



7 December 2005

DS Smith Plc - 2005/06 Interim Results

DS Smith Plc (LSE:SMDS), the international packaging manufacturer and office products wholesaler, announces its results for the six months to 31 October 2005.

FIRST HALF 2005/06 HIGHLIGHTS

- Revenue: £821.6m (H1 2004/05: £800.1m)
- Operating profit⁽¹⁾: £33.2m (H1 2004/05: £42.6m)
- Profit before tax⁽¹⁾: £30.5m (H1 2004/05: £37.4m)
- Earnings per share⁽¹⁾: 5.5p (H1 2004/05: 7.3p)
- Cash inflow before dividends and acquisitions: £23.2m (H1 2004/05: inflow of £26.5m)
- Gearing: 52.2% (end of 2004/05: 50.2%)
- Interim dividend unchanged at 2.6p
- Results after exceptional items: profit before tax £28.6m (H1 2004/05: £37.4m); earnings per share 4.8p (H1 2004/05: 7.3p)

(1) before exceptional item – loss of £1.9m on the sale of the Office Products Manufacturing operations

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

“The trading environment was particularly tough during the first half of the financial year but many of our operations performed well. We made further progress in strengthening the Group. In our enlarged UK Paper and Corrugated Packaging business, we are achieving the expected synergy benefits and an improved product mix in Paper. We expanded further our Corrugated Packaging operations in eastern Europe. Spicers continued its development in continental Europe and acquired the leading office products wholesaler in Benelux. We sold the unprofitable Office Products Manufacturing business. The benefits of these strategic moves are significant but in the half year were more than offset by the effects of price erosion, considerably higher energy costs and unrecovered polymer cost increases.

“Trading conditions are expected to continue to be challenging during the second half of the year. We are achieving price increases within our packaging businesses but it is too early to be certain of the impact on our overall results. In the light of the sustained difficult market conditions, we are intensifying our efforts to reduce costs. Although energy costs remain an uncertainty, the outlook for the Group for 2005/06 as a whole remains unchanged from that stated in our October trading update.”

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Adoption of International Financial Reporting Standards (IFRS)

DS Smith, along with all EU listed companies, is now required to produce its results under IFRS. In October 2005, DS Smith published IFRS information relating to its consolidated balance sheet at 1 May 2004, its half-year results to 31 October 2004 and the full year results to 30 April 2005. Details of these results, together with reconciliations between previously published UK GAAP reported results and those reported under IFRS, are available on the DS Smith website www.dssmith.uk.com.

All references in this statement and in the attached financial statements reflect results prepared on the basis of IFRS.

OVERVIEW

Group revenue for the half year to 31 October 2005 increased to £821.6 million (H1 2004/05: £800.1 million) and operating profit before exceptional items was £33.2 million (H1 2004/05: £42.6million). Group operating margin before exceptional items was 4.0% (H1 2004/05: 5.3%) while return on average capital employed for the six months was 7.1% (H1 2004/05: 9.1%).

Profit before tax and exceptional items was £30.5 million (H1 2004/05: £37.4 million) and earnings per share before exceptional items were 5.5 pence (H1 2004/05: 7.3 pence).

A cash inflow before dividends and acquisitions of £23.2 million (H1 2004/05: inflow of £26.5 million) enabled the Group to maintain a healthy balance sheet. Net borrowings were £270.7 million at the end of first half 2005/06 (end of 2004/05: £260.7 million) resulting in gearing of 52.2% (end of 2004/05: 50.2%).

The primary factors which impacted the business in the first half of 2005/06 were the fall in paper and corrugated packaging prices, the continued rise in energy costs and higher polymer costs. Many of our operations are performing well and we are achieving the expected synergies in our enlarged UK Corrugated Packaging business. However, the difficult trading environment and higher costs have resulted in a marked deterioration in the results of a number of businesses within the Group; we have these businesses under close scrutiny. Over recent years we have successfully implemented a determined cost reduction programme, particularly in our more mature businesses. In the light of the sustained difficult trading conditions, we are intensifying these efforts, targeting further cost reduction as part of our drive to improve returns.

The Group's total costs for energy increased from circa £34 million in the first half of 2004/05 to circa £41 million in the first half of 2005/06 principally due to the extraordinary rise in the UK average market price of gas, which we had partially hedged. The Group's previous fixed price UK electricity contract ended in October 2005 and a new contract, including flexible hedging arrangements, is now in place. In our AGM trading update in September 2005, we stated that we expected our energy and fuel costs for the full year 2005/06 to increase by approximately £18 million from the £73 million incurred in 2004/05. Following the recent further sharp rise in energy prices we anticipate that this increase will now be in the range of £20-23 million but we expect to be able to mitigate most of this recent further increase. However, the outcome for the year will be dependent upon the degree to which the current high energy prices are sustained through the winter months.

INTERIM DIVIDEND

The Board announces an interim dividend of 2.6 pence per share, which is unchanged from the previous year's interim dividend. It will be paid on 7 March 2006 to ordinary shareholders on the register at the close of business on 3 February 2006.

OPERATING REVIEW

UK Paper and Corrugated Packaging

	Half year ended 31 October 2005	Half year ended 31 October 2004
Revenue	£331.1m	£312.7m
Operating profit	£14.4m	£19.8m
Operating margin	4.3%	6.3%
Return on average capital employed	5.5%	7.5%

The recent actions we have taken to develop our integrated UK Paper and Corrugated Packaging segment have strengthened the Group. We are achieving the expected synergies from our enlarged UK Corrugated Packaging business; these benefited the result in the first half by some £7 million and we are confident of achieving the anticipated £14.5 million annual run-rate as we enter the next financial year. However, this benefit in the first half was more than offset by lower selling prices and higher energy costs.

The UK market for corrugated packaging in 2005 has been weak, principally due to the slowdown in retail sales. In the first nine months of calendar year 2005, demand in the UK was 2.9% down by weight on the same period in 2004*. Prices of corrugated case material (CCM) throughout Europe fell as a result of patchy demand and excess CCM capacity. Paper producers' margins have been further squeezed by substantial increases in energy costs and the relatively high cost of recovered paper, our principal raw material. The lower CCM prices and slack demand resulted in a fall in corrugated box prices. In both CCM and box production, a number of companies have recently announced restructuring and capacity reduction plans to address the effects of the poor market conditions.

In our Paper business, the effects on results of the adverse trading environment and higher energy costs were partly mitigated by the recent strategic moves we have made within the Group. The enlargement of our corrugated packaging operations through our recent major acquisition enabled us to maintain high levels of capacity utilisation, and allowed us to increase the proportion of both our UK CCM sales, which have better margins than export sales, and those paper grades that we produce most efficiently. As a result of our strategic supply agreement with BPB Plc we have grown our sales of higher added-value plasterboard liner to an annual run-rate of over 140,000 tonnes and consequently reduced the proportion of CCM within our total paper sales mix.

Our Corrugated Packaging operations benefited from the synergies arising from the enlarged business but results were adversely affected by the lower overall market demand, price pressure and increased energy costs. The trading environment has been tough and we have had some disruption as a result of the closure of two large facilities and the subsequent

* Source: Federation of European Corrugated Board Manufacturers

transfer of production to other plants. Nevertheless, we remain confident that our market-leading position is capable of generating good overall returns.

Towards the end of the half year, CCM prices were increased in continental Europe and, subsequently, we have raised our prices in the UK with a view to recovering some of the cost increases. We also raised corrugated box prices during November. As yet, it is uncertain as to the effect these price moves will have on our results in the second half of the financial year and much will depend upon market demand during the coming months.

Continental European Corrugated Packaging

	Half year ended 31 October 2005	Half year ended 31 October 2004
Revenue	£135.3m	£131.5m
Operating profit	£9.9m	£9.9m
Operating margin	7.3%	7.5%
Return on average capital employed	12.5%	13.9%

Our Continental European Corrugated Packaging operations, which are principally located in France, Italy, Poland and Turkey, performed solidly.

During the first nine months of 2005, the market for corrugated packaging in Europe as a whole grew by 0.9% by weight. Demand in our main continental western European markets of France and Italy grew by 0.1% and 1.2%, respectively, while growth in central and eastern Europe was stronger with our principal markets of Poland and Turkey advancing by 10.2% and 5.4%, respectively*. In France and Italy, prices fell substantially, reflecting intense competition, but the impact of the lower prices was to a large extent offset by the lower cost of the raw material, CCM, and our development of value-added products. Sales continued to advance strongly at our Polish business; its new factory at Kutno, west of Warsaw, commenced production in November. Our Turkish business, which moved into profit in 2004/05, made further progress in developing its customer base for higher added value products. Our associate business in the Ukraine continues to perform well and we are supporting it in its expansion into plasterboard liner. The French solid board paper business benefited from recent investment which enabled it to increase sales and it is performing well in the context of challenging market conditions.

The recent rise in CCM prices is resulting in a squeeze on margins in this segment. We will be looking to raise box prices to recover our higher input costs and the extent to which these price increases are achieved will affect this segment's results in the second half of the financial year. We remain alert to good development opportunities consistent with our strategy to expand further our Continental European Corrugated Packaging operations.

* Source: Federation of European Corrugated Board Manufacturers

Plastic Packaging

	Half year ended 31 October 2005	Half year ended 31 October 2004
Revenue	£101.7m	£99.9m
Operating profit	£2.0m	£6.2m
Operating margin	2.0%	6.2%
Return on average capital employed	3.0%	8.9%

Plastic Packaging had a very tough first half in both of its principal market sectors, although both sectors remained profitable. In returnable transit packaging, results were significantly lower owing to reduced crate sales volumes and under-recovery of higher polymer costs, while in liquid packaging and dispensing there was significant price erosion. The three small speciality businesses showed an improvement and were in profit in aggregate.

Within returnable transit packaging, the previously highlighted slowdown in sales and the squeeze on margins from high polymer costs, continued in the first half of 2005/06. Our forward order book in this sector has recently strengthened.

In liquid packaging and dispensing, our USA operations performed satisfactorily on the back of good product development and we continued to enjoy stronger sales in dispensing products. In contrast, we faced increased competition in Europe, particularly in higher margin products, and profits were well down on the prior year. We have introduced new products and taken action to reduce costs; the first half result included the costs of restructuring.

Against the background of further rises in polymer costs during the autumn, we have increased prices but to date this has been insufficient to restore our margins to acceptable levels.

Our primary goal in this division is to rebuild profitability. In addition to raising prices, we are taking action to strengthen substantially our sales and product development capability and to increase productivity.

Office Products Wholesaling

	Half year ended 31 October 2005	Half year ended 31 October 2004
Revenue	£248.1m	£240.0m
Operating profit	£6.9m	£6.9m
Operating margin	2.8%	2.9%
Return on average capital employed	11.2%	12.1%

Operating profit in the Spicers Office Products Wholesaling business was steady with a lower result in the UK being offset by progress in Continental Europe.

Sales advanced in the UK, but continuing price erosion across the product range and a larger-than-expected proportion of lower margin electronic office supplies resulted in reduced profits. Action has been taken to improve the sales mix and to lower costs. The French business performed well and further increased its market share. The development business in

Germany was in profit while that in Spain made further good progress and the Italian business continued its encouraging build-up of sales in its first year of trading. On 1 October, we acquired Timmermans NV, the largest office products wholesaler in the Benelux region, which further extended Spicers' sales coverage in continental Europe.

In the light of the trading difficulties in the UK, and as outlined in our October trading update, it will be challenging for Spicers to exceed last year's result for the full year.

The Office Products Manufacturing business, John Dickinson, was sold to Groupe Hamelin in July 2005.

OUTLOOK

Trading conditions are expected to continue to be challenging during the second half of the year. We are achieving price increases within our packaging businesses but it is too early to be certain of the impact on our overall results. In the light of the sustained difficult market conditions, we are intensifying our efforts to reduce costs. Although energy costs remain an uncertainty, the outlook for the Group for 2005/06 as a whole remains unchanged from that stated in our October trading update.

Group Income Statement (unaudited)

	Note	Half year to 31 October 2005 £m	Half year to 31 October 2004 £m	Year to 30 April 2005 £m
Revenue	3	821.6	800.1	1,624.9
Group operating profit				
Before exceptional items	3	33.2	42.6	82.6
Exceptional operating items:				
- Loss on sale of office products manufacturing operations		(1.9)	-	-
- Costs of restructuring acquired business		-	-	(4.9)
- Impairment of goodwill		-	-	(5.8)
Operating profit		31.3	42.6	71.9
Net interest expense		(5.8)	(6.8)	(13.2)
Employment benefit finance income		0.9	0.5	1.1
Net finance expense		(4.9)	(6.3)	(12.1)
Profit after financing costs		26.4	36.3	59.8
Share of profit of associates (after tax)		2.2	1.1	3.4
Exceptional item: – reversal of previous impairment of associate		-	-	1.1
Profit before income tax		28.6	37.4	64.3
Income tax on:				
Profit before exceptional items	4	(8.8)	(9.1)	(17.6)
Exceptional items		(1.0)	-	1.4
Income tax expense		(9.8)	(9.1)	(16.2)
Profit for the financial period		18.8	28.3	48.1
Profit for the financial period attributable to:				
Equity holders of the parent		18.4	28.1	47.1
Minority interest		0.4	0.2	1.0
		18.8	28.3	48.1
Earnings per share:	5			
Basic		4.8p	7.3p	12.2p
Diluted		4.7p	7.2p	12.1p
Proposed dividends per share	6	Interim 2.6p	Interim 2.6p	Total 8.4p

Group Statement of Recognised Income and Expense (unaudited)

	Note	Half year to 31 October 2005 £m	Half year to 31 October 2004 £m	Year to 30 April 2005 £m
Actuarial (losses) on defined benefit pension schemes		-	-	(31.2)
Movements on deferred tax relating to the actuarial losses		-	-	9.5
Currency translation differences arising in period		4.5	3.5	(0.3)
Changes in fair value of cash flow hedges, net of tax		(1.3)	-	-
Effect of adoption of IAS 32 and IAS 39 from 1 May 2005	2	(1.5)	-	-
Net income/(expense) recognised directly in equity		1.7	3.5	(22.0)
Profit for the financial period		18.8	28.3	48.1
Total recognised income and expense relating to the financial period		20.5	31.8	26.1
Attributable to:				
Equity holders of the parent		20.1	31.6	25.1
Minority interest		0.4	0.2	1.0
		20.5	31.8	26.1

Group Balance Sheet (unaudited)

	Note	As at 31 October 2005 £m	As at 31 October 2004 £m	As at 30 April 2005 £m
ASSETS				
Non-current assets				
Property, plant and equipment		558.7	563.5	559.3
Intangible assets		196.7	196.8	190.9
Investments in associates		27.4	22.0	22.1
Other investments		9.6	10.3	10.1
Deferred tax assets		38.5	24.2	35.6
Other receivables		3.5	3.4	1.0
Derivative financial instruments		0.9	-	-
Total non-current assets		835.3	820.2	819.0
Current assets				
Inventories		156.5	156.1	161.7
Other investments		18.7	21.3	28.4
Income tax receivable		-	1.0	1.0
Trade and other receivables		361.1	361.9	358.4
Cash and cash equivalents		35.7	42.3	30.4
Derivative financial instruments		1.1	-	-
Total current assets		573.1	582.6	579.9
Total assets		1,408.4	1,402.8	1,398.9
LIABILITIES				
Non-current liabilities				
Interest-bearing loans and borrowings		(297.1)	(320.2)	(294.1)
Employee benefits (before associated deferred tax asset)		(108.2)	(83.2)	(114.8)
Other creditors		(1.9)	(1.9)	(2.4)
Provisions		(9.2)	(6.2)	(7.2)
Deferred tax liabilities		(82.8)	(73.9)	(78.7)
Derivative financial instruments		(13.8)	-	-
Total non-current liabilities		(513.0)	(485.4)	(497.2)
Current liabilities				
Bank overdrafts		(11.0)	(19.5)	(17.6)
Interest-bearing loans and borrowings		(3.9)	(11.7)	(7.8)
Trade and other payables		(338.6)	(326.0)	(335.5)
Income tax liabilities		(22.3)	(25.3)	(18.7)
Provisions		(0.2)	(5.0)	(2.3)
Derivative financial instruments		(0.7)	-	-
Total current liabilities		(376.7)	(387.5)	(381.9)
Total liabilities		(889.7)	(872.9)	(879.1)
NET ASSETS		518.7	529.9	519.8
EQUITY				
Issued capital		38.9	38.7	38.9
Share premium		257.3	254.7	257.0
Other reserves		7.5	12.0	7.7
Retained earnings		206.2	216.6	207.9
Total equity attributable to equity holders of the parent	9	509.9	522.0	511.5
Minority interests		8.8	7.9	8.3
TOTAL EQUITY		518.7	529.9	519.8
Gearing:				
Net debt expressed as a percentage of total equity	2,10	52.2%	54.3%	50.2%

Group Cash Flow Statement (unaudited)

	Note	Half year to 31 October 2005 £m	Half year to 31 October 2004 £m	Year to 30 April 2005 £m
Operating Activities				
Cash generated from operations	7	69.9	70.2	139.7
Interest paid		(6.0)	(6.5)	(13.3)
Income tax paid		(8.9)	(13.0)	(23.7)
Net cash from operating activities		55.0	50.7	102.7
Investing Activities				
Net (acquisitions)/disposals of subsidiaries		(5.5)	(10.5)	(11.7)
Purchases of property, plant and equipment		(35.3)	(25.1)	(53.6)
Proceeds from sale of non-current assets		3.5	0.9	6.7
Cash flows from investing activities		(37.3)	(34.7)	(58.6)
Financing Activities				
Proceeds from issue of share capital		0.3	0.1	2.6
Purchase of own shares		-	(2.3)	(2.1)
Increase in borrowings		5.6	19.2	-
Repayment of borrowings		-	-	(3.7)
Payments under finance leases		(0.9)	(0.5)	(0.9)
Dividends paid		(22.4)	(21.6)	(31.6)
Cash flows from financing activities		(17.4)	(5.1)	(35.7)
Net increase in cash and cash equivalents		0.3	10.9	8.4
Cash and cash equivalent at 1 May		41.2	31.1	31.1
Acquired with subsidiary undertaking		0.8	-	-
Exchange gains on cash and cash equivalents		1.1	2.3	1.7
Closing cash and cash equivalents		43.4	44.3	41.2

Notes to the Accounts

1 Basis of preparation

This interim financial information, which was approved by the Board of Directors on 6th December 2005, does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The financial information presented in this document is unaudited.

Financial information for the year ended 30 April 2005 and for the six months ended 31 October 2004, presented as comparative figures in this report, has been restated from UK GAAP in accordance with the Group's best knowledge of expected International Financial Reporting Standards ('IFRSs') (including International Accounting Standards ('IASs') and interpretations issued by the International Accounting Standards Board ('IASB') and its committees). These are subject to ongoing amendment by the IASB and subsequent endorsement by the European Commission and are therefore subject to possible change. Further changes may therefore be required to this information before it is published as comparative information in the Company's 2006 Annual Report and Accounts.

A comprehensive analysis and explanation of the adjustments made by the Company to its comparative consolidated financial statements on transition to IFRS from UK GAAP, as disclosed in the Company's statutory Annual Report and Accounts for 2005, was first published in an announcement made on 13 October 2005. A copy of this announcement can be found on the Company's website www.dssmith.uk.com/invest-report.asp and is obtainable from the Group Company Secretary at the Company's registered address.

The IFRS information for the year ended 30 April 2005 was derived by restatement of information extracted from the statutory financial statements prepared under UK GAAP. Those statutory financial statements were filed with the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain statements under section 237(2) or 237(3) of the UK Companies Act 1985. The restated IFRS financial information provided for the year ended 30 April 2005 does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. However, they are anticipated to form the comparative period for the statutory accounts for the year ending 30 April 2006, the Group's first Annual Report and Accounts to be prepared in accordance with IFRS.

The significant changes to accounting policies used in preparing this information that resulted from the adoption of IFRS are set out in note 2.

As allowed by IFRS 1, 'First-time Adoption of IFRSs', the Group adopted IAS 32, 'Financial Instruments: Disclosure and Presentation' and IAS 39, 'Financial Instruments: Recognition and Measurement', prospectively from 1 May 2005. As a result, the comparative financial statements exclude the effect of the adoption of these standards. Summary details of the effect of adopting these standards as at 1 May 2005 are included in the announcement on 13 October 2005 and are further shown in note 2 to these accounts.

2 Accounting policies: changes resulting from the adoption of IFRS

The most significant changes for the Group in its financial statements for 2005/06 following the adoption of IFRS are:

- changes in presentation and disclosure (IAS 1);
- a change to the segments presented for segmental reporting (IAS 14);
- the ending of goodwill amortisation (IFRS 3);
- the recognition of an expense for share-based payments (IFRS 2);
- the statement of the Group's share of the associates' results after interest and tax (IAS 1);
- the recognition of additional deferred tax liabilities on historical temporary differences, with a consequent effect in the income statement as any deferred tax raised will reverse when the underlying book to tax temporary differences are amortised (IAS 12);
- the recognition of dividends only after they have been declared (IAS 10); and
- the recognition of the fair values of derivative financial instruments (IAS 39) – see also below.

Items are presented as '**exceptional**' in the accounts where they are significant items of financial performance that the directors consider should be separately disclosed, to assist in the understanding of the underlying trading and financial results achieved by the Group.

The Group adopted IAS 32, 'Financial Instruments: Disclosure and Presentation', and IAS 39, 'Financial Instruments: Recognition and Measurement', from 1 May 2005. The effect of the adoption of IAS 39 on the Group's borrowings and shareholders' equity is shown in the table below:

	1 May 2005: (before IAS 39 adjustments) £m	Effect of adoption of IAS 39 £m	1 May 2005: (after IAS 39 adjustments) £m
Cash and cash equivalents	58.8	-	58.8
Overdrafts	(17.6)	-	(17.6)
Net cash	41.2	-	41.2
Interest-bearing loans and borrowings due after one year	(292.1)	16.2	(275.9)
Interest-bearing loans and borrowings due within one year	(6.9)	-	(6.9)
Finance leases	(2.9)	-	(2.9)
Derivative financial instruments			
- assets	-	2.1	2.1
- liabilities	-	(20.4)	(20.4)
Total net debt	(260.7)	(2.1)	(262.8)
Other assets and liabilities*	-	0.6	0.6
Net assets	519.8	(1.5)	518.3
Gearing (total net debt as a percentage of net assets)	50.2%		50.7%

* The effect of the adoption of IAS 39 on other assets and liabilities in the table above relates to deferred tax on derivative financial instruments' fair value and on changes in the fair value of borrowings.

The effect of the adoption of IAS 39 on net debt was an increase as at 1 May 2005 of £(2.1)m, on previous total net debt of £(260.7)m to result in net debt of £(262.8)m. This compares with the previous UK GAAP measure of £(260.4)m. The adoption of IAS 39 resulted in an increase in gearing of 0.5 percentage points to 50.7%; this compares with the previous UK GAAP measure of 53.1%, the decrease being largely the result of the higher level of net assets under IFRS.

3 Analysis of Group revenue, operating profit and capital employed (unaudited)

	Half year to 31 October 2005 £m	Half year to 31 October 2004 £m	Year to 30 April 2005 £m
Revenue			
UK Paper and Corrugated Packaging	331.1	312.7	631.2
Continental European Corrugated Packaging	135.3	131.5	265.7
Plastic Packaging	101.7	99.9	195.9
Office Products Wholesaling	248.1	240.0	499.7
Other	5.4	16.0	32.4
Group Total	821.6	800.1	1,624.9
By origin:			
United Kingdom	495.8	482.5	970.7
Rest of World	325.8	317.6	654.2
Group Total	821.6	800.1	1,624.9

3 Analysis of Group revenue, operating profit and capital employed (unaudited) (continued)

		Half year to 31 October 2005 £m	Half year to 31 October 2004 £m	Year to 30 April 2005 £m
Operating profit before exceptional items				
(see a) below)				
UK Paper and Corrugated Packaging		14.4	19.8	31.6
Continental European Corrugated Packaging		9.9	9.9	20.2
Plastic Packaging		2.0	6.2	9.3
Office Products Wholesaling		6.9	6.9	21.5
Other		-	(0.2)	-
Group Total		33.2	42.6	82.6
By origin:	United Kingdom	18.2	27.5	45.5
	Rest of World	15.0	15.1	37.1
Group Total		33.2	42.6	82.6
Capital employed (see b) below)				
UK Paper and Corrugated Packaging		498.6	520.7	508.3
Continental European Corrugated Packaging		156.0	143.7	149.6
Plastic Packaging		131.1	141.6	132.2
Office Products Wholesaling		134.8	119.9	126.2
Other		-	13.3	12.6
Group Total		920.5	939.2	928.9
By origin:	United Kingdom	621.0	643.6	631.5
	Rest of World	299.5	295.6	297.4
Group Total		920.5	939.2	928.9
Return on sales				
UK Paper and Corrugated Packaging		4.3%	6.3%	5.0%
Continental European Corrugated Packaging		7.3%	7.5%	7.6%
Plastic Packaging		2.0%	6.2%	4.7%
Office Products Wholesaling		2.8%	2.9%	4.3%
Other		-	(1.3)%	-
Group Total		4.0%	5.3%	5.1%
By origin:	United Kingdom	3.7%	5.7%	4.7%
	Rest of World	4.6%	4.8%	5.7%
Group Total		4.0%	5.3%	5.1%

3 Analysis of Group revenue, operating profit and capital employed (unaudited) (continued)

		Half year to 31 October 2005	Half year to 31 October 2004	Year to 30 April 2005
Return on average capital employed (see c) below)				
UK Paper and Corrugated Packaging				
		5.5%	7.5%	6.0%
Continental European Corrugated Packaging				
		12.5%	13.9%	13.7%
Plastic Packaging				
		3.0%	8.9%	6.6%
Office Products Wholesaling				
		11.2%	12.1%	18.1%
Other				
		-	(2.8)%	-
Group Total				
		7.1%	9.1%	8.7%
By origin:				
	United Kingdom	5.7%	8.6%	7.0%
	Rest of World	10.0%	10.1%	12.3%
Group Total				
		7.1%	9.1%	8.7%

a) Operating profit is stated before exceptional items. The exceptional items were: in the six months to 31 October 2005, a loss on the disposal of the office products manufacturing business (£1.9m); in the year to 30 April 2005, restructuring expenses in the UK Paper and Corrugated Packaging segment (£4.9m) and the impairment of goodwill in a business in the Plastic Packaging segment (£5.8m). There were no exceptional items in the six months to 31 October 2004.

b) Capital employed excludes net debt (see note 8), non-current investments, income tax balances, deferred tax balances and employee benefit liabilities.

c) Return on average capital employed for the half year is calculated as twice the operating profit before exceptional items divided by the average capital employed in the reporting period.

4 Taxation

Tax on profits has been charged at an effective rate, before exceptional items and share of profits of associates, of 31.1% (half year to 31 October 2004: 25.1%; year to 30 April 2005: 25.0%), being the expected full-year effective rate. The effective tax rate after exceptional items and the share of profits of associates was 34.3% (half year to 31 October 2004: 24.3%; year to 30 April 2005: 25.2%).

The tax charge on profit before exceptional items and share of profits of associates for the period of £8.8m (half year to 31 October 2004: £9.1m; year to 30 April 2005: £17.6m) consists of UK taxation of £3.1m (half year to 31 October 2004: £5.7m; year to 30 April 2005: £11.1m) and overseas taxation of £5.7m (half year to 31 October 2004: £3.4m; year to 30 April 2005: £6.5m).

5 Earnings per share

The basic earnings per share have been calculated on the profit for the period attributable to equity holders of the parent company of £18.4m (half year to 31 October 2004: £28.1m; year to 30 April 2005: £47.1m) and on 386.7m (half year to 31 October 2004: 385.2m; year to 30 April 2005: 385.3m) ordinary shares, being the weighted average in issue and fully paid during the period.

Diluted earnings per share are calculated assuming conversion of potentially dilutive shares issued under share option schemes and the Restricted Share Plan. These adjustments give rise to an increase in the weighted average of ordinary shares to 388.0m (half year to 31 October 2004: 388.2m; year to 30 April 2005: 387.3m).

6 Dividends

The following dividends were paid by the Group:

		£m
September 2004	Final dividend for the 2003/04 year of 5.6 pence per share	<u>21.6</u>
March 2005	Interim dividend for the 2004/05 year of 2.6 pence per share	<u>9.9</u>
September 2005	Final dividend for the 2004/05 year of 5.8 pence per share	<u>22.4</u>

The directors have announced an interim dividend for the 2005/06 year of 2.6 pence per share, totalling £10.1m.

7 Reconciliation of profit for the period to cash generated from operations (unaudited)

	Half year to 31 October 2005 £m	Half year to 31 October 2004 £m	Year to 30 April 2005 £m
Profit for the period	18.8	28.3	48.1
Exceptional items – non-cash amounts	1.9	-	7.1
Depreciation and amortisation	33.4	34.4	68.6
Profit on sale of non-current assets	(1.6)	(0.2)	(1.8)
Equity settled share-based payment expenses	0.4	0.4	1.1
Share of profit of associates (after tax)	(2.2)	(1.1)	(3.4)
Other finance income	(0.9)	(0.5)	(1.1)
Net interest expense	5.8	6.8	13.2
Income tax expense	9.8	9.1	16.2
Changes in working capital	8.8	(4.2)	(6.9)
Other non-cash operating items			
- changes in pensions	(2.6)	(1.8)	1.9
- changes in provisions	(1.7)	(1.0)	(3.3)
Cash generated from operations	69.9	70.2	139.7

8 Analysis of net debt (unaudited)

Net debt analysed in the table below comprises the book amount of cash, other investments in current assets (which are treated as cash equivalents), overdrafts, interest-bearing loans and borrowings together with the fair value of derivative financial instruments that hedge the Group's borrowings.

	At 1 May 2005*	Cash flow	Acquisition and disposals	Other non- cash	At 31 October 2005 £m
	£m	£m	£m	£m	£m
Cash and cash equivalents	58.8	(6.4)	0.8	1.2	54.4
Overdrafts	(17.6)	6.7	-	(0.1)	(11.0)
Net cash and cash equivalents	41.2	0.3	0.8	1.1	43.4
Interest-bearing loans and borrowings due after one year	(275.9)	(10.8)	(0.6)	(7.8)	(295.1)
Interest-bearing loans and borrowings due within one year	(6.9)	5.2	(1.9)	-	(3.6)
Finance leases	(2.9)	0.9	-	(0.3)	(2.3)
Derivative financial instruments					
- assets	2.1	-	-	(1.4)	0.7
- liabilities	(20.4)	-	-	6.6	(13.8)
	(304.0)	(4.7)	(2.5)	(2.9)	(314.1)
Total net debt	(262.8)	(4.4)	(1.7)	(1.8)	(270.7)

* after the adoption of IAS 39 – see note 2.

Other non-cash movements in the period relate to the effect of movements in foreign exchange and interest rates on borrowings and related derivative financial instruments.

Derivative financial instruments assets and liabilities relate to interest rate and cross currency swaps hedging the Group's borrowings. The difference between the amounts shown above and the total derivative financial instrument assets and liabilities in the Group's balance sheet relates to derivative financial instruments which hedge forecast foreign currency transactions and the Group's purchases of energy.

9 Reconciliation of movements in shareholders' equity (unaudited)

	Note	Half year to 31 October 2005 £m	Half year to 31 October 2004 £m	Year to 30 April 2005 £m
Opening shareholders' equity:				
As previously reported		511.5	494.4	494.4
Adjustments on adoption of IFRS from 1 May 2004		-	19.2	19.2
Adjustments on adoption of IAS 32 and IAS 39 from 1 May 2005	2	(1.5)	-	-
As restated		510.0	513.6	513.6
Profit for the financial period		18.4	28.1	47.1
Dividends		(22.4)	(21.7)	(31.6)
Retained (loss)/profit for the financial period		(4.0)	6.4	15.5
Actuarial (losses) recognised in the pension schemes		-	-	(31.2)
Movement on deferred tax relating to the actuarial losses		-	-	9.5
Currency translation differences in period		4.5	3.5	(0.3)
Changes in fair value of cash flow hedges, net of tax		(1.3)	-	-
New share capital issued		0.3	0.1	2.6
Share-based payments		0.4	0.5	3.7
Share trust arrangements		-	(2.1)	(1.9)
(Decrease)/increase in shareholders' equity		(0.1)	8.4	(2.1)
Closing shareholders' equity		509.9	522.0	511.5

10 Reconciliation of net cash flow to movement in net debt (unaudited)

	Note	Half year to 31 October 2005 £m	Half year to 31 October 2004 £m	Year to 30 April 2005 £m
Operating profit before exceptional items		33.2	42.6	82.6
Depreciation and amortisation		33.4	34.4	68.6
EBITDA		66.6	77.0	151.2
Working capital movement		8.8	(4.2)	(6.9)
Exceptional cash costs		-	-	(2.5)
Other		(5.5)	(2.6)	(2.1)
Cash generated from operations	7	69.9	70.2	139.7
Capital expenditure payments		(31.8)	(24.2)	(46.9)
Taxation		(8.9)	(13.0)	(23.7)
Interest		(6.0)	(6.5)	(13.3)
Free cash flow before net (acquisitions)/disposals and dividends		23.2	26.5	55.8
Dividends		(22.4)	(21.6)	(31.6)
Free cash flow before net (acquisitions)/disposals		0.8	4.9	24.2
Net (acquisitions)/disposals of subsidiaries		(5.5)	(10.5)	(11.7)
Net cash flow		(4.7)	(5.6)	12.5

10 Reconciliation of net cash flow to movement in net debt (unaudited) (continued)

		Half year to 31 October 2005 £m	Half year to 31 October 2004 £m	Year to 30 April 2005 £m
Net cash flow		(4.7)	(5.6)	12.5
Proceeds from issue of share capital		0.3	0.1	2.6
Net purchase of own shares		-	(2.3)	(2.1)
Net debt acquired/disposed of		(1.7)	-	-
Non-cash movements		(1.8)	(4.6)	1.7
Net debt movement		(7.9)	(12.4)	14.7
Opening net debt		(262.8)	(275.4)	(275.4)
Closing net debt	8	(270.7)	(287.8)	(260.7)