

6 December 2006

DS Smith Plc – 2006/07 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 2006.

Financial Summary

	H1 2006/07	H1 2005/06
Revenue	£868.5m	£821.6m
Adjusted operating profit ⁽¹⁾	£30.4m	£33.2m
Operating profit	£40.4m	£31.3m
Adjusted profit before tax ⁽¹⁾	£29.0m	£30.5m
Profit before tax	£39.0m	£28.6m
Adjusted earnings per share ⁽¹⁾	5.1p	5.5p
Basic earnings per share	8.5p	4.8p
Free cash flow before dividends, acquisitions and disposals ⁽²⁾	£18.5m	£23.2m
Gearing	44.0%	52.2%
Interim dividend per share	2.6p	2.6p

(1) before an exceptional profit of £10.0m (H1 2005/06: exceptional charge of £1.9m)

(2) including the £30.3m of proceeds from the sale of the Taplow site

Operational Highlights

- Paper and Corrugated Packaging:
 - Adjusted operating profit lower due to higher input costs, particularly energy
 - Corrugated case material (CCM) prices up; box prices increasing
 - UK businesses benefited from previous restructuring and cost reduction
 - Sale of the Taplow site and restructuring in UK Paper and Corrugated Packaging resulted in a £10.0m exceptional profit and a £27.4m net free cash flow benefit
- Plastic Packaging: better sales mix and underlying growth
- Office Products Wholesaling (Spicers):
 - UK: operating profit sharply lower; turnaround programme under way
 - Continental Europe: continued encouraging performance

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

“The Group’s result in the first half of 2006/07 was, as anticipated, affected by increases in input costs in Packaging and by lower profits in our UK Office Products Wholesaling business. The impact of these factors was partly mitigated by our drive to pass on the increased input costs through raising selling prices and the benefits of the strategic actions we have taken to exit unprofitable operations and reduce costs.

“The outlook for the Group for the second half of the financial year remains unchanged. The turnaround programme at Spicers UK is under way and we expect some initial benefits in the second half of the year with more coming through in 2007/08. In Paper and Corrugated Packaging, although input costs continue to be high, better pricing should result in an improving trend.”

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A briefing for analysts and investors will take place today at 9.30am at Financial Dynamics, Holborn Gate, 28 Southampton Buildings, London WC2A 1PB. The presentation slides from this briefing will be posted on the Group's website (www.dssmith.uk.com) at 9.30am and an audio recording of the briefing will be available on the website by approximately 1.00pm.

OVERVIEW

Group revenue for the half-year to 31 October 2006 increased to £868.5 million (H1 2005/06: £821.6 million) and adjusted operating profit (before exceptional items) was £30.4 million (H1 2005/06: £33.2million). Adjusted operating margin was 3.5% (H1 2005/06: 4.0%) while adjusted return on average capital employed was 6.7% (H1 2005/06: 7.1%).

Our ongoing restructuring actions resulted in a net exceptional profit of £10.0 million (H1 2005/06: an exceptional charge of £1.9 million). This comprised exceptional costs of £10.5 million, relating to restructuring in UK Paper and Corrugated Packaging, which were more than offset by an exceptional profit of £20.5 million resulting from the sale of the Taplow paper mill site.

Profit before tax and exceptional items was £29.0 million (H1 2005/06: £30.5 million) and earnings per share before exceptional items were 5.1 pence (H1 2005/06: 5.5pence). Profit before tax after exceptional items was £39.0 million (H1 2005/06: £28.6 million) and earnings per share after exceptional items were 8.5 pence (H1 2005/06: 4.8 pence).

Cash flow, before dividends, acquisitions and disposals was £18.5 million (H1 2005/06: £23.2 million). The £30.3 million cash flow benefit from the disposal of the Taplow site was partially offset by greater working capital requirements. Net debt was £238.6 million at the end of first half 2006/07 (end of 2005/06: £237.8 million) resulting in gearing of 44.0% (end of 2005/06: 43.9%).

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 6 March 2007 to ordinary shareholders on the register at the close of business on 2 February 2007.

GROUP INPUT COSTS

The Group's operating profit in the first half of 2006/07 was affected by a circa £17 million increase in underlying energy, net waste paper and polymer input costs, compared with the first half of 2005/06. Although market energy prices remain at high levels there has been some recent easing. In the second half of the financial year any benefit from the present

lower level of energy market prices will be largely offset by the effects of lagged price increases in the energy contracts for some of our operations. The net cost of waste paper, the principal raw material for our recycled CCM manufacturing operations, is likely to remain high due to continuing strong demand from Asia and a fall in the value of paper Packaging Recovery Notes.

OPERATING REVIEW

UK Paper and Corrugated Packaging

	Half-year ended 31 October 2006	Half-year ended 31 October 2005
Revenue	£342.6m	£331.1m
Adjusted operating profit	£13.5m	£14.4m
Adjusted operating margin	3.9%	4.3%
Adjusted return on average capital employed	5.5%	5.5%

The UK Paper and Corrugated Packaging segment, which is a net seller of paper, continued to be affected by rising input costs. Faced with an increase for the segment of circa £12 million in the costs of energy and waste paper, we mitigated a large proportion of this through reducing operating costs, partly as a result of our previous restructuring actions, and, increasingly, through raising selling prices.

The UK market for corrugated packaging (boxes), by weight, in the first nine months of calendar year 2006 was flat compared with the same period of 2005. This represented an improvement on recent years but the UK continued to lag well behind the 4% growth rate of Europe as a whole*.

Until late 2005, European over-capacity in CCM depressed selling prices and constrained any recovery of the sharp increase in energy costs. Following some strengthening of box demand and significant reductions in CCM capacity in the European market, we have increased prices. At the end of the first half of 2006/07, CCM prices were circa 35% higher than at the end of the first half of 2005/06 and in the same period we have achieved a circa 10% average price increase across our corrugated products. These price increases are enabling us to recover a substantial proportion of the margin erosion we experienced during the 2005 calendar year.

In addition to benefiting from the improving pricing environment, this segment's results are being assisted by growing our market share in higher added-value corrugated products and maintaining good sales of speciality paper products. Our programme to develop sales of plasterboard liner continued with extensive capital expenditure to upgrade existing machines at the Kemsley and Wansbrough Mills.

Taplow Mill made losses in 2005/06 as a result of the difficult market conditions and the substantial increases in energy costs. It was not considered to be an economic proposition over the longer-term, even under a more benign external environment, and was closed at the end of October 2006. The Taplow site was sold to a commercial property developer for a cash consideration of £30.3 million.

The previously announced closure of the smaller of the two paper machines (PM1) at Wansbrough Mill, which was planned to take place at the end of June, was reviewed

* Source: Federation of European Corrugated Board Manufacturers

following the closure in mid-June of another UK paper producer. In view of the consequent favourable change in the market environment for envelope and imitation kraft paper grades, products PM1 is highly suited to producing, it was decided to continue operating PM1 to satisfy the increased demand for these speciality grades.

Although input costs are likely to remain high, the segment's results in the second half of the year are expected to benefit from the higher pricing.

Continental European Corrugated Packaging

	Half-year ended 31 October 2006	Half-year ended 31 October 2005
Revenue	£151.4m	£135.3m
Operating profit	£8.6m	£9.9m
Operating margin	5.7%	7.3%
Return on average capital employed	10.4%	12.5%

Revenue in Continental European Corrugated Packaging advanced strongly, principally as a result of strong growth in sales volumes. This segment, which is a net buyer of paper, was affected by the higher costs of CCM which it was not able fully to recover through increased box prices in the first half of the year.

During the first nine months of 2006, the market for corrugated packaging in continental Europe grew by 5% by weight with growth in demand in continental western Europe of 4% while that in central and eastern Europe was 8%*. Box price increases were slower to take effect on the continent as the impact of energy cost increases on the supply chain occurred later and with less severity than in the UK. We achieved some modest box price increases in the spring of 2006 and followed this up with a further price increase programme in all our markets during the autumn of 2006. By the end of the first half of 2006/07, we have achieved a circa 8% average increase in corrugated prices across the whole of our continental European business compared with the end of the first half of 2005/06. This still represents an under-recovery relative to the increase in our input costs.

In France, our paper business maintained good growth, assisted by the development of speciality products. The French Corrugated Packaging operations achieved good volume growth, but were unable to pass on the rise in CCM costs in full during the first half of the year. The Italian, Polish and Turkish businesses grew sales particularly strongly, which enabled them largely to offset the effects of higher bought-in paper costs. Our associate business in the Ukraine continued to perform well and is investing further to meet demand and to broaden its product range.

The principal goal in this segment for the second half of the year is to raise box prices further in order to recover more fully the increased CCM costs that it will have incurred.

* Source: Federation of European Corrugated Board Manufacturers

Plastic Packaging

	Half-year ended 31 October 2006	Half-year ended 31 October 2005
Revenue	£103.7m	£101.7m
Operating profit	£5.1m	£2.0m
Operating margin	4.9%	2.0%
Return on average capital employed	8.2%	3.0%

Plastic Packaging continued its improving profit trend with a significant advance in operating profit compared with the difficult trading experienced in the first half of 2005/06. Although there was a further £3 million increase in polymer costs in the half-year, this was recovered through higher selling prices and a better sales mix. The result also benefited from an 11% underlying advance in revenue, excluding BSK, which was sold in December 2005.

Within returnable transit packaging, beverage crate sales were particularly strong during the first quarter of the financial year due to the fulfilment of a number of large contracts; sales slowed in the second quarter as these contracts came to an end – these are likely to remain at a lower level during the third quarter before picking up again later in the year. The extruded product businesses continued to benefit from our actions to strengthen the sales function and improve the sales mix. However, margins remain under pressure from the sustained high polymer costs which we have only partially recovered in higher product prices over the last two years.

The liquid packaging and dispensing sector benefited from a higher-margin sales mix, sales growth as a result of its strengthened product range, and improved operating performance following the restructuring undertaken during 2005/06.

We will continue to push for further sales growth and mix improvement in this segment, notwithstanding the project-related uneven nature of the demand for certain of its products.

Office Products Wholesaling

	Half-year ended 31 October 2006	Half-year ended 31 October 2005
Revenue	£270.8m	£248.1m
Operating profit	£3.2m	£6.9m
Operating margin	1.2%	2.8%
Return on average capital employed	4.9%	11.2%

Spicers' revenue increased strongly, largely as a result of a full six months' contribution from Timmermans, the Benelux business acquired in October 2005. Operating profit was sharply lower due to the decline in the profitability of the UK business. Spicers' continental European businesses continued their encouraging performance.

Revenue in the UK increased slightly but profit was significantly affected by stronger competition and higher operating costs. A turnaround programme is under way in Spicers UK, aimed at raising operating performance and rebuilding profits; the UK management team has been strengthened and extensive action has been taken to improve the sales mix on the back of raised service levels. There is an ongoing programme of cost reduction. We expect to see some initial benefits from the turnaround programme in the second half of the financial year and we are confident that our actions will lead to a re-building of profits as the programme gathers momentum through next year.

On the continent, the French business achieved good sales and profit progress while the Benelux business, acquired in 2005, continued to perform satisfactorily. The Spanish business exceeded its planned sales growth and opened its new distribution centre near to Madrid in October. Spicers Italy, which is now in its second year of development, continued to build sales rapidly.

In the seasonally stronger second half of the year, we expect Spicers' results to reflect some initial benefits of the ongoing UK turnaround programme as well as the continued development of the continental businesses.

BOARD CHANGES

As announced previously, Antony Hichens will retire from the Board at the end of 2006 and Peter Johnson will become Chairman with effect from 1 January 2007. Also as previously announced, Jean-Paul Loison stepped down from the Board at the end of September 2006 on his retirement. On 6 September 2006, Philippe Mellier was appointed as a non-Executive Director. Philippe, aged 51, is currently President of Alstom Transport and an Executive Vice-President of Alstom Group. Previously he was Chairman and CEO of Renault Trucks and a Member of the Executive Committee of AB Volvo.

EXTERNAL AUDITOR

Following a recent tender process, in accordance with good corporate governance practice, the Board appointed Deloitte & Touche LLP as its external auditor with effect from 20 October 2006. Accordingly, Deloitte & Touche will conduct the audit of the Group's accounts for the financial year ending 30 April 2007 and a resolution to appoint Deloitte & Touche as the Group's auditor will be put to shareholders at the 2007 Annual General Meeting.

OUTLOOK

The outlook for the Group for the second half of the financial year remains unchanged. The turnaround programme at Spicers UK is under way and we expect some initial benefits in the second half of the year with more coming through in 2007/08. In Paper and Corrugated Packaging, although input costs continue to be high, better pricing should result in an improving trend.

Consolidated Income Statement (unaudited)

	Note	Half-year ended 31 October 2006 £m	Half-year ended 31 October 2005 £m	Year ended 30 April 2006 £m
Revenue	2	868.5	821.6	1,652.7
Operating profit				
Before exceptional items	2	30.4	33.2	60.4
Exceptional items	3	10.0	(1.9)	(42.4)
Operating profit		40.4	31.3	18.0
Finance income		2.3	1.1	2.3
Finance costs		(9.4)	(6.9)	(14.6)
Employment benefit finance income		3.8	0.9	1.2
Net financing costs		(3.3)	(4.9)	(11.1)
Profit after financing costs		37.1	26.4	6.9
Share of profit of associates		1.9	2.2	4.1
Profit before income tax				
Before exceptional items		29.0	30.5	53.4
Exceptional items		10.0	(1.9)	(42.4)
Profit before income tax		39.0	28.6	11.0
Income tax (expense)/credit				
On profit before exceptional items		(8.7)	(8.8)	(13.4)
On exceptional items		3.2	(1.0)	7.7
Income tax (expense)	4	(5.5)	(9.8)	(5.7)
Profit for the financial period		33.5	18.8	5.3
Profit for the financial period attributable to:				
DS Smith Plc equity shareholders		33.0	18.4	4.2
Minority interest		0.5	0.4	1.1
		33.5	18.8	5.3
Earnings per share - pence:	5			
Adjusted for exceptional items		5.1p	5.5p	10.0p
Basic		8.5p	4.8p	1.1p
Diluted		8.5p	4.7p	1.1p
Proposed/actual dividends per share	6	Interim 2.6p	Interim 2.6p	Total 8.4p

Consolidated Statement of Recognised Income and Expense (unaudited)

	Half-year ended 31 October 2006 £m	Half-year ended 31 October 2005 £m	Year ended 30 April 2006 £m
Actuarial gains on defined benefit pension schemes	-	-	54.4
Movements on deferred tax relating to the actuarial gains	-	-	(16.5)
Currency translation differences, after tax of £(2.3)m (half-year to 31 October 2005: tax of £0.3m; year to 30 April 2006: tax of £1.8m)	(10.8)	4.5	9.7
Changes in the fair value of cash flow hedges, after tax of £0.2m (half-year to 31 October 2005: tax of £0.5m; year to 30 April 2006: tax of £0.1m)	(0.4)	(1.3)	0.2
Net (expense)/income recognised directly in equity	(11.2)	3.2	47.8
Profit for the financial period	33.5	18.8	5.3
Total recognised income and expense attributable to the equity shareholders and minority interest relating to the financial period	22.3	22.0	53.1
Changes in accounting policy – adoption of IAS 39, from 1 May 2005, after tax of £0.6m	-	(1.5)	(1.5)
Total recognised income and expense since the last financial statements	22.3	20.5	51.6
Total recognised income and expense relating to the financial period attributable to:			
DS Smith Plc equity shareholders	21.8	20.1	50.5
Minority interest	0.5	0.4	1.1

Consolidated Balance Sheet (unaudited)

	Note	As at 31 October 2006 £m	As at 31 October 2005 £m	As at 30 April 2006 £m
Assets				
Non-current assets				
Intangible assets		194.3	196.7	195.4
Property, plant and equipment		510.5	558.7	536.1
Investments in associates		28.6	27.4	29.2
Other investments		0.5	9.6	0.5
Deferred tax assets		21.9	38.5	24.0
Other receivables		1.4	3.5	2.5
Derivative financial instruments		0.8	0.9	1.4
Total non-current assets		758.0	835.3	789.1
Current assets				
Inventories		154.9	156.5	163.3
Other investments		0.1	-	0.1
Income tax receivable		4.8	-	4.8
Trade and other receivables		376.8	361.1	347.2
Cash and cash equivalents		51.2	54.4	60.4
Derivative financial instruments		1.4	1.1	3.7
Total current assets		589.2	573.1	579.5
Total assets		1,347.2	1,408.4	1,368.6
Liabilities				
Non-current liabilities				
Interest-bearing loans and borrowings		(252.0)	(297.1)	(264.9)
Post-retirement benefits		(42.8)	(108.2)	(50.3)
Other creditors		(2.9)	(1.9)	(3.6)
Provisions		(2.6)	(9.2)	(2.8)
Deferred tax liabilities		(76.5)	(82.8)	(76.3)
Derivative financial instruments		(23.1)	(13.8)	(25.0)
Total non-current liabilities		(399.9)	(513.0)	(422.9)
Current liabilities				
Bank overdrafts		(10.0)	(11.0)	(1.5)
Interest-bearing loans and borrowings		(6.0)	(3.9)	(7.7)
Trade and other payables		(356.7)	(338.6)	(355.3)
Income tax liabilities		(19.7)	(22.3)	(21.0)
Provisions		(13.0)	(0.2)	(16.7)
Derivative financial instruments		(0.2)	(0.7)	(2.0)
Total current liabilities		(405.6)	(376.7)	(404.2)
Total liabilities		(805.5)	(889.7)	(827.1)
Net assets		541.7	518.7	541.5
Equity				
Issued capital		39.1	38.9	39.1
Share premium		259.4	257.3	259.4
Reserves		233.3	213.7	233.6
DS Smith Plc shareholders' equity	9	531.8	509.9	532.1
Minority interest		9.9	8.8	9.4
Total equity		541.7	518.7	541.5
Gearing:				
Net debt expressed as a percentage of total equity		44.0%	52.2%	43.9%

Consolidated Cash Flow Statement (unaudited)

	Note	Half-year ended 31 October 2006 £m	Half-year ended 31 October 2005 £m	Year ended 30 April 2006 £m
Operating Activities				
Cash generated from operations	7	26.8	69.9	138.2
Interest received		0.2	0.4	0.8
Interest paid		(6.9)	(6.4)	(12.8)
Income tax paid		(6.3)	(8.9)	(13.5)
Net cash from operating activities		13.8	55.0	112.7
Investing Activities				
Acquisition of subsidiary businesses, net of cash and cash equivalents acquired		-	(10.3)	(10.5)
Divestment of subsidiary businesses, net of cash and cash equivalents disposed of		1.4	5.6	11.0
Capital expenditure		(31.2)	(35.3)	(62.7)
Proceeds from the sale of assets		35.9	1.9	9.7
Proceeds from the sale of associate and other non-current investments		-	1.6	3.5
Cash flows from investing activities		6.1	(36.5)	(49.0)
Financing Activities				
Proceeds from issue of share capital		-	0.3	2.6
(Repayment of)/increase in borrowings		(10.9)	5.6	(17.2)
(Repayment of) finance lease obligations		(2.1)	(0.9)	(0.9)
Dividends paid		(22.5)	(22.4)	(32.6)
Cash flows from financing activities		(35.5)	(17.4)	(48.1)
Net (decrease)/ increase in cash and cash equivalents		(15.6)	1.1	15.6
Cash and cash equivalents at 1 May		58.9	41.2	41.2
Exchange (losses)/gains on cash and cash equivalents		(2.1)	1.1	2.1
Closing cash and cash equivalents		41.2	43.4	58.9

Notes to the Accounts

1 Basis of preparation

This interim financial information, which was approved by the Board of Directors on 5 December 2006, 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. The interim financial information has been prepared using the same accounting policies as those adopted in the financial statements for the year-ended 30 April 2006. Those accounts were 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 revenue, operating profit and capital employed (unaudited)

	Half-year ended 31 October 2006 £m	Half-year ended 31 October 2005 £m	Year ended 30 April 2006 £m
Revenue			
UK Paper and Corrugated Packaging	342.6	331.1	649.6
Continental European Corrugated Packaging	151.4	135.3	276.6
Plastic Packaging	103.7	101.7	202.4
Office Products Wholesaling	270.8	248.1	518.7
Other	-	5.4	5.4
Group total	868.5	821.6	1,652.7
Adjusted operating profit ¹			
UK Paper and Corrugated Packaging	13.5	14.4	20.5
Continental European Corrugated Packaging	8.6	9.9	20.1
Plastic Packaging	5.1	2.0	7.2
Office Products Wholesaling	3.2	6.9	12.6
Group total	30.4	33.2	60.4
Period-end capital employed ²			
UK Paper and Corrugated Packaging	467.3	498.6	471.4
Continental European Corrugated Packaging	160.8	156.0	162.0
Plastic Packaging	115.9	131.1	109.9
Office Products Wholesaling	122.0	134.8	122.8
Group total	866.0	920.5	866.1
Adjusted return on sales - % ¹			
UK Paper and Corrugated Packaging	3.9%	4.3%	3.2%
Continental European Corrugated Packaging	5.7%	7.3%	7.3%
Plastic Packaging	4.9%	2.0%	3.6%
Office Products Wholesaling	1.2%	2.8%	2.4%
Group total	3.5%	4.0%	3.7%
Adjusted return on average capital employed - % ^{1, 3}			
UK Paper and Corrugated Packaging	5.5%	5.5%	4.0%
Continental European Corrugated Packaging	10.4%	12.5%	12.4%
Plastic Packaging	8.2%	3.0%	5.6%
Office Products Wholesaling	4.9%	11.2%	9.9%
Group total	6.7%	7.1%	6.5%

¹ before exceptional items, as described in note 3

² capital employed is defined below

³ average capital employed is defined below

The Group's primary format for segment reporting is business segments based on the Group's management and internal reporting structure. The secondary format is geographical segments showing the geographical origin of the Group's revenue and adjusted operating profit. The Group operates in two principal geographical areas: the UK and Western continental Europe. Two further segments are identified: Eastern continental Europe and the Rest of the World.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Central administration costs are allocated to the individual segments on a consistent basis year-on-year. Assets and liabilities have been analysed by segment at a capital employed level. Capital employed excludes items of a financing nature, taxation balances, pension liabilities and fixed asset investments; segmental capital employed comprises identifiable segment assets less segmental liabilities. Average capital employed is the average monthly capital employed. The adjusted return on average capital employed is calculated as twice the operating profit before exceptional items divided by the average capital employed in the reporting period.

Secondary reporting format – geographical segments

	Half-year ended 31 October 2006 £m	Half-year ended 31 October 2005 £m	Year ended 30 April 2006 £m
Revenue			
UK	492.8	491.7	957.6
Western continental Europe	311.5	268.4	570.5
Eastern continental Europe	39.0	36.0	74.5
Rest of the World	25.2	25.5	50.1
Total	868.5	821.6	1,652.7
Operating profit			
UK	9.9	15.3	18.4
Western continental Europe	15.6	12.1	33.1
Eastern continental Europe	3.3	3.1	5.5
Rest of the World	1.6	2.7	3.4
Total	30.4	33.2	60.4

3 Exceptional items

Items are presented as 'exceptional' 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 underlying trading and financial results achieved by the Group.

	Half-year ended 31 October 2006 £m	Half-year ended 31 October 2005 £m	Year ended 30 April 2006 £m
Gain on sale of Taplow Mill	20.5	-	-
UK Paper and Corrugated Packaging segment restructuring costs	(10.5)	-	(28.9)
Loss on disposal of business	-	(1.9)	(4.3)
Impairment charges	-	-	(9.2)
Total exceptional items	10.0	(1.9)	(42.4)

The exceptional profit of £20.5m resulted from the sale of the Taplow site, in the UK Paper and Corrugated Packaging segment, for £30.3m.

The UK Paper and Corrugated Packaging restructuring costs in the half-year to 30 October 2006 of £10.5m relate to the closure of paper-making operations at Taplow Mill and related restructuring.

The UK Paper and Corrugated Packaging restructuring costs in the full-year to 30 April 2006 related to the closure of paper-making operations at Sudbrook Mill (£20.3m), the planned closure of a paper machine at Wansbrough Mill (£5.0m), and other restructuring costs (£3.6m).

The loss on disposal of businesses arose on the disposal of the Office Products Manufacturing business (loss of £1.9m recognised at the half-year to 30 October 2005; final loss of £1.7m recognised in the full-year to 30 April 2006) and a business in the Plastic Packaging segment (loss of £2.6m).

The impairment charge in 2005/06 relates to an investment in the debt securities of an independent UK packaging business, the performance of which had been affected by difficult trading conditions and the high costs of energy.

4 Taxation

Tax on profits has been charged at an effective rate, before exceptional items and share of profits of associates, of 32.1% (half-year to 31 October 2005: 31.1%; year to 30 April 2006: 27.2%), being the expected full-year effective rate.

The tax charge on profit before exceptional items and share of profits of associates for the period of £8.7m (half-year to 31 October 2005: £8.8m; year to 30 April 2006: £13.4m) consists of UK taxation of £2.0m (half-year to 31 October 2005: £3.1m; year to 30 April 2006: £2.3m) and overseas taxation of £6.7m (half-year to 31 October 2005: £5.7m; year to 30 April 2006: £11.1m).

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 £33.0m (half-year to 31 October 2005: £18.4m; year to 30 April 2006: £4.2m) and on 388.7m ordinary shares (half-year to 31 October 2005: 386.7m; year to 30 April 2006: 387.2m), being the weighted average number in issue and fully paid during the period.

Diluted earnings per share are calculated assuming the 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 number of ordinary shares to 390.2m (half-year to 31 October 2005: 388.0m; year to 30 April 2006: 388.8m).

Adjusted earnings per share

The Directors believe that the presentation of an adjusted earnings per share amount, being the basic earnings per share adjusted for exceptional items, helps to explain the underlying performance of the Group. A reconciliation of basic to adjusted earnings per share is as follows:

	Half-year ended 31 October 2006		Half-year ended 31 October 2005		Year ended 30 April 2006	
	£m	Pence per share	£m	Pence per share	£m	Pence per share
Basic earnings	33.0	8.5	18.4	4.8	4.2	1.1
(Deduct)/add back: exceptional (gains)/losses, after tax	(13.2)	(3.4)	2.9	0.7	34.7	8.9
Adjusted earnings	19.8	5.1	21.3	5.5	38.9	10.0

6 Dividends

The following dividends were paid by the Group:

		£m
September 2005	Final dividend for the 2004/05 year of 5.8 pence per share	22.4
March 2006	Interim dividend for the 2005/06 year of 2.6 pence per share	10.1
September 2006	Final dividend for the 2005/06 year of 5.8 pence per share	22.5

The Directors have announced an interim dividend for the 2006/07 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 ended 31 October 2006 £m	Half-year ended 31 October 2005 £m	Year ended 30 April 2006 £m
Profit for the period	33.5	18.8	5.3
Adjustments for:			
- Exceptional items – non-cash amounts	(12.7)	1.9	37.8
- Depreciation and amortisation	31.2	33.4	67.2
- Profit on sale of non-current assets	(2.5)	(1.6)	(7.1)
- Share-based payments	0.4	0.4	0.1
- Share of profit of associates	(1.9)	(2.2)	(4.1)
- Other finance income	(3.8)	(0.9)	(1.2)
- Interest income	(2.3)	(1.1)	(2.3)
- Interest expense	9.4	6.9	14.6
- Income tax expense	5.5	9.8	5.7
	56.8	65.4	116.0
Changes in:			
- inventories	2.7	(10.5)	(4.2)
- trade and other receivables	(41.7)	14.0	13.1
- trade and other payables	14.4	5.3	18.5
- provisions and employee benefits	(5.4)	(4.3)	(5.2)
Cash generated from operations	26.8	69.9	138.2

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 2006 £m	Cash flow £m	Acquisition and disposals £m	Other non- cash £m	At 31 October 2006 £m
Cash and cash equivalents	60.4	(6.9)	-	(2.3)	51.2
Overdrafts	(1.5)	(8.7)	-	0.2	(10.0)
Net cash and cash equivalents	58.9	(15.6)	-	(2.1)	41.2
Interest-bearing loans and borrowings due after one year	(264.9)	11.0	-	6.8	(247.1)
Interest-bearing loans and borrowings due within one year	(5.7)	(0.1)	-	0.1	(5.7)
Finance leases	(2.0)	2.1	-	(5.3)	(5.2)
Derivative financial instruments					
- assets	0.8	-	-	-	0.8
- liabilities	(24.9)	-	-	2.3	(22.6)
	(296.7)	13.0	-	3.9	(279.8)
Total net debt	(237.8)	(2.6)	-	1.8	(238.6)

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, and the entering into of finance leases.

Derivative financial instrument amounts in the table above 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 that hedge forecast foreign currency transactions and the Group's purchases of energy.

9 Reconciliation of movements in shareholders' equity (unaudited)

	Half-year ended 31 October 2006 £m	Half-year ended 31 October 2005 £m	Year ended 30 April 2006 £m
Opening shareholders' equity:			
As previously reported	532.1	511.5	511.5
Effect of adoption of IAS 39 as at 1 May 2005	-	(1.5)	(1.5)
As restated	532.1	510.0	510.0
Profit for the period	33.0	18.4	4.2
Actuarial gains recognised in the pension schemes	-	-	54.4
Movement on deferred tax relating to the actuarial gains	-	-	(16.5)
Currency translation differences (after tax)	(10.8)	4.5	9.7
Changes in the fair value of cash flow hedges (after tax)	(0.4)	(1.3)	0.2
New share capital issued	-	0.3	2.6
Share-based payments	0.4	0.4	0.1
Dividends paid to shareholders	(22.5)	(22.4)	(32.6)
Closing shareholders' equity	531.8	509.9	532.1

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

	Half-year ended 31 October 2006 £m	Half-year ended 31 October 2005 £m	Year ended 30 April 2006 £m
Note			
Operating profit before exceptional items	30.4	33.2	60.4
Depreciation and amortisation	31.2	33.4	67.2
EBITDA	61.6	66.6	127.6
Working capital movement	(24.6)	8.8	27.4
Exceptional restructuring cash costs	(2.7)	-	(4.6)
Other	(7.5)	(5.5)	(12.2)
Cash generated from operations	26.8	69.9	138.2
Capital expenditure	(31.2)	(35.3)	(62.7)
Proceeds from sales of assets and investments	35.9	3.5	13.2
Taxation paid	(6.3)	(8.9)	(13.5)
Interest paid	(6.7)	(6.0)	(12.0)
Free cash flow before net (acquisitions)/disposals and dividends	18.5	23.2	63.2
Dividends	(22.5)	(22.4)	(32.6)
Net disposals/(acquisitions) of subsidiaries	1.4	(4.7)	0.5
Net cash flow	(2.6)	(3.9)	31.1
Proceeds from the issue of share capital	-	0.3	2.6
Net debt acquired	-	(2.5)	(2.6)
Non-cash movements	1.8	(1.8)	(6.1)
Net debt (increase)/decrease	(0.8)	(7.9)	25.0
Opening net debt	(237.8)	(262.8)	(262.8)
Closing net debt	(238.6)	(270.7)	(237.8)