6 December 2018

DS SMITH PLC – 2018/19 HALF YEAR RESULTS

Increased margins driving strong growth

6 months to 31 October 2018		Change (reported)	Change (constant currency)
Continuing operations[10], excluding Plastics			
Revenue	£3,073m	+15%	+16%
Adjusted operating profit	£304m	+32%	+32%
Profit before tax	£162m	+27%	+28%
Adjusted EPS[1] [9]	16.5p	+9%	+9%
Statutory EPS[9]	9.5p	+4%	+5%
Interim dividend per share[9]	5.2p	+14%	+14%
Return on sales[4]	9.9%	+120bps	+120bps
ROACE[5]	13.9%	0bps	0bps
Group, including Plastics			
Revenue (Group)	£3,255m	+15%	+15%
Adjusted operating profit[1](Group)	£318m	+27%	+28%

Highlights

- Successful and differentiated business model
  - Return on sales margin +120 bps
  - Good organic volume growth[2] of 3.2%
  - Excellent cost recovery reflects business mix and strength of business model
  - Growth from FMCG and e-commerce leadership
  - US acquisition fully integrated and delivering well ahead of acquisition case
- Strong balance sheet
  - Increase in cash flow from operating activities from continuing operations
  - Net debt / EBITDA[6] (excluding rights issue proceeds) fallen to 2.1x
  - Refinancing complete – new long-term facility
  - Plastics strategic review making good progress
- Europac acquisition completion expected around calendar year end
  - Reported performance to Q3 2018 in line with expectations
  - Integration planning well advanced
- Compelling commercial differentiation and structural drivers for growth
  - E-commerce, sustainable packaging, dynamic retail changes
  - DS Smith innovation-led solutions for multinational customers
- Good momentum into H2

"We are very pleased with the progress we have made over the last six months. We have strong momentum in the market, delivering good top line growth and substantially increased profit levels. We continue to win market share through our strong FMCG presence and our leadership in both e-commerce and sustainable packaging. DS Smith is extremely well positioned to capitalise on these ongoing growth trends and we are confident about the future prospects for the business."

Miles Roberts, Group Chief Executive

Sustainable delivery against medium term targets

Medium term targets *Continuing operations*	Delivery in H1 2017/18[8]
Organic volume growth[2] ≥GDP[3]+1%	+3.2%
Return on sales[4] 8% – 10%	+120bps to 9.9%
ROACE[5] 12% - 15%	unchanged at 13.9%
Net debt / EBITDA[6] ≤2.0x	0.8x
Cash conversion[7] ≥100%	114%

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 9:00am today at the London Stock Exchange, 10 Paternoster Square, London EC4M 7LS. The event is available by webcast by clicking here or by registering via the link on our website https://www.dssmith.com/investors/results-and-presentations. Alternatively, 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, as well as on the webcast.

The webcast will remain available for replay, accessed via our website per the link above, and a replay is available for 7 days on +44 (0) 20 8196 1998, pin 4655414#.

Notes to the financial tables

The Group uses certain key non-GAAP measures in order to provide an additional view of the Group's overall performance and position, eliminating significant items that may obscure understanding of the key trends and position. These measures are used internally to evaluate business performance, as a key constituent of the Group's planning process, as well as comprising targets against which compensation is determined. Reporting of non-GAAP measures alongside reported measures is considered useful to enable investors to understand how management evaluates performance and value creation internally, enabling them to track the Group's adjusted performance and the key business drivers which underpin it. Note 15 explains the use of non-GAAP performance measures.

(1) Before adjusting items and amortisation of intangible assets.
(2) Corrugated box volumes, adjusted for working days, on a like-for-like basis
(3) GDP growth (year-on-year) for the countries in which DS Smith operates, weighted by our sales by country = 2.1%. Source: Eurostat (14 Nov 2018)
(4) Operating profit before adjusting items and amortisation of intangible assets as a percentage of revenue, as re-stated under IFRS15
(5) Operating profit for the prior 12 month period before adjusting items and amortisation of intangible assets 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
(6) Net debt at average exchange rates over Group operating profit before depreciation, adjusting items and amortisation of intangible assets for the previous 12 month period, calculated in accordance with banking covenants
(7) Free cash flow before tax, net interest, growth capital expenditure and pension payments as a percentage of operating profit before adjusting items and amortisation of intangible assets
(8) Organic volume growth, cash conversion and return on sales given for the 6 months to 31 October 2018, ROACE and net debt / EBITDA given for the 12 months to 31 October 2018
(9) 2017/18 EPS and interim DPS have been restated to reflect the bonus element of the July 2018 rights issue as required by IAS 33 *earnings per share*
(10) References to continuing operations excludes the plastics division, which is now treated as discontinued

Cautionary statement: This announcement contains certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this announcement and DS Smith Plc undertakes no obligation to update these forward-looking statements. Nothing in this statement should be construed as a profit forecast.

Unless otherwise stated, all commentary and comparable analysis in the overview and operating review is based on constant currency performance. Organic volume growth means corrugated box volume growth, on a like-for-like basis.

Overview

In the half year to 31 October 2018, DS Smith has delivered good growth and a 120 bps increase in return on sales. In addition, we have seen continuing excellent performance from Interstate Resources, which is now substantially integrated within DS Smith, and we expect to complete our acquisition of Europac in the coming month, for which preparatory integration work is substantially complete. There were strong profit growth contributions both organically and from acquisitions and adjusted operating profit grew at 32% with adjusted EPS increasing by 9% including the impact of the recent rights issue.

Performance for 6 months to 31 October 2018

Unless otherwise noted, this commentary relates to the continuing operations of the Group, on a constant currency basis.

The organic volume growth of 3.2%, ahead of our target of GDP+1%, builds on the very strong growth in the comparable prior period, and was achieved despite corrugated box prices rising to fully recover the higher price of paper. Growth is due to both market share gains, with very good volumes once again from our multi-national customers, reflecting our strong competitive position and our innovative packaging solutions across Europe and the US.

For the half year period, revenues increased on a constant currency basis by 16%, principally reflecting the full recovery of paper prices through box selling price rises, the contribution from acquired businesses, particularly North America, and volume growth in corrugated boxes. Group revenues also increased on a reported basis by 15%, with the organic growth contribution being 6%.

Return on sales for the period was 9.9%, up 120 basis points on the comparable prior period, and now at the top of our target range of 8 – 10%. This reflects the benefit of a strong business model, focussed on value-added packaging, together with strong returns and synergies from acquisitions and continued operational leverage from another year of good volume growth. The comparable prior period was adversely influenced by the headwind of rising input costs which have now been recovered as anticipated. Adjusted operating profit was up 32% on a constant currency basis, with the organic growth contribution being 11%.

Return on average capital employed remained level at 13.9%, which, whilst still in the upper half of our target range of 12 – 15 %, now reflects the reclassification of the plastics division into discontinued operations. It also includes the full effect of 12 months from Interstate Resources.

Balance Sheet

Net debt / EBITDA decreased from 2.2x at 30 April 2018 to 0.8x at 31 October 2018, as net debt reduced by £1,032 million to £648 million, reflecting the combination of free cash flow of £209 million and the c.£1 billion proceeds from the June 2018 rights issue, which is held as restricted cash pending completion of the acquisition of Europac. Excluding the impact of rights issue proceeds, net debt / EBITDA would have been 2.1x, a reduction from 2.2x at the last balance sheet date, reflecting the growth of the business in combination with our focus on tight balance sheet management. We estimate that, following completion of the Europac acquisition, net debt / EBITDA at 30 April 2019 will be less than 2.3x, a reduction to our previous estimate at the time of the announcement of the acquisition of being under 2.5x at that date. This improvement in our estimate reflects ongoing efforts to reduce working capital, tighter control of capital expenditure, reduced acquisition activity and demonstrates our commitment to bring net debt on or below our medium term targets following the Europac acquisition. The above estimates do not reflect any disposal proceeds from either the Plastics division or the Europac anti-trust remedies.

Underlying cash flow from the business continued to be good, with a further working capital inflow of £28 million generated during the period. On 29 November 2018 we signed a £1.4bn five year revolving credit facility ("RCF") with our banking group to replace our existing £800m RCF and to ensure liquidity for the five years following the Europac acquisition. Covenants are consistent with our existing facilities and calculated in exactly the same way as previously reported.

Operating Review

Unless otherwise noted, the commentary below refers to changes on a constant currency basis.

UK

	Half year ended 31 October 2018	Half year ended 31 October 2017	Change
Revenue	£577m	£553m	4%
Adjusted operating profit*	£59m	£55m	7%
Return on sales*	10.2%	9.9%	+30bps

*Adjusted, before amortisation and adjusting items

In the UK revenues increased 4% to £577 million (H1 2017/18: £553 million) while adjusted operating profit has increased 7% to £59 million (H1 2017/18: £55 million). Corrugated box volumes in the period were strong, reflecting continued success with large FMCG customers, and a sustained leading position in e-commerce which is being replicated in other European regions. Margin in the region is above the top of the Group target range, reflecting the mix of our business, our leading recycling operations and good recovery of the paper price rises.

Western Europe

	Half year ended 31 October 2018	Half year ended 31 October 2017	Change – reported	Change – constant currency
Revenue	£784m	£726m	+8%	+8%
Adjusted operating profit*	£58m	£55m	+5%	+5%
Return on sales*	7.4%	7.6%	(20bps)	(20bps)

*Adjusted, before amortisation and adjusting items

In Western Europe organic corrugated box volumes were in line with the Group average, reflecting a good performance in the French and Iberian businesses, and particularly strong volumes in the Benelux region (having been weak in the comparable period). Revenue increased by 8% driven by underlying volume growth and increases in box prices, to mitigate the input price rises in the period. Adjusted operating profit grew by only 5%, principally reflecting the lower proportion of paper manufacturing in the region than the Group as a whole.

DCH and Northern Europe

	Half year ended 31 October 2018	Half year ended 31 October 2017	Change – reported	Change – constant currency
Revenue	£556m	£557m	-	+1%
Adjusted operating profit*	£55m	£43m	+28%	+31%
Return on sales*	9.9%	7.7%	+220bps	+220bps

*Adjusted, before amortisation and adjusting items

DCH and Northern Europe has seen volume growth across the region, with a particularly positive contribution from our FMCG customers in Northern Europe. Revenue increased by 1%, and adjusted operating profit grew 31% reflecting the lagged recovery of input costs in the packaging business, offset by the contribution from our paper mills in the region.

Central Europe and Italy

	Half year ended 31 October 2018	Half year ended 31 October 2017	Change – reported	Change – constant currency
Revenue	£815m	£717m	+14%	+15%
Adjusted operating profit*	£75m	£63m	+19%	+19%
Return on sales*	9.2%	8.8%	+40bps	+30bps

*Adjusted, before amortisation and adjusting items

Organic corrugated box volumes in Central Europe and Italy have grown around the Group average, reflecting in particular a very good performance from Italy, significantly driven by e-commerce. Revenues increased by 15%, reflecting the contributions from Ecopaper and Ecopack, which were acquired in March this year and as such contributed an incremental six months to this half year period. Revenues also reflect volume growth and the benefit of box price rises. Adjusted operating profit increased 19%, reflecting again the contribution from the Ecopaper and Ecopack businesses and the recovery of input costs.

North America

	Half year ended 31 October 2018	Half year ended 31 October 2017	Change – reported	Change – constant currency
Revenue	£341m	£110m	+210%	+210%
Adjusted operating profit*	£57m	£15m	+280%	+280%
Return on sales*	16.7%	13.6%	+310bps	+310bps

*Adjusted, before amortisation and adjusting items

Corrugated box volumes in the period have shown continued good growth with particular strength in innovative packaging solutions for food and other FMCG customers. Revenues have grown strongly, principally reflecting the inclusion of Interstate Resources for the full six months compared to the comparable period of just over two months and a strong organic growth performance during the period. The recently acquired packaging business, Corrugated Container Corp, is also included in the period. Revenues have been driven by good trading conditions for the paper operations in the region and the benefit of integration with the wider DS Smith platform. Profit performance is considerably ahead of that in 2017, again principally reflecting the additional circa four months of trading included and the positive pricing dynamics in the market. As highlighted at our capital markets day earlier this autumn, we are delighted that customers are now beginning to develop their business with us both in Europe and the US and the access to our innovation is delivering results for customers in both regions.

Strategic Review of Plastics division

Following the initial review of the Plastics business, the Board has concluded that it is an attractive asset with good growth prospects, and we are now exploring opportunities for a potential sale of the division. As such, the plastics division is now being treated as discontinued.

The plastics business has continued to trade well with revenues up 2%, while there has been some impact to short term profitability due to the impact of higher polymer prices and the normal lag in recovery through prices.

Outlook

The outlook remains positive as we begin our second half with good momentum. The recovery of paper price increases that has been ongoing over the past 12 – 18 months is now completed. Our short-paper business model is robust and designed to deliver good returns throughout the paper cycle, and we have a clear trajectory to reduce net debt / EBITDA into line with our medium term target of less than or equal to 2.0x. The growth drivers for packaging, such as e-commerce, sustainable packaging and the more sophisticated requirements of customers and retailers remain, continuing the long-term trend of structural growth.

We continue to see exciting opportunities for the business and accordingly the Board remains confident about the outlook for DS Smith.

Financial Review

Unless otherwise noted, this commentary relates to the continuing operations of the Group, on a constant currency basis.

Group reported revenue for the half year to 31 October 2018 increased by 15% to £3,073 million (H1 2017/18: £2,663 million), reflecting acquisitions (£247 million), sales price growth and volume. Organic growth was 6%. The sales price increase principally reflected the recovery by the packaging business of rising paper prices, which is now complete. Good volumes in packaging contributed £48 million to revenue in the period, with some negative volume (£26 million) principally due to China-related sales of recyclate. On a constant currency basis, revenue also increased by 16%.

Operating profit of £201 million increased versus the prior year (H1 2017/18: £157 million) principally due to the contribution from acquisitions, partially offset by higher amortisation of £53 million (H1 2017/18: £40 million), again due to the acquisitions and the impact of the guaranteed minimum pension ("GMP") equalisation charge.

Adjusted operating profit increased 32% to £304 million (H1 2017/18: £231 million), with a £1 million headwind from currency translation. On a constant currency basis, adjusted operating profit growth was also 32%, benefitting from a £32 million contribution from acquisitions, principally the additional months of ownership for the North America businesses. The profit drop-through from higher volumes (£15 million) reflects the net impact of corrugated box volumes, partially offset by the reduction in recycling volumes. The benefit of higher pricing and sales mix (£156 million), as described above, was balanced against rising costs (£141 million), which principally relate to the increased price of paper.

Free cash flow (being EBITDA plus the cash flow effect of working capital, pension payments, capital expenditure (net of proceeds, tax and interest)) was £209 million (H1 2017/18: £162 million), driven by EBITDA of £393 million and a further positive contribution from working capital of £28 million, partially offset by capital expenditure, tax and interest payments. Net debt movement for the period was £1,032 million at 31 October 2018 principally reflecting the £1,002 million raised via a rights issue in July 2018 to fund the acquisition of Europac, such funds being held as restricted cash. The acquisition is expected to complete in the coming month. In addition, free cash flow was offset by acquisitions of £41 million (for Corrugated Container Corp, in the US, including borrowings acquired), restructuring and integration costs of £37 million and dividends of £53 million.

Capital expenditure net of disposal proceeds was £118 million in the period (H1 2017/18: £115 million) with c. £270 million expected to be spent in the full financial year (2017/18: £329m), excluding the impact of Europac.

Amortisation for the period was £53 million (H1 2017/18: £40 million), with c. £100 million expected for the full financial year, continuing operations (excluding any amortisation relating to Europac). Depreciation for the period was £89 million (H1 2017/18: £76 million), with the charge for the full financial year expected to be c. £185 - £190 million for continuing operations, excluding the depreciation charge from Europac.

Technical guidance inclusive of Europac will be published following the completion of that acquisition. Capex and depreciation for Europac are expected at the outset to be broadly in line with those items historically reported by Europac.

Return on average capital employed of 13.9% for the 12 month period to 31 October 2018 (12 months to 31 October 2017: 13.9%) represents a consistent performance and remains in the upper half of our target range, despite the initially dilutive impact of recently acquired businesses. This return on average capital employed, for continuing operations, compares to the prior year figure of 14.6% prior to the exclusion of the plastics division.

Adjusting items before tax of £58 million were incurred in the period (H1 2017/18: £39 million), including £15 million for GMP equalisation, £11 million relating to acquisition costs, £8 million of acquisition-related financing costs, and £24 million to integration and other restructuring initiatives. Within this last item, £14 million relates to centralisation and optimisation IT projects, resulting primarily from the Group's expansion activities. GMP equalisation is a non-cash cost relating to a change in legal interpretation of pension rights accrued between 1990 and 1997. Total operating cost adjusting items for the year, excluding those relating to Europac and GMP equalisation, are expected to be less than £45 million, a reduction versus prior guidance.

Net adjusted financing costs before adjusting items were £36 million (H1 2017/18: £27 million), reflecting the increase in debt over the period due to consideration paid for acquisitions. Adjusting finance costs of £8 million relate to costs incurred on the acquisition of Europac and the unwind of the discount of the Interstate Resources redemption liability. The pension interest charge for the period was £1 million, similar to last year, with a charge of £4 million expected for the full year. The interest charge for the year as a whole is expected to be around £66 million, inclusive of the pension interest charge and excluding the impact of the Europac acquisition.

Profit before tax was higher at £162 million (H1 2017/18: £128 million), through higher operating profit, offset by higher interest, GMP equalisation and benefiting slightly from improved share of results of associates. Adjusted profit before tax of £220 million (H1 2017/18: £167 million) was higher through the growth in adjusted operating profit.

Tax on adjusted profits has been charged at a rate on continuing operations before amortisation and adjusting items of 23%.

Unadjusted profit after tax for continuing operations was £122 million (H1 2017/18: £98 million). Profit for the period was £130 million (H1 2017/18: £107 million).

Earnings per share for continuing operations before amortisation and adjusting items increased 9% to 16.5 pence (H1 2017/18: 15.2 pence), reflecting the growth in operating profit, partially offset in the period by the equity issue in July 2018 to raise funds for the Europac acquisition, which is expected to complete in the coming month. Total unadjusted earnings per share for continuing operations were 9.5 pence (H1 2017/18: 9.1 pence) due to higher profit from operations, together with the issues of equity noted above.

Financial position

Total equity increased to £3,231 million at 31 October 2018 from £2,110 million at 30 April 2018 due to the equity issue of £1,002 million, retained profits of £130 million, and foreign currency translation gains of £71 million, offset by actuarial losses on employee benefits of £24 million and dividends of £53 million.

Net debt at 31 October 2018 was £648 million (30 April 2018: £1,680 million), representing 0.8x EBITDA for the prior 12 month period, calculated on the basis of a full year contribution from acquired businesses. Expenditure on acquisitions was £37 million and borrowings of £4 million were also assumed. £1,002 million was raised by the issue of equity, principally in a rights issue as discussed above.

On 29 November 2018 the Group signed a £1.4 billion, five year extendable revolving credit facility with its banking group. Covenants and calculation of covenants are consistent with the existing covenants and reported leverage. This facility replaces a £800 million revolving credit facility maturing in 2020 and the Europac Bridge facility and provides liquidity for the Group for the next 5 years, further reinforcing the Group's strong financial position and liquidity profile.

The Group has for many years sold without recourse certain trade receivables and on realisation the receivable is de-recognised and proceeds are presented within operating cash flows in accordance with IFRS. These arrangements have systematically reduced early payment discounts and have thus provided the Group with more economic alternatives. The facilities available are committed for three years and are not relied upon by the Group for liquidity and not included in leverage calculations by our banks. Balances have slightly reduced, at £550 million (30 April 2018: £559 million), representing a decrease also as a proportion of turnover. The cost of these facilities are approximately £7 million per annum, included in finance charges. Should these arrangements be systematically replaced over the next three years with alternative payment arrangements then it is estimated that this could, at an extreme, cost the Group an additional £9 million - £10 million full year charge.

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 declares an interim dividend for this half year of 5.2 pence per share (H1 2017/18: 4.6 pence per share). This represents an increase of 14%, demonstrating the confidence of the Board in the outlook for the Group. The dividend will be paid on 1 May 2019 to ordinary shareholders on the register at the close of business on 5 April 2019.

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 40 to 45 of the 2018 Annual Report, available on the Group's website at www.dssmith.com, remain relevant.

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

- Acquisition strategy;

- Eurozone and macroeconomic markets;
- Paper supply;
- Capital markets and liquidity;
- Concentration and consolidation of markets;
- Governance and compliance;
- Changes in shopping habits;
- Talent barriers;
- Digital vulnerabilities;
- Changes in fibre technology;
- Sustainability promise; and
- Strategic process change.

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 2018 there was significant headroom on the Group's committed debt facilities of c. £800 million, which has subsequently been further increased through the new RCF agreement as described earlier. As a consequence, the Board believes 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 Board has formed a judgement 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, prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
(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

5 December 2018

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 2018 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 16. 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 it 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 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 2018 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
Statutory Auditor
London, United Kingdom
5 December 2018

Condensed consolidated income statement

Continuing operations	Note	**Half year ended 31 October 2018 Unaudited** Before adjusting items £m	Adjusting items (note 3) £m	After adjusting items £m	Half year ended 31 October 2017 Unaudited (restated) Before adjusting items £m[1]	Adjusting items (note 3) £m[1]	After adjusting items £m[1]	Year ended 30 April 2018 Audited (restated) Before adjusting items £m[1]	Adjusting items (note 3) £m[1]	After adjusting items £m[1]
Revenue [3]	2	**3,073**	**-**	**3,073**	2,663	–	2,663	5,518	–	5,518
Operating costs [3]		**(2,769)**	**(24)**	**(2,793)**	(2,432)	(16)	(2,448)	(5,026)	(45)	(5,071)
Operating profit before amortisation, acquisitions and disposals and guaranteed minimum pension equalisation	2	**304**	**(24)**	**280**	231	(16)	215	492	(45)	447
Amortisation of intangible assets; acquisitions and disposals	2	**(53)**	**(11)**	**(64)**	(40)	(18)	(58)	(90)	(28)	(118)
Guaranteed minimum pension equalisation		**-**	**(15)**	**(15)**	–	–	–	–	–	–
Operating profit		**251**	**(50)**	**201**	191	(34)	157	402	(73)	329
Finance income	5	**2**	**-**	**2**	–	–	–	–	–	–
Finance costs	3, 5	**(37)**	**(8)**	**(45)**	(25)	(5)	(30)	(58)	(12)	(70)
Employment benefit net finance expense		**(1)**	**-**	**(1)**	(2)	–	(2)	(4)	–	(4)
Net financing costs		**(36)**	**(8)**	**(44)**	(27)	(5)	(32)	(62)	(12)	(74)
Profit after financing costs		**215**	**(58)**	**157**	164	(39)	125	340	(85)	255
Share of profit of equity accounted investments, net of tax		**5**	**-**	**5**	3	–	3	5	–	5
Profit before income tax		**220**	**(58)**	**162**	167	(39)	128	345	(85)	260
Income tax (expense)/credit	3,6	**(48)**	**8**	**(40)**	(32)	2	(30)	(69)	46	(23)
Profit for the period from continuing operations		**172**	**(50)**	**122**	135	(37)	98	276	(39)	237
Discontinued operations										
Profit for the period from discontinued operations, net of tax		**10**	**(2)**	**8**	10	(1)	9	24	(2)	22
Profit for the period		**182**	**(52)**	**130**	145	(38)	107	300	(41)	259
Profit for the period attributable to:										
Owners of the parent		**182**	**(52)**	**130**	145	(38)	107	300	(41)	259
Non-controlling interests		**-**	**-**	**-**	–	–	–	–	–	–
Earnings per share [2]										
Earnings per share										
From continuing operations and discontinued operations										
Basic	7			**10.1p**			9.9p			23.2p
Diluted	7			**10.0p**			9.8p			23.1p
From continuing operations										
Basic	7			**9.5p**			9.1p			21.2p
Diluted	7			**9.4p**			9.0p			21.1p
Adjusted earnings per share from continuing operations										
Basic	7	**16.5p**			15.2p			30.7p		
Diluted	7	**16.4p**			15.1p			30.5p		

[1] Restated for the classification of the Plastics business as a discontinued operation (note 13)

[2] Restated for rights issue (note 14)

[3] Comparatives restated for the adoption of IFRS 15 *Revenue* (note 1)

Condensed consolidated statement of comprehensive income

	Half year ended 31 October 2018 Unaudited £m	Half year ended 31 October 2017 Unaudited £m	Year ended 30 April 2018 Audited £m
Profit for the period	**130**	107	259
Items which will not be reclassified subsequently to profit or loss			
Actuarial (loss)/gain on employee benefits	**(24)**	25	57
Income tax on items which will not be reclassified subsequently to profit or loss	**4**	(3)	(14)
Items which may be reclassified subsequently to profit or loss			
Foreign currency translation differences	**38**	26	1
Cash flow hedges fair value changes	**72**	7	8
Reclassification from cash flow hedge reserve to income statement	**(39)**	10	10
Income tax on items which may be reclassified subsequently to profit or loss	**-**	(3)	5
Other comprehensive income for the period, net of tax	**51**	62	67
Total comprehensive income for the period	**181**	169	326
Total comprehensive income attributable to:			
Owners of the parent	**181**	169	326
Non-controlling interests	**-**	-	-

Condensed consolidated statement of financial position

	Note	**At 31 October 2018 Unaudited £m**	At 31 October 2017 Unaudited £m	At 30 April 2018 Audited £m
Assets				
Non-current assets				
Intangible assets		**2,059**	2,024	2,043
Biological assets		**3**	3	3
Property, plant and equipment		**2,385**	2,231	2,396
Equity accounted investments		**29**	25	24
Other investments		**11**	11	11
Deferred tax assets		**51**	77	64
Other receivables		**8**	8	7
Derivative financial instruments		**9**	12	15
Total non-current assets		**4,555**	4,391	4,563
Current assets				
Inventories		**547**	491	543
Biological assets		**5**	4	4
Other investments	10	**1,014**	–	–
Income tax receivable		**10**	11	15
Trade and other receivables		**891**	881	863
Cash and cash equivalents	10	**435**	558	297
Derivative financial instruments		**79**	27	44
Assets held for sale	13	**223**	1	–
Total current assets		**3,204**	1,973	1,766
Total assets		**7,759**	6,364	6,329
Liabilities				
Non-current liabilities				
Borrowings	10	**(1,846)**	(1,925)	(1,811)
Employee benefits	4	**(143)**	(161)	(106)
Other payables		**(14)**	(12)	(14)
Provisions		**(4)**	(4)	(4)
Deferred tax liabilities		**(197)**	(270)	(195)
Derivative financial instruments		**(14)**	(12)	(35)
Total non-current liabilities		**(2,218)**	(2,384)	(2,165)
Current liabilities				
Bank overdrafts	10	**(191)**	(23)	(29)
Borrowings	10	**(110)**	(57)	(162)
Trade and other payables		**(1,778)**	(1,713)	(1,705)
Income tax liabilities		**(93)**	(126)	(118)
Provisions		**(14)**	(21)	(16)
Derivative financial instruments		**(33)**	(15)	(24)
Liabilities held for sale	13	**(91)**	–	–
Total current liabilities		**(2,310)**	(1,955)	(2,054)
Total liabilities		**(4,528)**	(4,339)	(4,219)
Net assets		**3,231**	2,025	2,110
Equity				
Issued capital		**137**	107	107
Share premium		**2,232**	1,260	1,260
Reserves		**861**	657	742
Total equity attributable to owners of the parent		**3,230**	2,024	2,109
Non-controlling interests		**1**	1	1
Total equity		**3,231**	2,025	2,110

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[1]	Total reserves attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
At 1 May 2018 (audited)	**107**	**1,260**	**(7)**	**49**	**(1)**	**701**	**2,109**	**1**	**2,110**
Profit for the period	–	–	–	–	–	130	130	-	130
Actuarial loss on employee benefits	–	–	–	–	–	(24)	(24)	-	(24)
Foreign currency translation differences	–	–	–	38	–	–	38	-	38
Cash flow hedges fair value changes	–	–	72	–	–	–	72	-	72
Reclassification from cash flow hedge reserve to income statement	–	–	(39)	–	–	–	(39)	-	(39)
Income tax on other comprehensive income	–	–	–	–	–	4	4	-	4
Total comprehensive income	**–**	**–**	**33**	**38**	**–**	**110**	**181**	**-**	**181**
Issue of share capital	30	972	–	–	–	–	1,002	-	1,002
Employee share trust	–	–	–	–	(1)	(7)	(8)	-	(8)
Share-based payment expense (net of tax)	–	–	–	–	–	(1)	(1)	-	(1)
Dividends paid	–	–	–	–	–	(53)	(53)	-	(53)
Other changes in equity in the year	**30**	**972**	**–**	**–**	**(1)**	**(61)**	**940**	**-**	**940**
At 31 October 2018 (unaudited)	**137**	**2,232**	**26**	**87**	**(2)**	**750**	**3,230**	**1**	**3,231**
At 1 May 2017 (audited)	95	728	(22)	40	(4)	516	1,353	2	1,355
Profit for the period	–	–	–	–	–	107	107	-	107
Actuarial gain on employee benefits	–	–	–	–	–	25	25	-	25
Foreign currency translation differences	–	–	–	26	–	–	26	-	26
Cash flow hedges fair value changes	–	–	7	–	–	–	7	-	7
Reclassification from cash flow hedge reserve to income statement	–	–	10	–	–	–	10	-	10
Income tax on other comprehensive income	–	–	(3)	–	–	(3)	(6)	-	(6)
Total comprehensive income	–	–	14	26	–	129	169	-	169
Issue of share capital	12	532	–	–	–	–	544	-	544
Employee share trust	–	–	–	–	2	(6)	(4)	-	(4)
Share-based payment expense (net of tax)	–	–	–	–	–	6	6	-	6
Dividends paid	–	–	–	–	–	(44)	(44)	-	(44)
Transaction with non-controlling interests	–	–	–	–	–	–	–	(1)	(1)
Other changes in equity in the period	12	532	–	–	2	(44)	502	(1)	501
At 31 October 2017 (unaudited)	107	1,260	(8)	66	(2)	601	2,024	1	2,025

[1]Retained earnings include a reserve related to merger relief.

Condensed consolidated statement of cash flows

Continuing operations	Note	**Half year ended 31 October 2018 Unaudited £m**	Half year ended 31 October 2017 Unaudited (restated) £m[1]	Year ended 30 April 2018 Audited (restated) £m[1]
Operating activities				
Cash generated from operations	9	**380**	295	527
Interest received		**1**	–	1
Interest paid		**(44)**	(26)	(42)
Tax paid		**(47)**	(24)	(68)
Cash flows from operating activities		**290**	245	418
Investing activities				
Acquisition of subsidiary businesses, net of cash and cash equivalents	14	**(37)**	(521)	(615)
Capital expenditure		**(121)**	(124)	(328)
Proceeds from sale of property, plant and equipment and intangible assets		**3**	9	16
Cash flows from restricted cash and other deposits		**(1,026)**	–	(6)
Cash flows used in investing activities		**(1,181)**	(636)	(933)
Financing activities				
Proceeds from issue of share capital		**1,002**	283	283
Repayment of borrowings		**(990)**	(353)	(490)
Proceeds from borrowings		**926**	924	1,008
(Repayment of)/proceeds from settlement of derivative financial instruments		**(22)**	(11)	2
Repayment of finance lease obligations		**(2)**	(2)	(4)
Dividends paid to Group shareholders	8	**(53)**	(44)	(157)
Other		**-**	(6)	(4)
Cash flows from financing activities		**861**	791	638
(Decrease)/increase in cash and cash equivalents from continuing operations		**(30)**	400	123
Discontinued operations				
Cash generated from discontinued operations		**4**	8	18
(Decrease)/increase in cash and cash equivalents		**(26)**	408	141
Net cash and cash equivalents at 1 May		**268**	123	123
Exchange gains on cash and cash equivalents		**2**	4	4
Net cash and cash equivalents	10	**244**	535	268

[1]Restated for the classification of the Plastics business as a discontinued operation (note 13).

1. Basis of preparation

The unaudited condensed consolidated interim financial statements for the half year ended 31 October 2018 have been prepared in accordance with IAS 34 *Interim Financial Reporting* and the disclosure requirements of the Listing Rules. These interim financial statements should be read in conjunction with the Group's annual financial statements for the year ended 30 April 2018, which have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ('IFRSs'). 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 2018, which are prepared in accordance with IFRSs, apart from as detailed below.

The comparative information presented in this half year report has been restated as a result of the adoption of IFRS 15 *Revenue, the* rights issue during the period, and the classification of the Plastic business as a discontinued operation.

The following new accounting standards, amendments or interpretations have been adopted by the Group as of 1 May 2018:

- IFRS 15 *Revenue from Contracts with Customers*;
- IFRS 9 *Financial Instruments;*
- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*; and
- Amendments to IFRS 2 *Classification and Measurements of Share-based Payment Transactions*.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 replaces IAS 18 *Revenue* and related interpretations, introducing a single, principles-based approach to the recognition and measurement of revenue from all contracts with customers. The new approach requires identification of performance obligations in a contract and revenue to be recognised when or as those performance obligations are satisfied, as well as additional disclosure.

The Group's review of the requirements of IFRS 15 against existing policy and practice concluded that timing of revenue recognition was materially consistent with the requirements of IFRS 15. For the majority of the Group's contracts, the performance obligation is the delivery of goods, which under IFRS 15 would be recognised at a single point of time, on delivery of goods, consistent with the current accounting treatment under IAS 18.

The Group utilises customised dies, tools and moulds in order to fulfil customer orders, which vary considerably in value and treatment in the customer contracts. While some are immaterial in the context of the contract, others are of more significant value and contractually distinct and are therefore considered a separate performance obligation under IFRS 15. Previously, revenue from dies, tools and moulds was netted within operating costs, while under IFRS 15 it represents a separate performance obligation and is included within revenue. In addition to the IFRS 15 adjustment relating to dies, tools and moulds, energy income, historically netted within operating costs while not material, has been determined to be more appropriately stated within revenue.

The Group has applied IFRS 15 with effect from 1 May 2018, with full restatement of prior periods to ensure comparability of the consolidated income statement. The impact of applying the changes described above on the restatement of the results for the half year ended 31 October 2017 and the year ended 30 April 2018 was to increase revenue and increase operating costs relating to continuing operations by £42m and £99 million respectively with no impact on net profit and loss. There was no impact on discontinued operations revenue. Other areas identified in the review of IFRS 15 were concluded not to have material differences to current practice.

IFRS 9 *Financial Instruments*

IFRS 9 has replaced IAS 39 *Financial Instruments: Recognition and Measurement* and concerns the classification, measurement and de-recognition of financial assets and financial liabilities, introduces the expected credit loss model for the assessment of impairment of financial assets, introduces new classification and measurement rules for financial assets affecting the Group's other investments previously classified as available for sale and held at fair value, and changes the hedge accounting requirements.

The Group has determined that all existing effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. The Group has elected to continue to apply the hedge accounting requirements of IAS 39, as allowed under IFRS 9.

The Group's other investments previously classified as available for sale under IAS 39 and held at fair value have been designated on transition as fair value through other comprehensive income, after which the Group will record their fair value movements in other comprehensive income.

The Group has adopted the simplified approach to provide for losses on receivables within the scope of IFRS 9. The impact of applying the expected credit loss model has been concluded not to be material considering the quality and short-term nature of the Group's trade receivables. As the anticipated impact of adopting IFRS 9 is not material, the Group has not restated prior periods on adoption of IFRS 9.

The adoption of the remaining standards, amendments and interpretations has not had a material effect on the results for the period.

The condensed information presented for the year ended 30 April 2018 does not constitute full statutory accounts as defined in section 434 of the Companies Act 2006. The financial information for the half year ended 31 October 2018 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 US dollar, and the following exchange rates have been applied during the periods:

	Half year ended 31 October 2018		Half year ended 31 October 2017		Year ended 30 April 2018	
	Average	**Closing**	Average	Closing	Average	Closing
euro	**1.129**	**1.125**	1.129	1.138	1.132	1.137
US dollar	**1.311**	**1.274**	1.303	1.325	1.356	1.373

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 key sources of estimates were the same as those that applied to the Group's consolidated financial statements for the year ended 30 April 2018, being pensions and other employee benefits, taxation and adjusting items.

There are no critical accounting judgements.

Non-GAAP performance measures

In the reporting of financial information, the Group has adopted certain non-GAAP measures of historical or future financial performance, position or cash flows other than those defined or specified under International Financial Reporting Standards (IFRSs).

Non-GAAP measures are either not defined by IFRS or are adjusted IFRS figures, and therefore may not be directly comparable with other companies reported non-GAAP measures, including those in the Group's industry.

Non-GAAP measures should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measures.

Details of the Group's non-GAAP performance measures, including reasons for their use and reconciliations to IFRS figures are included as appropriate in note 15.

2. Segment reporting – continuing operations

Operating segments

The Plastics segment has been classified as a discontinued operation during the half year ended 31 October 2018. Segmental reporting for the Plastics segment is set out in note 13.

Half year ended 31 October 2018	**UK £m**	**Western Europe £m**	**DCH and Northern Europe £m**	**Central Europe and Italy £m**	**North America £m**	**Total continuing operations £m**
External revenue	**577**	**784**	**556**	**815**	**341**	**3,073**
Adjusted operating profit[1]	**59**	**58**	**55**	**75**	**57**	**304**
Unadjusted items:						
Amortisation						**(53)**
Adjusting items in operating profit						**(50)**
Total operating profit (continuing operations)						**201**
Unadjusted items:						
Net financing costs						**(44)**
Share of profit of equity accounted investments, net of tax						**5**
Profit before income tax						**162**
Income tax expense						**(40)**
Profit for the period (continuing operations)						**122**

Half year ended 31 October 2017	UK £m	Western Europe £m	DCH and Northern Europe £m	Central Europe and Italy £m	North America £m	Total continuing operations £m
External revenue	553	726	557	717	110	2,663
Adjusted operating profit[1]	55	55	43	63	15	231
Unallocated items:						
Amortisation						(40)
Adjusting items in operating profit						(34)
Total operating profit (continuing operations)						157
Unallocated items:						
Net financing costs						(32)
Share of profit of equity accounted investment, net of tax						3
Profit before income tax						128
Income tax expense						(30)
Profit for the period (continuing operations)						98

[1]Adjusted to exclude amortisation and adjusting items.

3. Adjusting items – continuing operations

Items are presented as adjusting 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. Such items include business disposals, restructuring and optimisation, acquisition-related and integration costs, and impairments.

Continuing operations	**Half year ended 31 October 2018 £m**	Half year ended 31 October 2017 (restated) £m[1]	Year ended 30 April 2018 (restated) £m[1]
Acquisition-related costs	**(11)**	(18)	(28)
Acquisitions and disposals	**(11)**	(18)	(28)
Integration costs	**(8)**	(5)	(13)
Other restructuring costs	**(2)**	(4)	(15)
Impairment of assets	-	(1)	(1)
Guaranteed minimum pension equalisation	**(15)**	-	-
Other	**(14)**	(6)	(16)
Total pre-tax adjusting items (recognised in operating profit)	**(50)**	(34)	(73)
Finance costs adjusting items	**(8)**	(5)	(12)
Adjusting tax items	**(1)**	(2)	33
Current tax credit on adjusting items	**6**	4	13
Deferred tax credit on adjusting items	**3**	-	-
Total post-tax adjusting items	**(50)**	(37)	(39)

[1]Restated for the classification of the Plastics business as a discontinued operation (note 13).

Half year ended 31 October 2018

Acquisition-related costs of £11m relate to professional advisory, legal and consultancy fees and directly attributable internal salary costs relating to the review of potential deals, and deals completed during the period. Of the total, £6m relates to the proposed acquisition of Europac, with the most significant components being transaction and sponsor fees, legal costs, and financial and tax due diligence costs.

Integration costs relate to integration projects underway, primarily to achieve cost synergies from the acquisitions made in the current period and previous financial years (of which Interstate Resources comprises £4m). They include those directly attributable internal salary costs which would otherwise not be incurred and are typically duplicated with temporary costs in the underlying business.

Other restructuring costs of £2m relate to projects begun in the prior year. The largest component is the completion of the Iberia Packaging restructuring (£1.3m) project following the Lantero acquisition and commenced in the previous year.

On 26 October 2018, the High Court issued a judgement with respect to the equalisation between men and women of guaranteed minimum pension (GMP) benefits accrued between 1990 and 1997, in order to comply with sex discrimination legislation. A preliminary estimate of the adjustment for the UK defined benefit scheme of £15m has been charged to the income statement as an adjusting item. The estimate is based on broad assumptions about the scheme's characteristics. A detailed calculation will be performed in the second half of the year as part of the full year end review of assumptions.

Other adjusting items of £14m principally relate to a significant multi-year major IT project which has been substantially completed in this period. The costs of this project extend over several years and as well as adjusting items include capitalisation of intangible assets, particularly in the case of IT systems. Those costs are primarily as a result of the Group's acquisition activity, which has been focused on businesses where the IT and financial infrastructure is limited.

Finance costs adjusting items relate to bridging finance for the Europac acquisition of £3m, with the remainder relating to the unwind of the discount on the redemption liability related to the purchase of Interstate Resources.

The current tax credit on adjusting items of £6m in the half year ended 31 October 2018 is the tax effect at the local applicable tax rate of adjusting items that are subject to tax. This excludes non-tax deductible deal-related advisory fees in relation to acquisitions and disposals. Adjusting tax items of £1m is an increase in tax provisions in respect of tax risks in acquired businesses. A deferred tax credit of £3m has been recognised in respect of GMP equalisation.

3. Adjusting items – continuing operations (continued)

Year ended 30 April 2018 and half year ended 31 October 2017

Acquisition-related costs of £28m related to professional advisory, legal and consultancy fees and directly attributable internal salary costs relating to the review of potential deals, and deals completed during the periods, including the acquisition of Interstate Resources, DPF Groupe and EcoPack and EcoPaper. Of the total, £14m related to the acquisition of Interstate Resources, with the most significant components being transaction and sponsor fees, legal costs, and financial and tax due diligence and advice costs.

Integration costs related to integration projects underway, primarily to achieve cost synergies from the acquisitions made in the current period and previous financial years (of which Interstate Resources comprised £6m). They included those directly attributable internal salary costs which would otherwise not be incurred and are typically duplicated with temporary costs in the underlying business.

Other restructuring costs of £15m included reorganisation and restructuring in DCH and Northern Europe (£4m) and the UK (£4m), primarily relating to completion of projects commenced in the previous year. For the half year ended 31 October 2017, other restructuring costs included projects of £5m in DCH and Northern Europe, and £1m in the UK.

Other adjusting items of £16m principally related to major IT projects which have been substantially completed in the current period. The costs of this project extend over several years and as well as adjusting items include capitalisation of intangible assets, particularly in the case of the financial ERP system.

Finance costs adjusting items related to financing costs incurred in the acquisition of Interstate Resources of £5m, with the remainder relating to the unwind of the discount on the redemption liability related to the purchase of Interstate Resources.

On 22 December 2017, the US enacted a major tax reform bill, which included, inter alia, the reduction in corporation tax rate from 35% to 21%. The revised rate was used to revalue net deferred tax liabilities in the US, leading to a credit of £37m to adjusting tax items, of which the most significant element related to the deferred tax liabilities arising on the recognition of intangibles in business combinations. The remaining £4m debit was an increase in tax provisions in respect of tax risks in acquired businesses.

The current tax credit on adjusting items of £13m in the year ended 30 April 2018 was the tax effect at the local applicable tax rate of adjusting items that are subject to tax. This excluded non-tax deductible deal-related advisory fees in relation to acquisitions and disposals.

4. Employee benefits

Movements in the net employee benefit deficit recognised in the Condensed Consolidated Statement of Financial Position:

	Half year ended 31 October 2018 £m	Half year ended 31 October 2017 £m	Year ended 30 April 2018 £m
Opening employee benefit deficit	**(106)**	(181)	(181)
Acquisitions	**-**	(11)	(8)
Expense recognised in operating profit	**(4)**	(3)	(6)
Past service cost (GMP equalisation) recognised in adjusting items	**(15)**	–	–
Employment benefit net finance expense (excluding Pension Protection Fund levy)	**(1)**	(2)	(3)
Employer contributions	**10**	10	25
Other payments and contributions	**(2)**	3	13
Actuarial (losses)/gains	**(24)**	25	57
Currency translation	**(3)**	(2)	(3)
Reclassification to held for sale	**2**	–	–
Employee benefit deficit	**(143)**	(161)	(106)
Deferred tax asset	**40**	42	26
Employee benefit deficit after tax	**(103)**	(119)	(80)

5. Finance income and costs – continuing operations

Continuing operations	**Half year ended 31 October 2018 £m**	Half year ended 31 October 2017 (restated) £m[1]	Year ended 30 April 2018 (restated) £m[1]
Interest income from financial assets	**(2)**	–	-
Finance income	**(2)**	–	-
Interest on borrowings and overdrafts	**31**	19	54
Other	**6**	6	4
Finance costs before adjusting items	**37**	25	58
Finance costs adjusting items	**8**	5	12
Finance costs	**45**	30	70

[1]Restated for the classification of the Plastics business as a discontinued operation (note 13).

6. Income tax expense – continuing operations

Tax on profit from continuing operations has been charged at an underlying rate before adjusting items and amortisation of 22.8% (half year ended 31 October 2017: 21.0%) being the expected full year rate.

7. Earnings per share

Basic earnings per share from continuing operations

	Half year ended 31 October 2018	Half year ended 31 October 2017 (restated)[1]	Year ended 30 April 2018 (restated)[1]
Profit from continuing operations attributable to ordinary shareholders	**£122m**	£98m	£237m
Weighted average number of ordinary shares	**1,286m**	1,083m	1,115m
Basic earnings per share	**9.5p**	9.1p	21.2p

Diluted earnings per share from continuing operations

	Half year ended 31 October 2018	Half year ended 31 October 2017 (restated)[1]	Year ended 30 April 2018 (restated)[1]
Profit from continuing operations attributable to ordinary shareholders	**£122m**	£98m	£237m
Weighted average number of ordinary shares	**1,286m**	1,083m	1,115m
Potentially dilutive shares issuable under share-based payment arrangements	**6m**	5m	7m
Weighted average number of ordinary shares (diluted)	**1,292m**	1,088m	1,122m
Diluted earnings per share	**9.4p**	9.0p	21.1p

Basic earnings per share from discontinued operations

	Half year ended 31 October 2018	Half year ended 31 October 2017 (restated)[1]	Year ended 30 April 2018 (restated)[1]
Profit from continuing operations attributable to ordinary shareholders	**£8m**	£9m	£22m
Weighted average number of ordinary shares	**1,286m**	1,083m	1,115m
Basic earnings per share	**0.6p**	0.8p	2.0p

Diluted earnings per share from discontinued operations

	Half year ended 31 October 2018	Half year ended 31 October 2017 (restated)[1]	Year ended 30 April 2018 (restated)[1]
Profit from continuing operations attributable to ordinary shareholders	**£8m**	£9m	£22m
Weighted average number of ordinary shares	**1,286m**	1,083m	1,115m
Potentially dilutive shares issuable under share-based payment arrangements	**6m**	5m	7m
Weighted average number of ordinary shares (diluted)	**1,292m**	1,088m	1,122m
Diluted earnings per share	**0.6p**	0.8p	2.0p

[1]Restated for rights issue (note 14) and the classification of the Plastics business as a discontinued operation (note13).

The number of shares excludes the weighted average number of the Company's own shares held as treasury shares during the period of 1m (half year ended 31 October 2017: 1m; year ended 30 April 2018: 1m).

Adjusted earnings per share from continuing operations

Adjusted earnings per share is a key performance measure for management of long-term remuneration and is widely used by the Group's shareholders. Adjusted earnings is calculated by adding back the post-tax effects of both amortisation and adjusting items.

Further detail about the use of non-GAAP performance measures, including details of why amortisation is excluded, is given in note 15.

A reconciliation of basic to adjusted earnings per share is as follows:

	Half year ended 31 October 2018			Half year ended 31 October 2017 (restated)			Year ended 30 April 2018 (restated)		
	£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	**122**	**9.5p**	**9.4p**	98	9.1p	9.0p	237	21.3p	21.1p
Add back:									
Amortisation of intangible assets	**53**	**4.1p**	**4.1p**	40	3.7p	3.7p	90	8.0p	7.9p
Tax credit on amortisation	**(13)**	**(1.0p)**	**(1.0p)**	(11)	(1.0p)	(1.0p)	(23)	(2.1p)	(2.0p)
Adjusting items, before tax	**58**	**4.5p**	**4.5p**	39	3.6p	3.6p	85	7.6p	7.6p
Tax on adjusting items and adjusting tax items	**(8)**	**(0.6p)**	**(0.6p)**	(2)	(0.2p)	(0.2p)	(46)	(4.1p)	(4.1p)
Adjusted earnings	**212**	**16.5p**	**16.4p**	164	15.2p	15.1p	343	30.7p	30.5p

8. Dividends proposed and paid

	2018		2017	
	Pence per share	**£m**	Pence per share	£m
2016/17 interim dividend – paid (restated)[1]	**-**	**-**	4.3p	44
2016/17 final dividend – paid(restated)[1]	**-**	**-**	9.8p	113
2017/18 interim dividend – paid (restated)[1]	**4.6p**	**53**	–	–
2017/18 final dividend – paid	**9.8p**	**134**	–	–
2018/19 interim dividend – proposed	**5.2p**	**71**	–	–

[1] Restated for rights issue (note 14) 2017/18 interim dividend restated to 4.56 pence per share.

	Half year ended 31 October 2018 £m	Half year ended 31 October 2017 £m	Year ended 30 April 2018 £m
Paid during the period	**53**	**44**	157

The final dividend in respect of 2017/18 of 9.8 pence per share (£134m) was paid after the half year end on 1 November 2018. The 2017/18 interim dividend was paid during the half year ended 31 October 2018. An interim dividend in respect of the half year ended 31 October 2018 of 5.2p per share (£71m) has been proposed by the Directors after the reporting date.

The final dividend in respect of 2017/18 of 9.8 pence per share was paid to all share-holders on the record date, including those issued in the rights issue (see note 14).

9. Cash generated from operations

Continuing operations	**Half year ended 31 October 2018 £m**	Half year ended 31 October 2017 (restated) £m[1]	Year ended 30 April 2018 (restated) £m[1]
Profit for the period	**122**	98	237
Adjustments for:			
Pre-tax integration costs and other adjusting items	**24**	16	45
Amortisation of intangible assets; acquisitions and disposals	**64**	58	118
Guaranteed minimum pension equalisation	**15**	–	–
Cash outflow for adjusting items	**(37)**	(32)	(78)
Depreciation	**89**	76	157
Profit on sale of non-current assets	**(1)**	(1)	(1)
Share of profit of equity accounted investments, net of tax	**(5)**	(3)	(5)
Employment benefit net finance expense	**1**	2	4
Share-based payment expense	**4**	4	9
Finance income	**(2)**	–	–
Finance costs	**45**	30	70
Other non-cash items	**-**	2	2
Income tax expense	**40**	30	23
Change in provisions	**(2)**	(2)	(9)
Change in employee benefits	**(5)**	(10)	(27)
Cash generation before working capital movement	**352**	268	545
Changes in:			
Inventories	**(24)**	(45)	(81)
Trade and other receivables	**(52)**	(42)	(18)
Trade and other payables	**104**	114	81
Working capital movement	**28**	27	(18)
Cash generated from continuing operations	**380**	295	527

[1] Restated for the classification of the Plastics business as a discontinued operation (note 13).

10. Net debt

	Half year ended 31 October 2018 £m	Half year ended 31 October 2017 £m	Year ended 30 April 2018 £m
Cash and cash equivalents	**435**	558	297
Overdrafts	**(191)**	(23)	(29)
Net cash and cash equivalents	**244**	535	268
Other investments – restricted cash	**3**	–	3
Other investments - restricted cash (rights issue proceeds)	**1,014**	–	–
Other deposits	**55**	43	45
Borrowings due – after one year	**(1,837)**	(1,914)	(1,802)
Borrowings due – within one year	**(108)**	(54)	(158)
Finance leases – after one year	**(9)**	(11)	(9)
Finance leases – within one year	**(2)**	(3)	(4)
Derivative financial instruments			
assets	**7**	9	12
liabilities	**(15)**	(11)	(35)
	(892)	(1,941)	(1,948)
Net debt	**(648)**	(1,406)	(1,680)

Net debt is a non-GAAP measure not defined by IFRS, calculated in accordance with the Group's banking covenant requirements. Further detail on the use of non-GAAP measures is included in note 15.

Derivative financial instruments above relate to forward foreign exchange contracts, interest rate and cross-currency swaps used to hedge the Group's borrowings and the ratio of net debt to adjusted EBITDA. Adjusted EBITDA, free cash flow, and net debt are non-GAAP measures not defined by IFRS. Further detail on the use of non-GAAP measures is included in note 15.

The difference between the amounts shown above and the total derivative financial instrument assets and liabilities in the consolidated statement of financial position relates to derivative financial instruments that hedge forecast foreign currency transactions and the Group's purchases of energy.

Other deposits are included, as these short-term receivables have the characteristics of net debt.

The rights issue proceeds are held in order to finance the Group's acquisition of Europac (see note 14).

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

	Half year ended 31 October 2018 £m	Half year ended 31 October 2017 (restated) £m[1]	Year ended 30 April 2018 (restated) £m[1]
Continuing operations			
Profit for the period	**122**	98	237
Income tax expense	**40**	30	23
Share of profit of equity accounted investments, net of tax	**(5)**	(3)	(5)
Net financing costs	**44**	32	74
Amortisation of intangible assets; acquisitions and disposals	**64**	58	118
Guaranteed minimum pension equalisation	**15**	–	–
Adjusting items	**24**	16	45
Operating profit before amortisation and adjusting items	**304**	231	492
Depreciation	**89**	76	157
Adjusted EBITDA	**393**	307	649
Working capital movement	**28**	27	(18)
Change in provisions	**(2)**	(2)	(9)
Change in employee benefits	**(5)**	(10)	(27)
Other	**3**	5	10
Cash generated from operations before adjusting cash items	**417**	327	605
Capital expenditure	**(121)**	(124)	(328)
Proceeds from sale of property, plant and equipment and other investments	**3**	9	16
Tax paid	**(47)**	(24)	(68)
Net interest paid	**(43)**	(26)	(41)
Free cash flow	**209**	162	184
Cash outflow for adjusting items	**(37)**	(32)	(78)
Dividends paid	**(53)**	(44)	(157)
Acquisition of subsidiary businesses, net of cash and cash equivalents	**(37)**	(521)	(615)
Other	**(5)**	(5)	(4)
Net cash flow	**77**	(440)	(670)
Proceeds from issue of share capital	**1,002**	283	283
Borrowings acquired	**(4)**	(144)	(204)
Net movement on debt	**1,075**	(301)	(591)
Foreign exchange, fair value and other non-cash movements	**(47)**	(21)	(15)
Net debt movement – continuing operations	**1,028**	(322)	(606)
Net debt movement – discontinued operations	**4**	8	18
Opening net debt	**(1,680)**	(1,092)	(1,092)
Closing net debt	**(648)**	(1,406)	(1,680)

[1] Restated for the classification of the Plastics business as a discontinued operation (note 13).

12. 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:

	2018		2017	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Financial assets				
Cash and cash equivalents	**435**	**435**	297	297
Fair value through other comprehensive income – other investments	**1,014**	**1,014**	11	11
Available for sale – other investments	**11**	**11**	-	-
Loans and receivables	**899**	**899**	870	870
Derivative financial instruments	**88**	**88**	59	59
Total financial assets	**2,447**	**2,447**	1,237	1,237
Financial liabilities				
Trade and other payables	**(1,792)**	**(1,792)**	(1,719)	(1,719)
Bank and other borrowings	**(108)**	**(108)**	(1)	(1)
Medium-term notes and other fixed-term debt	**(1,837)**	**(1,799)**	(1,959)	(1,995)
Finance lease liabilities	**(11)**	**(11)**	(13)	(13)
Bank overdrafts	**(191)**	**(191)**	(29)	(29)
Derivative financial instruments	**(47)**	**(47)**	(59)	(59)
Total financial liabilities	**(3,986)**	**(3,948)**	(3,780)	(3,816)

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, the medium-term note, cross-currency swaps and interest rate swaps. All derivative financial instruments are shown at fair value in the Consolidated Statement of Financial Position.

The Group's medium-term notes and other fixed-term debt are in 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 carrying amounts.

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 in accordance with the fair value hierarchy, meaning although the instruments are not traded in an active market, inputs to fair value are observable for the asset and liability, either directly (i.e. quoted market prices) or indirectly (i.e. derived from prices).

13. Discontinued operations and disposal group held for sale

The Plastics segment has been classified as 'held for sale' and treated as a discontinued operation following Board approval, prior to the period-end, to explore a potential sale of the business. Plastics principally comprises flexible packaging and dispensing solutions, extruded and injection moulded products and foam products. The Condensed consolidated income statement has been restated to present the Plastics segment as a discontinued operation. The Condensed consolidated statement of financial position presents the discontinued assets and liabilities as 'assets held for sale' and 'liabilities held for sale' respectively. The Condensed consolidated statement of cash flows has also been restated, presenting a single amount of net cash flow from discontinued operations.

(a) Condensed consolidated income statement – discontinued operations

	Half year ended 31 October 2018 £m	Half year ended 31 October 2017 £m	Year ended 30 April 2018 £m
Revenue	**182**	179	346
Operating costs	**(168)**	(159)	(308)
Operating profit before amortisation and adjusting items	**14**	20	38
Amortisation of intangible assets	**(1)**	(2)	(3)
Pre-tax adjusting items	**(2)**	(1)	(3)
Net finance income/(cost)	**1**	(1)	–
Profit before income tax	**12**	16	32
Income tax expense	**(4)**	(7)	(10)
Profit for the period from discontinued operations	**8**	9	22

(b) Assets and liabilities held for sale

	At 31 October 2018 £m
Intangible assets	63
Property, plant and equipment	69
Deferred tax assets	6
Inventories	30
Income tax receivable	5
Trade and other receivables	50
Assets held for sale	**223**
Employee benefits	(2)
Trade and other payables	(69)
Provisions	(1)
Deferred tax liabilities	(6)
Income tax liabilities	(13)
Liabilities held for sale	**(91)**

(c) Cash generated from discontinued operations

	Half year ended 31 October 2018 £m	Half year ended 31 October 2017 £m	Year ended 30 April 2018 £m
Net cash from operating activities	**9**	13	34
Net cash from investing activities	**(5)**	(5)	(16)
Net cash flows for the period	**4**	8	18

14. Acquisitions and disposals

(a) 18/19 acquisitions

In total, during the half year ended 31 October 2018, cash consideration for acquisition of subsidiary businesses, net of cash and cash equivalents, was £37m, and borrowings acquired were £4m, giving a total impact on net debt from acquisitions of £41m. Acquisitions during the period were not material to the Group individually or in aggregate.

(b) Pending acquisition of Papeles y Cartones de Europa, S.A. (Europac)

On 4 June 2018, the Group announced the proposed acquisition of Papeles y Cartones de Europa, S.A. (Europac), a leading western European integrated packaging business, for €1,667m plus acquired cash and debt of €237m.

On 14 November 2018, clearance for the proposed acquisition was obtained from the European Commission. As part of the transaction clearance DS Smith agreed with the Commission the disposal of two packaging businesses in Western France and Portugal. The financial impact of these disposals will not be material.

Following the clearance, the Group anticipates the offer documentation being posted to shareholders of Europac shortly and expects to complete the acquisition around the 2018 calendar year end.

The Company made a rights issue of 3 for 11 ordinary shares at 350 pence per share on 25 July 2018. Proceeds of the rights issue of £1,002m net and a new committed debt facility of €740m will fund the acquisition.

A provisional accounting and fair value exercise will be conducted shortly after completion.

The following table summarises the financial position of Europac at 31 December 2017 and its profit for the year then ended:

	Carrying values at 31 December 2017 £m
Non-current assets	739
Current assets	222
Non-current liabilities	(351)
Current liabilities	(247)
Total identifiable net assets	**363**

	Results for year ended 31 December 2017 £m
Revenue	760
Operating costs	(663)
Operating profit	**97**
Net finance costs	(8)
Profit before tax	**89**
Income tax expense	(20)
Profit after tax	**69**

(c) 2017/18 acquisitions and disposals

In total, during the year ended 30 April 2018, cash consideration for acquisition of subsidiary businesses, net of cash and cash equivalents, was £615m, and borrowings acquired were £204m, giving a total impact on net debt from acquisitions of £819m. Acquisitions included Interstate Resources, and EcoPack /EcoPaper.

On 25 August 2017, the Group acquired 80% of Indevco Management Resources Inc. (IMRI), the owner of Interstate Resources Inc. (Interstate Resources), for total consideration of £772m. Interstate Resources is an integrated packaging and paper producer based on the East Coast of the USA. The acquisition was funded by the issue of a placing on 29 June 2017 of shares in the Company with proceeds net of commissions and expenses of £270m, existing debt facilities, new debt facilities of £400m and the issue of 52,474,156 ordinary shares to the seller. During the half year ended 31 October 2018, fair value adjustments were made in relation to property, plant and equipment and liabilities, leading to an increase in goodwill of £7m.

On 6 March 2018, the Group acquired EcoPack and EcoPaper, a leading integrated packaging and paper group in Romania, for total consideration of £128m. The acquisition was funded by existing cash and debt facilities and the issue of 6,492,411 ordinary shares to the seller.

(c) Acquisition-related costs

The Group incurred acquisition-related costs in the half year ended 31 October 2018 of £11m (half year ended 31 October 2017: £18m; year ended 30 April 2018: £28m). In the current period, these expenses primarily related to the pending acquisition of Europac as detailed in 14(b) above. In the prior year, acquisition costs primarily related to the acquisition of Interstate Resources.

15. Non-GAAP performance measures

The Group presents reported and adjusted financial information in order to provide shareholders with additional information to further understand the Group's operational performance and financial position.

The principal adjustments to financial information are made to exclude the effects of adjusting items and amortisation.

Total reported financial information represents the Group's overall performance and financial position, but can contain significant items that may obscure an understanding of the key trends and position. These items include business disposals, restructuring and optimisation project costs, acquisition-related and integration costs, and impairments. Restructuring and optimisation items treated as adjusting items are major programmes usually spanning more than one year, with uneven impact on the profit and loss for those years affected. Other adjusting items, such as business disposals, impairments, integration and acquisition costs, which are by nature either highly variable and can also have a similar distorting effect. Therefore, the Directors consider that presenting non-GAAP measures which exclude adjusting items enable comparability of the recurring core business, complementing the IFRS measures presented.

Amortisation relates primarily to customer contracts and relationships arising from business combinations. In addition, significant costs are incurred in maintaining, developing and increasing the value of such intangibles, costs which are charged in determining adjusted profit. Exclusion of amortisation remedies this, as well as providing comparability over the accounting treatment of customer contracts and relationships arising from the acquisition of businesses and those generated internally.

The Group's key non-GAAP measures are used both internally and externally to evaluate business performance against the Group's KPIs and banking and debt covenants, as a key constituent of the Group's planning process, as well as comprising targets against which compensation is determined.

Reporting of non-GAAP measures alongside reported measures is considered useful to investors to understand how management evaluates performance and value creation internally, enabling them to track the Group's performance and the key business drivers which underpin it and the basis on which to anticipate future prospects.

Certain non-GAAP performance measures can be, and are, reconciled to information presented in the financial statements. Other financial key performance measures are calculated using information which is not presented in the financial statements and is based on, for example, average 12-month balances or average exchange rates.

The key non-GAAP performance measures used by the Group and their calculation methods are as follows:

Adjusted operating profit

Adjusted operating profit is operating profit excluding the pre-tax effects of both amortisation and adjusting items. Adjusting items include business disposal gains and losses, restructuring and optimisation costs, acquisition-related and integration costs and impairments.

A reconciliation between reported and adjusted operating profit is set out on the face of the consolidated income statement.

Operating profit before adjusting items

A reconciliation between operating profit and operating profit before adjusting items is set out on the face of the consolidated income statement.

Other similar profit measures before adjusting items are quoted, such as profit before income tax and adjusting items, and are directly derived from the consolidated income statement, from which they can be directly reconciled.

Return on sales

Return on sales is adjusted operating profit measured as a percentage of revenue and can be derived directly from the face of the consolidated income statement. Return on sales is used to measure the value we deliver to customers and the Group's ability to charge for that value.

Continuing operations	**Half year ended 31 October 2018 £m**	Half year ended 31 October 2017 (restated) £m[1]	Year ended 30 April 2018 (restated) £m[1]
Adjusted operating profit	**304**	231	492
Revenue	**3,073**	2,663	5,518
Return on sales	**9.9%**	8.7%	8.9%

[1] Restated for the classification of the Plastics business as a discontinued operation (note 13) and the adoption of IFRS 15 *Revenue* (note 1).

Adjusted earnings per share

Adjusted earnings per share is basic earnings per share adjusted to exclude the post-tax effects of adjusting items and amortisation. Adjusted earnings per share is a key performance measure for management of long-term remuneration and is widely used by the Group's shareholders.

A reconciliation between basic and adjusted earnings per share is provided in note 7.

Adjusted EBITDA

Earnings before interest, tax, depreciation and amortisation (Adjusted EBITDA) is adjusted operating profit excluding depreciation. A reconciliation from adjusted operating profit to adjusted EBITDA is provided in note 11.

Adjusted return on average capital employed (ROACE)

ROACE is the last 12-months' adjusted operating profit as a percentage of the average monthly capital employed over the previous 12 month period. Capital employed is the sum of property, plant and equipment, goodwill and intangible assets, working capital, capital debtors/creditors, provisions, biological assets and assets/liabilities held for sale. Assets/liabilities held for sale relating to discontinued operations are excluded from capital employed.

Continuing operations	**Half year ended 31 October 2018 £m**	Half year ended 31 October 2017 (restated) £m[1]	Year ended 30 April 2018 (restated) £m[1]
Capital employed	**4,053**	3,737	3,980
Currency, inter-month and acquisition movements	**25**	(667)	(363)
Last 12 months' average capital employed	**4,078**	3,070	3,617
Last 12 months' adjusted operating profit[1]	**568**	427	492
Adjusted return on average capital employed[1]	**13.9%**	13.9%	13.6%

[1]Restated for the classification of the Plastics business as a discontinued operation (note 13).

Net debt

Net debt is the measure by which the Group assesses its level of overall indebtedness within its financial position. A split showing the components of net debt is provided in note 10.

Net debt/EBITDA

Net debt/EBITDA is the ratio of net debt to adjusted EBITDA, calculated in accordance with the Group's banking covenant requirements.

Net debt/EBITDA is considered a key measure of the statement of financial position strength and financial stability by which the Group assesses its financial position.

In calculating the ratio, net debt is stated at average rates as opposed to closing rates, and adjusting EBITDA is adjusted operating profit before depreciation from the previous 12-month period adjusted for the full year effect of acquisitions and disposals in the period.

	Half year ended 31 October 2018 £m	Half year ended 31 October 2017 £m[1]	Year ended 30 April 2018 £m[1]
Net debt – reported basis (see note 10)	**648**	1,406	1,680
Currency effects	**(1)**	(10)	7
Net debt – adjusted basis	**647**	1,396	1,687
Continuing operations adjusted EBITDA – last 12 months' reported basis	**735**	572	649
Acquisition effects	**6**	77	52
Add back of discontinued operations	**43**	52	49
Adjusted EBITDA – banking covenant basis	**784**	701	750

[1]Represented following the classification of the Plastics business as a discontinued operation (note 13).

Free cash flow

Free cash flow is the net movement on debt before cash outflow for adjusting items, dividends paid, acquisition and disposal of subsidiary businesses (including borrowings acquired), and proceeds from issue of share capital.

A reconciliation of free cash flow is set out in note 11.

Cash conversion

Cash conversion is free cash flow, as defined above, adjusted to exclude tax, net interest, growth capital expenditure and pension payments as a percentage of adjusted operating profit and can be derived directly from note 11, other than growth capital expenditure, which is capital expenditure necessary for the development or expansion of the business as follows:

	Half year ended 31 October 2018 £m	Half year ended 31 October 2017 (restated) £m[1]	Year ended 30 April 2018 (restated) £m[1]
Growth capital expenditure	**44**	56	165
Non-growth capital expenditure	**77**	68	163
Total capital expenditure	**121**	124	328
Free cash flow (note 11)	**209**	162	184
Tax paid (note 11)	**47**	24	68
Net interest paid (note 11)	**43**	26	41
Growth capital expenditure	**44**	56	165
Pension payments (note 11)	**5**	10	27
	348	278	485
Adjusted operating profit	**304**	231	492
Cash conversion	**114%**	120%	99%

[1] Restated for the classification of the Plastics business as a discontinued operation (note 13).

Average working capital to sales

Average working capital to sales measures the level of investment the Group makes in working capital to conduct its operations. It is measured by comparing the monthly working capital balances for the previous 12 months as a percentage of revenue over the same period. Working capital is the sum of inventories, trade and other receivables, and trade and other payables, excluding capital and acquisition-related debtors and creditors. Working capital relating to discontinued operations is excluded from capital employed.

Continuing operations	**Half year ended 31 October 2018 £m**	Half year ended 31 October 2017 (restated) £m[1]	Year ended 30 April 2018 (restated) £m[1]
Inventories	**547**	465	514
Trade and other receivables	**845**	805	781
Trade and other payables	**(1,546)**	(1,457)	(1,420)
Inter-month movements and exclusion of capital and acquisition-related items	**155**	183	114
Last 12 months' average working capital	**1**	(4)	(11)
Last 12 months' revenue	**5,928**	4,921	5,518
Average working capital to sales	**0.0%**	(0.1%)	(0.2%)

[1] Restated for the classification of the Plastics business as a discontinued operation (note 13) and the adoption of IFRS 15 *Revenue* (note 1).

Constant currency revenue

The Group presents commentary on both reported and constant currency revenue and adjusted operating profit comparatives in order to explain the impact of exchange rates on the Group's key income statement captions. Constant currency comparatives recalculate the prior period revenue and adjusted operating profit as if they had been generated at the current year exchange rates. The table below shows the calculation:

Comparative half year ended 31 October 2017	**Revenue £m[1]**	**Adjusted operating profit £m[1]**
Reported basis	**2,663**	**231**
Currency effects	**(16)**	**(1)**
Constant currency basis	**2,647**	**230**

[1] Restated for the classification of the Plastics business as a discontinued operation (note 13).

Revenue and adjusted operating profit

	Half year ended 31 October 2018 £m	Half year ended 31 October 2017 (restated) £m[1]	Year ended 30 April 2018 (restated) £m[1]
External revenue - continuing operations	3,073	2,663	5,518
External revenue - discontinued operations	182	179	346
Total revenue for the Group	**3,255**	**2,842**	**5,864**
Adjusted operating profit - continuing operations	304	231	492
Adjusted operating profit - discontinued operations	14	20	38
Total adjusted operating profit	**318**	**251**	**530**

[1] Represented for the classification of the Plastics business as a discontinued operation (note 13).

16. Subsequent events

As detailed in note 14(b), on 14 November 2018, clearance for the proposed acquisition was obtained from the European Commission.

On 29 November 2018, the Group signed a £1.4billion, five-year extendable revolving credit facility, replacing the £800m revolving credit facility maturing in 2020 and the Europac bridge facility.

There are no further subsequent events after the reporting date which require disclosure.