



DS Smith Plc – 2007/08 Interim Results

DS Smith Plc, the international packaging manufacturer and office products wholesaler, announces its results for the six months to 31 October 2007.

Financial Summary

	H1 2007/08	H1 2006/07
Revenue	£942.7m	£868.5m
Adjusted operating profit ⁽¹⁾	£60.4m	£30.4m
Operating profit	£60.4m	£40.4m
Adjusted profit before tax ⁽¹⁾	£56.1m	£29.0m
Profit before tax	£56.1m	£39.0m
Adjusted earnings per share ⁽¹⁾	10.4p	5.1p
Basic earnings per share	10.4p	8.5p
Free cash flow before dividends, acquisitions and disposals ⁽²⁾	£18.5m	£18.5m
Interim dividend per share	2.6p	2.6p

(1) H1 2006/07: before an exceptional profit of £10.0m

(2) H1 2006/07: included £29.6m of proceeds from the sale of the Taplow site

Highlights

- Like-for-like revenue up 10%, primarily reflecting input cost recovery through price increases
- UK Paper and Corrugated Packaging operating profit substantially up
- Office Products Wholesaling – Spicers – good progress in rebuilding profits
- Return on average capital employed 13.6%

Chairman, Peter Johnson said:

“This is a strong set of first half results which maintained the momentum of the second half of last financial year. The higher profits reflect the management’s actions to lower costs, improve the sales mix and recover the higher input costs through better pricing.”

Group Chief Executive, Tony Thorne said:

“The outcome for the year will be principally influenced by how well demand holds up, the extent to which we recover recent input cost rises and our success in further rebuilding profits at Spicers UK. The Board remains confident that the Group will make substantial progress this financial year.”

Enquiries

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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. This briefing may be heard live by dialling in on: +44 (0)1452 562815 (call reference: 24805574). The presentation slides from this briefing will be posted on the Group's website (www.dssmith.uk.com) at 9.30am. A replay of the briefing will be available by telephone for five days, from 30 minutes after the meeting has ended, on: +44 (0)1452 550000 (call reference: 24805574#) and an audio recording of the briefing will be available on the Group's website by approximately 1.00pm.

OVERVIEW

Group revenue for the half-year to 31 October 2007 increased by 8.5% to £942.7 million (H1 2006/07: £868.5 million). On a like-for-like basis, excluding the two paper mills which were closed during 2006 and adjusting for foreign exchange effects, revenue increased by 9.6%. Operating profit was sharply higher at £60.4 million (H1 2006/07 adjusted operating profit: £30.4million). There were no exceptional items in the result for the first half of 2007/08 whereas in the first half of 2006/07 there was a net exceptional profit of £10.0 million, which included the exceptional profit that resulted from the sale of the Taplow paper mill site.

Operating margin increased to 6.4% (H1 2006/07 adjusted operating margin: 3.5%) and return on average capital employed (ROACE) advanced to 13.6% (H1 2006/07 adjusted ROACE: 6.7%).

Net interest expense increased to £10.6 million (H1 2006/07: £7.1 million), principally due to a charge from an increase in the fair value of put options (in accordance with IAS 32 / 39), held by minority, non-controlling shareholders in a subsidiary of the Group.

Profit before tax was £56.1 million (H1 2006/07 before exceptional items: £29.0 million; H1 2006/07 after exceptional items: £39.0 million) and earnings per share were 10.4 pence (H1 2006/07 before exceptional items: 5.1 pence; H1 2006/07 after exceptional items: 8.5 pence).

Tax on profits has been charged at an underlying rate, before the share of profits of associates, of 32.1% (H1 2006/07: 32.1%), being the expected full-year underlying rate. The tax charge for the current period has been reduced by a release of £2.4 million of the deferred tax provision following the reduction in the UK rate of corporation tax from 30% to 28% with effect from 1 April 2008. Including this release, the effective rate of tax before the share of profits of associates, for the current period, is 27.8%.

Cash flow, before dividends, acquisitions and disposals was £18.5 million (H1 2006/07: £18.5 million, which included the £29.6 million cash flow benefit from the disposal of the Taplow site). Net debt was £188.5 million at the end of first half 2007/08 (end of 2006/07: £181.2 million) resulting in gearing of 31.7% (end of 2006/07: 32.0%).

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 4 March 2008 to ordinary shareholders on the register at the close of business on 1 February 2008.

OPERATING REVIEW

UK Paper and Corrugated Packaging

	Half-year ended 31 October 2007	Half-year ended 31 October 2006
Revenue	£367.1m	£342.6m
Adjusted operating profit	£39.9m	£13.5m
Adjusted return on sales	10.9%	3.9%
Adjusted return on average capital employed	17.2%	5.5%

The substantial advance in adjusted operating profit in UK Paper and Corrugated Packaging reflected the benefits of the price increases achieved to recover higher input costs and the previous actions taken to strengthen further the Group's UK market positions in waste paper collection, recycled paper and corrugated packaging (boxes).

In the first nine months of calendar year 2007, the UK market for corrugated packaging was broadly flat compared with the same period of 2006*; overall sales were affected by softer consumer demand during the summer, particularly for seasonal products such as beverages. The UK market remains in the forefront of the trend towards the greater use of lighter-weight boxes for cost and environmental reasons. Within the total market, demand for retail-ready packaging (RRP) continued to grow strongly; RRP boxes, which can be readily converted into a box or tray that can be placed directly on display on the shelf in the retail store, require a greater design and production capability.

The better pricing environment in both CCM and boxes, throughout 2007, has been underpinned by the balanced supply and demand position for recycled corrugated case material (CCM) across Europe. No significant CCM capacity additions are expected in western Europe during 2008. Several European CCM producers have announced their intentions to invest in new capacity some of which is expected to come on stream from late 2009; the additional capacity announced to date should broadly be absorbed by current levels of market growth. Input costs of energy and waste paper, the principal raw material for recycled CCM, have both risen from already high levels; the price of waste paper in the UK has increased by circa 30% since the start of 2007 as a result of the continued strong demand for it from Asia.

Our waste collection business, Severnside Recycling, grew on the back of increased demand for recycling services and government action to reduce the amount of waste going to landfill. In addition to its primary role of securing the required quantities of fibre for our UK paper mills, we are looking to develop its value-added waste management services. Severnside works closely with DS Smith Packaging, our UK box business, in marketing our cradle-to-cradle environmental capability which encompasses: the Group's expertise in designing packaging that will minimise waste throughout the supply chain; the environmental benefits of the recyclability of corrugated packaging; and Severnside's capability for managing customers' entire waste recycling and disposal needs.

St Regis, our UK paper business, increased the sales volume from its ongoing mills and maintained its focus on higher added-value products. It raised its margin as a result of the improved recovery of its higher input costs, the benefits of the restructuring carried out in 2006 and our investment programme to upgrade existing machines at Kemsley and Wansbrough Mills. In September 2007, it implemented a further increase in CCM prices in order to recover the most recent rise in waste paper costs.

* Source: Federation of European Corrugated Board Manufacturers; volume in million square metres

DS Smith Packaging grew its sales further in higher added-value, converted products, in particular the rapidly-growing RRP sector of the market. Sales volumes in sheet feeding were lower as a result of our emphasis on recovering the higher CCM costs. The ongoing programme to raise prices across all our corrugated products has broadly recovered the higher raw material costs incurred prior to the most recent increases.

As we start the second half of the financial year, box margins have again been lowered significantly by further input cost increases. We are now raising box prices to recover these most recent cost increases; this process will continue into the first half of next financial year. The second half performance in this segment will be influenced by the extent of the cost recovery, the level of energy costs in the winter season and the degree to which box demand may be affected by any economic slow-down, especially in the retail sector.

Continental European Corrugated Packaging

	Half-year ended 31 October 2007	Half-year ended 31 October 2006
Revenue	£165.0m	£151.4m
Operating profit	£8.0m	£8.6m
Return on sales	4.8%	5.7%
Return on average capital employed	9.1%	10.4%

Margins in the Continental European Corrugated Packaging segment, which is a net buyer of paper, were adversely 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.

Market growth in corrugated packaging has continued to be generally satisfactory across continental Europe but it has been lower than in 2006, being primarily affected by slower demand from the beverage and other seasonal product sectors in August and September. In the first nine months of the 2007 calendar year, market growth for continental Europe as a whole was 4% with eastern Europe performing well above this average*.

CCM costs rose significantly in all continental markets and our box businesses maintained their price increase programmes to recover the higher input costs. We are making good progress on raising box prices but were not able to recover all our increased input costs during the first half of the year. We expect to have recovered a large proportion of the CCM cost increases incurred to date as we enter financial year 2008/09.

The French corrugated packaging operations were affected by the general slow-down in their market during the summer and early autumn; the effect of this on profit was partly mitigated by improved productivity. Our Polish business, which we have developed through substantial recent investment, grew its sales volume strongly and gained market share; its profits were additionally boosted by its concentration on higher added-value sectors of the market. In Italy, we grew revenue well but our Turkish business experienced weaker sales due principally to the effect of the strengthening of the Turkish Lira on the export business of our customers in the brown and white goods sectors. Our associate business in the Ukraine continued its good performance; the major investment project to increase its capacity and broaden its product range is well underway and a financing package for this has been established.

The principal goal in this segment for the second half of the year is to recover the recently incurred increase in CCM costs through our continuing drive to raise prices.

* Source: Federation of European Corrugated Board Manufacturers; volume in million square metres

Plastic Packaging

	Half-year ended 31 October 2007	Half-year ended 31 October 2006
Revenue	£109.6m	£103.7m
Operating profit	£5.7m	£5.1m
Return on sales	5.2%	4.9%
Return on average capital employed	9.2%	8.2%

Profits in Plastic Packaging were ahead of those of last year despite margins remaining under pressure as a result of further rises in polymer costs; our programme to recover these additional input costs through price increases is continuing.

Revenue and profit advanced well in returnable transit packaging (RTP) despite lower sales volume in beverage crates during the period. We grew RTP sales strongly in central Europe and the construction of the new extrusion facility in Slovakia progressed well. The result in liquid packaging and dispensing (LP&D) was adversely affected by competitive pressure on tap prices in the USA and lower wine bag sales in Europe. We continue to place considerable emphasis on new product development to counter the competitive pressure. The consultation with employees on the proposed restructuring of our LP&D operations in Germany is continuing.

The packaging management business benefited from our recent investment and previous restructuring actions while the modified atmosphere packaging business continued to grow sales strongly.

Our priorities for the second half of the year in this segment are to recover the higher polymer costs through price increases, to complete the restructuring of our European liquid packaging and dispensing business and to make further progress on enhancing the segment's sales mix.

Office Products Wholesaling

	Half-year ended 31 October 2007	Half-year ended 31 October 2006
Revenue	£301.0m	£270.8m
Operating profit	£6.8m	£3.2m
Return on sales	2.3%	1.2%
Return on average capital employed	10.8%	4.9%

The significantly improved result in Office Products Wholesaling was due to further progress in the continental European businesses and a good advance in the UK, in line with our three-year plan to restore profits.

Spicers UK grew its revenue well and increased its profit strongly, reflecting the actions taken by the new management team to raise service levels in order to build sales and to reduce costs. The result benefited from the closure, in June 2007, of the Park Royal distribution centre in London. We continue to consider further steps for lowering costs and improving the longer-term competitiveness of our network of distribution centres.

On the continent, the two well-established businesses in France and the Benelux grew their revenue and maintained their good profit performance. In Germany, we achieved a significant sales advance with our dealer customers and improved profits. At the more recently developed businesses in Spain and Italy we grew sales strongly.

In the seasonally stronger second half of the year, we expect Spicers' performance to reflect further benefits of the ongoing programme to rebuild profits in the UK and the continued development of the continental businesses.

BOARD CHANGES

On 4 December 2007, the Company announced the appointment of Steve Dryden as Group Finance Director; the date on which he will join the Company will be confirmed in due course. Steve, aged 39, has held the position of Finance Director of Filtrona plc since its demerger from Bunzl plc in 2005. Prior to that, he was divisional Finance Director of the Filtrona businesses and held other senior finance positions within Bunzl plc. Steve began his career at Price Waterhouse and has also held various finance roles within Rolls-Royce plc.

As announced previously, Gavin Morris, Group Finance Director, will be stepping down from the Board of Directors by mutual agreement. It is expected that Mr Morris will remain with the Company to assist with the handover of his responsibilities until the end of the financial year. The Board thanks Mr Morris for his contribution to the significant development of the Company in recent years and wishes him every future success.

Also as announced previously, George Adams is appointed as a non-Executive Director with effect from 29 January 2008. George, aged 51, is currently Managing Director, European Development and Chief Executive Officer, UK Trade at Kingfisher Plc. Previously he held senior management positions at B&Q UK, FW Woolworth Plc, Makro UK and Management Horizons Europe Management Consultancy. He is a non-Executive Director of the specialist economics consultancy, Frontier Economics, and of Hornbach Holding AG.

OUTLOOK

The outcome for the year will be principally influenced by how well demand holds up, the extent to which we recover recent input cost rises and our success in further rebuilding profits at Spicers UK. The Board remains confident that the Group will make substantial progress this financial year.

Consolidated Income Statement (unaudited)

	Note	Half-year ended 31 October 2007 £m	Half-year ended 31 October 2006 £m	Year ended 30 April 2007 £m
Revenue	2	942.7	868.5	1,766.1
Cost of Sales		(702.7)	(655.7)	(1,342.1)
Gross profit		240.0	212.8	424.0
Operating expenses		(179.6)	(172.4)	(344.4)
Operating profit				
Before exceptional items	2	60.4	30.4	77.7
Exceptional items	3	-	10.0	1.9
Operating profit		60.4	40.4	79.6
Finance income		1.9	2.3	1.7
Finance costs	4	(12.5)	(9.4)	(16.7)
Employment benefit finance income		4.3	3.8	8.0
Net financing costs		(6.3)	(3.3)	(7.0)
Profit after financing costs		54.1	37.1	72.6
Share of profit of associates				
Before exceptional items		2.0	1.9	3.9
Exceptional items	3	-	-	2.0
Profit before income tax				
Before exceptional items		56.1	29.0	74.6
Exceptional items		-	10.0	3.9
Profit before income tax		56.1	39.0	78.5
Income tax (expense)/credit				
On profit before exceptional items	5	(15.0)	(8.7)	(22.8)
On exceptional items		-	3.2	5.6
Income tax (expense)/credit		(15.0)	(5.5)	(17.2)
Profit for the financial period		41.1	33.5	61.3
Profit for the financial period attributable to:				
DS Smith Plc equity shareholders		40.7	33.0	60.6
Minority interest		0.4	0.5	0.7
		41.1	33.5	61.3
Earnings per share - pence:	6			
Adjusted for exceptional items		10.4p	5.1p	13.1p
Basic		10.4p	8.5p	15.6p
Diluted		10.2p	8.5p	15.4p
Proposed/actual dividends per share	7	Interim 2.6p	Interim 2.6p	Total 8.6p

Consolidated Statement of Recognised Income and Expense (unaudited)

	Half-year ended 31 October 2007 £m	Half-year ended 31 October 2006 £m	Year ended 30 April 2007 £m
Actuarial gains on defined pension schemes	-	-	17.0
Movement on deferred tax relating to the actuarial gains	-	-	(5.1)
Currency translation differences, including tax of £1.2m (half-year to 31 October 2006: tax of £2.3m; year to 30 April 2007: tax of £1.5m)	6.1	(10.8)	(6.7)
Changes in the fair value of cash flow hedges, including tax of £1.0m (half-year to 31 October 2006: tax of £0.2m; year to 30 April 2007: tax of £0.4m)	2.3	(0.4)	(1.2)
Net income/(expense) recognised directly in equity	8.4	(11.2)	4.0
Profit for the financial period	41.1	33.5	61.3
Total recognised income and expense since the last financial statements	49.5	22.3	65.3
Total recognised income and expense relating to the financial period attributable to:			
DS Smith Plc equity shareholders	48.9	21.8	64.7
Minority interest	0.6	0.5	0.6

Consolidated Balance Sheet (unaudited)

	Note	As at 31 October 2007 £m	As at 31 October 2006 £m	As at 30 April 2007 £m
Assets				
Non-current assets				
Intangible assets		192.7	194.3	192.9
Property, plant and equipment		517.5	510.5	517.1
Investments in associates		32.6	28.6	30.5
Other investments		0.5	0.5	0.5
Deferred tax assets		20.6	21.9	21.4
Other receivables		2.3	1.4	2.4
Derivative financial instruments		1.5	0.8	0.2
Total non-current assets		767.7	758.0	765.0
Current assets				
Inventories		161.7	154.9	160.5
Other investments		0.1	0.1	0.1
Income tax receivable		0.9	4.8	0.9
Trade and other receivables		388.0	376.8	350.2
Cash and cash equivalents		72.4	51.2	92.4
Derivative financial instruments		2.0	1.4	0.7
Total current assets		625.1	589.2	604.8
Total assets		1,392.8	1,347.2	1,369.8
Liabilities				
Non-current liabilities				
Interest-bearing loans and borrowings		(206.3)	(252.0)	(230.9)
Post-retirement benefits		(11.2)	(42.8)	(18.6)
Other payables		(5.8)	(2.9)	(5.1)
Provisions		(8.7)	(2.6)	(8.9)
Deferred tax liabilities		(80.5)	(76.5)	(81.4)
Derivative financial instruments		(37.9)	(23.1)	(31.7)
Total non-current liabilities		(350.4)	(399.9)	(376.6)
Current liabilities				
Bank overdrafts		(13.6)	(10.0)	(10.8)
Interest-bearing loans and borrowings		(4.3)	(6.0)	(1.6)
Trade and other payables		(396.8)	(356.7)	(384.8)
Income tax liabilities		(24.0)	(19.7)	(16.6)
Provisions		(8.0)	(13.0)	(10.6)
Derivative financial instruments		(1.4)	(0.2)	(1.7)
Total current liabilities		(448.1)	(405.6)	(426.1)
Total liabilities		(798.5)	(805.5)	(802.7)
Net assets		594.3	541.7	567.1
Equity				
Issued capital		39.3	39.1	39.3
Share premium		263.1	259.4	262.9
Reserves		293.6	233.3	267.2
DS Smith Plc shareholders' equity	10	596.0	531.8	569.4
Minority interests		(1.7)	9.9	(2.3)
Total equity		594.3	541.7	567.1
Gearing:				
Net debt expressed as a percentage of total equity		31.7%	44.0%	32.0%

Consolidated Cash Flow Statement (unaudited)

	Note	Half-year ended 31 October 2007 £m	Half-year ended 31 October 2006 £m	Year ended 30 April 2007 £m
Operating activities				
Cash generated from operations	8	66.1	26.8	128.0
Interest received		0.9	0.2	2.8
Interest paid		(8.7)	(6.9)	(16.9)
Income tax paid		(7.6)	(6.3)	(15.1)
Net cash from operating activities		50.7	13.8	98.8
Investing activities				
Acquisition of subsidiary businesses, net of cash and cash equivalents acquired		(0.3)	-	(0.8)
Disposal of subsidiary businesses, net of cash and cash equivalents disposed of		1.0	1.4	1.0
Capital expenditure		(37.7)	(31.2)	(55.8)
Proceeds from the sale of assets		5.5	35.9	39.2
Proceeds from the sale of associates and other non-current investments		-	-	1.8
Cash flows from investing activities		(31.5)	6.1	(14.6)
Financing activities				
Proceeds from issue of share capital		0.2	-	3.7
Purchase of own shares		(0.2)	-	-
Repayment of borrowings		(19.7)	(10.9)	(28.7)
Repayment of finance lease obligations		(0.2)	(2.1)	(2.5)
Dividends paid		(23.5)	(22.5)	(32.7)
Cash flows from financing activities		(43.4)	(35.5)	(60.2)
Net increase / (decrease) in cash and cash equivalents		(24.2)	(15.6)	24.0
Cash and cash equivalents at 1 May		81.6	58.9	58.9
Exchange gains on cash and cash equivalents		1.4	(2.1)	(1.3)
Closing cash and cash equivalents		58.8	41.2	81.6

Notes to the Accounts (unaudited)

1 Basis of preparation

This interim financial information, which was approved by the Board of Directors on 4 December 2007, 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. Except as noted below, 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 2007. 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. During the half-year ended 31 October 2007, the Group has applied IAS 34 *Interim Financial Reporting* for the first time which has resulted in enhanced disclosures of financial information in the unaudited consolidated income statement.

2 Analysis of Group revenue, operating profit and capital employed

	Half-year ended 31 October 2007 £m	Half-year ended 31 October 2006 £m	Year ended 30 April 2007 £m
Revenue			
UK Paper and Corrugated Packaging	367.1	342.6	687.1
Continental European Corrugated Packaging	165.0	151.4	308.0
Plastic Packaging	109.6	103.7	201.8
Office Products Wholesaling	301.0	270.8	569.2
Group total	942.7	868.5	1,766.1
Adjusted operating profit ¹			
UK Paper and Corrugated Packaging	39.9	13.5	36.5
Continental European Corrugated Packaging	8.0	8.6	18.2
Plastic Packaging	5.7	5.1	10.2
Office Products Wholesaling	6.8	3.2	12.8
Group total	60.4	30.4	77.7
Period-end capital employed ²			
UK Paper and Corrugated Packaging	453.9	467.3	444.6
Continental European Corrugated Packaging	170.4	160.8	146.4
Plastic Packaging	120.5	115.9	110.9
Office Products Wholesaling	116.3	122.0	115.4
Group total	861.1	866.0	817.3
Adjusted return on sales – % ¹			
UK Paper and Corrugated Packaging	10.9%	3.9%	5.3%
Continental European Corrugated Packaging	4.8%	5.7%	5.9%
Plastic Packaging	5.2%	4.9%	5.1%
Office Products Wholesaling	2.3%	1.2%	2.2%
Group total	6.4%	3.5%	4.4%
Adjusted return on average capital employed – % ^{1, 3}			
UK Paper and Corrugated Packaging	17.2%	5.5%	7.6%
Continental European Corrugated Packaging	9.1%	10.4%	11.1%
Plastic Packaging	9.2%	8.2%	8.3%
Office Products Wholesaling	10.8%	4.9%	9.8%
Group total	13.6%	6.7%	8.7%

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, net 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 2007 £m	Half-year ended 31 October 2006 £m	Year ended 30 April 2007 £m
Revenue			
UK	533.0	492.8	999.7
Western continental Europe	330.8	311.5	632.8
Eastern continental Europe	50.2	39.0	82.5
Rest of the World	28.7	25.2	51.1
Total	942.7	868.5	1,766.1
Operating profit			
UK	37.4	9.9	28.6
Western continental Europe	16.5	15.6	37.5
Eastern continental Europe	3.2	3.3	6.1
Rest of the World	3.3	1.6	5.5
Total	60.4	30.4	77.7

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 2007 £m	Half-year ended 31 October 2006 £m	Year ended 30 April 2007 £m
Gain on sale of Taplow Mill	-	20.5	20.5
UK Paper and Corrugated Packaging restructuring costs	-	(10.5)	(13.8)
Plastic Packaging restructuring costs	-	-	(1.9)
Office Products Wholesaling restructuring costs	-	-	(2.9)
Total exceptional items recognised in operating profit	-	10.0	1.9
Negative goodwill recognised in associate accounting	-	-	2.0
Total exceptional items	-	10.0	3.9

In the half-year ended 31 October 2007, the Group recorded no exceptional items.

In the half-year ended 31 October 2006, the exceptional profit of £20.5m resulted from the sale of the Taplow site, in the UK Paper and Corrugated Packaging segment, for £29.6m.

In the half-year ended 31 October 2006, the UK Paper and Corrugated Packaging restructuring costs of £10.5m related to the closure of paper-making operations at Taplow Mill and related restructuring.

The UK Paper and Corrugated Packaging restructuring costs in the year to 30 April 2007 of £13.8m related to the closure of paper-making operations at Taplow Mill and related restructurings. The Plastic Packaging restructuring

costs in the year to 30 April 2007 related to the proposed restructuring of our European liquid packaging and dispensing operations. The Office Products Wholesaling restructuring costs in the year to 30 April 2007 related to the closure of a regional distribution centre within the UK operations and related restructuring. The negative goodwill credit recognised in associate accounting of £2.0m arose in respect of an increase in the Group's investment in Rubezhansk.

4. Finance costs

Finance costs for the half-year ended 31 October 2007 of £12.5m (half-year to 31 October 2006: £9.4m; year to 30 April 2007: £16.7m) include a charge of £2.7m relating to an increase in the fair value of put options, in accordance with IAS 32 / 39, held by minority, non-controlling shareholders in a subsidiary of the Group.

5. Taxation

Tax on profits has been charged at an underlying rate, before exceptional items and share of profits of associates, of 32.1% (half-year to 31 October 2006: 32.1%; year to 30 April 2007: 32.2%), being the expected full-year underlying rate. The tax charge for the current period has been reduced by a release of £2.4m of the deferred tax provision following the reduction in the UK rate of corporation tax from 30% to 28% with effect from 1 April 2008. Including this release, the effective rate of tax before exceptional items and share of profits of associates, for the current period, is 27.8%.

The tax charge on profit before exceptional items and share of profits of associates for the period of £15.0m (half-year to 31 October 2006: £8.7m; year to 30 April 2007: £22.8m) consists of UK taxation of £7.0m (half-year to 31 October 2006: £2.0m; year to 30 April 2007: £8.2m) and overseas taxation of £8.0m (half-year to 31 October 2006: £6.7m; year to 30 April 2007: £14.6m).

6. 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 £40.7m (half-year to 31 October 2006: £33.0m; year to 30 April 2007: £60.6m) and on 391.7m ordinary shares (half-year to 31 October 2006: 388.7m; year to 30 April 2007: 389.5m), 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. These adjustments give rise to an increase in the weighted average number of ordinary shares to 397.5m (half-year to 31 October 2006: 390.2m; year to 30 April 2007: 392.9m).

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 2007		Half-year ended 31 October 2006		Year ended 30 April 2007	
	£m	pence per share	£m	pence per share	£m	pence per share
Basic earnings	40.7	10.4	33.0	8.5	60.6	15.6
Deduct exceptional items after tax	-	-	(13.2)	(3.4)	(9.5)	(2.5)
Adjusted earnings	40.7	10.4	19.8	5.1	51.1	13.1

7. Dividends

The following dividends were paid by the Group:

	£m	
September 2006	Final dividend for the 2005/06 year of 5.8 pence per share	22.5
March 2007	Interim dividend for the 2006/07 year of 2.6 pence per share	10.2
September 2007	Final dividend for the 2006/07 year of 6.0 pence per share	23.5
The Directors have announced an interim dividend for the 2007/08 year of 2.6 pence per share, totalling £10.2m.		

8. Reconciliation of profit for the period to cash generated from operations

	Half-year ended 31 October 2007 £m	Half-year ended 31 October 2006 £m	Year ended 30 April 2007 £m
Profit for the period	41.1	33.5	61.3
Adjustments for:			
- Exceptional items	(2.5)	(12.7)	(11.1)
- Depreciation and amortisation	30.1	31.2	62.9
- Profit on sale of non-current assets	(1.5)	(2.5)	(6.6)
- Share-based payments	1.2	0.4	1.0
- Share of profit of associates	(2.0)	(1.9)	(3.9)
- Employment benefit finance income	(4.3)	(3.8)	(8.0)
- Interest income	(1.9)	(2.3)	(1.7)
- Interest expense	12.5	9.4	16.7
- Income tax expense	15.0	5.5	17.2
	87.7	56.8	127.8
Changes in:			
- inventories	0.7	2.7	(1.9)
- trade and other receivables	(35.3)	(41.7)	(11.5)
- trade and other payables	16.5	14.4	21.9
- provisions and employee benefits	(3.5)	(5.4)	(8.3)
Cash generated from operations	66.1	26.8	128.0

9. Analysis of net debt

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 2007 £m	Cash flow £m	Acquisition and disposals £m	Other non- cash £m	At 31 October 2007 £m
Cash and cash equivalents	92.4	(21.6)	-	1.6	72.4
Overdrafts	(10.8)	(2.6)	-	(0.2)	(13.6)
Net cash and cash equivalents	81.6	(24.2)	-	1.4	58.8
Interest-bearing loans and borrowings due after one year	(226.4)	22.2	-	2.4	(201.8)
Interest-bearing loans and borrowings due within one year	(1.3)	(2.5)	-	(0.2)	(4.0)
Finance leases	(4.8)	0.2	-	(0.2)	(4.8)
Derivative financial instruments					
- assets	0.2	-	-	0.3	0.5
- liabilities	(30.5)	-	-	(6.7)	(37.2)
	(262.8)	19.9	-	(4.4)	(247.3)
Total net debt	(181.2)	(4.3)	-	(3.0)	(188.5)

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.

10. Reconciliation of movements in shareholders' equity

	Half-year ended 31 October 2007 £m	Half-year ended 31 October 2006 £m	Year ended 30 April 2007 £m
Opening shareholders' equity	569.4	532.1	532.1
Profit for the period	40.7	33.0	60.6
Actuarial gains recognised in the pension schemes	-	-	17.0
Movement on deferred tax relating to the actuarial gains	-	-	(5.1)
Currency translation differences (after tax)	5.9	(10.8)	(6.6)
Changes in the fair value of cash flow hedges (after tax)	2.3	(0.4)	(1.2)
New share capital issued	0.2	-	3.7
Purchase of own shares	(0.2)	-	-
Share-based payments (after tax)	1.2	0.4	1.6
Dividends paid to shareholders	(23.5)	(22.5)	(32.7)
Closing shareholders' equity	596.0	531.8	569.4

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

	Half-year ended 31 October 2007 £m	Half-year ended 31 October 2006 £m	Year ended 30 April 2007 £m
	Note		
Operating profit before exceptional items	60.4	30.4	77.7
Depreciation and amortisation	30.1	31.2	62.9
EBITDA	90.5	61.6	140.6
Working capital movement	(18.1)	(24.6)	8.5
Exceptional cash costs	(2.5)	(2.7)	(7.2)
Other	(3.8)	(7.5)	(13.9)
Cash generated from operations	8	66.1	26.8
Capital expenditure	(37.7)	(31.2)	(55.8)
Proceeds from sales of assets and investments	5.5	35.9	41.0
Taxation paid	(7.6)	(6.3)	(15.1)
Net interest paid	(7.8)	(6.7)	(14.1)
Free cash flow before net disposals/(acquisitions) and dividends	18.5	18.5	84.0
Dividends	(23.5)	(22.5)	(32.7)
Net disposals/(acquisitions) of subsidiaries	0.7	1.4	0.2
Net cash flow	(4.3)	(2.6)	51.5
Proceeds from the issue of share capital	0.2	-	3.7
Purchase of own shares	(0.2)	-	-
Non-cash movements	(3.0)	1.8	1.4
Net debt (increase)/decrease	(7.3)	(0.8)	56.6
Opening net debt	(181.2)	(237.8)	(237.8)
Closing net debt	9	(188.5)	(238.6)