.1)	(290.5)	(330.3)
Borrowings	(24.0)	(28.0)	(29.4)
	182.2	213.5	146.9
<b>Net current assets</b>			
	804.9	821.3	758.4
<b>Total assets less current liabilities</b>			
<b>Creditors: amounts falling due after more than one year</b>			
Borrowings	(251.4)	(254.6)	(211.0)
Other	(1.9)	(9.5)	(11.1)
<b>Provisions for liabilities and charges</b>	(86.0)	(92.6)	(90.1)
	465.6	464.6	446.2
Minority interests – equity	(6.8)	(5.8)	(7.3)
<b>Net assets</b>	458.8	458.8	438.9
<b>Capital and reserves</b>			
Called up share capital	32.1	32.1	32.1
Share premium account	188.7	188.0	188.6
Revaluation reserve	8.9	9.5	8.9
Profit and loss account	229.1	229.2	209.3
<b>Shareholders' funds - equity</b>	458.8	458.8	438.9
<b>Gearing</b> (net debt expressed as a percentage of shareholders' funds)	47.5%	55.6%	44.6%

## Group cash flow statement

		<b>Half year ended 31 October 2002 (unaudited) £m</b>	Half year ended 27 October 2001 (unaudited) £m	Year Ended 30 April 2002 £m
	Note			
Net cash inflow from operating activities	6	<b>64.7</b>	49.0	178.0
Returns on investments and servicing of finance		<b>(5.6)</b>	(5.8)	(10.0)
Taxation		<b>(7.2)</b>	(16.5)	(26.9)
Capital expenditure and financial investment	7	<b>(33.6)</b>	(35.3)	(69.9)
		<b>18.3</b>	(8.6)	71.2
Acquisitions and disposals	9	<b>(17.3)</b>	(30.0)	(44.6)
Equity dividends paid		<b>(19.1)</b>	(19.2)	(28.2)
Net cash outflow before use of liquid resources and financing		<b>(18.1)</b>	(57.8)	(1.6)
Management of liquid resources		<b>4.6</b>	1.1	3.5
Issue of ordinary shares		<b>-</b>	-	0.6
Financing – net increase in debt		<b>44.0</b>	53.2	16.3
<b>Increase/(decrease) in cash in the period</b>		<b>30.5</b>	(3.5)	18.8

## Reconciliation of net cash flow to movement in net debt

		<b>Half year ended 31 October 2002 (unaudited) £m</b>	Half year ended 27 October 2001 (unaudited) £m	Year Ended 30 April 2002 £m
(See note 8)				
Increase/(decrease) in cash in the period		<b>30.5</b>	(3.5)	18.8
Increase in debt financing		<b>(44.0)</b>	(53.2)	(16.3)
Decrease in liquid resources		<b>(4.6)</b>	(1.1)	(3.5)
Increase in net debt resulting from cash flows		<b>(18.1)</b>	(57.8)	(1.0)
Net debt acquired with subsidiary undertakings		<b>(2.0)</b>	(3.5)	(2.7)
Exchange differences		<b>(1.9)</b>	(0.3)	1.2
<b>Increase in net debt in the period</b>		<b>(22.0)</b>	(61.6)	(2.5)
Opening net debt		<b>(195.9)</b>	(193.4)	(193.4)
<b>Closing net debt</b>		<b>(217.9)</b>	(255.0)	(195.9)

## Notes to the accounts

### 1 Basis of preparation

The interim financial information, which is unaudited, has been prepared using the same policies as those adopted in the accounts for the financial year ended 30 April 2002. Those accounts have been reported on by the company's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain an adverse statement under section 237(2) or (3) of the Companies Act 1985.

### 2 Analysis of Group turnover, profit and capital employed

		<b>Half year ended 31 October 2002 (unaudited) £m</b>	Half year ended 27 October 2001 (unaudited) £m	Year ended 30 April 2002 £m
<b>Turnover</b>				
<b>Packaging:</b>	Corrugated and Paper	<b>377.2</b>	358.8	720.5
	Plastics	<b>98.0</b>	86.8	171.9
		<b>475.2</b>	445.6	892.4
<b>Office products:</b>	Wholesaling	<b>243.0</b>	241.4	500.5
	Manufacturing	<b>32.2</b>	34.8	66.7
	Intra-segment sales	<b>(9.3)</b>	(9.9)	(19.4)
		<b>265.9</b>	266.3	547.8
		<b>741.1</b>	711.9	1,440.2
<b>By origin:</b>	United Kingdom	<b>440.2</b>	450.2	892.9
	Rest of World	<b>300.9</b>	261.7	547.3
		<b>741.1</b>	711.9	1,440.2
<b>Operating profit</b> (see a) below)				
<b>Packaging:</b>	Corrugated and Paper	<b>31.6</b>	28.6	51.2
	Plastics	<b>7.6</b>	6.6	12.7
		<b>39.2</b>	35.2	63.9
<b>Office products:</b>	Wholesaling	<b>6.8</b>	6.4	9.7
	Manufacturing	<b>2.6</b>	0.3	(1.6)
		<b>9.4</b>	6.7	8.1
		<b>48.6</b>	41.9	72.0
<b>By origin:</b>	United Kingdom	<b>33.9</b>	27.7	43.7
	Rest of World	<b>14.7</b>	14.2	28.3
		<b>48.6</b>	41.9	72.0
<b>Capital employed</b> (see b) below)				
<b>Packaging:</b>	Corrugated and Paper	<b>495.4</b>	527.3	478.2
	Plastics	<b>128.0</b>	100.1	108.5
		<b>623.4</b>	627.4	586.7
<b>Office products:</b>	Wholesaling	<b>123.7</b>	142.5	125.6
	Manufacturing	<b>18.8</b>	38.0	16.3
		<b>142.5</b>	180.5	141.9
		<b>765.9</b>	807.9	728.6
<b>By origin:</b>	United Kingdom	<b>478.1</b>	552.3	465.6
	Rest of World	<b>287.8</b>	255.6	263.0
		<b>765.9</b>	807.9	728.6

2 **Analysis of Group turnover, profit and capital employed** (continued)

		<b>Half year ended 31 October 2002 (unaudited)</b>	Half year ended 27 October 2001 (unaudited)	Year Ended 30 April 2002
<b>Return on Sales</b>				
<b>Packaging:</b>	Corrugated and Paper	<b>8.4%</b>	8.0%	7.1%
	Plastics	<b>7.8%</b>	7.6%	7.4%
		<b>8.2%</b>	7.9%	7.2%
<b>Office products:</b>	Wholesaling	<b>2.8%</b>	2.7%	1.9%
	Manufacturing	<b>8.1%</b>	0.9%	(2.4)%
		<b>3.5%</b>	2.5%	1.5%
		<b>6.6%</b>	5.9%	5.0%
<b>By origin:</b>	United Kingdom	<b>7.7%</b>	6.2%	4.9%
	Rest of World	<b>4.9%</b>	5.4%	5.2%
		<b>6.6%</b>	5.9%	5.0%
<b>Return on average capital employed</b> (see c) below)				
<b>Packaging:</b>	Corrugated and Paper	<b>12.6%</b>	11.3%	
	Plastics	<b>12.5%</b>	13.0%	
		<b>12.6%</b>	11.6%	
<b>Office products:</b>	Wholesaling	<b>10.6%</b>	9.5%	
	Manufacturing (see e) below)	<b>28.1%</b>	1.6%	
		<b>12.8%</b>	7.7%	
		<b>12.7%</b>	10.7%	
<b>By origin:</b>	United Kingdom	<b>14.0%</b>	10.5%	
	Rest of World	<b>10.4%</b>	11.1%	
		<b>12.7%</b>	10.7%	

a) Operating profit is stated before exceptional items and amortisation of intangibles.

b) Capital employed excludes fixed asset investments, net borrowings, deferred consideration due in respect of acquisitions, corporation tax, dividends payable and minority interests.

c) Return on average capital employed for the half year is calculated as twice the operating profit divided by the average capital employed including the intangible assets on the balance sheet.

d) Following a change in management responsibilities, the 2001/02 results and capital employed of the Group's Packaging Services Management business have been reclassified from Plastics to Corrugated and Paper.

e) The increase in the return on average capital employed earned by the Manufacturing segment is due in part to the fixed asset impairment recognised in the second half of 2001/02.

3 **Exceptional items**

In the financial year ended 30 April 2002 the Group carried out an extensive review of its operating assets, as a result of which a £32.4m impairment charge against the carrying value of tangible fixed assets and goodwill was charged in arriving at operating profit. A substantial part of this charge related to the Group's Office Products Manufacturing business and the investment in Turkish corrugated packaging.

4 **Tax charge**

Tax on profits before exceptional items and amortisation of intangibles has been charged at an effective rate of 27% (half year to 27 October 2001: 30%, year to 30 April 2002: 27%), being the expected full year effective rate.

The tax charge for the period consists of UK taxation of £5.8m (half year to 27 October 2001: £6.3m, year to 30 April 2002: nil) and overseas taxation of £6.3m (half year to 27 October 2001: £4.4m, year to 30 April 2002: £10.5m). The tax charge for the year ended 30 April 2002 was stated net of a tax credit of £6.4m relating to the exceptional items.

## 5 Earnings per share

The basic earnings per share have been calculated on the profit for the period of £31.4m (half year to 27 October 2001: £23.8m, year to 30 April 2002: £17.4m) and on 320.3m (half year to 27 October 2001: 320.1m, year to 30 April 2002: 320.2m) ordinary shares, being the weighted average in issue and fully paid during the period.

The adjusted earnings per share excludes the effect of exceptional items and amortisation of intangibles and has been calculated on the adjusted profit for the period of £32.3m (half year to 27 October 2001: £24.5m, year to 30 April 2002: £44.8m).

## 6 Reconciliation of operating profit to net operating cash flow

	<b>Half year ended 31 October 2002 (unaudited) £m</b>	Half year ended 27 October 2001 (unaudited) £m	Year ended 30 April 2002 £m
Operating profit before exceptional items and amortisation of intangibles	<b>48.6</b>	41.9	72.0
Depreciation	<b>30.8</b>	31.2	63.6
Profit on sale of tangible fixed assets	-	(0.4)	(2.9)
Working capital	<b>(11.8)</b>	(24.0)	40.6
Increase/(decrease) in provisions	<b>(3.2)</b>	(0.1)	3.9
Other non cash operating items	<b>0.3</b>	0.4	0.8
Net cash inflow from operating activities	<b>64.7</b>	49.0	178.0

## 7 Capital expenditure and financial investment

	<b>Half year ended 31 October 2002 (unaudited) £m</b>	Half year ended 27 October 2001 (unaudited) £m	Year ended 30 April 2002 £m
Purchase of tangible fixed assets	<b>(34.2)</b>	(37.2)	(75.3)
Sale of tangible fixed assets	<b>1.4</b>	2.4	7.7
Purchase of DS Smith Plc shares	<b>(0.9)</b>	(0.5)	(0.6)
Sale of fixed asset investments	<b>0.2</b>	-	-
Purchase of fixed asset investments	<b>(0.1)</b>	-	(1.7)
	<b>(33.6)</b>	(35.3)	(69.9)

## 8 Analysis of net debt (unaudited)

	At 30 April 2002 £m	Acquired £m	Cash flow £m	Exchange differences £m	At 31 October 2002 £m
Cash at bank and in hand	28.5	-	18.8	(1.5)	<b>45.8</b>
Overdrafts	(16.2)	-	11.7	0.3	<b>(4.2)</b>
	12.3	-	30.5	(1.2)	<b>41.6</b>
Debt due after one year	(206.7)	(1.7)	(36.7)	(2.3)	<b>(247.4)</b>
Debt due within one year	(12.3)	(0.3)	(7.8)	1.4	<b>(19.0)</b>
Finance leases	(5.2)	-	0.5	(0.1)	<b>(4.8)</b>
	(224.2)	(2.0)	(44.0)	(1.0)	<b>(271.2)</b>
Short term investments	16.0	-	(4.6)	0.3	<b>11.7</b>
Total	(195.9)	(2.0)	(18.1)	(1.9)	<b>(217.9)</b>

## 9 Acquisition

On 15 July 2002, the Group acquired Zewathener GmbH, one of Europe's leading manufacturers of bag-in-box packaging located in Schwetzingen, Germany. The business was acquired for a total consideration of £17.5m, including acquired debt, which resulted in goodwill arising of £13.5m.