5 December 2013

DS SMITH PLC – 2013/14 HALF YEAR RESULTS

Recycled packaging delivering sustainable results

6 months to 31 October	2013 £m	2012[1] £m	Change
Revenue	2,081.0	1,671.8	+25%
Adjusted operating profit[2]	160.2	122.3	+31%
Profit before tax	85.0	55.8	+52%
EPS[2]	11.2p	8.6p	+30%
Interim dividend per share	3.2p	2.5p	+28%
Return on sales	7.7%	7.3%	+40bps
ROACE	12.1%	11.8%[3]	+30bps

These results include a six month contribution following the acquisition of SCA Packaging on 1 July 2012 compared to the comparative period where four months' contribution was included. See notes to the financial tables, below.

Highlights

- Market share gains driving organic corrugated packaging volume growth of +2.2%, led by good growth in areas of focus; - Germany and CEE
- Improved performance across our key operational metrics
- Return on sales progression of 40bps to 7.7% despite input cost pressures
- Synergy benefits from SCA Packaging acquisition fully on track
- Results in line with our medium-term targets

"We are encouraged by the strong results announced today and the continued delivery of our strategy from our sustainable business model. The good volume growth reflects market share gains from a strengthened customer proposition, driven by innovation and removing complexity and cost from our customers' supply chain.

At the same time as gaining share and growing volumes, we have also improved our EBITA margin, despite the headwind due to recent input cost increases which we are recovering as expected, with the usual lag.

We are, therefore, pleased with Group trading in the year to date. We continue to expect further good progress over the remainder of the year, despite ongoing challenging market conditions, and the Board views the future with confidence."
Miles Roberts, **Group Chief Executive**

Sustained delivery against medium term targets

Medium-term targets	Delivery in H1 2013/14[10]
Organic volume growth[4] at least GDP[5]+1%	+2.2%
Return on sales[6] 7% – 9%	7.7%
ROACE[7] 12% - 15%	12.1%
Net Debt / EBITDA[8] ≤2.0x	1.9x
Operating cash flow/ operating profit[9] > 120%	139%

See notes to the financial tables, below

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Presentation and dial-in details

A presentation to investors and analysts will be held at 9:30am today at the Lincoln Centre, 18 Lincoln Inn Fields, London WC2A 3ED. Dial-in access for the presentation is available with details as follows:

+44 (0)20 3003 2666 (standard access) or 0808 109 0700 (UK Toll Free)
Password: DS Smith

The slides accompanying the presentation will be available on our website shortly before the start of the presentation. Dial-in participants will have the opportunity to participate in the Q&A.

Notes to the financial tables

(1) Prior period figures are restated for IAS 19 (Revised)
(2) Continuing operations, before exceptional items and amortisation
(3) Pro forma for the 12 months to 30 April 2013: 11.8%. Reported ROACE for the 12 months to 30 April 2013: 12.3%
(4) Corrugated box volumes, adjusted for working days
(5) GDP growth (year-on-year) for the countries in which DS Smith operates, weighted by our sales by country, for the period March – Sept 2013= 0.3%. Source: Eurostat (14 Nov 2013)
(6) Earnings before interest, tax, amortisation and exceptional items as a percentage of revenue
(7) Earnings before interest, tax, amortisation and exceptional items as a percentage of the average monthly capital employed over the previous 12 month period. Average capital employed includes property, plant and equipment, intangible assets (including goodwill), working capital, provisions, capital debtors/creditors and assets/liabilities held for sale
(8) EBITDA being earnings before interest, tax, depreciation and amortisation
(9) Free cash flow before tax, net interest, growth capital expenditure and pension deficit reduction payments as a percentage of earnings before interest, tax, amortisation and exceptional items
(10) Organic growth and Return on sales for the 6 months to 31 October 2013. ROACE, net debt / EBITDA and cash conversion given for the 12 months to 31 October 2013

Overview

In the six months to 31 October 2013 DS Smith has continued to deliver sustainable results in line with our medium term targets. While the reported period-on-period growth includes the increase attributable to owning SCA Packaging for a full six months in the period versus four months in the comparative period, we are pleased also with the underlying growth in the business. Like-for-like corrugated box volumes have grown at 2.2%, ahead of the target of GDP+1%. We had particularly good underlying performance in our areas of focus, namely Germany, Central and Eastern Europe. The business has gained further market share through our enhanced offering and pan-European geographic footprint together with a clear focus on delivering value to our customers throughout their supply chain.

At the same time, we have improved our operating margin by 40bps. This is despite the headwind due to the recent market rises in paper prices, where we are recovering our input costs, with the usual lag. We have delivered a further €20 million of cost synergies from the SCA Packaging acquisition versus the prior comparative period as planned and are on track to deliver the remaining €60 million of the €120 million over the coming 18 months, as previously announced.

We have maintained our focus on cash and capital, reducing our net debt and delivering further improvement in our ROACE versus the pro forma return for the year to 30 April 2013.

We are building a resilient and sustainable business model that can delight our customers by offering a complete service from design and production right through to supply and recycling. Corrugated packaging offers our customers the opportunity to package their products in a cost effective material that provides consistent quality in their supply chain and the retail environment and is fully recyclable. As such we see substantial opportunities for growth in this market.

Operating review

The divisional results set out below include a full six month contribution from the SCA Packaging business versus four months in the comparative prior period. The revenue and operating profit uplift from this acquisition effect is most pronounced in DACH and Northern Europe, where DS Smith previously had relatively little operational presence, and also in Western Europe and in Italy and Central Europe, where the acquired business has materially expanded our presence in these regions.

UK

	Half-year ended 31 October 2013	Half-year ended 31 October 2012 (restated)**
Revenue	£480.8m	£490.3m
Operating profit*	£27.7m	£25.3m
Return on sales*	5.8%	5.2%

*before amortisation and exceptional items

**prior year restated for the impact of IAS 19 (Revised)

In the UK sales have fallen 1.9% to £480.8m (H1 2012/13: £490.3m) whilst operating profit has improved 9.5% to £27.7m (H1 2012/13: £25.3m). Corrugated box volumes in the period have been positive despite a challenging market for corrugated products and have shown an improving trend towards the end of the half-year period. The fall in revenues reflects the disposal of two sites required as part of the SCA Packaging acquisition as well as the tough economic and trading environment, while the 60 basis point improvement in margin and increased operating profit reflects the impact of improved paper pricing in the period and the benefit of an efficiency programme at our Kemsley mill in Kent.

Western Europe

	Half-year ended 31 October 2013	Half-year ended 31 October 2012 (restated) **
Revenue	£529.0m	£444.6m
Operating profit*	£44.7m	£37.5m
Return on sales*	8.5%	8.4%

*before amortisation and exceptional items

**prior year restated for the impact of IAS 19 (Revised)

Revenue in Western Europe has increased 19.0% while corrugated box volumes in the period were flat, reflecting some expected dis-synergies, the exit from certain lower margin business and the challenging market environment.

Operating profit increased 19% and margins were maintained in the higher part of the Group target range, despite considerable headwinds from paper price rises, reflecting active price recovery and the continued delivery of synergies.

DACH and Northern Europe

	Half-year ended 31 October 2013	Half-year ended 31 October 2012 (restated) **
Revenue	£529.4m	£327.7m
Operating profit*	£45.0m	£26.0m
Return on sales*	8.5%	7.9%

*before amortisation and exceptional items
**prior year restated for the impact of IAS 19 (Revised)

DACH and Northern Europe has delivered a strong performance with revenues up 61.6%, which includes organic revenue growth for the period and the benefit of foreign exchange translation. Corrugated box volumes in the period were very strong, particularly in Germany which delivered corrugated box volume growth of 8.5%, reflecting commercial wins with significant pan-European customers. The relative performance in the period reflects strong initial progress with key customers where we were previously under-represented prior to the SCA Packaging acquisition. Corrugated box volume growth in the rest of northern Europe was subdued reflecting more challenging market conditions and some movement of production between regions.

Operating profit increased 73% as margins improved due to the growth in the packaging business, the benefit of synergies and the improvement in profitability of the paper manufacturing business located in that region.

Central Europe and Italy

	Half-year ended 31 October 2013	Half-year ended 31 October 2012 (restated) **
Revenue	£375.5m	£257.1m
Operating profit*	£29.2m	£19.9m
Return on sales*	7.8%	7.7%

*before amortisation and exceptional items
**prior year restated for the impact of IAS 19 (Revised)

The Central Europe and Italy division has seen revenues increase by 46%. Corrugated box volumes in Central and Eastern Europe have been strong at 5.1% reflecting good growth in a positive market. Our corrugated box volumes in Italy have also grown ahead of our overall corrugated box volume growth, reflecting the success of our innovation-led products in the region. Operating profit increased 46%. Margins have improved modestly due to the operational leverage benefits from the positive top line performance.

Plastics

	Half-year ended 31 October 2013	Half-year ended 31 October 2012 (restated) **
Revenue	£166.3m	£152.1m
Operating profit*	£13.6m	£13.6m
Return on sales*	8.2%	9.0%

*before amortisation and exceptional items
**prior year restated for the impact of IAS 19 (Revised)

Plastic Packaging has seen revenue growth of 9% whilst operating profit has remained flat at £13.6 million (2012/13: £13.6 million) with margin around the mid-point of our target range. The Rigid Transit Packaging business, largely in Europe, has performed very well in the period. The Liquid Packaging and Dispensing (LP&D) business has seen profitability modestly impacted while we are undertaking a reorganisation of the LP&D manufacturing facilities in Europe. This will bring profitability more in line with our US operation, exiting our site in Rugby in the UK while developing the sites in Eastern Europe that will offer a more economic and scalable platform for further profitable growth for our bag-in-box products in Europe.

Summary

Overall, we are pleased with the performance in the period, in particular the volume growth in our target areas of Germany, Central and Eastern Europe. These regions had been previously identified as specific areas for growth, following the acquisition of SCA Packaging. We have been succeeding with our customers in these areas by continuing to focus on service levels, quality of our product and the innovation that we offer. Corrugated packaging offers our customers the opportunity to package their products in a cost effective material, that provides consistent quality in their supply chain and the retail environment and is fully recyclable. As such we see substantial opportunities for growth in this market.

Outlook

We are pleased with Group trading in the year to date. We continue to expect further good progress over the remainder of the year, despite ongoing challenging market conditions, and the Board views the future with confidence.

Financial Results

Group revenue for the half-year to 31 October 2013 was up 24.5% to £2,081.0 million (H1 2012/13: £1,671.8 million) with 17.7% of that increase due to the inclusion of a full six months results from SCA Packaging versus four months contribution in the comparative prior period. 5.0% of the increase came from positive foreign exchange translation, with the balancing amount of 1.8%

representing like-for-like growth for the business as a whole. This organic growth was driven by an increase of 3.8% from sales price, mix and corrugated volumes in aggregate, partially offset by a reduction in volume in some lower margin business. Within this, rising paper prices in the period have flowed through to increased revenues in the packaging business, with the usual lag.

Adjusted operating profit increased 31% to £160.2 million (H1 2012/13: £122.3 million) with 17% of that increase due to the inclusion of a full six months results from SCA Packaging versus four months contribution in the comparative prior period. 9% of the increase came from like-for-like growth while the remaining 5% is due to positive foreign exchange translation. Within like for like growth, delivered cost synergies of £17.1 million broadly offset the unrecovered lag effect of the recent rise in paper prices.

The delivery of synergies has continued on schedule with the anticipated €20 million of cost savings achieved versus the prior comparative period. The remaining cumulative €60 million are fully on track to be delivered over the next 18 months to bring the total delivered to €120 million, as previously announced.

Free cash flow (being EBITDA plus the cash flow effect of working capital, pension payments, capital expenditure (net of proceeds), tax and interest) was £109.9 million (H1 2012/13: £151.8 million), driven by EBITDA of £221.2m and a further positive contribution from working capital, offset by the expected levels of capital expenditure, tax and interest.

Net capital expenditure was £55.5 million in the period with a total of around £160 million expected to be spent in the full financial year, as previously indicated.

The amortisation charge for the period of £25.4 million (H1 2012/13: £18.2 million) reflects the guidance previously issued for amortisation of around £50 million for the full year. Depreciation of £61.0 million is also broadly in line with published guidance of around £130 million for the full year.

Return on average capital employed of 12.1% for the 12 month period to 31 October 2013 (FY to 30 April 2013: 12.3%) represents a 30 basis points increase versus a pro forma ROACE of 11.8% for the 12 month period to 30 April 2013, where the pro forma figure is calculated as if DS Smith had owned SCA Packaging for that full 12 month period. This increase is driven by the improvement in profitability and tight working capital management over the period.

Exceptional costs of £25.1 million in the period were incurred, of which £21.4 million are attributable to the integration of SCA Packaging and the remainder are principally related to the reorganisation of the Plastics business.

Net interest expense was £25.3 million and the charge for the second half of the year is expected to be broadly similar.

Tax on profits has been charged at a rate on continuing operations before amortisation and exceptional items of 23.0% (H1 2012/13: 24.0%), reflecting our expectation that the Group tax rate for 2013/14 will fall to c. 23.0% due to further tax efficiency opportunities in the Group.

Profit after tax for continuing operations after exceptional items was £70.1 million.

Earnings per share for continuing operations before amortisation and exceptional items increased 30.2% to 11.2 pence (H1 2012/13: 8.6 pence) as a result of the profit growth from full inclusion of results from SCA Packaging and underlying organic growth.

Financial position

Net debt at 31 October 2013 was £772.9 million (30 April 2013: £817.0 million), representing 1.9x EBITDA for the prior 12 month period, an improvement of a further 0.1x since 30 April 2013. This has been achieved through a continued focus on working capital where a further reduction has been achieved, bringing working capital as a percentage of sales down to a new low of 3.6%.

Dividend

The Board considers the dividend to be an important component of shareholder returns. In considering dividends the Board will be mindful of the Group's leverage, earnings growth potential and future expansion plans. As first set out in December 2010, our policy is that dividends will be progressive and, in the medium term, dividend cover should be on average 2.0x to 2.5x through the cycle.

The Board recommends an interim dividend for this half year of 3.2 pence per share (H1 2012/13: 2.5 pence per share). This represents an increase of 28% demonstrating our commitment to a progressive dividend and the confidence of the Board in the outlook for the Group. The dividend will be paid on 1 May 2014 to ordinary shareholders on the register at the close of business on 4 April 2014.

Risks and uncertainties

The Board has considered the principal risks and uncertainties affecting the Group in the second half of the year. The principal risks and uncertainties discussed in the Business Review on pages 43 to 47 of the 2013 Annual Report, available on the Group's website at www.dssmith.com, remain relevant.

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

- Dependence on UK, Continental European and other global economic conditions;
- Volatility of pricing and availability of globally traded raw materials, including the pricing and availability of paper;

- Strategy implementation, failure to identify suitable acquisition targets and failure to integrate the acquired businesses effectively to deliver the targeted savings;
- Restrictions due to level of indebtedness;
- The funding position of the Group's UK defined benefit pension scheme;
- The risk of a material environmental incident; and
- The risk of a fall in demand.

Going concern

The Group's recent trading and forecasts, after taking account of reasonably foreseeable changes in trading performance, shows that the Group is able to operate within its current debt facilities. At 31 October 2013 there was significant headroom on the Group's committed debt facilities of c. £500 million with the next significant maturity not due until 2016. As a consequence, the Directors believe that the Group is well placed to manage its business risks (as summarised above) successfully despite the uncertainties inherent in the current economic outlook. After making enquiries, the Directors have formed a judgment that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the going concern basis has been adopted in preparing the interim financial statements.

Responsibility statement

We confirm that to the best of our knowledge:

(a) the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU;
(b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication on important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
(c) the interim management report includes a fair review of the information required by DTR4.2.8R (disclosure of related parties' transactions and changes therein).

Miles Roberts	Adrian Marsh
Group Chief Executive	Group Finance Director

4 December 2013

INDEPENDENT REVIEW REPORT TO DS SMITH PLC

We have been engaged by the company to review the condensed set of financial statements in the half yearly financial report for the six months ended 31 October 2013 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and related notes 1 to 14. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half yearly financial report for the six months ended 31 October 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

4 December 2013

Condensed Consolidated Income Statement

		Half year ended 31 October 2013			Half year ended 31 October 2012 [1,3]			Year ended 30 April 2013 [1]		
		Before exceptional items	**Exceptional items (note 3)**	**After exceptional items**	Before exceptional items	Exceptional items (note 3)	After exceptional items	Before exceptional items	Exceptional items (note 3)	After exceptional items
Continuing operations	Note	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Revenue	2	**2,081.0**	**–**	**2,081.0**	1,671.8	–	1,671.8	3,669.3	–	3,669.3
Cost of sales		**(1,199.9)**	**–**	**(1,199.9)**	(959.0)	–	(959.0)	(1,945.6)	–	(1,945.6)
Gross profit		**881.1**	**–**	**881.1**	712.8	–	712.8	1,723.7	–	1,723.7
Operating expenses		**(720.9)**	**(2.7)**	**(723.6)**	(590.5)	(2.2)	(592.7)	(1,474.7)	(10.0)	(1,484.7)
Operating profit before amortisation and acquisition and integration related costs	2	**160.2**	**(2.7)**	**157.5**	122.3	(2.2)	120.1	249.0	(10.0)	239.0
Amortisation of intangible assets and acquisition related costs	3	**(25.4)**	**(1.0)**	**(26.4)**	(18.2)	(8.2)	(26.4)	(44.9)	(11.8)	(56.7)
SCA Packaging integration costs	3	**–**	**(21.4)**	**(21.4)**	–	(20.5)	(20.5)	–	(57.8)	(57.8)
Operating profit	2	**134.8**	**(25.1)**	**109.7**	104.1	(30.9)	73.2	204.1	(79.6)	124.5
Finance income	4	**0.6**	**–**	**0.6**	2.5	–	2.5	3.1	–	3.1
Finance costs	4	**(22.4)**	**–**	**(22.4)**	(17.3)	–	(17.3)	(39.5)	–	(39.5)
Employment benefit net finance expense	5	**(3.5)**	**–**	**(3.5)**	(3.6)	–	(3.6)	(7.4)	–	(7.4)
Net financing costs		**(25.3)**	**–**	**(25.3)**	(18.4)	–	(18.4)	(43.8)	–	(43.8)
Profit after financing costs		**109.5**	**(25.1)**	**84.4**	85.7	(30.9)	54.8	160.3	(79.6)	80.7
Share of profit of associate		**0.6**	**–**	**0.6**	1.0	–	1.0	1.2	–	1.2
Profit before income tax, amortisation and acquisition and integration related costs		**135.5**	**(2.7)**	**132.8**	104.9	(2.2)	102.7	206.4	(10.0)	196.4
Amortisation of intangible assets and acquisition related costs	3	**(25.4)**	**(1.0)**	**(26.4)**	(18.2)	(8.2)	(26.4)	(44.9)	(11.8)	(56.7)
SCA Packaging integration costs	3	**–**	**(21.4)**	**(21.4)**	–	(20.5)	(20.5)	–	(57.8)	(57.8)
Profit before income tax		**110.1**	**(25.1)**	**85.0**	86.7	(30.9)	55.8	161.5	(79.6)	81.9
Income tax (expense)/credit	6	**(21.7)**	**6.8**	**(14.9)**	(20.6)	7.3	(13.3)	(35.2)	20.0	(15.2)
Profit for the period from continuing operations		**88.4**	**(18.3)**	**70.1**	66.1	(23.6)	42.5	126.3	(59.6)	66.7
Discontinued operations										
Profit for the period from discontinued operations	7	**–**	**–**	**–**	–	–	–	–	7.2	7.2
Profit for the period		**88.4**	**(18.3)**	**70.1**	66.1	(23.6)	42.5	126.3	(52.4)	73.9
Profit for the period attributable to:										
Owners of the parent		**88.2**	**(18.3)**	**69.9**	65.8	(23.6)	42.2	125.9	(52.4)	73.5
Non-controlling interests		**0.2**	**–**	**0.2**	0.3	–	0.3	0.4	–	0.4

Earnings per share		**Half year ended 31 October 2013**	Half year ended 31 October 2012 [1]	Year ended 30 April 2013 [1]
Adjusted from continuing operations [2]				
Basic	8	**11.2p**	8.6p	17.1p
Diluted	8	**11.2p**	8.5p	16.9p
From continuing operations				
Basic	8	**7.5p**	4.6p	7.2p
Diluted	8	**7.5p**	4.5p	7.1p
From continuing and discontinued operations				
Basic	8	**7.5p**	4.6p	8.0p
Diluted	8	**7.5p**	4.5p	7.9p

[1] Restated for IAS19 (Revised 2011) (note 1)

[2] Adjusted for amortisation and exceptional items

[3] Reclassified to align with the current period presentation (note 1)

Condensed Consolidated Statement of Comprehensive Income

	Half year ended 31 October 2013 £m	Half year ended 31 October 2012 [1] £m	Year ended 30 April 2013 [1] £m
Items which will not be reclassified subsequently to profit or loss			
Actuarial gains/(losses) on employee benefits	**46.0**	2.4	(68.1)
Income tax on items which will not be reclassified subsequently to profit or loss	**(16.7)**	(2.8)	14.9
Items which may be reclassified subsequently to profit or loss			
Foreign currency translation differences	**(5.5)**	(1.1)	54.0
Movements in cash flow hedges	**(2.9)**	(4.2)	(20.1)
Income tax on items which may be reclassified subsequently to profit or loss	**(2.3)**	(1.1)	9.6
Other comprehensive income/(expense) for the period, net of tax	**18.6**	(6.8)	(9.7)
Profit for the period	**70.1**	42.5	73.9
Total comprehensive income for the period	**88.7**	35.7	64.2
Total comprehensive income attributable to:			
Owners of the parent	**88.5**	35.5	63.7
Non-controlling interests	**0.2**	0.2	0.5

[1] Restated for IAS19 (Revised 2011) and re-presented to reflect adoption of amendments to IAS 1 (note 1)

Condensed Consolidated Statement of Financial Position

	Note	**At 31 October 2013 £m**	At 31 October 2012 [1] £m	At 30 April 2013 £m
Assets				
Non-current assets				
Intangible assets		**1,014.7**	1,021.7	1,044.3
Property, plant and equipment		**1,352.3**	1,299.4	1,371.2
Investments in associates		**27.6**	26.5	24.3
Other investments		**5.5**	7.3	5.6
Deferred tax assets		**62.6**	49.3	78.6
Other receivables		**2.8**	3.4	2.8
Derivative financial instruments		**6.9**	9.7	9.4
Total non-current assets		**2,472.4**	2,417.3	2,536.2
Current assets				
Inventories		**281.0**	289.3	284.8
Other investments		**1.7**	15.5	16.8
Income tax receivable		**37.2**	14.0	5.5
Trade and other receivables		**690.7**	693.8	643.7
Cash and cash equivalents	11	**159.4**	84.4	116.4
Derivative financial instruments		**0.4**	0.9	1.4
Assets held for sale		**5.4**	53.8	1.5
Total current assets		**1,175.8**	1,151.7	1,070.1
Total assets		**3,648.2**	3,569.0	3,606.3
Liabilities				
Non-current liabilities				
Interest-bearing loans and borrowings	11	**(841.8)**	(827.2)	(903.9)
Employee benefits	5	**(163.1)**	(154.2)	(214.0)
Other payables		**(9.3)**	(9.9)	(9.7)
Provisions		**(36.3)**	(42.2)	(39.2)
Deferred tax liabilities		**(150.8)**	(172.1)	(155.7)
Derivative financial instruments		**(29.1)**	(18.7)	(20.8)
Total non-current liabilities		**(1,230.4)**	(1,224.3)	(1,343.3)
Current liabilities				
Bank overdrafts	11	**(4.3)**	(13.8)	(37.9)
Interest-bearing loans and borrowings	11	**(86.0)**	(95.9)	(20.2)
Trade and other payables		**(995.5)**	(931.5)	(955.8)
Income tax liabilities		**(118.5)**	(108.1)	(107.8)
Provisions		**(45.8)**	(68.0)	(54.5)
Derivative financial instruments		**(7.8)**	(17.6)	(1.9)
Liabilities held for sale		**(3.0)**	(15.4)	–
Total current liabilities		**(1,260.9)**	(1,250.3)	(1,178.1)
Total liabilities		**(2,491.3)**	(2,474.6)	(2,521.4)
Net assets		**1,156.9**	1,094.4	1,084.9
Equity				
Issued capital		**93.4**	92.7	92.9
Share premium		**710.2**	710.2	710.0
Reserves		**355.4**	293.3	283.9
Total equity attributable to owners of the parent		**1,159.0**	1,096.2	1,086.8
Non-controlling interests		**(2.1)**	(1.8)	(1.9)
Total equity		**1,156.9**	1,094.4	1,084.9

[1] Restated to reflect finalisation of SCA Packaging acquisition accounting in accordance with IFRS 3 (note 14)

Condensed Consolidated Statement of Changes in Equity

	Share capital £m	Share premium £m	Hedging reserve £m	Translation reserve £m	Own shares £m	Retained earnings £m	Total reserves attributable to equity shareholders £m	Non-controlling interests £m	Total equity £m
At 1 May 2013	**92.9**	**710.0**	**(17.4)**	**65.3**	**(1.7)**	**237.7**	**1,086.8**	**(1.9)**	**1,084.9**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**69.9**	**69.9**	**0.2**	**70.1**
Actuarial gain on employee benefits	**–**	**–**	**–**	**–**	**–**	**46.0**	**46.0**	**–**	**46.0**
Foreign currency translation differences	**–**	**–**	**–**	**(5.5)**	**–**	**–**	**(5.5)**	**–**	**(5.5)**
Cash flow hedges fair value changes	**–**	**–**	**(2.7)**	**–**	**–**	**–**	**(2.7)**	**–**	**(2.7)**
Movement from cash flow hedge reserve to income statement	**–**	**–**	**(0.2)**	**–**	**–**	**–**	**(0.2)**	**–**	**(0.2)**
Income tax on other comprehensive income	**–**	**–**	**(0.1)**	**(2.2)**	**–**	**(16.7)**	**(19.0)**	**–**	**(19.0)**
Total comprehensive (expense)/ income	**–**	**–**	**(3.0)**	**(7.7)**	**–**	**99.2**	**88.5**	**0.2**	**88.7**
Issue of share capital	**0.5**	**0.2**	**–**	**–**	**–**	**–**	**0.7**	**–**	**0.7**
Employee share trust	**–**	**–**	**–**	**–**	**1.6**	**(1.6)**	**–**	**–**	**–**
Share-based payment expense (net of tax)	**–**	**–**	**–**	**–**	**–**	**5.7**	**5.7**	**–**	**5.7**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(23.1)**	**(23.1)**	**–**	**(23.1)**
Transactions with non-controlling interests	**–**	**–**	**–**	**–**	**–**	**0.4**	**0.4**	**(0.4)**	**–**
Other changes in equity in the period	**0.5**	**0.2**	**–**	**–**	**1.6**	**(18.6)**	**(16.3)**	**(0.4)**	**(16.7)**
At 31 October 2013	**93.4**	**710.2**	**(20.4)**	**57.6**	**(0.1)**	**318.3**	**1,159.0**	**(2.1)**	**1,156.9**
At 1 May 2012	92.7	710.2	(1.9)	6.4	(7.9)	260.0	1,059.5	(2.0)	1,057.5
Profit for the period [1]	–	–	–	–	–	42.2	42.2	0.3	42.5
Actuarial gain on employee benefits [1]	–	–	–	–	–	2.4	2.4	–	2.4
Foreign currency translation differences	–	–	–	(1.0)	–	–	(1.0)	(0.1)	(1.1)
Cash flow hedges fair value changes	–	–	(3.5)	–	–	–	(3.5)	–	(3.5)
Movement from cash flow hedge reserve to income statement	–	–	(0.7)	–	–	–	(0.7)	–	(0.7)
Income tax on other comprehensive income	–	–	1.0	(2.1)	–	(2.8)	(3.9)	–	(3.9)
Total comprehensive (expense)/income	–	–	(3.2)	(3.1)	–	41.8	35.5	0.2	35.7
Ordinary shares purchased	–	–	–	–	(1.2)	–	(1.2)	–	(1.2)
Employee share trust	–	–	–	–	5.2	(5.2)	–	–	–
Share-based payment expense (net of tax)	–	–	–	–	–	2.4	2.4	–	2.4
Other changes in equity in the period	–	–	–	–	4.0	(2.8)	1.2	–	1.2
At 31 October 2012	92.7	710.2	(5.1)	3.3	(3.9)	299.0	1,096.2	(1.8)	1,094.4

[1] Restated for IAS19 (Revised 2011) (note 1)

Condensed Consolidated Statement of Cash Flows

Continuing operations	Note	**Half year ended 31 October 2013 £m**	Half year ended 31 October 2012 £m	Year ended 30 April 2013 £m
Operating activities				
Cash generated from operations	10	**180.7**	205.3	373.6
Interest received		**–**	0.1	0.2
Interest paid		**(21.2)**	(12.0)	(34.8)
Tax paid		**(29.6)**	(23.2)	(41.7)
Cash flows from operating activities		**129.9**	170.2	297.3
Investing activities				
Acquisition of subsidiary businesses, net of cash and cash equivalents	14	**–**	(1,281.0)	(1,281.0)
Divestment of subsidiary and associate businesses, net of cash and cash equivalents	14	**–**	–	50.8
Capital expenditure		**(63.5)**	(65.5)	(161.0)
Proceeds from sale of property, plant and equipment and intangible assets		**8.0**	0.1	4.3
Proceeds from sale of other investments		**–**	–	0.1
Decrease/(increase) in restricted cash		**15.2**	(20.0)	(21.7)
Cash flows used in investing activities		**(40.3)**	(1,366.4)	(1,408.5)
Financing activities				
Proceeds/(transaction costs) from issue of share capital		**0.7**	–	(0.4)
Purchase of own shares		**–**	(1.2)	(1.2)
Increase in borrowings		**18.8**	610.4	552.4
(Repayment of)/increase in finance lease obligations		**(0.5)**	1.2	0.4
Dividends paid to Group shareholders	9	**(23.1)**	–	(36.8)
Cash flows (used in)/from financing activities		**(4.1)**	610.4	514.4
Increase/(decrease) in cash and cash equivalents from continuing operations		**85.5**	(585.8)	(596.8)
Discontinued operations				
Cash from discontinued operations	7	**–**	–	7.2
Increase/(decrease) in cash and cash equivalents		**85.5**	(585.8)	(589.6)
Net cash and cash equivalents at 1 May		**78.5**	653.2	653.2
Exchange (losses)/gains on cash and cash equivalents		**(8.9)**	3.2	14.9
Net cash and cash equivalents	11	**155.1**	70.6	78.5

Notes to the Consolidated Interim Financial Statements

1. Basis of preparation

The unaudited condensed consolidated interim financial statements for the half year ended 31 October 2013 have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ('adopted IFRSs'), the disclosure requirements of the Listing Rules and in accordance with IAS 34 *Interim Financial Reporting*. These interim financial statements should be read in conjunction with the Group's annual financial statements for the year ended 30 April 2013. Those accounts were reported on by the Company's auditor and delivered to the Registrar of Companies. The report of the auditor was not qualified or modified, did not draw attention to any matters by way of emphasis and did not contain an adverse statement under section 498 (2) or (3) of the Companies Act 2006.

The interim financial information has been prepared using the same accounting policies as those adopted in the annual financial statements for the year ended 30 April 2013, which are prepared in accordance with adopted IFRSs, except as described below.

- The Group has changed its accounting policy due to the application of IAS 19 *Employee Benefits* (Revised 2011). As a result, interest costs and expected return on assets have been replaced by a net interest charge/credit on the net employee benefit pension liability/surplus. Certain costs previously recorded as part of finance costs or other comprehensive income have now been presented within operating expenses. As the Group records actuarial adjustments immediately, there has been no effect on the comparative pension deficit. The change has no net effect on total comprehensive income as the increased charge in profit or loss is offset by a decreased charge in other comprehensive income.

  Accordingly, the half year ended 31 October 2012 and year ended 30 April 2013 have been restated with profit after tax being £1.7 million lower and £3.6 million lower respectively, and other comprehensive income £1.7 million higher and £3.6 million higher respectively, after the tax impact of the changes.

- IFRS 13 *Fair Value Measurement* establishes a single framework for measuring fair value and making disclosures about fair value measurements, as well as replacing and expanding the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 *Financial Instruments: Disclosures*. The change had no significant impact on the measurements of the Group's assets and liabilities. However, some of these financial instrument disclosures are now required in the interim financial statements; accordingly, the Group has included them in note 13. In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively, and has not provided any comparative information.

- *Presentation of items of Other Comprehensive Income* (Amendments to IAS 1) require that items of other comprehensive income that will be reclassified subsequently to profit or loss are grouped separately from those that will never be reclassified, together with their associated income tax. The condensed consolidated statement of comprehensive income has been represented to reflect this change.

There were no other new accounting standards, amendments and standards or interpretations adopted by the Group as of 1 May 2013.

Certain expenses have been reclassified for the period ended 31 October 2012 for consistency with the presentation of the current period and the year ended 30 April 2013, decreasing cost of sales and increasing operating expenses by £321 million from the amounts previously reported.

The information presented for the year ended 30 April 2013 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The financial information for the half year ended 31 October 2013 is unaudited but has been reviewed by Deloitte LLP, the Group's auditor, and a copy of their review report forms part of this half year report.

Foreign exchange rates

The Group's main currency exposure is to the euro and the following significant exchange rates applied during the period:

	Half year ended 31 October 2013		Half year ended 31 October 2012		Year ended 30 April 2013	
	Average	**Closing**	Average	Closing	Average	Closing
euro	**1.171**	**1.181**	1.252	1.243	1.222	1.180

Going concern

As explained in the narrative section of this half year financial report under the heading 'Going concern', the financial statements are prepared on the going concern basis. This is considered appropriate given that the Group has adequate resources to continue in operational existence for the foreseeable future.

Estimates and judgements

The application of the Group's accounting policies requires management to make estimates and assumptions; these estimates and assumptions affect the reported assets and liabilities and financial results of the Group. Actual outcomes could differ from the estimates and assumptions used.

In preparing these interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's consolidated financial statements for the year ended 30 April 2013, being impairments, pensions and other employee benefits, provisions and taxation.

2. Segment reporting

Operating segments

Half year ended 31 October 2013	**UK £m**	**Western Europe £m**	**DACH and Northern Europe £m**	**Central Europe and Italy £m**	**Plastics £m**	**Total Continuing Operations £m**
External revenue	**480.8**	**529.0**	**529.4**	**375.5**	**166.3**	**2,081.0**
Operating profit [1]	**27.7**	**44.7**	**45.0**	**29.2**	**13.6**	**160.2**
Unallocated items:						
Amortisation						**(25.4)**
Exceptional items						**(25.1)**
Total operating profit (continuing operations)						**109.7**

Half year ended 31 October 2012 [2]	UK £m	Western Europe £m	DACH and Northern Europe £m	Central Europe and Italy £m	Plastics £m	Total Continuing Operations £m
External revenue	490.3	444.6	327.7	257.1	152.1	1,671.8
Operating profit [1]	25.3	37.5	26.0	19.9	13.6	122.3
Unallocated items:						
Amortisation						(18.2)
Exceptional items						(30.9)
Total operating profit (continuing operations)						73.2

[1] Adjusted for amortisation and exceptional items

[2] Restated for IAS19 (Revised 2011) (note 1)

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 trading and financial results of the Group.

Continuing operations	**Half year ended 31 October 2013 £m**	Half year ended 31 October 2012 £m	Year ended 30 April 2013 £m
SCA Packaging integration costs	**(21.4)**	(20.5)	(57.8)
Other restructuring costs	**(6.5)**	(2.2)	(14.3)
Acquisition related costs	**(1.0)**	(8.2)	(11.8)
Impairment of assets	**(0.6)**	–	(1.6)
Gain on divestment	**–**	–	8.1
Other	**4.4**	–	(2.2)
Total pre-tax exceptional items (recognised in operating profit)	**(25.1)**	(30.9)	(79.6)
Income tax credit on exceptional items	**6.8**	7.3	20.0
Total post-tax exceptional items	**(18.3)**	(23.6)	(59.6)

Half year ended 31 October 2013
Acquisition costs of £1.0m relate to professional advisory and consultancy fees relating to the acquisition of the packaging division of Svenska Cellulosa Aktiebolaget SCA ('SCA Packaging').

SCA Packaging integration costs represent one-off restructuring costs associated with the SCA Packaging acquisition, primarily redundancy and IT costs.

Of the £6.5m other restructuring costs, £3.3m relates to restructuring in the Plastics business in the UK, and £1.7m relates to UK Packaging site closures.

Other exceptional items principally relate to a provision release for employee compensation, partly offset by costs relating to UK centralisation projects, onerous lease and dilapidation provisions.

Half year ended 31 October 2012
Acquisition costs of £8.2m relate to professional advisory fees, due diligence costs and other acquisition costs relating to the acquisition of SCA Packaging.

SCA Packaging integration costs represent one-off restructuring costs associated with the SCA Packaging acquisition.

Other restructuring costs principally relate to the costs associated with the UK shared service centre and IT centralisation projects.

Year ended 30 April 2013
Acquisition costs of £11.8m relate to professional advisory fees, due diligence costs and other acquisition costs relating to the acquisition of SCA Packaging.

SCA Packaging integration costs primarily relate to costs associated with achieving cost synergies.

Of the £14.3m other restructuring costs, £7.7m relates to restructuring in the UK Paper business and central services, £2.8m relates to reorganisations in Sweden, and the remainder is primarily attributable to restructuring in Germany and Poland.

The gain on divestment primarily relates to the sale of the Group's investment in the associate GAE Smith, the sale of European Commission remedy disposal sites, and disposal of the Group's Norwegian operations.

4. Finance income and costs

Continuing operations	**Half year ended 31 October 2013 £m**	Half year ended 31 October 2012 £m	Year ended 30 April 2013 £m
Interest on loans and overdrafts	**20.7**	16.9	37.9
Finance lease interest	**0.1**	0.1	0.2
Other	**1.6**	0.3	1.4
Finance costs	**22.4**	17.3	39.5
Interest income from financial assets	**(0.2)**	(1.0)	(1.1)
Other	**(0.4)**	(1.5)	(2.0)
Finance income	**(0.6)**	(2.5)	(3.1)

5. Employee benefits

	Half year ended 31 October 2013 £m	Half year ended 31 October 2012 [1,2] £m	Year ended 30 April 2013 [1] £m
Opening post-retirement plan deficit	**(202.4)**	(104.2)	(104.2)
Employment benefit net finance expense	**(3.5)**	(3.6)	(7.4)
Service cost	**(1.7)**	(1.5)	(2.9)
Contributions	**6.9**	9.6	23.6
Settlement/curtailment	**–**	–	2.0
Actuarial gain/(loss)	**45.9**	(2.9)	(69.1)
Currency translation	**0.2**	0.6	(3.0)
Acquisition	**–**	(41.4)	(41.4)
Reclassification	**–**	0.4	–
Closing post-retirement plan deficit	**(154.6)**	(143.0)	(202.4)
Other employee benefit assets and liabilities	**(8.5)**	(11.2)	(11.6)
Total employee benefit liability	**(163.1)**	(154.2)	(214.0)
Deferred tax asset	**40.8**	41.8	56.1
Net employee benefit liability	**(122.3)**	(112.4)	(157.9)

1 Restated for application of IAS19 (Revised 2011) (note 1)
2 Restated to reflect finalisation of SCA Packaging acquisition accounting in accordance with IFRS 3 (note 14)

The Group's principal funded, defined benefit pension scheme, the DS Smith Group Pension scheme ('the Group scheme'), is in the UK and is now closed to future accrual. The Group also operates various local post-retirement arrangements for overseas operations and a small UK unfunded scheme. Other employee benefits include pre-retirement benefits and long-service awards.

6. Income tax expense – continuing operations

Tax on profit for continuing operations has been charged at an underlying rate before exceptional items and amortisation of 23.0% (half year ended 31 October 2012: 24.0%; year ended 30 April 2013: 23.6%) being the expected full year rate, including an adjustment of £3.2m in respect of restatements to deferred tax balances to reflect the reduction in the UK corporation tax rate from 23% to 20% which was substantively enacted in the period.

7. Discontinued operations

In April 2013, the Group made a gain of £7.2m in relation to final settlement of the disposal of its Office Products Wholesaling division in 2011/12 to Unipapel SA, which was recorded in discontinued operations in exceptional items.

8. Earnings per share

Basic earnings per share from continuing operations	**Half year ended 31 October 2013**	Half year ended 31 October 2012 [1]	Year ended 30 April 2013 [1]
Profit from continuing operations attributable to ordinary shareholders	**£69.9m**	£42.2m	£66.3m
Weighted average number of ordinary shares	**930.1m**	922.3m	923.5m
Basic earnings per share	**7.5p**	4.6p	7.2p

Diluted earnings per share from continuing operations	**Half year ended 31 October 2013**	Half year ended 31 October 2012 [1]	Year ended 30 April 2013 [1]
Profit from continuing operations attributable to ordinary shareholders	**£69.9m**	£42.2m	£66.3m
Weighted average number of ordinary shares	**930.1m**	922.3m	923.5m
Potentially dilutive shares issuable under share-based payment arrangements	**6.8m**	12.1m	7.9m
Weighted average number of ordinary shares (diluted)	**936.9m**	934.4m	931.4m
Diluted earnings per share	**7.5p**	4.5p	7.1p

Basic earnings per share from discontinued operations	Year ended 30 April 2013 [1]
Profit attributable to ordinary shareholders	£7.2m
Weighted average number of ordinary shares	923.5m
Basic earnings per share	0.8p

Diluted earnings per share from discontinued operations	Year ended 30 April 2013 [1]
Profit attributable to ordinary shareholders	£7.2m
Weighted average number of ordinary shares	923.5m
Potentially dilutive shares issuable under share-based payment arrangements	7.9m
Weighted average number of ordinary shares (diluted)	931.4m
Diluted earnings per share	0.8p

[1] Restated for IAS19 (Revised 2011) (note 1)

The number of shares excludes the weighted average number of the Company's own shares held as treasury shares during the period of 1.4m (half year ended 31 October 2012: 4.7m, year ended 30 April 2013: 3.7m).

Adjusted earnings per share from continuing operations

The Directors believe that the presentation of an adjusted earnings per share amount, being the basic earnings per share adjusted for exceptional items and amortisation of intangible assets, better explains the underlying performance of the Group. A reconciliation of basic to adjusted earnings per share is as follows:

	Half year ended 31 October 2013			Half year ended 31 October 2012 [1]			Year ended 30 April 2013 [1]		
	£m	**Basic – pence per share**	**Diluted – pence per share**	£m	Basic – pence per share	Diluted – pence per share	£m	Basic – pence per share	Diluted – pence per share
Basic earnings	**69.9**	**7.5p**	**7.5p**	42.2	4.6p	4.5p	66.3	7.2p	7.1p
Add back amortisation, after tax	**16.1**	**1.7p**	**1.7p**	13.9	1.5p	1.5p	31.6	3.4p	3.4p
Add back exceptional items, after tax	**18.3**	**2.0p**	**2.0p**	23.6	2.5p	2.5p	59.6	6.5p	6.4p
Adjusted earnings	**104.3**	**11.2p**	**11.2p**	79.7	8.6p	8.5p	157.5	17.1p	16.9p

[1] Restated for IAS19 (Revised 2011) (note 1)

9. Dividends proposed and paid

		Pence per share	**£m**
November 2012	Final dividend for 2011/12	4.0p	36.8
May 2013	Interim dividend for 2012/13	2.5p	23.1
November 2013	Final dividend for 2012/13	5.5p	51.3

10. Cash generated from operations

Continuing operations	**Half year ended 31 October 2013 £m**	Half year ended 31 October 2012 [1] £m	Year ended 30 April 2013 [1] £m
Profit for the period	**70.1**	42.5	66.7
Adjustments for:			
Pre-tax SCA Packaging integration costs and other exceptional items	**24.1**	22.7	67.8
Amortisation of intangible assets and acquisition related costs	**26.4**	26.4	56.7
Cash outflow for exceptional items	**(32.5)**	(47.0)	(112.3)
Depreciation	**61.0**	53.3	112.4
(Profit)/loss on sale of non-current assets	**(3.1)**	0.3	(0.7)
Share of profit of associate	**(0.6)**	(1.0)	(1.2)
Employment benefit net finance expense	**3.5**	3.6	7.4
Share-based payment expense	**0.8**	2.0	3.8
Finance income	**(0.6)**	(2.5)	(3.1)
Finance costs	**22.4**	17.3	39.5
Other non-cash items (including other deposits)	**(0.2)**	(0.1)	(20.1)
Income tax expense	**14.9**	13.3	15.2
Provisions and employee benefits	**(12.3)**	(5.2)	(16.4)
Cash generation before working capital movements	**173.9**	125.6	215.7
Changes in:			
Inventories	**1.6**	14.0	29.2
Trade and other receivables	**(51.3)**	37.7	111.4
Trade and other payables	**56.5**	28.0	17.3
Working capital movement	**6.8**	79.7	157.9
Cash generated from continuing operations	**180.7**	205.3	373.6

[1] Restated for IAS19 (Revised 2011)

11. Analysis of net debt

	Half year ended 31 October 2013 £m	Half year ended 31 October 2012 £m	Year ended 30 April 2013 £m
Cash and cash equivalents	**159.4**	84.4	116.4
Overdrafts	**(4.3)**	(13.8)	(37.9)
Net cash and cash equivalents	**155.1**	70.6	78.5
Restricted cash – receivable after one year	**1.5**	5.0	16.6
Restricted cash – receivable within one year	**5.0**	15.0	5.1
Other deposits	**20.8**	–	17.6
Interest-bearing loans and borrowings due – after one year	**(837.3)**	(824.4)	(899.1)
Interest-bearing loans and borrowings due – within one year	**(85.4)**	(93.4)	(19.4)
Finance leases	**(5.1)**	(5.3)	(5.6)
Derivative financial instruments			
– assets	**7.3**	9.4	9.1
– liabilities	**(34.8)**	(34.1)	(19.8)
	(928.0)	(927.8)	(895.5)
Net debt	**(772.9)**	(857.2)	(817.0)

On 29 June 2012, €700m of loan facilities were utilised to part finance the acquisition of SCA Packaging. On 6 August 2012, €300m of these loans were refinanced with US Private Placement notes having maturities of between 5 and 10 years.

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

Certain other deposits balances are included as these short-term receivables have the characteristics of net debt.

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

	Half year ended 31 October 2013 £m	Half year ended 31 October 2012 [1] £m	Year ended 30 April 2013 [1] £m
Continuing operations			
Operating profit before amortisation and exceptional items	**160.2**	122.3	249.0
Depreciation	**61.0**	53.3	112.4
Adjusted EBITDA	**221.2**	175.6	361.4
Working capital movement	**6.8**	79.7	157.9
Provisions and employee benefits	**(12.3)**	(5.2)	(16.4)
Other	**0.5**	2.2	0.4
Cash generated from operations before exceptional cash items	**216.2**	252.3	503.3
Capital expenditure	**(63.5)**	(65.5)	(161.0)
Proceeds from sale of property, plant and equipment and other investments	**8.0**	0.1	4.4
Tax paid	**(29.6)**	(23.2)	(41.7)
Net interest paid	**(21.2)**	(11.9)	(34.6)
Free cash flow	**109.9**	151.8	270.4
Cash outflow for exceptional items	**(32.5)**	(47.0)	(112.3)
Dividends paid to Group shareholders	**(23.1)**	–	(36.8)
Acquisition of subsidiary businesses, net of cash and cash equivalents	**–**	(1,281.0)	(1,281.0)
Divestment of subsidiary and associate business, net of cash and cash equivalents	**–**	–	50.8
Net cash flow	**54.3**	(1,176.2)	(1,108.9)
Proceeds from issue of share capital/(transaction costs)	**0.7**	–	(0.4)
Purchase of own shares	**–**	(1.2)	(1.2)
Loans and borrowings acquired	**–**	(7.5)	(7.9)
Net movement on debt	**55.0**	(1,184.9)	(1,118.4)
Foreign exchange and fair value movements	**(10.9)**	6.0	(27.5)
Net debt movement – continuing operations	**44.1**	(1,178.9)	(1,145.9)
Net debt movement – discontinued operations	–	–	7.2
Opening net (debt)/cash	**(817.0)**	321.7	321.7
Closing net debt	**(772.9)**	(857.2)	(817.0)

[1] Restated for IAS19 (Revised 2011) (note 1)

13. Financial instruments

Carrying amounts and fair values of financial assets and liabilities

Set out below is the accounting classification of the carrying amounts and fair values of all of the Group's financial assets and liabilities:

	31 October 2013 Carrying amount £m	31 October 2013 Fair value £m
Financial assets		
Cash and cash equivalents	**159.4**	**159.4**
Other investments – restricted cash	**6.5**	**6.5**
Available for sale – other investments	**0.7**	**0.7**
Loans and receivables	**690.7**	**690.7**
Other financial assets in designated hedge accounting relationships	**7.3**	**7.3**
Total financial assets	**864.6**	**864.6**
Financial liabilities		
Trade and other payables	**(1,004.8)**	**(1,004.8)**
Bank and other loans	**(446.2)**	**(446.2)**
Note purchase agreements	**(476.5)**	**(544.5)**
Finance lease liabilities	**(5.1)**	**(5.1)**
Bank overdrafts	**(4.3)**	**(4.3)**
Other financial liabilities in designated hedge accounting relationships	**(36.9)**	**(36.9)**
Total financial liabilities	**(1,973.8)**	**(2,041.8)**

The fair value is the amount for which an asset or liability could be exchanged or settled on an arm's-length basis. For financial instruments carried at fair value, market prices or rates are used to determine fair value where an active market exists. The Group uses forward prices for valuing forward foreign exchange and commodity contracts and uses valuation models with present value calculations based on market yield curves to value note purchase agreements, cross-currency swaps and interest rate swaps. All derivative financial instruments are shown at fair value in the consolidated statement of financial position.

Under IAS 39 *Financial Instruments: Recognition and Measurement*, only the portions of the note purchase agreements which form part of an effective fair value hedge are carried at fair value in the consolidated statement of financial position. The majority of the Group's note purchase agreements are within effective cash flow and net investment hedges, and are therefore held at amortised cost. The fair values of financial assets and liabilities which bear floating rates of interest are estimated to be equivalent to their book values.

IFRS 7 *Financial Instruments: Disclosures* requires the classification of fair value measurements using the fair value hierarchy that reflects the significance of the inputs used in making the assessments.

All of the Group's financial instruments are Level 2 financial instruments, where inputs are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

14. Acquisitions and disposals

SCA Packaging

On 30 June 2012, the Group acquired SCA Packaging. The acquisition was effected by the purchase of equity of 100% of SCA Packaging Holding BV and SCA Packaging Nicollet SAS for £1,281 million (€1.6 billion) on a cash, debt and, to the extent legally possible and commercially practicable, pension free basis. This was subject to customary post-completion adjustments.

SCA Packaging was the second largest packaging business in Europe and the acquisition represents a significant opportunity for the Group to achieve its stated strategic aim of becoming the leading supplier of recycled packaging for consumer goods in Europe.

Certain fair values assigned to the net assets at the date of acquisition were provisional and, in accordance with IFRS 3 *Business Combinations*, the Group has adjusted the fair values attributable to this acquisition during the half year ended 31 October 2013, resulting in a net decrease in goodwill of £2.8m.

Fair values of certain net assets acquired were finalised in the second half of 2012/13. As a result adjustments have been made to the total identifiable net assets acquired with the 31 October 2012 comparative statement of financial position being restated accordingly. The principal movements were a decrease of £69m to property, plant and equipment, a decrease of £23m to investment in associates, an increase of £20m in employee benefits liability, a decrease of £132m in provisions, an increase of £26m in trade and other payables and an increase in current and deferred tax liabilities of £9m.

Remedy disposals

On 25 May 2012, the European Commission granted competition clearance for the SCA Packaging acquisition. The clearance required the Group to divest three sites after the acquisition, which represent approximately 1% of the enlarged Group profit. All three remedy disposal sites were divested during the year ended 30 April 2013 for total proceeds of £42.6m. The Group incurred transaction costs of £1.8m of which £0.5m was recognised as an expense for the year ended 30 April 2013, with the remainder included in the opening fair value less cost to sell of the two remedy disposal sites gained through the SCA Packaging acquisition.

Other disposals

In the year ended 30 April 2013, the Group made additional minor disposals of associates and subsidiary businesses for proceeds of £8.2m, net of cash and cash equivalents. These include the Group's associate GAE Smith, UK Packaging disposals and the sale of the Group's Norwegian subsidiary.