9 December 2010

DS SMITH PLC – 2010/11 HALF-YEAR RESULTS

DS Smith Plc ("DS Smith"), the international supplier of recycled packaging for consumer goods and office products wholesaling business, announces its results for the six months to 31 October 2010.

Highlights

- Revenue £1,174.2 million, up 15.3%, 10.5% excluding Otor
- Operating profit* £60.5 million, up 19.3%, 10.8% excluding Otor
- Profit before tax £40.2 million, up 17.5%
- Strong EPS* growth of 31.8% to 8.7p
- Free cash flow of £74.6 million, up 121.4%
- Dividend of 2.0p up 33.3%
- Otor performing ahead of our initial expectations

* before amortisation of intangible assets and exceptional items

Review of Business Strategy Highlights

Our objective is to create a growing business that is more focused, producing higher margins and returns with less cyclicality. We will:

- Focus the Group on the recycled packaging business
- Build on our fast moving consumer goods ("FMCG") customer base across Europe
- Reduce exposure to more cyclical paper manufacturing (25% reduction over the next three years)
- Expand our recycling activity outside the UK
- Significant cost and capital efficiencies targeted (£10.0m p.a. cost savings)
- Streamline the Group

Miles Roberts, Group Chief Executive, said:

"These results reflect the strong volume and revenue growth in the recycled packaging business, driven by our revised strategic focus on customer service, innovation, quality and reducing the environmental impact of our product. This focus has allowed us to recover the significant increases in the cost of our raw materials and energy, and maintain our margins despite the usual

three to six month delay. On 1 September 2010 we completed the acquisition of Otor, a leading supplier of recycled corrugated packaging in France. Integration is proceeding well and post acquisition trading performance of this business has been ahead of our initial expectations.

The review of business strategy has confirmed the exciting growth potential from focusing our efforts on delivering retail-ready, recycled packaging which helps build sales and reduce costs for our FMCG customers. We have identified attractive opportunities within the UK and France and also see very significant potential in the faster growing FMCG markets in Central and Eastern Europe. Corrugated packaging has growth prospects ahead of GDP and outperforms other materials on ease of recycling.

Notwithstanding continued increases in input costs, trading in the second half to date is progressing well. We look forward to the remainder of the year with confidence, delivering in line with our expectations."

Financial Summary

	H1 2010/11	**H1 2009/10#**	**Change %**
Revenue, Packaging - £m	822.2	658.9	24.8
Revenue, Office Products Wholesaling - £m	352.0	359.1	-2.0
Revenue, total - £m	1,174.2	1,018.0	15.3
Operating profit*, Packaging - £m	55.5	45.7	21.4
Operating profit*, Office Products Wholesaling - £m	5.0	5.0	-
Operating profit*, total - £m	60.5	50.7	19.3
Free cash flow - £m	74.6	33.7	121.4
Profit before tax, amortisation and exceptional items - £m	48.7	36.9	32.0
Profit before tax - £m	40.2	34.2	17.5
Earnings per share* - pence	8.7	6.6	31.8
Interim dividend per share* - pence	2.0	1.5	33.3
Return on sales*	5.2%	5.0%	+20bps
12 month return on average capital employed*	10.9%	9.2%	+170bps

* before amortisation of intangible assets and exceptional items
# 2009/10 restated to show operating profit before amortisation of £2.2m; The adjusted EPS before impact of amortisation is equivalent to 0.5p

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There will be a presentation for analysts and investors today at 09:30 GMT at JPMorgan Cazenove, 20 Moorgate, London EC2R 6DA. This will also be web-cast, available at www.dssmith.uk.com/pages/investors or you can listen to the presentation by dialling in on +44 (0)20 7138 0844, or 0800 032 3808, reference 1813184. The slides will be available on our web-site from 5 minutes before the presentation begins.
A replay of the web-cast will be available on our web-site following the presentation. A transcript of the presentation and Q&A will be available on our web-site within two working days of the presentation.

Next dates:

Q3 Interim Management Statement	3 March 2011
Investor presentation on Packaging	10 March 2011

Overview

In the six months to 31 October 2010 DS Smith has grown volumes and recovered substantial cost increases through a focus on supplying recycled packaging to market-leading FMCG customers. This success has been achieved due to our strong market positions, a relentless focus on our customers and constant attention to service, quality and innovation.

The acquisition of Otor was completed on 1 September 2010 and we are pleased with the financial performance to date and with the pace of integration into the Group.

Financial Results

Group revenue for the half-year to 31 October 2010 is up 15.3% to £1,174.2 million (H1 2009/10: £1,018.0 million) including Otor, which is consolidated in these results for the two months of ownership. Excluding Otor, revenues are up 10.5%. This reflects strong volumes, 6.2% in the Packaging business, and price recovery of cost increases.

Operating profit (before exceptional items and amortisation) is up 19.3% to £60.5 million (H1 2009/10: £50.7 million), and up 10.8% excluding Otor. The return on sales margin increased across the Group as a whole, up 20 basis points to 5.2% (H1 2009/10: 5.0%), reflecting the increased profits from the UK Packaging business. The return on sales margin in the Packaging business fell by 10 basis points to 6.8% (H1 2009/10: 6.9%) due to the phased recovery of input costs, which are typically only recovered with a time lag of three to six months. Office Products Wholesaling margins were maintained at 1.4% (H1 2009/10: 1.4%), reflecting the continued outperformance of the business in continental Europe offset by more difficult conditions in the UK.

Free cash flow has increased substantially in the period, up 121.4% to £74.6 million, reflecting better underlying profitability and an inflow of £15.3 million from working capital.

Return on average capital employed (ROACE) was up 170 basis points to 10.9% (H1 2009/10: 9.2%). This is due to the improved profitability of the Group, alongside continued focus on capital discipline.

The net interest expense increased modestly to £8.3 million (H1 2009/10: £8.2 million) due to a higher level of net debt arising from the debt funding for the Otor acquisition, largely offset by lower interest rates. The net employment benefit charge (which is a non-cash item) was £3.5 million (H1 2009/10: £5.6 million) reflecting a higher rate of return from the assets of the UK Defined Benefit Pension Scheme ("the Pension Scheme").

On 16 August 2010, consultation with the active members of the Pension Scheme commenced with a view to closing the Pension Scheme to future accrual by the end of this financial year. The Trustees of the Pension Scheme have agreed in principle to close the Pension Scheme to future accrual from 30 April 2011 and to change the indexation link to the consumer price index (CPI) from the retail price index (RPI). The Pension Scheme is in the process of completing its triennial valuation at 30 April 2010 and closure of the Pension Scheme, combined with the move to CPI is expected to reduce the liability by c. £80 million, the deficit to c. £178 million and result in an exceptional credit of c. £35 million in the second half of this financial year. Accordingly, contributions to the Pension Scheme deficit have, as expected, been increased from £7.5 million

to £22.0 million this year and £14.8 million per annum thereafter, rising by 2% per annum for the remaining 10 years, with a view to closing the deficit within a 10 year recovery period.

Profit before tax, exceptional items and amortisation was £48.7 million (H1 2009/10: £36.9 million). Exceptional costs of £6.0 million were incurred in the first half, predominantly related to the purchase of Otor.

Tax on profits has been charged at a rate before exceptional items of 27.1% (H1 2009/10: 31.4%, year to 30 April 2010: 26.1%). This is in line with our long-term anticipated tax rate but this half-year has benefitted from the forthcoming reduction in UK corporate tax rate to 27%, thereby allowing the Group to release £1.2 million of deferred tax liability to the income statement.

The Group has reviewed its disclosure practice relative to other listed companies and has determined that for better comparability, amortisation (as a non-cash item) will be disclosed separately from operating profit and be an adjustment to EPS. The effect of this in this half-year is £2.5 million (H1 2009/10: £2.2 million) and 0.6p on basic EPS (H1 2009/10: 0.5p).

Financial position

The Group increased its issued share capital through an issue of 39.3 million shares via a placing on 7 July 2010. The placing was substantially oversubscribed at a discount of less than 1% to the opening share price on the day. The purpose of the placing was to partially fund the acquisition of Otor. The placing was not conditional on the completion of that acquisition.

Net debt as at 31 October 2010 was £345.1 million (30 April 2010: £239.5 million). The net £105.6 million increase reflects debt incurred on the acquisition of Otor, with that increase offset in part by strong free cash flow of £74.6 million and the proceeds of the placing of £47.1 million.

The Group increased its available borrowing facilities in August 2010 by around £170 million to support the acquisition of Otor. As at 31 October 2010 the Group had borrowing facilities of £739 million with an average maturity of 4.1 years. As measured under the Group’s borrowing agreements, net debt to earnings before interest, tax, depreciation and amortisation (EBITDA) was 1.7x (covenant is to be less than 3.25x) and the interest cover was 7.4x (covenant is to be more than 3.0x).

Supply Chain Costs

Average waste paper prices have increased by 49.0% and externally purchased paper has increased by 46.8% compared to the comparable half-year period. Energy costs have increased by £6.9 million to £57.0 million.

Against this background of substantial cost increases, the Group was able to recover substantially these increases, on a phased basis, due to its strong market positions and the quality, service and innovation we offer our customers.

Dividend

The Group today also announces its new dividend policy. 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. The

amount of the dividend will be set so that dividends are progressive and, in the medium term, the Board anticipates that dividend cover should be, on average, 2.0 to 2.5x through the cycle.

The interim dividend in respect of this half-year will be 2.0p (H1 2009/10: 1.5p). This interim dividend is the first step towards the implementation of the new dividend policy. The dividend will be paid on 1 March 2011 to ordinary shareholders on the register at the close of business on 28 January 2011.

Outlook

Notwithstanding continued increases in input costs, trading in the second half to date is progressing well. We look forward to the remainder of the year with confidence, delivering in line with our expectations.

Operating Review

UK Paper and Corrugated Packaging

	Half-year ended 31 October 2010	**Half-year ended 31 October 2009**
Revenue	£450.3m	£367.2m
Operating profit *	£32.0m	£24.0m
Return on sales *	7.1%	6.5%
12 month return on average capital employed *	8.4%	5.9%

* before amortisation and exceptional items

Revenue in this segment was up 22.6% due to continued volume growth from our strong FMCG customer base, some volume recovery in industrial customers and from price increases to recover rising input costs. We continued to gain share in the UK from a platform of delivering service, quality and innovation. DS Smith Recycling (formerly Severnside) continued to grow, gaining new customers with its services to enable retail customers to meet their commitments to reduce or eliminate the use of landfill. The financial performance of St Regis, our paper manufacturing division, was much improved due to strong demand for our products which supported our programme to recover the substantial input cost increases from waste paper and energy. The strong market position of our corrugated packaging division enabled us to recover substantially increased input costs with the usual three to six month delay. New products have enabled us to reduce our customers' supply chain costs, increasing the value we are adding, and therefore assisting our work to recover raw material inflation.

Continental European Corrugated Packaging

	Half-year ended 31 October 2010	**Half-year ended 31 October 2009**
Revenue	£247.5m	£171.7m
Operating profit *	£14.1m	£12.7m
Return on sales *	5.7%	7.4%
12 month return on average capital employed *	11.0%	13.9%

* before amortisation and exceptional items

Revenues and operating profits were up 44.1% and 11.0% respectively for the period. Excluding the impact of Otor, revenues were up 15.7% and profits were down -22.8% as anticipated. Our strategic positioning of being short in paper manufacturing on the continent means that in the early part of the half-year, the lag to recover input cost increases had the most pronounced impact on profits. As we exited the half-year period, the delay was reduced and profits were broadly level with the prior year (excluding Otor).

In France, we are successfully integrating the commercial packaging operations of DS Smith and Otor and the combined business is performing well. We have continued to gain share in the French market, both winning new FMCG customers and increasing our relative position with existing customers. We are pleased with the Otor synergy identification and delivery to date. We expect to deliver synergies in this financial year of €1.5 million and our target for cost savings by the second full year of ownership is now €10.3 million, up €1.0 million on our previous estimate. Otor in the two months of ownership, delivered revenues of £48.9 million and operating profit before amortisation of £4.3 million, achieving a return on sales of 8.8% and an implied ROACE in excess of the Group's cost of capital.

In Poland the business has continued to make progress with strong volume and sales growth. The business focuses on large FMCG customers and we are continuing to invest in high quality printing and die-cutting equipment, which enables us to maintain double-digit profit margins.

In Ukraine, we own 49.6% of a market-leading integrated recycled corrugated packaging supplier (RKTK), with a c. 30% market share, heavily focused on the FMCG sector. In the six months to 31 October 2010, this business grew revenues by 53% and profits by 110% (in constant currency). The carrying value of our investment in this business remains fully impaired pending the conclusion of the refinancing negotiations with its lenders, and consequently our share of the results from the Ukraine business are not included in our accounts.

Plastic Packaging

	Half-year ended 31 October 2010	**Half-year ended 31 October 2009**
Revenue	£124.4m	£120.0m
Operating profit *	£9.4m	£9.0m
Return on sales *	7.6%	7.5%
12 month return on average capital employed *	14.5%	9.6%

* before amortisation and exceptional items

In the half-year the Plastic division has performed strongly. Excluding the results from the Demes pallet logistics business sold in January 2010, which contributed revenue and operating profit of £9.9 million and £0.6 million in the comparative half-year period respectively, underlying revenue and profits grew by 13.0% and 11.9% respectively. Liquid packaging and dispensing has performed particularly strongly from a combination of market success with innovative new products and gaining share with existing FMCG customers. Returnable transit packaging also exceeded our plans.

Office Products Wholesaling

	Half-year ended 31 October 2010	Half-year ended 31 October 2009
Revenue	£352.0m	£359.1m
Operating profit *	£5.0m	£5.0m
Return on sales *	1.4%	1.4%
12 month return on average capital employed *	18.5%	16.2%

* before amortisation and exceptional items

Office Products Wholesaling performed well in challenging conditions and in constant currency, revenue and profit was broadly flat versus the comparable period last year. The business continues to focus on service, product mix and margin management, and considerable opportunities remain to improve in these areas. The Office Products Wholesaling business has continued to grow revenues and profits strongly in continental Europe, with the UK business experiencing more challenging trading conditions.

Review of Business Strategy

On 24 June 2010 we announced that we would be reviewing our business portfolio with a view to creating a growing business that is more focused, producing higher margins and returns with less cyclicality.

The Group aspires to be the leading supplier of recycled packaging for consumer goods in Europe. In order to achieve this we intend to focus on our packaging business, particularly building on our FMCG customers. We will expand our recycling business that supports and is integral to our recycled packaging. We will reduce our exposure to paper manufacturing and look to streamline the Group. We will also realise significant cost and capital efficiencies through changing the organisational structure and ways of working.

Business Mix

We believe that there is considerable growth potential in our corrugated packaging businesses, both in Western Europe and in Central and Eastern Europe. The sector in which we have particular expertise, corrugated packaging, has growth prospects in excess of GDP. The use of retail-ready packaging is being driven by major retailers and FMCG companies, for whom it helps build sales and reduce costs. We have identified opportunities within the UK and France to drive further adoption of higher quality retail-ready packaging and for greater use of corrugated packaging, in substitution for other materials that are less easily recycled. In Central and Eastern Europe, consumption of corrugated packaging for FMCG is growing on the back of increased domestic consumption and of growing export volumes. It is our aim to grow our businesses in this region in absolute terms and to increase the proportion of profits they bring to the Group. This will be achieved by organic growth and, where appropriate, by acquisition.

Our paper production facilities will be maintained where integrated supply is strategically beneficial, such as in the UK. Paper production for external sale, particularly non-corrugated case material product, will be reduced. In total, our current production is expected to reduce from c.1.0 million tonnes by c.250 thousand tonnes per annum over the next three years.

The Plastics Packaging business has a similar customer base to the corrugated packaging business and has some synergies with it. We will continue to invest in Plastics Packaging where appropriate.

Our Office Products Wholesaling business has no synergies with the packaging business and the lowest margins in the Group. We are strengthening the management team to realise the opportunities to improve performance, in order to maximise shareholder value.

Differentiation

We aim to differentiate our corrugated packaging products through the service, quality and innovation that we offer to our customers. We will continue to invest in and focus on delivering short lead times and high quality product. This is necessary to win and keep the high quality FMCG customers we have today and that we target for the future. We aim to match the service requirements that they are expected to deliver to their own customer, the retailer. We work continuously with customers to ensure our solutions add value to and reduce costs in the supply chain of which they form a part, for example through our pan-European colour-match capability.

We differentiate DS Smith from our competition with our recycling proposition. Through DS Smith Recycling, we are able to offer a "cradle-to-cradle" service, recycling waste packaging rather than sending it to landfill. We have a strong relationship with many of the largest retailers in the UK who use DS Smith Recycling to manage their recycling. We plan to expand this model to other European countries in which we and our customers operate. This will be developed in conjunction with our existing retailer customer base. The recycling proposition is an important point of differentiation as consumer goods companies and retailers seek to fulfil their environmental commitments.

Efficiency

We will be improving further the efficiency of the Group, in respect of both operations and capital. Operational efficiencies will come from a change in the structure of the Group, with businesses more closely integrated to eliminate duplicate overheads and to drive revenue growth through shared best practice in innovation. Annual cost savings of £10m are expected to be realised in the medium term, and are expected to cost £10m in cash terms. We aim to deliver significant savings from procurement by building a central purchasing team. We will also improve our capital efficiency in relation to working capital and investment. Working capital will continue to be reduced to help provide the funding to support our growth. Capital investments will be made on a strategic basis, with an emphasis on the packaging businesses and market sectors that have historically delivered higher and less cyclical operating margins.

Culture

We are in the process of undertaking a series of steps to align our employees with the aims of the Group. A new Group-wide development appraisal programme is being rolled out along with an employee survey to strengthen the alignment of interests. Senior management in the Group has been strengthened and now have an element of their annual remuneration linked to profits and return on capital in order to align management with the interests of shareholders.

Managing Execution Risk

The execution risk associated with this business strategy is being managed by ensuring that our actions are rooted in our existing capabilities and customers. Opportunities for investment will be critically assessed on the basis of demand from our existing group of customers, with care taken that no one customer has a too concentrated position.

Key Performance Indicators

We expect the implementation of this strategy to transform the financial profile of the Group over time. It is our target that organic growth should be over 3% per annum, our return on sales should be in the range of 6% to 8% and return on capital should be between 12% and 15%. We expect our weighted average cost of capital to reduce to less than 11%. We intend to maintain net debt / EBITDA at less than 2.0x. Cash flow from operating activities, before growth capital expenditure, is expected to exceed 120% of profit from operating activities.

Risks and Uncertainties

The Board has considered the principal risks and uncertainties affecting the Group in the second half of the year. The principal risks and uncertainties discussed in the Business Review on pages 32 and 33 of the 2010 Annual Report, remain relevant. Further risks identified in the Circular with respect to the Otor acquisition, on pages 14 to 18 of that Circular, are also relevant. Both documents are available on the Group's website at www.dssmith.uk.com.

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

- changes to the demand for, or pricing of, the Group's products and services as a result of general economic conditions or market-specific factors;
- volatility of pricing and availability of globally traded raw materials;
- volatile and increasing energy prices;
- movements in foreign exchange rates and interest rates;
- the funding position of the Group's UK defined benefit pension scheme;
- the continuing availability of borrowing facilities, including compliance with borrowing covenants;
- competitive risk;
- customer credit risk;
- serious breaches of legal or other regulations;
- increasing costs in the medium-term related to climate change and carbon dioxide emissions;
- product liability;
- other environmental risks specific to our production processes; and
- risk of not realising the desired benefits, integration and synergy from Otor

Going Concern

Management is currently of the opinion that the Group's forecasts and projections show that the Group should be able to operate within its banking facilities and comply with its banking covenants. The Group is however exposed to a number of risks and uncertainties, which could affect the Group's ability to meet management's forecasts and projections, and hence its ability to

meet its banking covenants. The Directors believe that the Group has the flexibility to react to changing market conditions and is adequately placed to manage its business risks successfully despite the uncertain economic outlook.

After making enquiries, the Directors have 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 information.

Responsibility Statement

We confirm that to the best of our knowledge:

(a) the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union;
(b) the interim management report includes a fair review of the information required by DTR 4.2.7R; and
(c) the interim management report also includes a fair review of the information required by DTR4.2.8R.

Miles Roberts	Steve Dryden
Group Chief Executive	Group Finance Director

8 December 2010

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 2010 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 15. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' Responsibilities

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

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

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 October 2010 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 Services Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
8 December 2010

Condensed Consolidated Income Statement

	Note	**Half-year ended 31 October 2010 £m**	Half-year ended 31 October 2009 £m	Year ended 30 April 2010 £m
Revenue	2	**1,174.2**	**1,018.0**	**2,070.6**
Cost of sales		(901.6)	(772.4)	(1,558.4)
Gross profit		**272.6**	**245.6**	**512.2**
Operating expenses		(212.1)	(194.9)	(414.1)
Operating profit				
Before amortisation and exceptional items	2	**60.5**	**50.7**	**98.1**
Amortisation of intangible assets		(2.5)	(2.2)	(4.1)
Pre-tax exceptional items	3	(6.0)	(0.5)	(13.3)
Operating profit		**52.0**	**48.0**	**80.7**
Finance income		0.6	0.4	1.5
Finance costs	5	(8.9)	(8.6)	(15.9)
Employment benefit finance charge		(3.5)	(5.6)	(11.5)
Net financing costs		(11.8)	(13.8)	(25.9)
Profit after financing costs		**40.2**	**34.2**	**54.8**
Share of profit of associates		-	-	0.2
Profit before income tax				
Before amortisation and exceptional items		**48.7**	**36.9**	**72.4**
Amortisation of intangible assets		(2.5)	(2.2)	(4.1)
Pre-tax exceptional items		(6.0)	(0.5)	(13.3)
Profit before income tax		**40.2**	**34.2**	**55.0**
Income tax expense	6			
On profit before exceptional items		(12.5)	(10.9)	(17.8)
Exceptional tax credit		0.1	0.2	0.9
Income tax expense		(12.4)	(10.7)	(16.9)
Profit for the financial period		**27.8**	**23.5**	**38.1**
Profit for the financial period attributable to:				
DS Smith Plc equity shareholders		27.5	23.4	37.9
Non-controlling interest		0.3	0.1	0.2
Earnings per share – (pence):	7			
Basic - adjusted for amortisation and exceptional items		8.7p	6.6p	13.9p
Diluted - adjusted for amortisation and exceptional items		8.5p	6.5p	13.6p
Basic		6.6p	6.0p	9.7p
Diluted		6.5p	5.9p	9.5p
		Interim	Interim	Total
Proposed/actual dividends per share	8	2.0p	1.5p	4.6p

Condensed Consolidated Statement of Comprehensive Income

	Half-year ended 31 October 2010	Half-year ended 31 October 2009	Year ended 30 April 2010
	£m	£m	£m
Actuarial gains/(losses) on defined pension schemes	11.1	(47.5)	(10.3)
Movement on deferred tax relating to the actuarial (gains)/losses	(4.9)	13.3	3.3
Currency translation differences, including tax of £1.0m (half-year to 31 October 2009: £(0.8)m; year to 30 April 2010: £(2.4)m)	(3.6)	1.6	5.5
Unrealised changes in fair value of cash flow hedges, including tax of £(0.6)m (half-year to 31 October 2009: £3.1m; year to 30 April 2009: £3.9m)	(0.2)	(4.0)	(2.7)
Hedging reserves movement recognised in profit or loss during the period (including tax)	(0.4)	(3.4)	(7.4)
Net income/(expense) recognised directly in equity	**2.0**	**(40.0)**	**(11.6)**
Profit for the financial period	**27.8**	**23.5**	**38.1**
Total comprehensive expense for the period	**29.8**	**(16.5)**	**26.5**
Attributable to:			
DS Smith Plc equity shareholders	29.5	(16.6)	26.4
Non-controlling interest	0.3	0.1	0.1

Condensed Consolidated Balance Sheet

	Note	**As at 31 October 2010 £m**	As at 31 October 2009 £m	As at 30 April 2010 £m
Assets				
Non-current assets				
Intangible assets		336.2	224.3	221.2
Property, plant and equipment		643.7	615.4	590.8
Investments in associates		-	0.3	-
Other investments		0.5	0.7	0.8
Deferred tax assets		75.8	91.4	81.4
Other receivables		10.3	1.0	0.8
Derivative financial instruments		12.3	3.3	11.9
Total non-current assets		**1,078.8**	936.4	906.9
Current assets				
Inventories		218.4	169.4	174.8
Other investments		0.2	0.6	0.2
Income tax receivable		2.3	3.8	2.3
Trade and other receivables		459.6	381.1	380.5
Cash and cash equivalents		107.0	76.7	55.1
Derivative financial instruments		13.9	5.7	6.3
Assets classified as held for sale		-	-	8.1
Total current assets		**801.4**	637.3	627.3
Total assets		**1,880.2**	1,573.7	1,534.2
Liabilities				
Non-current liabilities				
Interest-bearing loans and borrowings		(424.6)	(308.3)	(256.4)
Post-retirement benefits	4	(200.6)	(240.1)	(203.1)
Other payables		(11.9)	(5.3)	(3.9)
Provisions		(6.3)	(13.9)	(7.9)
Deferred tax liabilities		(62.6)	(64.5)	(60.5)
Derivative financial instruments		(25.8)	(35.1)	(26.0)
Total non-current liabilities		**(731.8)**	(667.2)	(557.8)
Current liabilities				
Bank overdrafts		(8.3)	(8.9)	(22.3)
Interest-bearing loans and borrowings		(15.3)	(7.7)	(5.7)
Trade and other payables		(542.3)	(422.7)	(430.4)
Income tax liabilities		(23.2)	(18.7)	(17.1)
Provisions		(8.5)	(8.1)	(12.9)
Derivative financial instruments		(19.3)	(4.3)	(8.7)
Assets classified as held for sale		-	-	(6.1)
Total current liabilities		**(616.9)**	(470.4)	(503.2)
Total liabilities		**(1,348.7)**	(1,137.6)	(1,061.0)
Net assets		**531.5**	436.1	473.2
Equity				
Issued capital		43.4	39.3	39.3
Share premium		306.1	263.1	263.1
Reserves		183.9	135.5	172.4
DS Smith Plc shareholders' equity		**533.4**	437.9	474.8
Non- controlling interests		(1.9)	(1.8)	(1.6)
Total equity		**531.5**	436.1	473.2

Condensed Consolidated Statement of Changes in Equity

	Share capital	Share premium	Hedging reserve	Translation reserve	Own shares	Retained earnings	Total attributable to equity shareholders	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance as at 1 May 2009	**39.3**	**263.1**	**2.7**	**27.4**	**(4.2)**	**129.7**	**458.0**	**(1.6)**	**456.4**
Profit for the period	-	-	-	-	-	23.4	23.4	0.1	23.5
Other comprehensive income for the period*	-	-	(7.4)	1.6	-	(34.2)	(40.0)	-	(40.0)
Shared-based payment expense (including tax)	-	-	-	-	-	3.0	3.0	-	3.0
Dividends paid to shareholders	-	-	-	-	-	(6.9)	(6.9)	-	(6.9)
Transactions with non-controlling interest (Toscana Ondulati SpA)	-	-	-	-	-	0.4	0.4	(0.3)	0.1
Balance at 31 October 2009	**39.3**	**263.1**	**(4.7)**	**29.0**	**(4.2)**	**115.4**	**437.9**	**(1.8)**	**436.1**
Profit for the period	-	-	-	-	-	14.5	14.5	0.1	14.6
Other comprehensive income for the period*	-	-	(2.7)	4.0	-	27.2	28.5	(0.1)	28.4
Acquisitions	-	-	-	-	-	-	-	0.3	0.3
Shared-based payment expense (including tax)	-	-	-	-	-	(0.1)	(0.1)	-	(0.1)
Dividends paid to shareholders	-	-	-	-	-	(6.0)	(6.0)	-	(6.0)
Transactions with non-controlling interest (Toscana Ondulati SpA)	-	-	-	-	-	-	-	(0.1)	(0.1)
Balance at 1 May 2010	**39.3**	**263.1**	**(7.4)**	**33.0**	**(4.2)**	**151.0**	**474.8**	**(1.6)**	**473.2**
Profit for the period	-	-	-	-	-	27.5	27.5	0.3	27.8
Other comprehensive income for the period*	-	-	(0.6)	(3.6)	-	6.2	2.0	-	2.0
Acquisitions/divestments	-	-	-	-	-	-	-	2.4	2.4
Acquisition of non-controlling interests without a change in control	-	-	-	-	-	(5.9)	(5.9)	(2.6)	(8.5)
New share capital issued	4.1	43.0	-	-	-	-	47.1	-	47.1
Own shares acquired	-	-	-	-	(0.1)	-	(0.1)	-	(0.1)
Share-based payment expense (including tax)	-	-	-	-	1.3	(0.3)	1.0	-	1.0
Dividends paid to shareholders	-	-	-	-	-	(13.4)	(13.4)	-	(13.4)
Transactions with non-controlling interest (Toscana Ondulati SpA)	-	-	-	-	-	0.4	0.4	(0.4)	-
Balance at 31 October 2010	**43.4**	**306.1**	**(8.0)**	**29.4**	**(3.0)**	**165.5**	**533.4**	**(1.9)**	**531.5**

*Refer to condensed Consolidation Statement of Comprehensive Income

Condensed Consolidated Cash Flow Statement

	Note	**Half-year ended 31 October 2010 £m**	Half-year ended 31 October 2009 £m	Year ended 30 April 2010 £m
Operating activities				
Cash generated from operations	9	93.2	63.6	135.5
Interest received		0.1	0.2	0.8
Interest paid		(6.8)	(9.3)	(17.0)
Income tax paid		(5.3)	(10.9)	(21.3)
Net cash flows from operating activities		**81.2**	**43.6**	**98.0**
Investing activities				
Acquisition of subsidiary businesses, net of cash and cash equivalents acquired	12	(158.9)	-	(1.0)
Disposal of subsidiary business, net of cash and cash equivalents disposed of	12	4.5	-	8.1
Capital expenditure		(18.0)	(25.3)	(52.6)
Proceeds from sale of assets		0.9	1.7	4.8
Proceeds from the sale of associates and other non – current investments		0.3	0.2	0.1
Cash flows from investing activities		**(171.2)**	**(23.4)**	**(40.6)**
Financing activities				
Proceeds from the issue of share capital		47.1	-	-
Purchase of own shares		(0.1)	-	-
Acquisition of non-controlling interest	12	(8.5)	-	-
Increase in/(repayment of) borrowings		132.8	0.3	(65.9)
Repayment of finance lease obligations		(1.0)	(0.3)	(0.4)
Dividends paid		(13.4)	(6.9)	(12.9)
Cash flows from financing activities		**156.9**	**(6.9)**	**(79.2)**
Net increase in cash and cash equivalents		66.9	13.3	(21.8)
Net cash and cash equivalents brought forward		32.8	54.1	54.1
Exchange (losses) /gains on cash and cash equivalents		(1.0)	0.4	0.5
Net cash and cash equivalents		**98.7**	**67.8**	**32.8**

Notes to the Accounts

1 Basis of preparation

The half-year report has been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency rules of the Financial Services Authority. 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 2010, which are prepared in accordance with IFRS as adopted by the European Union. Those accounts were reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified, 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.

(a) Changes in accounting policies

No changes have been made to the Group's accounting policies in the period to 31 October 2010 other than the adoption of IFRS 3 (revised) Business Combinations and IAS 27 (revised) Consolidated and Separate Financial Statements.

The main impact of these revised standards on the unaudited condensed consolidated interim financial statements for the period ended 31 October 2010 was as follows:

- In the period to 31 October 2010, acquisition-related costs have been recognised as an operating cost in the income statement whereas previously they were capitalised. Prior periods have not been restated as this change in accounting is required to be applied prospectively from 1 May 2010;
- The term ''minority interest'' has been changed to ''non-controlling interest'';
- Equity interests held prior to control being obtained are re-measured to fair value at the acquisition date, with any resulting gain or loss recognised in the income statement;
- Changes in ownership interest in a subsidiary that does not result in a change of control are treated as transactions among equity holders and are reported within equity shareholders' funds. No gain or loss is recognised on such transactions and goodwill is not re-measured; and
- Cash consideration for non-controlling interests is classified as a financing activity rather than an investing activity in the cash flow statement.

(b) The information presented for the year ended 30 April 2010 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The financial information for the 6 months to 31 October 2010 is unaudited but has been reviewed by Deloitte LLP, the Group's auditors, and a copy of their review report appears on page 12 of this half-year report.

2 Segmental reporting

The Group's format for segment reporting is business segments based on the Group's management and internal reporting structure. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Central administration costs are allocated to the individual segments on a consistent basis year-on-year. Assets and liabilities have been analysed by segment at a capital employed level. Capital employed excludes items of a financing nature, taxation balances, net pension liabilities and fixed asset investments; segmental capital employed comprises identifiable segment assets less segmental liabilities. Average capital employed is the average monthly capital employed. The adjusted return on average capital employed is calculated as moving annual total of the operating profit before amortisation and exceptional items divided by the average capital employed in the last 12 months.

For the half-year ended 31 October 2010	**Packaging**					
	UK Paper and Corrugated £m	**Continental European Corrugated £m**	**Plastic £m**	**Sub-total £m**	**Office Products Wholesaling £m**	**Total Group £m**
External revenue	**450.3**	**247.5**	**124.4**	**822.2**	**352.0**	**1,174.2**
Adjusted operating profit	**32.0**	**14.1**	**9.4**	**55.5**	**5.0**	**60.5**
Amortisation	(1.0)	(0.4)	(0.5)	(1.9)	(0.6)	(2.5)
Exceptional items	0.3	(6.3)	-	(6.0)	-	(6.0)
Segment result	**31.3**	**7.4**	**8.9**	**47.6**	**4.4**	**52.0**

For the half-year ended 31 October 2009	Packaging					
	UK Paper and Corrugated £m	Continental European Corrugated £m	Plastic £m	Sub-total £m	Office Products Wholesaling £m	Total Group £m
External revenue	**367.2**	**171.7**	**120.0**	**658.9**	**359.1**	**1,018.0**
Adjusted operating profit	**24.0**	**12.7**	**9.0**	**45.7**	**5.0**	**50.7**
Amortisation	(1.0)	(0.1)	(0.5)	(1.6)	(0.6)	(2.2)
Exceptional items	-	(0.5)	-	(0.5)	-	(0.5)
Segment result	**23.0**	**12.1**	**8.5**	**43.6**	**4.4**	**48.0**

2 Segmental reporting (continued)

	Half-year ended 31 October 2010	Half-year ended 31 October 2009	Year ended 30 April 2010
Adjusted return on sales [1] - %			
UK Paper and Corrugated Packaging	7.1	6.5	4.9
Continental European Corrugated Packaging	5.7	7.4	6.5
Plastic Packaging	7.6	7.5	7.2
Packaging	6.8	6.9	5.7
Office Products Wholesaling	1.4	1.4	2.9
Group total	**5.2**	**5.0**	**4.7**
Adjusted return on average capital employed [1, 3] - %			
UK Paper and Corrugated Packaging	8.4	5.9	6.9
Continental European Corrugated Packaging	11.0	13.9	12.0
Plastic Packaging	14.5	9.6	13.5
Packaging	9.9	8.2	9.0
Office Products Wholesaling	18.5	16.2	17.9
Group total	**10.9**	**9.2**	**10.1**
Period-end capital employed [2] - £ million			
UK Paper and Corrugated Packaging	504.0	519.8	504.0
Continental European Corrugated Packaging	386.5	192.9	187.7
Plastic Packaging	112.0	124.3	115.4
Packaging	1,002.5	837.0	807.1
Office Products Wholesaling	98.3	111.2	114.7
Group total	**1,100.8**	**948.2**	**921.8**
Segment assets - £ million			
UK Paper and Corrugated Packaging	720.7	698.0	703.1
Continental European Corrugated Packaging	550.3	270.7	268.9
Plastic Packaging	159.1	168.6	158.8
Packaging	1,430.1	1,137.3	1,130.8
Office Products Wholesaling	237.1	252.9	244.4
Sub-total	**1,667.2**	**1,390.2**	**1,375.2**
Unallocated items	213.0	183.5	159.0
Group total	**1,880.2**	**1,573.7**	**1,534.2**

[1] before amortisation and exceptional items, as described in note 3
[2] capital employed is defined on page 18
[3] average capital employed is defined on page 18

3 Exceptional items

Items are presented as ‘exceptional’ in the financial statements where they are significant items of financial performance that the Directors consider should be separately disclosed, to assist in the understanding of the underlying trading and financial results achieved by the Group.

	Half-year ended 31 October 2010 £m	Half-year ended 31 October 2009 £m	Year ended 30 April 2010 £m
Restructuring costs			
UK Paper and Corrugated Packaging	0.3	-	-
Continental European Corrugated Packaging	(0.5)	(0.5)	(1.2)
Plastic Packaging	-	-	0.3
Office Products Wholesaling	-	-	(1.8)
Total restructuring costs	**(0.2)**	**(0.5)**	**(2.7)**
Impairment & other	-	-	(10.2)
Acquisition costs	(6.9)	-	-
Disposal profit/(costs)	1.1	-	(0.4)
Pre-tax exceptional items	**(6.0)**	**(0.5)**	**(13.3)**
Income tax credit on exceptional items	0.1	0.2	0.9
Total post-tax exceptional items	**(5.9)**	**(0.3)**	**(12.4)**

In the half-year ended 31 October 2010, the Group recorded £(6.0)m pre-tax exceptional items (half-year to 31 October 2009: £(0.5)m). Of this £(6.9)m related to acquisition of Otor, £1.1m profit on disposal of Copikas (note 12) and reversal of unutilised provision of £0.3m.

4 Post-retirement benefits

	Half-year ended 31 October 2010 £m	Half-year ended 31 October 2009 £m	Year ended 30 April 2010 £m
Opening gross deficit	(203.1)	(191.3)	(191.3)
Employment benefit finance (charge)/income	(3.5)	(5.6)	(11.5)
Expense recognised in income statement	(3.7)	(5.0)	(8.5)
Contributions	9.1	9.3	18.8
Actuarial gain/(loss)	11.1	(47.5)	(10.3)
Acquired	(10.5)	-	-
Effect of movements in foreign exchange	(0.5)	-	(0.9)
Reclassification	0.5	-	0.6
Closing gross deficit	**(200.6)**	**(240.1)**	**(203.1)**
Deferred tax asset	57.2	67.0	57.0
Net deficit	**(143.4)**	**(173.1)**	**(146.1)**

The table above is the aggregate value of all Group pension schemes.

4 Post-retirement benefits (continued)

The reduction in discount rates from 5.6% to 5.3% has been offset by lower inflation assumptions inclusive of the change from RPI to CPI in accordance with Urgent Issues Task Force guidance of 13 October 2010.

The sensitivity of the liabilities and annual service costs in the main UK scheme to the key assumptions is summarised below:

	Increase in pension liability £m
0.5% decrease in the discount rate	(80.0)
0.5% increase in inflation	(70.0)
1 year increase in life expectancy	(20.0)

5 Finance costs

Finance costs for the half-year ended 31 October 2010 of £8.9m (half-year to 31 October 2009: £8.6m; year to 30 April 2010: £15.9m) include a charge of £0.4m (half-year to 31 October 2009: £0.4m; year to 30 April 2010: £0.4m) relating to an increase in the fair value of put options, in accordance with IAS 32/39, held by non-controlling shareholders in a subsidiary of the Group.

6 Income tax expense

Tax on profits has been charged at a rate before exceptional items and share of profits of associates, of 27.1% (half-year to 31 October 2009: 31.4%; year to 30 April 2010: 26.1%) being the expected full-year rate less an adjustment of £1.2m in respect of restatements to deferred tax balances to reflect the reduction in the UK tax rate from 28% to 27%.

The tax charge on profit before exceptional items and share of profits of associates for the period of £12.5m (half-year to 31 October 2009: £10.9m; year to 30 April 2010: £17.8m) consists of UK taxation of £2.1m (half-year to 31 October 2009: £1.5m; year to 30 April 2010: £2.6m) and overseas taxation of £10.4m (half-year to 31 October 2009: £9.4m; year to 30 April 2010: £14.3m).

7 Earnings per share

The basic earnings per share has been calculated on the profit for the period attributable to equity holders of the parent company of £27.5m (half-year to 31 October 2009: £23.4m; year to 30 April 2010: £37.9m) and on 415.0m ordinary shares (half-year to 31 October 2009: 390.9m; year to 30 April 2010: 391.0m), being the weighted average number in issue and fully paid during the period.

Diluted earnings per share are calculated assuming the conversion of potentially dilutive shares issued under share option schemes. These adjustments give rise to an increase in the weighted average number of ordinary shares to 425.0m (half-year to 31 October 2009: 396.1m; year to 30 April 2010: 399.5m).

Adjusted earnings per share

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

	Half-year ended 31 October 2010		Half-year ended 31 October 2009		Year ended 30 April 2010	
	£m	**pence per share**	£m	pence per share	£m	pence per share
Basic earnings	**27.5**	**6.6**	23.4	6.0	37.9	9.7
Add back amortisation	**2.5**	**0.6**	2.2	0.5	4.1	1.0
Add back exceptional items after tax	**5.9**	**1.5**	0.3	0.1	12.4	3.2
Adjusted earnings	**35.9**	**8.7**	**25.9**	**6.6**	**54.4**	**13.9**

8 Dividends

The following dividends were paid by the Group:

		£m
September 2009	Final dividend for the 2008/09 year of 1.8 pence per share	6.9
March 2010	Interim dividend for the 2009/10 year of 1.5 pence per share	6.0
September 2010	Final dividend for the 2009/10 year of 3.1 pence per share	13.4

The Directors have proposed an interim dividend for the 2010/11 year of 2.0 pence per share, totalling £8.7m.

9 Reconciliation of profit for the period to cash generated from operations

	Half-year ended 31 October 2010 £m	Half-year ended 31 October 2009 £m	Year ended 30 April 2010 £m
Profit for the period	27.8	23.5	38.1
Adjustments for:			
- exceptional item charged to income statement	6.0	0.5	13.3
- cash outflow for exceptional items	(10.2)	(13.5)	(18.4)
- depreciation and amortisation	35.3	35.9	72.0
- profit on sale of non-current assets	(0.3)	(0.5)	(1.0)
- share-based payment expense	1.0	0.9	1.4
- share of profit of associates	-	-	(0.2)
- employment benefit net finance charge	3.5	5.6	11.5
- finance income	(0.6)	(0.4)	(1.5)
- finance costs	8.9	8.6	15.9
-other non-cash items	-	-	0.6
- income tax expense	12.4	10.7	16.9
	83.8	71.3	148.6
Changes in:			
- inventories	(8.4)	0.9	(8.0)
- trade and other receivables	(21.6)	(24.5)	(36.3)
- trade and other payables	45.3	21.7	41.9
- provisions and employee benefits	(5.9)	(5.8)	(10.7)
Cash generated from operations	**93.2**	**63.6**	**135.5**

10 Analysis of net debt

Net debt analysed in the table below comprises the book amount of cash, other investments in current assets (which are treated as cash equivalents), overdrafts, interest-bearing loans and borrowings together with the fair value of derivative financial instruments that hedge the Group's borrowings.

	At 1 May 2010 £m	Cash flow £m	Acquisitions and other disposals	Foreign exchange and fair value movements £m	**At 31 October 2010 £m**
Cash and cash equivalents	55.1	53.6	(0.2)	(1.5)	107.0
Overdrafts	(22.3)	15.9	(2.4)	0.5	(8.3)
Net cash and cash equivalents	32.8	69.5	(2.6)	(1.0)	98.7
Interest-bearing loans and borrowings due after one year	(251.4)	(158.0)	(0.6)	(4.5)	(414.5)
Interest-bearing loans and borrowings due within one year	(5.0)	25.2	(31.4)	(0.7)	(11.9)
Finance leases	(5.7)	1.0	(8.3)	(0.5)	(13.5)
Non-current bank deposits	-	-	7.2	-	7.2
Derivative financial instruments					
- assets	11.3	-	-	-	11.3
- liabilities	(21.5)	-	-	(0.9)	(22.4)
	(272.3)	(131.8)	(33.1)	(6.6)	(443.8)
Total net debt	**(239.5)**	**(62.3)**	**(35.7)**	**(7.6)**	**(345.1)**

Other non-cash movements in the period relate to the effect of movements in foreign exchange and interest rates on borrowings and related derivative financial instruments, and the entering into of finance leases.

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

11 Reconciliation of net cash flow to movement in net debt

	Note	**Half-year ended 31 October 2010 £m**	Half-year ended 31 October 2009 £m	Year ended 30 April 2010 £m
Operating profit before amortisation and exceptional items		60.5	50.7	98.1
Depreciation		32.8	33.7	67.9
EBITDA		93.3	84.4	166.0
Working capital movement		15.3	(1.9)	(2.4)
Other		(5.2)	(5.4)	(9.7)
Cash generated from operations before exceptional cash items	9	**103.4**	**77.1**	**153.9**
Capital expenditure payments		(18.0)	(25.3)	(52.6)
Proceeds from sales of assets and investments		1.2	1.9	13.0
Taxation		(5.3)	(10.9)	(21.3)
Interest		(6.7)	(9.1)	(16.2)
Free cash flow		**74.6**	**33.7**	**76.8**
Exceptional cash costs		(10.2)	(13.5)	(18.4)
Dividends paid to Group shareholders		(13.4)	(6.9)	(12.9)
Net disposals/(acquisitions) of subsidiaries		(160.3)	-	(1.0)
Net cash flow		**(109.3)**	**13.3**	**44.5**
Proceeds from issue of share capital		47.1	-	-
Purchase of own shares		(0.1)	-	-
Net debt acquired/divested		(35.7)	-	(0.9)
Foreign exchange and fair value movements		(7.6)	2.0	8.4
Net debt movement		(105.6)	15.3	52.0
Opening net debt		(239.5)	(291.5)	(291.5)
Closing net debt	**10**	**(345.1)**	**(276.2)**	**(239.5)**

12 Acquisitions and divestments

(a) Otor Group

On 1 September 2010 the Group acquired 100% of the voting share capital of Otor Finance S.A., a holding company which owns and controls 80% of Otor S.A. On this date and as part of the same acquisition, the Group acquired an additional 15% of the voting share capital of Otor S.A. Otor S.A. is a leading FMCG focused corrugated packaging company in France. As a result, the Group's total voting and ownership interest in Otor S.A. at acquisition date was 95%. Total consideration transferred comprised cash of £156.6m. As noted below, in October 2010 the Group increased its ownership interest to 100%.

Taking control of the Otor Group satisfies a number of the Group's key strategic objectives, in particular the development of a strong continental European corrugated packaging business focused on the fast moving consumer goods (FMCG) sector and strengthening significantly the Group's French presence. The Group expects the acquisition will have enhanced long-term growth potential through the Otor Group's strong business across the UK and continental Europe and from increased spending on the more resilient FMCG markets. Combining the Otor Group's successful and well-established corrugated packaging business with the Group's existing French operations will create a platform with significantly enhanced capabilities to address the needs of key corrugated packaging customers both in France and more broadly in continental Europe.

In the two months to 31 October 2010, the Otor Group contributed revenue of £48.9 million and profit after tax of £2.4 million to the Group's results. If the acquisition had occurred on 1 May 2010, management estimates for the six

months to 31 October 2010 that the Group consolidated revenue would have been £1,266.4 million, and consolidated profit would have been £31.3 million.

Identifiable assets acquired and liabilities assumed

	Carrying values before acquisition £m	Provisional fair values £m
Intangible assets	4.4	4.4
Property, plant and equipment	46.1	62.6
Deferred tax assets	11.9	1.3
Other non-current receivables	2.5	2.5
Non-current bank deposits	6.8	6.8
Inventories	34.3	34.3
Trade and other receivables	55.9	55.9
Interest-bearing loans and borrowings – non-current	(6.1)	(6.1)
Post-retirement benefits	(11.6)	(11.6)
Other payables – non-current	(3.6)	(3.6)
Bank overdrafts	(2.3)	(2.3)
Interest-bearing loans and borrowings – current	(34.2)	(34.2)
Trade and other payables	(57.6)	(57.6)
Provisions	-	(0.9)
Net identifiable assets acquired	**46.5**	**51.5**

The fair value adjustments relate to the valuation of land and buildings included within property, plant and equipment, as determined by an external valuation firm; and deferred tax assets recognised on acquisition. Deferred tax is also recognised on the temporary timing differences created by the fair value adjustments.

Due to the proximity of the acquisition to the period-end, the following fair values have been determined on a provisional basis:

- The fair values of plant and equipment and intangible assets have been determined provisionally pending completion of independent valuations.

Subsequent revisions to fair values would impact the valuation of goodwill set out below.

The trade receivables comprise gross contractual amounts due of £52.9 million, of which £1.8 million was expected to be uncollectible at the acquisition date.

Provisional Goodwill

Included within the fair value of net identifiable assets acquired is assumed net debt which formed part of the total consideration for the acquisition of the Otor Group.

	£m
Assumed net debt	(35.8)
Other net identifiable assets acquired	87.3
Fair value of net identifiable assets acquired	**51.5**

Provisional goodwill recognised as a result of the acquisition was as follows:

	£m
Cash consideration transferred	156.6
Assumed net debt	35.8
Non-controlling interests, based on their proportionate interest in the recognised amounts of the asset and liabilities acquired	2.4
Less: Fair value of net identifiable assets acquired (excluding assumed net debt)	(87.3)
Provisional goodwill	**107.5**

The provisional goodwill recognised is attributable mainly to the skills and technical talent of Otor's work force, and the synergies expected to be achieved from integrating Otor into the Group's existing Continental European Corrugated Packaging operations. None of the goodwill recognised is expected to be deductible for income tax purposes.

Acquisition-related costs
The Group incurred acquisition-related costs of £6.9 million on professional advisory fees and due diligence costs. These fees have been included in administrative expenses in the Group's condensed consolidated income statement. Due to the nature of these costs, they have been reported as exceptional costs.

Acquisition of non-controlling interests
In October 2010 the Group acquired an additional 5 percent interest in Otor S.A. for £8.5 million in cash, increasing its ownership in the Otor Group from 95% to 100% percent. The Group recognised a decrease in non-controlling interests of £2.6 million and a decrease in retained earnings of £5.9 million, to reflect this transaction.

Net cash outflow arising on acquisition

Cash consideration (at acquisition date)	(156.6)
Cash and cash equivalents acquired	(2.3)
Acquisition of subsidiary businesses, net of cash and cash equivalents acquired.	**(158.9)**
Cash consideration (acquisition of non-controlling interest)	(8.5)
Total	**(167.4)**

b) Copikas

On 1 October 2010 the Group sold its subsidiary in Turkey, DS Smith Copikas A.S., for a consideration of €5.5m.

13 Seasonality

The Group's overall results are not materially affected by seasonal factors. The operating margin in UK Paper and Corrugated Packaging is historically affected in the second half of the year by higher energy costs during the winter period. Revenue and operating profit in Office Products Wholesaling historically benefit in the second half of the year from the new product catalogue launches at the start of the calendar year.

14 Related parties

There have been no related party transactions or changes to the related party transactions, as described in the 2010 Annual Report, that would have a material effect on the financial position or performance of the Group for the half-year ended 31 October 2010.

15 Post Balance Sheet Event

The Trustees have agreed in principle to close the UK Pension Scheme to future accrual from 30 April 2011 and to change the indexation link to CPI from RPI. Closure of the scheme combined with the move to CPI is expected to reduce the liability by c. £80m and result in an exceptional credit / gain of c. £35m in the second half of the financial year.