5 December 2019

DS SMITH PLC – 2019/20 HALF YEAR RESULTS

Robust business model driving profitable growth

6 months to 31 October 2019 *Continuing operations*[9]		Change (reported)	Change (constant currency)
Revenue	£3,188m	+4%	+3%
Adjusted operating profit[1]	£351m	+15%	+14%
Profit before tax	£213m	+31%	+30%
Adjusted EPS[1]	17.4p	+5%	+4%
Statutory basic EPS	12.0p	+26%	+26%
Interim dividend per share	5.4p	+4%	+4%
Return on sales[4]	11.0%	+110bps	+110bps
ROACE[5]	11.8%	(210bps)	(210bps)

See notes to the financial table below

Highlights

- Record Group profitability and return on sales despite economic headwinds
  - Market share gains driven by multinational FMCG and e-commerce customers
  - Customers increasingly valuing our sustainable packaging solutions, reflected in good pricing and return on sales up 110 basis points
- Europe – good organic profit growth
- Europac - excellent progress and strong initial contribution
  - Packaging turnaround to profitability
  - €70m synergy programme fully on track
- Good US domestic performance offset by impact of export paper pricing
  - Indiana greenfield box plant now operational
    - Transforms US capability and customer offering
    - Consistent with strategy to reduce US long paper exposure
- Strong cashflow and balance sheet
  - Plastics disposal (net proceeds c. £400m) expected to complete around the calendar year end
  - Strong liquidity profile: €600m, seven year bond raised at 0.875%
- Future growth prospects continue to benefit from the increased customer focus on sustainability (including plastic replacement) and e-commerce

"Our leadership in e-commerce and sustainable packaging solutions has enabled us to perform well despite a difficult macro environment and volatility in paper pricing. The continued growth in margin and strong pricing discipline has been particularly pleasing as we deepen our relationships with FMCG customers and grow market share.

We continue to capitalise on the strong long-term growth drivers of fibre-based packaging, with our industry-leading innovation driving differentiation in the market. Assuming current macro-economic conditions prevail, we anticipate an acceleration of volume growth in the second half of the year which, together with the resilience of our business model, supports our expectation of further growth in the year."

Miles Roberts, Group Chief Executive

Progress against medium-term targets

Medium term targets *Continuing operations*[9]	Delivery in H1 2019/20[8]
Organic volume growth[2] ≥GDP[3]+1% (2.6%)	0.7%
Return on sales[4] 10% – 12%	11.0%
ROACE[5] 12% - 15%	11.8%
Net debt / EBITDA[6] ≤2.0x	2.3x
Cash conversion[7] ≥100%	103%

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 2451936#.

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 impact 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 over time. Note 16 to the financial statements explains the use of non-GAAP performance measures and reconciles them to the closest IFRS measure.

The Group has adopted IFRS 16 *Leases* from 1 May 2019 and, as required by the modified retrospective approach, has not restated comparatives (see note 13 to the financial statements).

(1) Before adjusting items (see note 3 to the financial statements) and amortisation of intangible assets

(2) Corrugated box volumes (based on area (m^2) of corrugated box sold), adjusted for working days, on an organic basis

(3) GDP growth (year-on-year) for the countries in which DS Smith operates, weighted by our sales by country = 1.6%. Source: Eurostat (14 Nov 2019)

(4) Operating profit before adjusting items and amortisation of intangible assets as a percentage of revenue

(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. The impact of IFRS 16 *Leases* has been to decrease ROACE by approximately 20 basis points against the prior period

(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. The Group's banking covenant requirements currently exclude IFRS 16 lease liabilities from the definition of net debt as well as requiring that EBITDA is calculated under the previous IAS 17 basis

(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 corrugated box volume growth, cash conversion and return on sales given for the 6 months to 31 October 2019; ROACE and net debt / EBITDA given for the 12 months to 31 October 2019

(9) References to continuing operations excludes the Plastics division, which is now presented as a discontinued operation

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.

Overview

In the half year to 31 October 2019, DS Smith has continued to grow well, with corrugated box volume growth of 0.7%, adjusted operating profit up 14%, profit before tax up 30% and return on sales up 110 basis points to 11.0%.

Overall, performance has been strong, despite a challenging and uncertain macro-economic environment. Within Europe, we have continued to grow market share, with corrugated box volume growth among multi-national FMCG customers remaining significantly ahead of the average volume growth rate. The decline in volumes from our industrial business has had an impact on overall box volume growth, although this represents only a small part of our business and we are adjusting our cost base accordingly. Box prices have remained solid despite the reduction in paper prices as customers recognise and value our innovation and sustainable packaging solutions. Integration work of the Europac business has been excellent, with cost synergies fully on track and good customer engagement.

Within our overall short paper strategy and position, regional profitability has been impacted by the level of paper integration of the respective regions. Lower paper prices benefited those regions where we are "short paper" but have had a negative impact on those regions where we are currently "long paper". Within North America, our domestic business has continued to perform well, offset by the decline in paper prices to the export market. In line with our strategy to be balanced in relation to paper integration within North America, the new Indiana corrugated packaging site, which is now operational, will over time significantly reduce the degree of our long paper position in that region going forward. In Europe, our robust performance has proven our business model of being short paper while providing high quality, value-adding packaging to resilient FMCG customers both when paper prices rose and also now that they have fallen. Our review to optimise our European paper requirements is ongoing, and we continue to target cost and efficiency improvements.

Performance for six months to 31 October 2019

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

Organic corrugated box volume growth of 0.7% builds on the strong growth in the comparable prior period. While behind our GDP+1% target, it is ahead of market growth, reflecting continued gains in market share with our strategic customers. In a challenging economic environment, our differentiated customer offering has allowed us to demonstrate good pricing discipline, despite downward pressure on pricing in the market overall due to the decline in benchmark paper prices. We saw very good volumes once again from our multi-national customers, reflecting the demand for our innovative packaging solutions across Europe and the US. As a Group, c. 70% of our corrugated box volumes are sold to resilient FMCG customers, substantially ahead of the industry average.

For the half year period, revenues increased by 3% (4% on a reported basis), principally reflecting the contribution from Europac and volume growth in corrugated boxes. This has been partially offset by a modest reduction in selling prices of corrugated packaging, together with a more substantial reduction in revenue from paper and recyclate sales, noticeably from US paper exports. In addition, we have reduced the volume of paper in Europe sold externally, as we have increased the level of our own paper consumed within our packaging businesses.

Our European business is approximately 80% vertically integrated overall, and hence we have a requirement to buy paper for the remaining 20% requirement. We nonetheless sell some of our paper where it is beneficial to do so and buy corresponding volumes in the open market. Such external paper sales are reported as revenue and the purchased volumes as cost of sales.

Return on sales for the period was 11.0%, up 110 basis points on the comparable prior period and at the midpoint of our recently upgraded target range of 10% – 12%. This reflects the benefit of our focus on value-added packaging and strong pricing discipline, together with good progress and synergy delivery from the Europac acquisition more than offsetting the reduced margin in North America as a result of lower pricing for paper export.

Adjusted operating profit was up 14% on a constant currency basis. Growth was driven by the inclusion of a full six months' contribution from Europac and accompanying synergies of £17 million. This was partially offset by the reduction in profitability from the North America division due to lower prices realised on paper export sales. The European business continued to grow organically and the benefits from reduced paper and OCC costs were only partially offset by reduced box prices in our packaging business.

Return on average capital employed was down 180 basis points to 11.8% compared to that at 30 April 2019 (13.6%), reflecting an additional six month inclusion of Europac which is initially dilutive to Group ROACE. The impact of IFRS 16 *Leases* has been to decrease ROACE by approximately 20 basis points against the prior period, meaning that on a pre-IFRS 16 basis, ROACE would have been 12.0%, within our target range of 12% – 15%.

Balance Sheet

Net debt / EBITDA is stable at 2.3x, compared to that at 30 April 2019. This ratio is not affected by the adoption of IFRS 16 *Leases* because its effects are excluded under the Group's banking covenant definitions and the impact would, in any case, be immaterial.

Operating cashflow and the proceeds of the remedy disposals (£62 million) were largely offset by capex, a small working capital outflow resulting from the price effect in creditors for externally sourced paper, and dividend payments. Capex in this financial year is more weighted towards H1 than is typical, principally due to expenditure on the new Indiana site. In the second half of the financial year, we expect the agreed disposal of the Plastics division to complete resulting in proceeds of c. £400 million (net of tax and expenses) and also expect to complete our purchase of the 10% stake in Interstate Resources due to the exercise of the pre-existing put option by the sellers of that business. The final 10% stake remains subject to the put option.

In September 2019 we issued an additional bond under our Euro Medium-Term Notes programme, raising a €600m bond for seven years priced at 0.875%. This provides long-term, attractive financing for the business and extends the maturity profile of our debt.

Structural drivers for growth

We continue to see three particularly noticeable structural growth drivers, being e-commerce, the drive for sustainable solutions to replace plastic packaging and the requirement for more sophisticated packaging from retailers. In the period, there has been a substantial increase in the number of public commitments by our customers on the topic of sustainability and, in particular, the use of non-plastic packaging. This presents a massive opportunity for fully recycled and recyclable corrugated packaging as a substitute for plastic and one which we are well positioned to maximise due to our scale and customer relationships, and we have had a high level of customer engagement on. We expect this to be a continuing trend, with many customer commitments to reduce plastic spanning to 2025 and beyond. We have developed a large number of sustainable solutions to replace such plastic packaging and expect to maintain the development of further solutions through continued close collaboration with our customers and partners such as the Ellen MacArthur Foundation.

Operating Review

Unless otherwise noted, the commentary below refers to changes on a constant currency basis. During the period, the Group changed its internal reporting structure, reducing the regional segments from five to four. Consequently, a corresponding change to the operating segments reported has been made, and the operating segment analysis for the comparative period has been restated.

Northern Europe

	Half year ended 31 October 2019	Half year ended 31 October 2018	Change – reported	Change – constant currency
Revenue	£1,227m	£1,313m	(7%)	(7%)
Adjusted operating profit*	£104m	£141m	(26%)	(27%)
Return on sales*	8.5%	10.7%	(220bps)	(230bps)

*Operating profit before amortisation and adjusting items (refer to note 3 of the financial statements)
Note: the Northern Europe segment comprises the UK, Germany, Switzerland, Norway, Sweden, Finland, Denmark and Benelux

In Northern Europe, organic corrugated box volume growth was mixed, with continued good growth in the UK and the Nordic region driven by our strong FMCG focus, and somewhat offset by difficult conditions for our industrial customers in Germany and the surrounding Benelux region, particularly in the automotive sector. We are optimising our operational efficiencies to reflect the challenging environment, have strengthened the management team in Germany and expect a progressive improvement in this area.

Revenues have decreased by 7% in the region due to a combination of a modest decline in corrugated box pricing, combined with a larger impact from a reduced sales price for externally sold paper and lower volumes sold externally as internal integration has been increased. Adjusted operating profit fell 27%, principally due to the level of exposure to paper manufacturing in the region, particularly in Germany.

Southern Europe

	Half year ended 31 October 2019	Half year ended 31 October 2018	Change – reported	Change – constant currency
Revenue	£1,175m	£943m	+25%	+24%
Adjusted operating profit*	£170m	£67m	+154%	+154%
Return on sales*	14.5%	7.1%	+740bps	+740bps

* Operating profit before amortisation and adjusting items (refer to note 3 of the financial statements)
Note: the Southern Europe segment comprises France, Spain, Portugal and Italy

Southern Europe has seen organic corrugated box volume growth broadly in line with that of the overall Group, with a strong delivery in Italy and Iberia, contrasted with difficult conditions in France, which also saw some of the weakness in industrial products as in other parts of Europe. This result includes the operations acquired from Europac, which increased packaging volumes ahead of the Group rate of growth. We are delighted with the profitable turnaround in the Europac packaging operations as the commercial teams from Europac are now integrated with DS Smith and operating a common approach to quality, service and pricing.

Revenue increased by 24%, principally due to the contribution from the Europac assets (£297 million), slightly offset by the assets sold as remedy disposals shortly following completion of that acquisition. The revenues from the Europac assets had, prior to our ownership, included a substantial component of external paper sales and these have reduced due to increased integration within the enlarged Group’s packaging operations.

Adjusted operating profit increased by £103 million, up 154% compared to the prior period, principally reflecting the contribution from the Europac business (£44 million) and related synergies of €19 million (£17 million) achieved in the period, which reflects both the contribution from the paper assets and a profitable outturn for the Europac packaging business. Our other packaging operations in the region saw strong profit growth due to lower input costs and good pricing.

Eastern Europe

	Half year ended 31 October 2019	Half year ended 31 October 2018	Change – reported	Change – constant currency
Revenue	£469m	£476m	(1%)	(1%)
Adjusted operating profit*	£47m	£39m	+21%	+21%
Return on sales*	10.0%	8.2%	+180bps	+180bps

* Operating profit before amortisation and adjusting items (refer to note 3 of the financial statements)
Note: the Eastern Europe segment comprises our remaining European operations, including Austria, Poland, the Czech Republic, Hungary, the Baltic states, the Balkan region, Greece and Turkey

Organic corrugated box volumes in Eastern Europe have been robust with particularly good volume growth in Poland and the Baltic region. Revenues have been flat, reflecting a balance between organic corrugated volume growth and modest box price pressure. Adjusted operating profit increased 21%, reflecting good growth in the packaging operations with the benefit of lower input costs combined with robust pricing, only partially offset by the paper operations in the region.

North America

	Half year ended 31 October 2019	Half year ended 31 October 2018	Change – reported	Change – constant currency
Revenue	£317m	£341m	(7%)	(11%)
Adjusted operating profit*	£30m	£57m	(47%)	(50%)
Return on sales*	9.5%	16.7%	(720bps)	(740bps)

*Operating profit before amortisation and adjusting items (refer to note 3 of the financial statements)

Corrugated box volumes have been below the Group average volume growth in the period, principally reflecting the rapid growth last year causing a level of capacity constraint which we are now able to address through the opening of our greenfield packaging plant in Lebanon, Indiana. Revenues decreased by 11%, principally reflecting the substantial decline in the selling price for the excess paper manufactured by our operations in the region. The continued good performance of our domestic business, reflecting the more stable market conditions, has been offset by weakness in paper prices in the export market. As a consequence, adjusted operating profit declined by 50%, also impacted by some start-up costs associated with the Indiana site.

Our strategy in North America is to be balanced between paper and packaging. Currently, the region is long paper and is more exposed to the prevailing paper price, as has been seen in this period. As we described at the time of acquisition, we are systematically reducing this long position and in 2018 we began the process of building a new corrugated packaging site in Indiana to serve our multinational FMCG customers. As of November 2019, this site is now operational, on time and to budget. We are delighted that we have had a high level of customer engagement regarding the new capability and are now beginning to deliver product to key FMCG customers from the facility. The capacity of the new plant, once fully operational, is sufficient to halve the existing long paper position. The new site will also allow us to reduce bottlenecks at existing sites and improve our operational efficiency. In this current financial year, total losses associated with the start-up of this site are expected to be c. £15 million, as previously announced.

Disposal of Plastics division

On 6 March 2019, DS Smith agreed to dispose of the Plastics division to Olympus Partners for $585m. We expect net cash proceeds after taxation, transaction adjustments and expenses of approximately £400 million. This transaction is expected to complete around the end of 2019.

The Plastics business, which is classified as a discontinued operation, has continued to trade well with revenues broadly flat, while adjusted operating profits were up 14%.

Outlook

We continue to capitalise on the strong long-term growth drivers of fibre-based packaging, with our industry leading innovation driving differentiation in the market. Assuming current macro-economic conditions prevail, we anticipate an acceleration of volume growth in the second half of the year which, together with the resilience of our business model, supports our expectation of further growth in the year.

Financial Review

Unless otherwise noted, the following commentary relates to the continuing operations of the Group.

Group revenue for the half year to 31 October 2019 increased on an reported basis by 4% to £3,188 million (H1 2018/19: £3,073 million), principally due to acquisitions, partially offset by lower volumes and sales prices within the paper and recycling businesses. External volumes in paper reduced as a result of increased internal sales and recycling volumes continue to be impacted by lower export demand from Asian markets. These decreases were partially offset by modest growth in corrugated box volumes and robust average sales prices. On a constant currency basis, revenue increased by 3%.

Operating profit of £259 million increased versus the prior year (H1 2018/19: £201 million) principally due to the contribution from acquisitions, modest growth in corrugated box volumes, a small gain realised on a remedy disposal and the recognition of a charge in respect of GMP equalisation in the prior year. These effects were partially offset by reductions in the export pricing for North American paper.

Adjusted operating profit increased 15% to £351 million (H1 2018/19: £304 million), with a £4 million tailwind from currency translation. On a constant currency basis, adjusted operating profit growth was 14%, benefitting from the contribution from acquisitions, principally the ownership of Europac for the period (£61 million), and the net impact of corrugated box volume growth. Robust pricing within the packaging business has helped offset reducing European paper and recyclate prices, whilst the North America business has been impacted by significant reductions in pricing of paper to export markets (£29 million).

Free cash flow, being EBITDA plus the cash flow effect of working capital, pension payments, capital expenditure (net of proceeds), tax and interest, was £178 million (H1 2018/19: £209 million). EBITDA of £498 million was partially offset by a reduction in the usage of factoring facilities and the working capital impact of lower paper and energy prices, capital expenditure that was higher than the prior year (due to acquisition and synergy-enabling capital spend and the US greenfield in Lebanon, Indiana), tax and interest payments. Factoring balances at the half year for the total Group, were £475 million (31 October 2018: £550 million, 30 April 2019: £525 million).

Net debt movement for the period ended 31 October 2019 for the total Group, was an increase of £167 million, principally due to the inclusion of lease obligations following the adoption of IFRS 16 *Leases* of £242 million, dividends paid of £71 million, adjusting items of £26 million, and fair value adjustments, new lease obligations and foreign exchange movements of £46 million. These were partially offset by free cash flow and the net proceeds on the remedy disposals of £62 million.

Net capital expenditure was £174 million in the period (H1 2018/19: £118 million) with c. £370 million expected to be spent in the full financial year (2018/19: £289 million). The year-on-year increase reflects the impact of the Europac acquisition and the US greenfield packaging plant in Lebanon, Indiana.

Amortisation for the period was £71 million (H1 2018/19: £53 million), with c. £140 million expected for the full financial year.

Depreciation for the period was £147 million (H1 2018/19: £89 million), with the charge for the full financial year expected to be c. £320 million for continuing operations. The depreciation charge is impacted by the adoption of IFRS 16 *Leases*, which has increased depreciation against the comparative period by £35 million.

Return on average capital employed of 11.8% for the 12 month period to 31 October 2019 (12 months to 31 October 2018: 13.9%) has decreased primarily due to the dilutive impact of recently-acquired businesses. The impact of IFRS 16 *Leases* has been to decrease ROACE by approximately 20bps; without this effect the ROACE for the period would be at the bottom end of the range for our medium-term target of 12% - 15%.

Adjusting items costs were £24 million in the period (H1 2018/19: £58 million), being the net of a £6 million gain primarily on the remedy disposals, acquisition-related costs of £7 million, £20 million relating to integration and other restructuring initiatives and £3 million of acquisition-related finance costs.

Net financing costs before adjusting items were £44 million (H1 2018/19: £35 million), reflecting the increase in debt over the period due to consideration paid for acquisitions, as well as the adoption of IFRS 16 *Leases*. Adjusting finance costs of £3 million relate to the unwind of the discount of the Interstate Resources redemption liability – a further £2 million was charged to underlying finance costs. The pension interest charge for the period was £2 million, with a charge of £4 million expected for the full year. The interest charge for the year as a whole is expected to be c. £88 million.

Profit before tax increased to £213 million (H1 2018/19: £162 million) due to higher operating profit, offset by higher interest costs and a slightly lower share of results of associates. Adjusted profit before tax of £308 million (H1 2018/19: £273 million) was higher due to 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 23.0%.

Profit after tax for continuing operations was £164 million (H1 2018/19: £122 million). Profit for the period for total operations was £171 million (H1 2018/19: £130 million).

Earnings per share for continuing operations before amortisation and adjusting items increased 5% on an actual basis to 17.4 pence (H1 2018/19: 16.5 pence), reflecting the growth in operating profit. Total unadjusted earnings per share for continuing operations were 12.0 pence (H1 2018/19: 9.5 pence) due to higher profit from operations, together with lower adjusting items noted above.

In the second half of the financial year we expect to complete our purchase of a further 10% stake in Interstate Resources due to the exercise of the pre-existing put option by the sellers of that business. The final 10% stake remains subject to the put option.

Financial position

Total equity increased to £3,187 million at 31 October 2019 from £3,112 million at 30 April 2019 due to retained profits of £171 million, offset by foreign currency translation losses of £13 million, actuarial losses on employee benefits of £7 million, hedging movements of £11 million and dividends of £71 million.

Net debt at 31 October 2019 was £2,444 million (30 April 2019: £2,277 million). Reported net debt has been impacted by the adoption of IFRS 16, representing £242 million of the increase during the period, although IFRS 16 lease liabilities are excluded from the definition of adjusted net debt as set out in the Group's banking covenants. On a covenant basis, adjusted net debt represents 2.3x EBITDA, calculated over the prior 12 month period, based on a full year contribution from acquired businesses and excluding the impact of IFRS 16 *Leases*. Net debt will benefit by c. £400 million from the disposal of Plastics and be negatively impacted by c. £90 million through the exercise of 50% of the Interstate put option, which leaves a remaining liability that could crystallise as debt of c. £90 million at the earliest of 12 months' time.

During the half year ended 31 October 2019, the Group launched and priced €600m of notes due 12 September 2026 with a coupon of 0.875% pursuant to its Euro Medium-Term Note programme.

The Group has for many years sold certain trade receivables without recourse, and on realisation the trade receivable is de-recognised and proceeds are presented within operating cash flows. These arrangements have systematically reduced early payment discounts and have thus provided the Group with more economic alternatives. The facilities available are generally committed for three years and are not relied upon by the Group for liquidity. There has been an underlying reduction in factoring balances of £50 million to £475 million (30 April 2019: £525 million) or £75 million when compared to H1 2018/19.

IFRS 16 *Leases*

The Group adopted IFRS 16 *Leases*, as disclosed in note 13 to the financial statements.

The impact on implementation of IFRS 16 was to recognise lease liabilities on continuing operations at 1 May 2019 of £242 million, along with a corresponding increase in right-of-use assets of £239 million.

Under the modified retrospective approach adopted by the Group, the adjustment was only made to the balance sheet at 1 May 2019, and the comparatives are not restated.

IFRS 16 liabilities are currently excluded from the definition of net debt as set out in the Group's banking covenant requirements. EBITDA is also calculated before the effects of IFRS 16, so an adjustment to the previous IAS 17 basis is made in the calculation of net debt/EBITDA, as detailed in note 16.

For the half year ended 31 October 2019, the operating lease expense was replaced with the right-of-use depreciation charge of £35 million that was recognised in operating profit and a £6 million interest expense that was recognised within finance costs.

Discontinued operations and disposal group held for sale

The Plastics business is classified as 'held for sale' and treated as a discontinued operation from the half year ended 31 October 2018.

The condensed consolidated income statement presents the Plastics business 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 presents a single amount of net cash flow from discontinued operations. Completion is expected around the end of the calendar year 2019.

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 5.4 pence per share (H1 2018/19: 5.2 pence per share). This represents an increase of 4%, demonstrating the confidence of the Board in the outlook for the Group. The dividend will be paid on 1 May 2020 to ordinary shareholders on the register at the close of business on 14 April 2020.

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 on pages 49 to 55 of the 2019 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;
- Disruptive markets;
- Governance;
- Changes in shopping habits;
- Talent barriers;
- Packaging transformations;
- Changes in fibre technology;
- Sustainability; and
- Margin capture.

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 2019 there was significant headroom on the Group's committed debt facilities of c. £1.4 billion. 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 Group	Adrian Marsh
Chief Executive	Group Finance Director

4 December 2019

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 2019 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 17. 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 2019 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
4 December 2019

Condensed consolidated income statement

Continuing operations	Note	**Half year ended 31 October 2019 Unaudited** **Before adjusting items £m**	**Adjusting items (note 3) £m**	**After adjusting items £m**	Half year ended 31 October 2018 Unaudited Before adjusting items £m	Adjusting items (note 3) £m	After adjusting items £m	Year ended 30 April 2019 Audited Before adjusting items £m	Adjusting items (note 3) £m	After adjusting items £m
Revenue	2	3,188	–	3,188	3,073	–	3,073	6,171	–	6,171
Operating costs		(2,837)	(20)	(2,857)	(2,769)	(24)	(2,793)	(5,540)	(50)	(5,590)
Operating profit before amortisation, acquisitions, disposals and guaranteed minimum pension equalisation	2	351	(20)	331	304	(24)	280	631	(50)	581
Amortisation of intangible assets; acquisitions and disposals	2	(71)	(1)	(72)	(53)	(11)	(64)	(114)	(32)	(146)
Guaranteed minimum pension equalisation		–	–	–	–	(15)	(15)	–	(8)	(8)
Operating profit		280	(21)	259	251	(50)	201	517	(90)	427
Finance income	5	–	–	–	2	–	2	–	–	–
Finance costs	3, 5	(44)	(3)	(47)	(37)	(8)	(45)	(69)	(15)	(84)
Employment benefit net finance expense		(2)	–	(2)	(1)	–	(1)	(2)	–	(2)
Net financing costs		(46)	(3)	(49)	(36)	(8)	(44)	(71)	(15)	(86)
Profit after financing costs		234	(24)	210	215	(58)	157	446	(105)	341
Share of profit of equity accounted investments, net of tax		3	–	3	5	–	5	9	–	9
Profit before income tax		237	(24)	213	220	(58)	162	455	(105)	350
Income tax (expense)/credit	3, 6	(54)	5	(49)	(48)	8	(40)	(101)	13	(88)
Profit for the period from continuing operations		183	(19)	164	172	(50)	122	354	(92)	262
Discontinued operations										
Profit for the period from discontinued operations, net of tax	14	9	(2)	7	10	(2)	8	22	(10)	12
Profit for the period		192	(21)	171	182	(52)	130	376	(102)	274
Profit for the period attributable to:										
Owners of the parent		192	(21)	171	182	(52)	130	376	(102)	274
Non-controlling interests		–	–	–	–	–	–	–	–	–
Earnings per share										
From continuing operations										
Basic	7			12.0p			9.5p			19.7p
Diluted	7			11.9p			9.4p			19.7p
Adjusted earnings per share from continuing operations										
Basic	7	17.4p			16.5p			33.3p		
Diluted	7	17.3p			16.4p			33.2p		

Condensed consolidated statement of comprehensive income

	Half year ended 31 October 2019 Unaudited £m	Half year ended 31 October 2018 Unaudited £m	Year ended 30 April 2019 Audited £m
Profit for the period	171	130	274
Items which will not be reclassified subsequently to profit or loss			
Actuarial loss on employee benefits	(7)	(24)	(62)
Income tax on items which will not be reclassified subsequently to profit or loss	2	4	11
Items which may be reclassified subsequently to profit or loss			
Foreign currency translation differences	(13)	38	(45)
Cash flow hedges fair value changes	(21)	72	29
Reclassification from cash flow hedge reserve to income statement	–	(39)	(37)
Movement on net investment hedge	10	–	17
Income tax on items which may be reclassified subsequently to profit or loss	2	–	3
Other comprehensive (expense)/income for the period, net of tax	(27)	51	(84)
Total comprehensive income for the period	144	181	190
Total comprehensive income attributable to:			
Owners of the parent	144	181	190
Non-controlling interests	–	–	–

Condensed consolidated statement of financial position

	Note	**At 31 October 2019 Unaudited £m**	At 31 October 2018 Unaudited £m	At 30 April 2019 Audited £m
Assets				
Non-current assets				
Intangible assets		3,165	2,059	3,211
Biological assets		9	3	9
Property, plant and equipment		2,989	2,385	2,993
Right-of-use assets	13	223	–	–
Equity accounted investments		37	29	33
Other investments		11	11	12
Deferred tax assets		71	51	64
Other receivables		15	8	9
Derivative financial instruments		4	9	12
Total non-current assets		6,524	4,555	6,343
Current assets				
Inventories		541	547	584
Biological assets		6	5	6
Other investments	10	–	1,014	–
Income tax receivable		18	10	18
Trade and other receivables		836	891	914
Cash and cash equivalents	10	445	435	382
Derivative financial instruments		21	79	35
Assets classified as held for sale	14	280	223	237
Total current assets		2,147	3,204	2,176
Total assets		8,671	7,759	8,519
Liabilities				
Non-current liabilities				
Borrowings	10	(2,279)	(1,837)	(2,385)
Employee benefits	4	(167)	(143)	(170)
Other payables		(15)	(14)	(16)
Provisions		(11)	(4)	(16)
Lease liabilities	10	(163)	(9)	(7)
Deferred tax liabilities		(302)	(197)	(323)
Derivative financial instruments		(12)	(14)	(14)
Total non-current liabilities		(2,949)	(2,218)	(2,931)
Current liabilities				
Bank overdrafts	10	(130)	(191)	(129)
Borrowings	10	(291)	(108)	(230)
Trade and other payables		(1,744)	(1,778)	(1,855)
Income tax liabilities		(151)	(93)	(133)
Provisions		(26)	(14)	(17)
Lease liabilities	10	(72)	(2)	(3)
Derivative financial instruments		(15)	(33)	(16)
Liabilities classified as held for sale	14	(106)	(91)	(93)
Total current liabilities		(2,535)	(2,310)	(2,476)
Total liabilities		(5,484)	(4,528)	(5,407)
Net assets		3,187	3,231	3,112
Equity				
Issued capital		137	137	137
Share premium		2,238	2,232	2,236
Reserves		811	861	738
Total equity attributable to owners of the parent		3,186	3,230	3,111
Non-controlling interests		1	1	1
Total equity		3,187	3,231	3,112

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 2019 (audited)	**137**	**2,236**	**(13)**	**23**	**(1)**	**729**	**3,111**	**1**	**3,112**
Profit for the period	–	–	–	–	–	171	171	–	171
Actuarial loss on employee benefits	–	–	–	–	–	(7)	(7)	–	(7)
Foreign currency translation differences	–	–	–	(13)	–	–	(13)	–	(13)
Cash flow hedges fair value changes	–	–	(21)	–	–	–	(21)	–	(21)
Movement on net investment hedge	–	–	–	10	–	–	10	–	10
Income tax on other comprehensive income	–	–	2	–	–	2	4	–	4
Total comprehensive (expense)/income	–	–	(19)	(3)	-	166	144	–	144
Issue of share capital	–	2	–	–	–	–	2	–	2
Employee share trust	–	–	–	–	(2)	(2)	(4)	–	(4)
Share-based payment expense (net of tax)	–	–	–	–	–	4	4	–	4
Dividends paid	–	–	–	–	–	(71)	(71)	–	(71)
Other changes in equity in the period	–	2	-	-	(2)	(69)	(69)	-	(69)
At 31 October 2019 (unaudited)	**137**	**2,238**	**(32)**	**20**	**(3)**	**826**	**3,186**	**1**	**3,187**
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 period	30	972	–	–	(1)	(61)	940	–	940
At 31 October 2018 (unaudited)	137	2,232	26	87	(2)	750	3,230	1	3,231

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

Condensed consolidated statement of cash flows

Continuing operations	Note	**Half year ended 31 October 2019 Unaudited £m**	Half year ended 31 October 2018 Unaudited £m	Year ended 30 April 2019 Audited £m
Operating activities				
Cash generated from operations	9	428	380	681
Interest received		–	1	1
Interest paid		(53)	(44)	(62)
Tax paid		(49)	(47)	(85)
Cash flows from operating activities		326	290	535
Investing activities				
Acquisition of subsidiary businesses, net of cash and cash equivalents	15	(4)	(37)	(1,498)
Divestment of subsidiary businesses, net of cash and cash equivalents	15	62	–	-
Capital expenditure		(179)	(121)	(303)
Proceeds from sale of property, plant and equipment and intangible assets		5	3	14
Cash flows from/(used in) restricted cash and other deposits		49	(1,026)	(4)
Cash flows used in investing activities		(67)	(1,181)	(1,791)
Financing activities				
Proceeds from issue of share capital		2	1,002	1,006
Repayment of borrowings		(2,342)	(990)	(3,335)
Proceeds from borrowings		2,283	926	3,810
Payments in respect of derivative financial instruments		(6)	(22)	(36)
Repayment of lease liabilities		(39)	(2)	(4)
Dividends paid to Group shareholders	8	(71)	(53)	(187)
Other		(4)	–	(6)
Cash flows (used in)/from financing activities		(177)	861	1,248
Increase/(decrease) in cash and cash equivalents from continuing operations		82	(30)	(8)
Discontinued operations				
Cash flows (used in)/from discontinued operations	14	(19)	4	(3)
Increase/(decrease) in cash and cash equivalents		63	(26)	(11)
Net cash and cash equivalents at 1 May		253	268	268
Exchange (losses)/gains on cash and cash equivalents		(1)	2	(4)
Net cash and cash equivalents	10	315	244	253

1. Basis of preparation

The unaudited condensed consolidated interim financial statements for the half year ended 31 October 2019 have been prepared in accordance with IAS 34 *Interim Financial Reporting* and the Disclosure and Transparency Rules of the Financial Conduct Authority. These interim financial statements should be read in conjunction with the Group's annual financial statements for the year ended 30 April 2019, 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 condensed information presented for the year ended 30 April 2019 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 2019 is unaudited but has been reviewed in accordance with ISRE 2410 *Review of Interim Financial Information* by Deloitte LLP, the Group's auditor, and a copy of their review report forms part of this half year report.

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 2019, which are prepared in accordance with IFRSs, apart from as detailed below.

The following new accounting standards, amendments or interpretations have been adopted by the Group as of 1 May 2019:

- IFRS 16 *Leases*;
- IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*;
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures;* and
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*.

IFRS 16 *Leases*

The Group adopted IFRS 16 on 1 May 2019 using the modified retrospective approach and practical expedients available. As per the specific transitional arrangements in the standard, comparative information has not been restated and all adjustments were made in the opening balance sheet as at 1 May 2019. As such, results for the year ended 30 April 2019 and the half year ended 31 October 2018 continue to be reported under the previous lease accounting standard, IAS 17 *Leases*.

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 supersedes the previous lease guidance including IAS 17 *Leases* and the related Interpretations for accounting periods beginning on or after 1 January 2019.

IFRS 16 prescribes a single lessee accounting model that requires the recognition of a right-of-use asset and corresponding liability for all leases with terms over 12 months, unless the underlying asset is of low value. The liability is initially measured as the present value of future lease payments for the lease term. Depreciation of right-of-use assets and interest on the corresponding lease liabilities are recognised in the income statement over the lease term. In the cash flow statement, the total amount of cash paid is separated into a principal portion (within financing activities) and an interest portion (within operating activities). In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

The Group has applied the following practical expedients in adopting IFRS 16:

- The Group has not reassessed whether transition date contracts are or contain a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 May 2019;
- IFRS 16 has not been applied to low value assets or leases of less than 12 months in total, which will continue to be expensed to profit and loss on a straight line basis over the lease term;
- The Group has placed reliance on previous assessments as to whether or not leases are onerous. Any onerous lease provisions were adjusted against the carrying value of the corresponding right-of-use asset on transition;
- On transition, all right-of-use assets were measured at an amount equal to the lease liability;
- Hindsight has been applied in determining the lease term where options to extend or terminate exist;
- For leases classified as finance leases under IAS 17, the previous carrying amount of the lease asset and liability under IAS 17 was taken as the carrying amount of the right-of-use asset and corresponding lease liability; and
- The Group applied a single discount rate to portfolios of leases with reasonably similar characteristics.

On implementation of IFRS 16 there was a material increase in lease liabilities, along with a corresponding increase in right-of-use assets. Note 13 details the impact on the Group's financial statements and Key Performance Indicators of the adoption of IFRS 16.

Accounting policy under IFRS 16 *Leases*

After transition, the Group recognises a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, being the initial amount of the lease liability adjusted for any lease payments made at or before commencement date, plus any initial direct costs incurred and an estimate of end of lease dismantling or restoration costs, less any incentives received and related provisions.

Lease liabilities are recorded at the present value of lease payments, which include:

- Fixed lease payments;
- Variable payments that depend on an index or rate, initially measured using the commencement date index or rate;
- Any amounts expected to be payable under residual value guarantees; and
- The exercise price of purchase options, if it is reasonably certain they will be exercised.

The interest rate implicit in the lease is used to discount lease payments, or, if that rate cannot be determined, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are depreciated on a straight-line basis over the lease term, or the useful life if shorter.

Interest is recognised on the lease liability, resulting in a higher finance cost in the earlier years of the lease term.

IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*

IFRIC Interpretation 23 clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In particular, this Interpretation addresses whether uncertain tax treatments should be considered separately or together with one or more other uncertain tax treatments, addresses the assumptions an entity makes about the examination of tax treatment by taxation authorities and harmonises the methodology for measurement of uncertain tax treatments in both binary or a range of possible outcomes.

The Group adopted IFRIC Interpretation 23 as at 1 May 2019, with no material impact on the Group's financial statements.

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

Foreign exchange rates

The Group's main currency exposures are to the euro and the US dollar. The following significant exchange rates applied during the periods:

	Half year ended 31 October 2019		Half year ended 31 October 2018		Year ended 30 April 2019	
	Average	**Closing**	Average	Closing	Average	Closing
Euro	1.124	1.161	1.129	1.125	1.135	1.159
US dollar	1.253	1.295	1.311	1.274	1.304	1.301

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 Directors believe 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 and critical accounting judgement were the same as those that applied to the Group's consolidated financial statements for the year ended 30 April 2019. Key estimates were taxation, acquisitions and impairments. The critical accounting judgement is applying the adjusting items policy.

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 16.

2. Segment reporting – continuing operations

Operating segments

The Plastics segment was classified as a discontinued operation during the half year ended 31 October 2018. Segmental reporting for the Plastics segment is set out in note 14.

During the period, the Group changed its internal reporting structure, reducing the regional segments from five regional segments to four. Consequently, a corresponding change to the operating segments reported has been made, and the operating segment analysis for the comparative period has been restated.

Half year ended 31 October 2019	Northern Europe £m	Southern Europe £m	Eastern Europe £m	North America £m	Total continuing operations £m
External revenue	1,227	1,175	469	317	3,188
Adjusted operating profit[1]	104	170	47	30	351
Unallocated items:					
Amortisation					(71)
Adjusting items in operating profit					(21)
Total operating profit (continuing operations)					259
Unallocated items:					
Net financing costs					(49)
Share of profit of equity accounted investments, net of tax					3
Profit before income tax					213
Income tax expense					(49)
Profit for the period (continuing operations)					164

Half year ended 31 October 2018 (restated)	Northern Europe £m	Southern Europe £m	Eastern Europe £m	North America £m	Total continuing operations £m
External revenue	1,313	943	476	341	3,073
Adjusted operating profit[1]	141	67	39	57	304
Unallocated items:					
Amortisation					(53)
Adjusting items in operating profit					(50)
Total operating profit (continuing operations)					201
Unallocated items:					
Net financing costs					(44)
Share of profit of equity accounted investment, net of tax					5
Profit before income tax					162
Income tax expense					(40)
Profit for the period (continuing operations)					122

[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 2019 £m**	Half year ended 31 October 2018 £m	Year ended 30 April 2019 £m
Acquisition related costs	(7)	(11)	(32)
Gains on acquisitions and disposals	6	–	–
Acquisitions and disposals	(1)	(11)	(32)
Integration costs	(12)	(8)	(27)
Other restructuring costs	(8)	(2)	(3)
Guaranteed minimum pension equalisation	–	(15)	(8)
Other	–	(14)	(20)
Total pre-tax adjusting items (recognised in operating profit)	(21)	(50)	(90)
Finance costs adjusting items	(3)	(8)	(15)
Adjusting tax items	–	(1)	(1)
Current tax credit on adjusting items	5	6	14
Deferred tax credit on adjusting items	–	3	–
Total post-tax adjusting items	(19)	(50)	(92)

Half year ended 31 October 2019

Acquisition related costs of £7m relate to professional advisory, legal and consultancy fees on acquisitions, deferred consideration and retention bonuses.

The remedy disposal of legacy Group sites (see note 15), required as part of the Europac acquisition, comprise the majority of the gains on acquisitions and disposals of £6m.

Integration costs relate to integration projects underway, primarily to achieve cost synergies from the major acquisitions made in the previous financial years (of which £10m relates to Europac and £2m relates to Interstate Resources). They include redundancies, professional fees, IT costs and directly attributable internal salary costs which would otherwise not be incurred.

Other restructuring costs of £8m relate to a reorganisation and restructuring project across the Packaging business.

Finance costs adjusting items relate to the unwind of the discount on the redemption liability put option related to the purchase of Interstate Resources.

The current tax credit on adjusting items of £5m for the six months to 31 October 2019 is the tax effect at the local applicable tax rate of adjusting items that are subject to tax which includes the Europac remedy disposals. This excludes non-tax deductible deal related advisory fees in relation to acquisitions and disposals.

3. Adjusting items – continuing operations (continued)

Year ended 30 April 2019 and half year ended 31 October 2018

Acquisition related costs of £32m 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. Of the total, £22m in the year ended 30 April 2019 and £6m in the half year ended 31 October 2018 related to the acquisition of Europac, 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 major acquisitions made in the current periods and previous financial years. For the year ended 30 April 2019, £14m related to Europac (half year ended 31 October 2018: nil), and £9m related to Interstate Resources (half year ended 31 October 2018: £4m). They included those directly attributable internal salary costs which would otherwise not be incurred.

Other restructuring costs included reorganisation and restructuring in Southern and Northern Europe and various projects 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 was charged to the income statement as an adjusting item for the half year ended 31 October 2018. A detailed calculation was performed in the second half of the year, resulting in a reduced final full year charge of £8m.

Other adjusting items of £20m (half year ended 31 October 2018: £14m) principally related to a significant multi-year major IT project which was substantially completed in the year ended 30 April 2019. The costs of this project extended over several years and, as well as adjusting items, included capitalisation of intangible assets, particularly in the case of IT systems. Those costs are primarily as a result of the Group's acquisition activity, where the businesses acquired typically have a limited IT and financial infrastructure.

Finance costs adjusting items related to financing costs incurred in the acquisition of Europac of £7m (half year ended 31 October 2018: £3m), with the remainder relating to the unwind of the discount on the redemption liability related to the purchase of Interstate Resources.

Adjusting tax items included the release of a provision of £32m in relation to the closure of a business in Denmark by SCA Packaging prior to ownership by the Group, offset by a provision of £33m which represents the maximum potential tax exposure which could arise in connection with the recent decision by the EU Commission on State Aid in relation to the UK Controlled Foreign Company regime.

On 25 April 2019, the EU Commission released its final decision which concluded that up until 31 December 2018, the UK Controlled Foreign Company legislation partially represents State Aid.

There is significant uncertainty surrounding the quantum of the additional tax exposure due to a number of different factors which are likely to impact the overall State Aid collection process. To date, no formal guidance has been issued by the UK Government in relation to their likely approach to identifying and recovering any State Aid. The potential additional liability ranges from nil to £33 million depending upon the method of calculation. In view of the significant uncertainty and the broad range of possible outcomes, the Group recognised a provision for the maximum potential exposure of £33 million at 30 April 2019, which included an estimate of £2 million for interest on overdue tax.

The current tax credit on adjusting items 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 2019 £m	Half year ended 31 October 2018 £m	Year ended 30 April 2019 £m
Opening employee benefit deficit	**(170)**	(106)	(106)
Acquisitions	–	–	(12)
Divestments	**2**	–	-
Expense recognised in operating profit	**(4)**	(4)	(6)
Curtailment	–	-	2
Past service cost recognised in adjusting items (GMP equalisation)	–	(15)	(8)
Employment benefit net finance expense (excluding Pension Protection Fund levy)	**(1)**	(1)	(2)
Employer contributions	**11**	10	20
Other payments and contributions	**3**	(2)	–
Actuarial losses	**(7)**	(24)	(62)
Currency translation	**(1)**	(3)	2
Reclassification	–	2	2
Employee benefit deficit	**(167)**	(143)	(170)
Deferred tax asset	**38**	40	37
Employee benefit deficit after tax	**(129)**	(103)	(133)

5. Finance income and costs – continuing operations

Continuing operations	**Half year ended 31 October 2019 £m**	Half year ended 31 October 2018 £m	Year ended 30 April 2019 £m
Interest income from financial assets	–	(2)	–
Finance income	–	(2)	–
Interest on borrowings and overdrafts	36	31	62
Interest on lease liabilities	6	–	–
Other	2	6	7
Finance costs before adjusting items	44	37	69
Finance costs adjusting items	3	8	15
Finance costs	47	45	84

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 23.0% (half year ended 31 October 2018: 22.8%), being the expected full year rate.

7. Earnings per share

Basic earnings per share from continuing operations

	Half year ended 31 October 2019	Half year ended 31 October 2018	Year ended 30 April 2019
Profit from continuing operations attributable to ordinary shareholders	£164m	£122m	£262m
Weighted average number of ordinary shares	1,371m	1,286m	1,327m
Basic earnings per share	12.0p	9.5p	19.7p

Diluted earnings per share from continuing operations

	Half year ended 31 October 2019	Half year ended 31 October 2018	Year ended 30 April 2019
Profit from continuing operations attributable to ordinary shareholders	£164m	£122m	£262m
Weighted average number of ordinary shares	1,371m	1,286m	1,327m
Potentially dilutive shares issuable under share-based payment arrangements	4m	6m	6m
Weighted average number of ordinary shares (diluted)	1,375m	1,292m	1,333m
Diluted earnings per share	11.9p	9.4p	19.7p

The number of shares excludes the weighted average number of the Company's own shares held as treasury shares during the period of nil (half year ended 31 October 2018: 1m; year ended 30 April 2019: 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 16.

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

	Half year ended 31 October 2019			Half year ended 31 October 2018			Year ended 30 April 2019		
	£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	164	12.0p	11.9p	122	9.5p	9.4p	262	19.7p	19.7p
Add back:									
Amortisation of intangible assets	71	5.2p	5.2p	53	4.1p	4.1p	114	8.7p	8.6p
Tax credit on amortisation	(16)	(1.2p)	(1.2p)	(13)	(1.0p)	(1.0p)	(26)	(2.0p)	(2.0p)
Adjusting items, before tax	24	1.8p	1.8p	58	4.5p	4.5p	105	7.9p	7.9p
Tax on adjusting items and adjusting tax items	(5)	(0.4p)	(0.4p)	(8)	(0.6p)	(0.6p)	(13)	(1.0p)	(1.0p)
Adjusted earnings	238	17.4p	17.3p	212	16.5p	16.4p	442	33.3p	33.2p

8. Dividends proposed and paid

	Pence per share	£m	Pence per share	£m
2017/18 interim dividend – paid (restated)[1]	**-**	**-**	4.6p	53
2017/18 final dividend - paid	**-**	**-**	9.8p	134
2018/19 interim dividend - paid	**5.2p**	**71**	-	-
2018/19 final dividend - paid	**11.0p**	**151**	-	-
2019/20 interim dividend - proposed	**5.4p**	**74**	-	-

[1] Restated for 2018/19 3 for 11 rights issue. 2017/18 interim dividend restated to 4.56 pence per share.

	Half year ended 31 October 2019 £m	Half year ended 31 October 2018 £m	Year ended 30 April 2019 £m
Paid during the period	**71**	**53**	187

The final dividend in respect of 2018/19 of 11.0 pence per share (£151m) was paid after the half year end on 1 November 2019. The 2018/19 interim dividend of 5.2 pence per share (£71m) was paid during the half year ended 31 October 2019. An interim dividend in respect of the half year ended 31 October 2019 of 5.4p per share (£74m) has been proposed by the Directors after the reporting date.

9. Cash generated from operations

Continuing operations	Half year ended 31 October 2019 £m	Half year ended 31 October 2018 £m	Year ended 30 April 2019 £m
Profit for the period	164	122	262
Adjustments for:			
Pre-tax integration costs and other adjusting items	20	24	50
Amortisation of intangible assets; acquisitions and disposals	72	64	146
Guaranteed minimum pension equalisation	-	15	8
Cash outflow for adjusting items	(26)	(37)	(93)
Depreciation	147	89	189
Profit on sale of non-current assets	(2)	(1)	(4)
Share of profit of equity accounted investments, net of tax	(3)	(5)	(9)
Employment benefit net finance expense	2	1	2
Share-based payment expense	3	4	7
Finance income	-	(2)	-
Finance costs	47	45	84
Other non-cash items	-	-	(1)
Income tax expense	49	40	88
Change in provisions	1	(2)	(19)
Change in employee benefits	(10)	(5)	(17)
Cash generation before working capital movement	464	352	693
Changes in:			
Inventories	23	(24)	(7)
Trade and other receivables	10	(52)	3
Trade and other payables	(69)	104	(8)
Working capital movement	(36)	28	(12)
Cash generated from continuing operations	428	380	681

10. Net debt

	Half year ended 31 October 2019 £m	Half year ended 31 October 2018 £m	Year ended 30 April 2019 £m
Cash and cash equivalents	445	435	382
Bank overdrafts	(130)	(191)	(129)
Net cash and cash equivalents	315	244	253
Other investments - restricted cash	3	3	3
Other investments - restricted cash (rights issue proceeds)	–	1,014	–
Other deposits	41	55	89
Borrowings due – after one year	(2,279)	(1,837)	(2,385)
Borrowings due – within one year	(291)	(108)	(230)
Lease liabilities	(235)	(11)	(10)
Derivative financial instruments			
assets	4	7	12
liabilities	(2)	(15)	(9)
	(2,759)	(892)	(2,530)
Net debt – reported basis	(2,444)	(648)	(2,277)
Net debt excluding IFRS 16 liabilities	(2,218)	(648)	(2,277)

Net debt is a non-GAAP measure not defined by IFRS. While the Group has included lease liabilities after transition to IFRS 16 *Leases* within total lease liabilities (in addition to arrangements previously classified as finance leases under IAS 17), IFRS 16 liabilities are currently excluded from the definition of net debt as set out in the Group's banking covenant requirements. Within lease liabilities at 31 October 2019 are £226m of IFRS 16 lease liabilities and £9m of finance lease liabilities.

Further detail on the use of non-GAAP measures and a reconciliation showing the calculation of adjusted net debt, as defined in the Group's banking covenants, is included in note 16.

Derivative financial instruments above relate to forward foreign exchange contracts and cross-currency interest rate swaps used to hedge the Group's borrowings and the net assets of foreign operations. 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 16.

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 were held at 31 October 2018 in order to finance the Group's acquisition of Europac (see note 15).

During the half year ended 31 October 2019, the Group launched and priced €600m of notes due 12 September 2026 with a coupon of 0.875% pursuant to its Euro Medium Term Note program.

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

	Half year ended 31 October 2019 £m	Half year ended 31 October 2018 £m	Year ended 30 April 2019 £m
Profit for the period	164	122	262
Income tax expense	49	40	88
Share of profit of equity accounted investments, net of tax	(3)	(5)	(9)
Net financing costs	49	44	86
Amortisation of intangible assets; acquisitions and disposals	72	64	146
Guaranteed minimum pension equalisation	-	15	8
Adjusting items	20	24	50
Adjusted operating profit	351	304	631
Depreciation	147	89	189
Adjusted EBITDA	498	393	820
Working capital movement	(36)	28	(12)
Change in provisions	1	(2)	(19)
Change in employee benefits	(10)	(5)	(17)
Other	1	3	2
Cash generated from operations before adjusting cash items	454	417	774
Capital expenditure	(179)	(121)	(303)
Proceeds from sale of property, plant and equipment and other investments	5	3	14
Tax paid	(49)	(47)	(85)
Net interest paid	(53)	(43)	(61)
Free cash flow	178	209	339
Cash outflow for adjusting items	(26)	(37)	(93)
Dividends paid	(71)	(53)	(187)
Acquisition of subsidiary businesses, net of cash and cash equivalents	(4)	(37)	(1,498)
Divestment of subsidiary businesses, net of cash and cash equivalent	62	-	-
Other	(4)	(5)	(6)
Net cash flow	135	77	(1,445)
Proceeds from issue of share capital	2	1,002	1,006
Borrowings divested/(acquired)	3	(4)	(204)
Net movement on debt	140	1,075	(643)
Foreign exchange, fair value and other non-cash movements	(46)	(47)	49
Net debt movement – continuing operations	94	1,028	(594)
Net debt movement – discontinued operations	(19)	4	(3)
Opening net debt	(2,277)	(1,680)	(1,680)
Transition to IFRS 16 (note 13)	(242)	-	-
Closing net debt	(2,444)	(648)	(2,277)

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:

		31 October 2019		30 April 2019	
	Category	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Financial assets					
Cash and cash equivalents	**Amortised cost**	445	445	382	382
Available for sale – other investments	**Fair value through other comprehensive income**	11	11	12	12
Trade and other receivables	**Amortised cost**	851	851	923	923
Derivative financial instruments	**Fair value through other comprehensive income**	25	25	47	47
Total financial assets		1,332	1,332	1,364	1,364
Financial liabilities					
Trade and other payables	**Amortised cost**	(1,759)	(1,759)	(1,871)	(1,871)
Bank and other loans	**Amortised cost**	(16)	(16)	(448)	(448)
Commercial paper	**Amortised cost**	(220)	(220)	(148)	(148)
Medium-term notes and other fixed-term debt	**Amortised cost**	(2,334)	(2,400)	(2,019)	(2,069)
Lease liabilities	**Amortised cost**	(235)	(235)	(10)	(10)
Bank overdrafts	**Amortised cost**	(130)	(130)	(129)	(129)
Derivative financial instruments	**Fair value through other comprehensive income**	(27)	(27)	(30)	(30)
Total financial liabilities		(4,721)	(4,787)	(4,655)	(4,705)

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 Condensed 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. Adoption of IFRS 16 *Leases*

As detailed in note 1, the Group adopted IFRS 16 on 1 May 2019 using the modified retrospective approach.

On implementation of IFRS 16, the Group recognised right-of-use assets within property, plant and equipment of £239m and corresponding lease liabilities of £242m, with the difference related to the transfer of onerous lease provisions at 1 May 2019 to right-of-use assets. There was no impact on the Group's opening equity as a result of adopting IFRS 16.

The indicative impact of the adoption of IFRS 16 disclosed in the pre-transition 30 April 2019 Annual Report was a right-of-use asset and corresponding lease liability of c. £235m. As a result of the implementation finalisation, particularly in newly acquired businesses, and regarding the accounting judgements around lease term, final adjustments to the right-of-use assets and corresponding liabilities have been made as detailed in the reconciliation below.

The following table reconciles the difference between the operating lease commitments under IAS 17 at 30 April 2019 and the lease liability recognised on adoption of IFRS 16 at 1 May 2019:

	£m
Non-cancellable operating lease rentals reported as at 30 April 2019	259
Additional commitments recognised in final implementation, including extension options reasonably certain to be exercised (undiscounted)	30
Other, including leases outside the scope of IFRS 16 (undiscounted)	(7)
Impact of discounting liability under IFRS 16	(40)
Lease liability recognised on transition to IFRS 16 at 1 May 2019	242

The Group's most significant leases relate to property and production equipment.

The weighted average incremental borrowing rate applied to the Group's lease liabilities on transition at 1 May 2019 was 4.9%.

At 31 October 2019, the right-of-use assets within property, plant and equipment were £223m, with a corresponding lease liability of £226m.

The adoption of IFRS 16 does not have a material impact on the Group's current accounting for finance leases, which represent a lease liability of £9m at 31 October 2019.

The impact on the consolidated income statement was:

	Half year ended 31 October 2019 £m
Operating lease rentals removed	40
Depreciation	(35)
Operating profit	5
Finance costs	(6)
Profit before tax	(1)

The impact on the Group's Key Performance Indicators at 31 October 2019 was:

Reported net debt	Increase	£226m
EBITDA	Increase	£40m
Return on average capital employed	Decrease	20bps

On a cash flow basis, the impact of transition to IFRS 16 and free cash flow is nil. However, the cash flow statement presentation has changed - repayments of the principal of lease liabilities are included within financing activities and interest is presented in operating activities whereas operating lease rentals were presented in operating activities. In comparison to previous presentation under IAS 17, net cash inflows from operating activities increase, offset by an increase in net cash outflows from financing activities due to the interest paid.

IFRS 16 liabilities are currently excluded from the definition of net debt as set out in the Group's banking covenant requirements, and as such are removed from the calculation of adjusted net debt for the purposes of the Group's net debt to EBITDA ratio (see note 16).

The adoption of IFRS 16 has not had a material effect on the Group's effective tax rate.

14. 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 announcement on 6 March 2019 of an agreement to sell the Plastics division.

After regulatory approvals are finalised, sale is currently expected to complete at around the end of December 2019.

Plastics principally comprises flexible packaging and dispensing solutions, extruded and injection moulded products and foam products. The Condensed consolidated income statement presents 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 presents a single amount of net cash flow from discontinued operations.

(a) Condensed consolidated income statement – discontinued operations

	Half year ended 31 October 2019 £m	Half year ended 31 October 2018 £m	Year ended 30 April 2019 £m
Revenue	178	182	352
Operating costs	(162)	(168)	(324)
Operating profit before amortisation and adjusting items	16	14	28
Amortisation of intangible assets	(1)	(1)	(1)
Pre-tax adjusting items	(2)	(2)	(10)
Net finance (cost)/income	(1)	1	1
Profit before income tax	12	12	18
Income tax expense	(5)	(4)	(6)
Profit for the period from discontinued operations	7	8	12

The income tax expense is net of a tax credit on adjusting items of nil (31 October 2018: nil, 30 April 2019: nil).

Basic earnings per share from discontinued operations

	Half year ended 31 October 2019	Half year ended 31 October 2018	Year ended 30 April 2019
Profit from discontinued operations attributable to ordinary shareholders	£7m	£8m	£12m
Weighted average number of ordinary shares	1,371m	1,286m	1,327m
Basic earnings per share	0.5p	0.6p	0.9p

Diluted earnings per share from discontinued operations

	Half year ended 31 October 2019	Half year ended 31 October 2018	Year ended 30 April 2019
Profit from discontinued operations attributable to ordinary shareholders	£7m	£8m	£12m
Weighted average number of ordinary shares	1,371m	1,286m	1,327m
Potentially dilutive shares issuable under share-based payment arrangements	4m	6m	6m
Weighted average number of ordinary shares (diluted)	1,375m	1,292m	1,333m
Diluted earnings per share	0.5p	0.6p	0.9p

The number of shares excludes the weighted average number of the Company's own shares held as treasury shares during the period of nil (half year ended 31 October 2018: 1m; year ended 30 April 2019: 1m).

Adjusted earnings per share from discontinued operations for the year were 0.8p (31 October 2018: 0.9p; 30 April 2019: 1.7p).

(b) Assets and liabilities held for sale

	At 31 October 2019 £m
Intangible assets	73
Property, plant and equipment	74
Right-of-use assets	18
Deferred tax assets	4
Inventories	32
Income tax receivable	6
Trade and other receivables	73
Assets held for sale	**280**
Employee benefits	(2)
Trade and other payables	(67)
Lease liabilities	(18)
Deferred tax liabilities	(5)
Income tax liabilities	(14)
Liabilities held for sale	**(106)**

(c) Cash flows from discontinued operations

	Half year ended 31 October 2019 £m	Half year ended 31 October 2018 £m	Year ended 30 April 2019 £m
Net cash (used in)/from operating activities	(9)	9	16
Net cash used in investing activities	(7)	(5)	(19)
Net cash used in financing activities	(3)	–	–
Net cash flows for the period	**(19)**	4	(3)

Net cash flows from operating activities are stated after cash outflows in respect of adjusting items of £2m (31 October 2018: £1m; 30 April 2019: £10m).

15. Acquisitions and disposals

(a) 19/20 acquisitions and disposals

In June 2019, DS Smith completed the remedy disposals required as part of the acquisition of Europac for €73m. Cash consideration received, net of transaction costs, was £62m, and including net debt disposed of, the total impact on net debt from disposals was £65m. Acquisition of subsidiary businesses, net of cash and cash equivalents of £4m in the statement of cash flows relates to completion accounts adjustments on prior year acquisitions. Neither the disposals or the acquisition adjustments were material to the Group individually or in aggregate.

In the half year ended 30 April 2020, the Group expects to complete the purchase of a further 10% stake in Interstate Resources due to exercise of the pre-existing put option by the sellers of that business. As a substantial shareholder of the Group, the seller met the definition of a related party. The final 10% stake remains subject to the put option.

(b) 2018/19 acquisitions and disposals

On 22 January 2019, the Group completed the acquisition of a 100% interest in Europac (Papeles y Cartones de Europa. S.A). The acquisition was funded by the rights issue of 3 for 11 ordinary shares at 350 pence per share on 25 July 2018 and a new committed debt facility entered into on 20 November 2018.

In addition to the acquisition of Europac, in the year ended 30 April 2019, the Group also made various other business acquisitions and disposals, which are not considered material to the Group individually or in aggregate. In total during the year ended 30 April 2019, cash consideration for acquisition of subsidiary businesses, net of cash and cash equivalents, was £1,498m, and borrowings acquired, including deposits, were £204m, giving a total impact on net debt from acquisitions of £1,702m.

For various business combinations completed in the year ended 30 April 2019, 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 provisionally adjusted the fair values attributable to these acquisitions during the half year ended 31 October 2019, resulting in a net increase in goodwill of £18m. The increase in goodwill primarily related to Europac, with the main components corresponding to a decrease in fair value of property, plant and equipment and right-of-use assets of £33m, an increase in fair value of remedy disposal sites as described in note 15(a) above of £25m, a decrease in the fair value of intangible assets of £4m and a decrease in deferred tax liabilities of £7m. Other adjustments primarily related to inventory and other liabilities and totalled £13m.

(c) Acquisition related costs

The Group incurred acquisition related costs in the half year ended 31 October 2019 of £7m (half year ended 31 October 2018: £11m; year ended 30 April 2019: £32m). In the prior year, acquisition costs primarily related to the acquisition of Europac.

16. 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 (refer note 3) and amortisation.

Total reported financial information represents the Group's overall performance and financial position, but can contain significant unusual or non-operational items that may obscure an understanding of the key trends and position. These unusual or non-operational 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 highly variable or 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. 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 double count, 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.

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 2019 £m**	Half year ended 31 October 2018 £m	Year ended 30 April 2019 £m
Adjusted operating profit	351	304	631
Revenue	3,188	3,073	6,171
Return on sales	11.0%	9.9%	10.2%

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 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, right-of-use assets, goodwill and intangible assets, working capital, capital debtors/creditors, provisions, biological assets and assets/liabilities held for sale. Assets and liabilities relating to discontinued operations are excluded.

	Half year ended 31 October 2019 £m	Half year ended 31 October 2018 £m	Year ended 30 April 2019 £m
Capital employed	5,988	4,053	5,674
Currency, inter-month and acquisition movements	(224)	25	(1,022)
Last 12 months' average capital employed	5,764	4,078	4,652
Last 12 months' adjusted operating profit	678	568	631
Adjusted return on average capital employed	11.8%	13.9%	13.6%

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.

Net debt and net debt/EBITDA

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 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.

The Group's banking covenant requirements currently exclude IFRS 16 liabilities from the definition of net debt, as well as requiring that EBITDA is calculated before the effects of IFRS 16, so an adjustment to the previous IAS 17 basis is made in the calculation.

In calculating the ratio, net debt is stated at average rates as opposed to closing rates, and adjusted 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, and to adjust to an IAS 17 basis.

	Half year ended 31 October 2019 £m	Half year ended 31 October 2018 £m	Year ended 30 April 2019 £m
Net debt – reported basis (see note 10)	2,444	648	2,277
IFRS 16 lease liabilities	(226)	–	–
Currency effects	47	(1)	41
Net debt – adjusted basis	2,265	647	2,318
Adjusted EBITDA – last 12 months' reported basis (continuing operations)	921	735	820
Adjust to IAS 17 basis	(40)	–	–
Acquisition and divestment effects	39	6	136
Add back of discontinued operations	47	43	40
Adjusted EBITDA – banking covenant basis	967	784	996
Net debt/EBITDA	2.3x	0.8x	2.3x

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 Adjusted EBITDA to 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 2019 £m	Half year ended 31 October 2018 £m	Year ended 30 April 2019 £m
Growth capital expenditure	70	44	140
Non-growth capital expenditure	109	77	163
Total capital expenditure	179	121	303
Free cash flow (note 11)	178	209	339
Tax paid (note 11)	49	47	85
Net interest paid (note 11)	53	43	61
Growth capital expenditure	70	44	140
Change in employee benefits (note 11)	10	5	17
Adjusted free cash flow	360	348	642
Adjusted operating profit	351	304	631
Cash conversion	103%	114%	102%

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.

	Half year ended 31 October 2019 £m	Half year ended 31 October 2018 £m	Year ended 30 April 2019 £m
Inventories	541	547	584
Trade and other receivables	807	845	833
Trade and other payables	(1,494)	(1,546)	(1,587)
Inter-month movements and exclusion of capital and acquisition related items	175	155	174
Last 12 months' average working capital	29	1	4
Last 12 months' revenue	6,286	5,928	6,171
Average working capital to sales	0.5%	0.0%	0.1%

Constant currency and organic growth

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. In addition, the Group then separates the first full year effects of acquisitions to determine underlying organic growth. The table below shows the calculations:

Continuing operations	**Revenue £m**	**Adjusted operating profit £m**
Reported basis – comparative half year ended 31 October 2018	3,073	304
Currency effects	26	4
Constant currency basis– comparative half year ended 31 October 2018	3,099	308
Acquisitions	258	15
Synergies	–	17
Organic growth	(169)	11
Reported basis – half year ended 31 October 2019	3,188	351

17. Subsequent events

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