

26 June 2003

## **DS Smith Plc 2002/03 Preliminary Results**

### **STRONG PROFIT ADVANCE**

DS Smith Plc (SMDS), the international packaging manufacturer and office products wholesaler, announces its preliminary results for the year ended 30 April 2003.

#### **HIGHLIGHTS**

##### **Financial**

- Profit before tax\* up 27% at £79.7m
- Operating margin\* up from 5.0% to 5.9%
- Return on capital employed\* up from 9.2% to 11.3%
- Earnings per share\* up 29% at 18.0p
- Full year dividend maintained at 8.8p
- Net cash inflow after dividends and acquisitions £15.6m
- Interest cover 8.3 times

##### **Operations**

- Packaging: continued progress; operating profit\* £67.8m (2001/02: £63.9m)
- Office Products: turnaround in operating profit\* to £20.2m (2001/02: £8.1m)

\* before exceptional items and amortisation of intangibles – see Group Profit and Loss Account.

Commenting on the results, Chairman, Antony Hichens said:

“I am pleased to report that we met our key objectives of maintaining progress in Packaging and rebuilding profitability in Office Products. This was achieved through continuing to raise operational performance and realising the benefits of the acquisitions made in recent years.

“The Group has demonstrated its resilience and its ability to operate successfully in tough markets. In the current year, margins in our Paper business are under increased pressure but we are confident that the other parts of the Group will make further progress.”

#### **Enquiries**

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## CHAIRMAN'S STATEMENT

2002/03 was a challenging year in which demand weakened in most of our markets. We also had to contend with substantial fluctuations in the price of recovered paper, the principal raw material for our largest business segment, Corrugated and Paper Packaging. Despite these difficulties, I am pleased to report that we met our key objectives of maintaining progress in Packaging and rebuilding profitability in Office Products. This was achieved through continuing to raise operational performance and realising the benefits of the acquisitions made in recent years.

The Group's earnings per share before exceptional items and amortisation of intangibles advanced by 29% to 18.0p. The net cash inflow after dividends and acquisitions was £15.6 million compared with an outflow of £1.6 million in the previous year.

Your Board attaches considerable importance to the Group's capacity to pay its shareholders a reliable and significant dividend consistent with its objective of sustaining around two times dividend cover over the course of the business cycle. The Board is recommending a final dividend of 6.0p per ordinary share which, together with the interim dividend of 2.8p, maintains the total dividend for the year at 8.8p per ordinary share.

The Group continues to pursue its strategy of operational improvement and development of its two principal activities, Packaging and Office Products Wholesaling. In 2002/03, we built further on our strong market positions and raised the Group's return on capital employed from 9.2% to 11.3%. We will continue to invest in capital projects and bolt-on acquisitions which strengthen our competitiveness in selected sectors, while remaining focused on raising returns.

In November 2002, Gavin Morris was appointed Group Finance Director, bringing extensive financial and international management experience to the Group. David Buttfield, who had been Group Finance Director since 1994, took early retirement and stood down from the Board in January 2003. The Board thanks David for his valuable contribution and for maintaining the Group's sound financial position through an ever-changing trading environment.

I would also like to thank all the Group's employees worldwide for their contribution to the year's good result. The progress we have achieved in such tough market conditions would not have been possible without their enthusiasm and commitment.

Over the last year, the Group has demonstrated its resilience and its ability to operate successfully in tough markets. In the current year, margins in our Paper business are under increased pressure but we are confident that the other parts of the Group will make further progress.

Antony Hichens  
Chairman

## **CHIEF EXECUTIVE'S REVIEW**

### **Overview**

At the start of the financial year 2002/03, we recognised that we could not expect any significant improvement in demand in most of our markets and that we were also facing a squeeze on our margins in paper following a sharp rise in recovered paper prices. Against this background, our principal financial objectives were to maintain our progress in Packaging and to improve profitability in Office Products. I am pleased to report that the team's concentration on mix management, cutting costs and attention to cash, combined with the benefits from actions we had taken previously, enabled us to meet these objectives while also continuing the development of the Group.

Group sales increased by 3% to £1,479.0 million, of which 2% was attributable to acquisitions. Operating profit before exceptional items and amortisation of intangibles advanced in all four of our business segments, giving an overall increase of 22% to £88.0 million; at constant exchange rates the increase was 20%. Operating margin rose from 5.0% to 5.9% while return on average capital employed moved from 9.2% to 11.3%. Interest cover remained strong at 8.3 times.

Profit before tax, exceptional items and amortisation of intangibles rose 27% to £79.7 million while adjusted earnings per share advanced by 29% to 18.0p.

The cash inflow after dividends, but before net acquisitions, was £31.7 million. After net expenditure on acquisitions of £16.1 million, principally in the liquid packaging and dispensing segment of Plastic Packaging, there was a net cash inflow of £15.6 million which resulted in net borrowings of £202.3 million (2001/02: £195.9 million) after the effect of exchange movements. The resultant gearing was 43% (45%).

These results reflect the strength of many of the Group's market positions and the skill and determination with which the divisional management teams have run their operations.

### **Packaging**

Our larger activity, Packaging, which accounted for 64% of Group sales and 77% of normalised operating profit, raised sales and operating profit before exceptional items and amortisation of intangibles by 6% despite flat or declining demand in the majority of its markets. The recent acquisitions made a strong contribution to this result.

In Corrugated and Paper, sales and operating profit before exceptional items and amortisation of intangibles both increased by 4%. The management of price volatility was particularly challenging this year. Price movements in recovered paper, our principal raw material, resulted in periods of margin squeeze and triggered substantial movements in paper and corrugated prices over the course of the year. We dealt with these changing circumstances through timely price adjustments and continuing cost control, although the underlying lack of customer demand limited our scope to recover fully raw material cost increases. Despite increased efficiencies, this market environment resulted in lower profits from our UK paper operations. An underlying improvement in the performance of our corrugated operations, enhanced by the benefits of recent investment and, in the UK, by the acquisition of Danisco's plants, allowed us to more than compensate for this profit shortfall.

In Plastic Packaging, we continued to make good progress, with a 13% increase in sales and a 16% advance in operating profit before exceptional items and amortisation of intangibles. Strong growth was maintained in liquid packaging and dispensing, boosted by the acquisition of a leading European manufacturer of bag-in-box packaging. Since the year end we have also acquired the remaining 50% shareholding in our Australasian operation, strengthening our base in the Asia-Pacific market. In industrial returnable transit packaging (RTP), our bottle crate business performed well. Trends in sales of other RTP products varied, depending upon the sector, but were helped by new product development and our pan-European approach to the market.

### **Office Products**

The decisive actions taken by the management teams towards the end of 2001/02 in both Wholesaling and Manufacturing resulted in a turnaround in profits despite the very poor demand for office products across Europe. Total Office Products sales were 2% lower, partly due to decisions to exit some unprofitable areas of business, but operating profit before exceptional items and amortisation of intangibles increased from £8.1 million to £20.2 million.

In Office Products Wholesaling, the extensive improvement programme that was implemented throughout Spicers' operations enabled it to meet its targets for rebuilding profitability. Operating profit before exceptional items and amortisation of intangibles increased from £9.7 million to £16.2 million. In the UK, high service levels were achieved and margins improved through reduced operating costs and margin management. Spicers France, operating in increasingly tough market conditions, performed well although its result was slightly lower than the previous year. Spicers Germany has rebuilt customer confidence and is now making progress in very tough market conditions, while in Spain, where we are still at an early stage of development, sales are growing steadily.

Our Office Products Manufacturing business, John Dickinson, achieved a turnaround in profit from a loss before exceptional items of £1.6 million to a profit of £4.0 million, benefiting from both significant cost reduction and lower depreciation following the impairment of assets in 2001/02.

### **Strategy**

The Group has strong market positions with good potential in both its Packaging and Office Products activities. We will continue to use our sound financial base and strong management teams to develop these two activities in parallel. In order to improve overall returns, we will restructure businesses where necessary or exit them if we do not believe we can raise returns to satisfactory levels. In 2002/03 we sold three small peripheral businesses for a total consideration of about £4.5 million. New capital for investment or acquisitions continues to be committed prudently with the priorities being cost reduction and the seizing of opportunities in new products or markets.

In Corrugated and Paper, two important trends that our strategy is addressing are, the greater growth for corrugated packaging in central and eastern Europe, and the increase in demand for lightweight papers. In recognition of the low market growth in the UK and France, we have set demanding productivity targets for our operations in these markets while concentrating our development efforts on higher margin segments. Building on our strong bases in the UK and France, we are growing our positions in corrugated packaging in Italy, Poland and the Ukraine. Despite ongoing operational improvements in our Turkish business, the country's economic environment is such that the business is loss making and the

resolution of this situation remains a priority. We remain alert to good value bolt-on acquisitions in corrugated packaging. In our Paper operations, we are meeting the market trend to lighter weight papers through adapting successfully our existing mills to run these products efficiently.

Plastic Packaging has the prospect of strong and profitable growth in our selected markets. We now have a leading global business in liquid packaging and dispensing, a market that is expected to continue expanding and should provide further development opportunities. In industrial RTP we have developed strong European positions in a number of sectors of the market in which we can build organically and through acquisitions.

Spicers Office Products Wholesaling has pre-eminent positions in the UK and France, emerging positions in Germany and Spain and a base for entering the Italian market in late 2004. We are confident, given our success in France and the development of an expanding customer base in Germany, that we can enhance the value of Spicers through building its position in continental Europe. The priority for management is to achieve profit breakthrough in Germany and strong sales growth in Spain.

### **Pension Scheme**

During the year we reviewed the position of our UK defined benefits pension scheme. We decided to retain the scheme for current and new members, while keeping the position under review pending the next triennial valuation which is due to take place as at April 2004. In the year, we reduced some of the benefits to lower the ongoing cost of the scheme to the Company. The Company has resumed payments into the scheme at the rate of £10 million per annum, broadly the annual cost of the scheme, with £5 million being paid in the second half of 2002/03. In accordance with SSAP 24, these payments are being treated as prepayments on the balance sheet and are not being shown as a charge to the profit and loss account until the next triennial valuation. The historic SSAP 24 surplus will continue to generate a net credit to the profit and loss account of approximately £10 million until the next valuation, thereby offsetting the ongoing costs of providing benefits under the scheme, resulting in a nil SSAP 24 pension charge. Under the FRS 17 accounting standard the scheme had a post-tax net deficit, as at 30 April 2003, of £93.8 million compared with a net deficit of £7.3 million a year ago.

### **Banking facilities**

At the end of 2001/02, the Group's main banking facilities comprised £325 million of bilateral revolving credit facilities expiring in December 2003. These have been successfully refinanced during the year with the issue of a £92.5 million 10-year private placement and the agreement of £290 million of new bilateral revolving credit facilities, largely for five years. Tightening of the banking markets since the original facilities were put in place in 1996 and the addition of a private placement has resulted in an increase in the average margin on the Group's facilities above market rates. The full year effect of this will be to increase interest costs by about £2.5 million.

### **Outlook**

In 2002/03 we improved our operations and continued the strategic development of our businesses. These actions underpinned the year's results and further strengthened our market positions.

We have yet to see an improvement in the trading environment. Therefore, our focus will continue to be on raising operational performance and building on these strong market positions. While, at this early stage of the year, movements in recovered paper prices are putting increased pressure on margins in our substantial Paper business, I am confident that the rest of the Group will make further progress.

Tony Thorne  
Group Chief Executive

## **OPERATING REVIEW**

### **Packaging**

Total Packaging sales increased by 6% to £942.0 million. Operating profit before exceptional items and amortisation of intangibles advanced by 6% to £67.8 million and the operating margin remained at 7.2%. Return on capital employed rose from 10.4% to 10.7%.

### **Corrugated and Paper**

Sales in the Corrugated and Paper segment increased by 4% to £747.0 million. Excluding the effect of acquisitions, principally the former Danisco plants acquired in September 2001, the growth was 2%. Operating profit before exceptional items and amortisation of intangibles grew by 4% to £53.1 million with lower profits in paper being more than compensated for by higher profits in corrugated. Operating margin was unchanged at 7.1% while return on capital employed rose from 10.0% to 10.6%.

Industry statistics for calendar year 2002 show that overall volume demand for corrugated board in Europe increased by 2.7%. However, demand in the Group's major markets remained weak, with the UK experiencing a marginal decline of 0.2% and France being down by 2.3%, after falls of 3.7% and 1.9%, respectively, in the previous year. Demand was significantly stronger in the Group's two principal development markets, Italy and Poland, which grew by 3.3% and 20.8%, respectively. In the first quarter of calendar year 2003, demand in the UK and France was flat while Italy and Poland continued to grow, but at lower rates than in 2002<sup>1</sup>. Total imports of corrugated case materials (CCM) into the UK in calendar year 2002 were flat year-on-year.

There was considerable price turbulence throughout the corrugated and paper supply pipeline during 2002/03 due to volatility in the price of recovered paper, the principal raw material for CCM. Recovered paper prices rose sharply through the first half of calendar year 2002, peaking in the second quarter, principally due to strong demand from Asia where there has been substantial investment in recycled paper manufacturing. Prices subsequently fell back during the autumn, although not to their 2001 average level, and then increased again in the early months of 2003. CCM prices rose during the second quarter of calendar year 2002, driven by the increase in recovered paper prices, but then softened towards the end of 2002. The movement in CCM prices necessitated an increase in corrugated box prices in late summer and early autumn 2002 but weakening economic conditions led to box prices coming under pressure from January 2003 onwards.

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<sup>1</sup> Source: European Federation of Corrugated Board Manufacturers

These sharp price movements resulted in margins being squeezed in both our paper and corrugated operations at various times during the year. However, by managing the adjustment of prices across the segment at appropriate times, maintaining tight cost controls and effecting other operational improvements, we were able to raise the overall result.

### **DS Smith Packaging**

The Group's UK corrugated division, DS Smith Packaging, continued to improve its profits through better operational efficiency and increasing focus on higher added value products. The former Danisco plants, acquired in September 2001, contributed to the increased profitability and enabled the division to gain market share. This was achieved despite flat market demand, industry over-capacity in the UK and margins being squeezed by higher paper prices for part of the year.

Profits in the conventional integrated plants benefited from investment made in previous years, higher productivity and initiatives to raise service levels. The four plants are increasingly being operated as a single business with an integrated IT system, which helps them optimise use of their manufacturing, sales and design capabilities for servicing a mix of local and national accounts.

The speciality operations increased profitability through their focus on innovation, high levels of product differentiation and increased efficiency. The investment in new printing and converting facilities at the Lockerbie plant is now complete and is being focused on developing new, higher added value market opportunities. The Tri-Wall heavy duty business maintained profits despite continuing to suffer from the decline in UK manufacturing industry; recent investment is enabling it to increase productivity and service its markets more efficiently.

Despite particularly difficult trading conditions, the sheet feeder plants, which produce corrugated sheet board, and the sheet plants, which convert board into boxes, increased profits, principally through higher productivity and service levels.

### **Kaysersberg Packaging**

The Group's continental European packaging division, Kaysersberg Packaging, achieved a solid result. The good performances in the French, Polish and Italian corrugated units were offset by poorer results in the French paper mills and losses in Turkey.

The growing trend amongst manufacturing companies to relocate from France contributed to the French market being particularly weak. Lower activity levels and periods of margin squeeze, due to higher recovered paper prices, affected results at the French paper mills. However, margins in the French corrugated operations benefited from good cost control and targeting higher added value customer and market segments. Increased operating flexibility enabled the businesses to adjust more rapidly to changing market circumstances. In February 2003, the Sorepa waste collection business, in which DS Smith held a 60 % share, was sold.

In Italy, where the corrugated market continued to grow relatively strongly, Toscana Ondulati increased its profits and market share. It benefited from its new lightweight corrugated factory, opened at Lari in March 2002, which is focused on the food and ceramics industries and has built a leading position in the European pizza box market.

Although sales advanced at the Turkish business and the efficiency of the operations improved, poor market prices and the country's difficult economic environment have combined to cause the business to be in loss. Action is being taken to raise performance.

The Polish business advanced its sales and profits strongly, gaining share in a fast growing market and improving its productivity. In addition to its conventional corrugated business, it is developing positions in litho-laminated and heavy duty products. Commercial links have been established into the Czech Republic and Slovakia to develop sales in those markets.

### **St Regis Paper Company**

St Regis' margins were adversely affected by higher recovered paper prices resulting in lower profits. However, the profit was better than expected due to a combination of slightly higher sales volumes and efficiency improvements. Despite the generally weak market conditions, record output levels were achieved at a number of mills. Export sales and the division's competitiveness in the UK market were assisted towards the end of the financial year by the strengthening of the euro against sterling.

The Kemsley paper mill performed well due to enhanced process control, improved operational stability and further advances in product quality. Recent investment to raise production performance on lightweight products at Kemsley and Taplow mills further strengthened the division's capability to satisfy that segment of the market. Sudbrook mill benefited from recent investment and the withdrawal from the market of a competitor in its principal product, semi-chemical fluting paper. A new warehouse is under construction at Kemsley that will virtually eliminate use of third party warehousing thereby significantly reducing costs. In February 2003, the Western Board business, which manufactures and converts fibreboard, and was peripheral to St Regis' main business, was sold.

The Severnside collection and recycling operation performed well in the turbulent market for recovered paper, helped by lower costs and higher efficiencies. It processed a record quantity of material and invested further in its infrastructure with the acquisition of two additional collection depots, one since the year end.

The value of Packaging Recovery Notes (PRNs), which are issued as evidence that packaging has been reprocessed in compliance with the UK Packaging Waste Regulations, fell substantially towards the end of 2002. This was partly due to weaker demand for PRNs, following the government's decision not to increase recycling targets for 2003, as well as the unexpectedly high number of wood PRNs issued, which is the subject of an ongoing investigation by the Environment Agency.

### **Plastic Packaging**

DS Smith Plastics continued its expansion through both organic growth and acquisitions with sales increasing by 13% to £195.0 million. Despite margins being adversely affected by higher polymer prices in the latter part of the year, operating profit before exceptional items and amortisation of intangibles advanced by 16% to £14.7 million helped by increased focus on higher added value products and improved operating efficiencies. Operating margin increased from 7.4% to 7.5% while return on capital employed fell from 12.2% to 11.5%, primarily as a result of integration costs and higher capital employed arising from acquisitions.

The division strengthened further its global position in the growing liquid packaging and dispensing market. In July 2002, Zewathener GmbH, one of Europe's leading manufacturers of bag-in-box packaging, was acquired and its integration with Rapak's existing bag-in-box operations is progressing on schedule. Rapak's European operations in the UK and Germany benefited from strong growth in wine bags, particularly in France and Eastern Europe, and increasing demand from the dairy industry. Progress in the USA was principally attributable to sales growth into the beverage sector although the slow-down in the fast food market during the Iraq war held back demand towards the end of the financial year. Rapak's Australasian joint venture was adversely affected by lower demand from the dairy industry, due to the drought in the region, and disruption during the transfer of manufacturing to a new site in Auckland. Since the year end, the Group has acquired the remaining 50% shareholding in this business to strengthen its base in the Asia-Pacific region. Worldwide Dispensers' injection moulded taps operations in the UK and USA are being increasingly run on an integrated basis and continued to grow well with strong demand for taps used in detergent and bag-in-box packaging. Operational performance and product quality have been enhanced by recent investment in automated assembly and testing.

Sales and profits in industrial returnable transit packaging (RTP) products were relatively flat due to the European economic slow-down. However, the Group's position in RTP was strengthened by its increasingly pan-European approach to the market. In extruded products, both custom-made converted products and semi-finished solid polypropylene and polycarbonate sheet grew well. However, sales were lower in moulded products, such as tailor-made containers for the automotive industry, where the market is project-driven. Injection moulded crates are now being produced in four countries and relatively strong demand in the Dominican Republic, Spain and Poland offset weaker demand in Belgium.

### **Office Products**

While total Office Products sales were lower at £537.0 million (2001/02: £547.8 million), operating profit before exceptional items and amortisation of intangibles advanced from £8.1 million to £20.2 million and operating margin increased from 1.5% to 3.8%. Return on capital employed rose from 4.8% to 14.0%.

### **Office Products Wholesaling**

Spicers' sales were slightly down at £495.6 million with lower sales in the UK and Ireland and growth in continental Europe. Operating profit before exceptional items and amortisation of intangibles increased from £9.7 million to £16.2 million with a substantial improvement in the UK being partly offset by lower margins in France. Operating margin increased from 1.9% to 3.3% and return on capital employed advanced from 7.2% to 12.7%.

This result was achieved through an extensive programme of operational initiatives, and against a background of weakened demand for office products across Europe due to the marked impact of the economic slow-down on office activity.

In the UK, Spicers maintained its strong market position by focusing on meeting its customers' needs while increasing operational efficiency and cost effectiveness. Margins were enhanced by exiting unprofitable business and reducing costs. Good progress has been made on rebuilding and maintaining high service levels by improving the processes that contribute to customers' orders being fulfilled accurately and promptly. The roll-out of the upgraded IT system has been successfully completed at all of the nine regional distribution centres. Relocation of the South London regional distribution centre to Greenwich in July 2002 increased service capability and efficiency.

The slow-down in the French market intensified in the course of the financial year and this adversely affected Spicers' growth in the second half. Profits were lower principally as a result of the increased costs put in to support future sales growth, including the establishment of a central warehouse.

Spicers Germany made good progress in rebuilding customer confidence by providing consistently high service levels and in expanding its dealer network; this resulted in sales growth, despite weak market conditions, and provides a good basis to achieve profitability.

The Spanish operation, launched in April 2002, is steadily building turnover; good catalogue sales in 2003 augur well for future sales development.

Spicers' sales in continental Europe now account for circa 40% of its total sales. In line with the strategy of continued development of Spicers in continental Europe, preparation is under way for entering the Italian market in late 2004. Extensive research has indicated a good opportunity for Spicers' business model adapted to meet the needs of Italian retailers and dealers.

### **Office Products Manufacturing**

John Dickinson achieved a turnaround in profitability, from a loss before exceptional items of £1.6 million to a profit of £4.0 million, benefiting from the restructuring undertaken towards the end of the previous financial year and lower depreciation following the impairment of assets at last year end. Sales were 10% lower at £59.7 million, largely due to the planned withdrawal from lower margin products. Operating margin was 6.7% and return on capital employed in the year was 23.1%, in part due to the fixed asset impairment made in 2001/02.

Market conditions continued to be difficult due to generally reduced demand for office products and a sharp rise in imports of low priced envelopes from continental Europe, where there is substantial over-capacity. Although the own label sector of the business remains very price competitive, the branded sector performed well, helped by strengthened marketing programmes and product innovation. Sales of Black n' Red notebooks grew strongly in the UK while sales in the USA and Europe are starting to benefit from increased catalogue listings. The Spicer Hallfield photographic stationery business was sold in February 2003.

## Group Profit and Loss Account

For the financial year ended 30 April 2003

	Note	2003			2002		
		Before exceptional items and amortisation of intangibles £m	Exceptional items and amortisation of intangibles (note 2) £m	Total £m	Before exceptional items and amortisation of intangibles £m	Exceptional items and amortisation of intangibles (note 2) £m	Total £m
<b>Turnover</b>	1	1,479.0	-	1,479.0	1,440.2	-	1,440.2
<b>Group operating profit</b>	1	<b>88.0</b>	<b>(2.6)</b>	<b>85.4</b>	<b>72.0</b>	<b>(34.1)</b>	<b>37.9</b>
Share of operating profits of associated undertakings		2.6	0.4	3.0	2.2	0.3	2.5
<b>Total operating profit</b>		<b>90.6</b>	<b>(2.2)</b>	<b>88.4</b>	<b>74.2</b>	<b>(33.8)</b>	<b>40.4</b>
Exceptional loss on sale of businesses		-	(8.5)	(8.5)	-	-	-
<b>Profit on ordinary activities before interest</b>		<b>90.6</b>	<b>(10.7)</b>	<b>79.9</b>	<b>74.2</b>	<b>(33.8)</b>	<b>40.4</b>
Net interest payable		(10.9)	-	(10.9)	(11.6)	-	(11.6)
<b>Profit on ordinary activities before taxation</b>		<b>79.7</b>	<b>(10.7)</b>	<b>69.0</b>	<b>62.6</b>	<b>(33.8)</b>	<b>28.8</b>
Tax on profit on ordinary activities		(21.6)	-	(21.6)	(16.9)	6.4	(10.5)
<b>Profit on ordinary activities after taxation</b>		<b>58.1</b>	<b>(10.7)</b>	<b>47.4</b>	<b>45.7</b>	<b>(27.4)</b>	<b>18.3</b>
Minority interests – equity		(0.3)	-	(0.3)	(0.9)	-	(0.9)
<b>Profit for the financial year</b>		<b>57.8</b>	<b>(10.7)</b>	<b>47.1</b>	<b>44.8</b>	<b>(27.4)</b>	<b>17.4</b>
Dividends paid and proposed		(28.2)	-	(28.2)	(28.2)	-	(28.2)
<b>Retained profit/(loss) for the financial year</b>		<b>29.6</b>	<b>(10.7)</b>	<b>18.9</b>	<b>16.6</b>	<b>(27.4)</b>	<b>(10.8)</b>
<b>Earnings per share:</b>	3						
Basic				14.7p			5.4p
Diluted				14.6p			5.4p
Adjusted		18.0p			14.0p		
<b>Dividends per share</b>				<b>8.8p</b>			<b>8.8p</b>

Notes:

- The Group's results shown above are derived from continuing operations. There were no material acquisitions or discontinued operations in either year.
- The difference between the reported and historical cost profits for each of the years reported above is not material.
- The exceptional items relate to the net loss on sale of businesses in the year. These include £7.4m of goodwill previously written off to reserves.
- The Annual Report and statements for the year ended 30 April 2003 will be posted to shareholders in July 2003.
- Subject to approval of shareholders at the Annual General Meeting to be held on Wednesday 3 September 2003, the final dividend of 6.0p will be paid on 16 September 2003 to ordinary shareholders on the register on 15 August 2003.
- The 2002/03 and 2001/02 results in this preliminary statement are not the Group's statutory accounts for these years. The 2002/03 and 2001/02 results have been extracted from statutory accounts which contained unqualified audit reports with no adverse statement under Section 237 (2) or (3) of the Companies Act 1985. The 2001/02 statutory accounts have been filed with the Registrar of Companies.

## Group Statement of Total Recognised Gains and Losses

For the year ended 30 April 2003

	2003 £m	2002 £m
Profit for the financial year	47.1	17.4
Exchange differences on foreign currency net investments	7.3	2.9
<b>Total recognised gains and losses relating to the financial year</b>	<b>54.4</b>	<b>20.3</b>

## Group Reconciliation of Movements in Shareholders' Funds

For the year ended 30 April 2003

	2003 £m	2002 £m
Profit for the financial year	47.1	17.4
Dividends	(28.2)	(28.2)
Retained profit/(loss) for the financial year	18.9	(10.8)
Exchange differences on foreign currency net investments	7.3	2.9
Goodwill previously written off	7.4	-
New share capital issued	0.4	0.6
<b>Net increase/(decrease) in shareholders' funds</b>	<b>34.0</b>	<b>(7.3)</b>
Opening shareholders' funds	438.9	446.2
<b>Closing shareholders' funds</b>	<b>472.9</b>	<b>438.9</b>

## Group Balance Sheet

	Note	30 April 2003 £m	30 April 2002 £m
<b>Fixed assets</b>			
Intangible assets		49.0	32.1
Tangible assets		560.9	551.6
Investments		29.0	27.8
		<u>638.9</u>	<u>611.5</u>
<b>Current assets</b>			
Stocks		155.2	142.4
Debtors: amounts falling due within one year		327.5	317.2
Debtors: amounts falling due after more than one year		6.8	2.5
Short term investments	4	26.7	16.0
Cash at bank and in hand	4	27.7	28.5
		<u>543.9</u>	<u>506.6</u>
<b>Creditors: amounts falling due within one year</b>			
Trade and other creditors		(355.9)	(330.3)
Borrowings	4	<u>(142.7)</u>	<u>(29.4)</u>
<b>Net current assets</b>		<u><b>45.3</b></u>	<u><b>146.9</b></u>
<b>Total assets less current liabilities</b>		<b>684.2</b>	<b>758.4</b>
<b>Creditors: amounts falling due after more than one year</b>			
Borrowings	4	(114.0)	(211.0)
Other		(2.7)	(11.1)
<b>Provisions for liabilities and charges</b>		<u><b>(87.9)</b></u>	<u><b>(90.1)</b></u>
		479.6	446.2
<b>Minority interests – equity</b>		<u><b>(6.7)</b></u>	<u><b>(7.3)</b></u>
<b>Net assets</b>		<u><b>472.9</b></u>	<u><b>438.9</b></u>
<b>Capital and reserves</b>			
Called up share capital		32.2	32.1
Share premium account		188.9	188.6
Revaluation reserve		8.8	8.9
Profit and loss account		243.0	209.3
		<u>472.9</u>	<u>438.9</u>
<b>Shareholders' funds – equity</b>		<u><b>472.9</b></u>	<u><b>438.9</b></u>

## Group Cash Flow Statement

For the year ended 30 April 2003

	Note	2003 £m	2002 £m
<b>Net cash inflow from operating activities</b>	<b>5(a)</b>	<b>142.0</b>	<b>178.0</b>
<b>Returns on investments and servicing of finance</b>			
Net interest paid		(7.3)	(9.8)
Interest element of finance leases		(0.2)	(0.2)
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(7.5)</b>	<b>(10.0)</b>
<b>Taxation</b>			
UK corporation and overseas tax paid		(15.1)	(26.9)
<b>Capital expenditure and investments</b>			
Purchase of tangible fixed assets		(63.4)	(75.3)
Sale of tangible fixed assets		4.2	7.7
Purchase of holding company shares		(0.8)	(0.6)
Purchase of fixed asset investments		(0.1)	(1.7)
Sale of fixed asset investments		0.6	-
<b>Net cash outflow from capital expenditure and investments</b>		<b>(59.5)</b>	<b>(69.9)</b>
<b>Acquisitions and disposals</b>			
Purchase of subsidiary undertakings		(19.6)	(41.5)
Net (overdrafts)/cash acquired/disposed		(0.5)	0.1
Purchase of associated undertakings		-	(3.2)
Disposal of businesses		4.0	-
<b>Net cash outflow from acquisitions and disposals</b>		<b>(16.1)</b>	<b>(44.6)</b>
<b>Equity dividends paid</b>		<b>(28.2)</b>	<b>(28.2)</b>
<b>Net cash inflow/(outflow) before use of liquid resources and financing</b>		<b>15.6</b>	<b>(1.6)</b>
<b>Management of liquid resources</b>	<b>5(b)</b>	<b>(8.4)</b>	<b>3.5</b>
<b>Financing</b>			
Issue of ordinary shares		0.3	0.6
(Decrease)/increase in debt and lease financing		(29.9)	16.3
<b>Net cash (outflow)/inflow from financing</b>		<b>(29.6)</b>	<b>16.9</b>
<b>(Decrease)/increase in cash in the year</b>		<b>(22.4)</b>	<b>18.8</b>
<b>Reconciliation of Net Cash Flow to Movement in Net Debt</b>			
(Decrease)/increase in cash in the financial year		(22.4)	18.8
Decrease/(increase) in debt and lease financing		29.9	(16.3)
Increase/(decrease) in liquid resources		8.4	(3.5)
Decrease/(increase) in net debt resulting from cash flow		15.9	(1.0)
Liquid resources acquired with subsidiary undertakings		-	0.5
Loans and finance leases acquired with subsidiary undertakings		(2.0)	(3.2)
Exchange differences		(20.3)	1.2
<b>Increase in net debt in the financial year</b>		<b>(6.4)</b>	<b>(2.5)</b>
Opening net debt		(195.9)	(193.4)
<b>Closing net debt</b>	<b>4,6</b>	<b>(202.3)</b>	<b>(195.9)</b>

## Notes to the Financial Statements

### 1 Analysis of Group turnover, operating profit and capital employed

2003	Turnover £m	Operating profit before exceptional items and amortisation of intangibles £m	Operating profit £m	Return on sales %	Average capital employed £m	Return on average capital employed %
<b>Packaging</b>						
Corrugated and Paper	747.0	53.1	53.0	7.1	502.9	10.6
Plastic Packaging	195.0	14.7	12.3	7.5	128.2	11.5
	<u>942.0</u>	<u>67.8</u>	<u>65.3</u>	<u>7.2</u>	<u>631.1</u>	<u>10.7</u>
<b>Office Products</b>						
Wholesaling	495.6	16.2	16.1	3.3	127.1	12.7
Manufacturing	59.7	4.0	4.0	6.7	17.3	23.1
Intra-segment	(18.3)	-	-	-	-	-
	<u>537.0</u>	<u>20.2</u>	<u>20.1</u>	<u>3.8</u>	<u>144.4</u>	<u>14.0</u>
<b>Total</b>	<b>1,479.0</b>	<b>88.0</b>	<b>85.4</b>	<b>5.9</b>	<b>775.5</b>	<b>11.3</b>
United Kingdom	865.5	59.7	59.7	6.9	482.8	12.4
Rest of World	613.5	28.3	25.7	4.6	292.7	9.7
<b>Total</b>	<b>1,479.0</b>	<b>88.0</b>	<b>85.4</b>	<b>5.9</b>	<b>775.5</b>	<b>11.3</b>
<b>2002</b>						
<b>Packaging</b>						
Corrugated and Paper	720.5	51.2	31.9	7.1	510.3	10.0
Plastic Packaging	171.9	12.7	11.4	7.4	103.9	12.2
	<u>892.4</u>	<u>63.9</u>	<u>43.3</u>	<u>7.2</u>	<u>614.2</u>	<u>10.4</u>
<b>Office Products</b>						
Wholesaling	500.5	9.7	9.6	1.9	134.2	7.2
Manufacturing	66.7	(1.6)	(15.0)	(2.4)	34.9	(4.6)
Intra-segment	(19.4)	-	-	-	-	-
	<u>547.8</u>	<u>8.1</u>	<u>(5.4)</u>	<u>1.5</u>	<u>169.1</u>	<u>4.8</u>
<b>Total</b>	<b>1,440.2</b>	<b>72.0</b>	<b>37.9</b>	<b>5.0</b>	<b>783.3</b>	<b>9.2</b>
United Kingdom	892.9	43.7	20.4	4.9	520.8	8.4
Rest of World	547.3	28.3	17.5	5.2	262.5	10.8
<b>Total</b>	<b>1,440.2</b>	<b>72.0</b>	<b>37.9</b>	<b>5.0</b>	<b>783.3</b>	<b>9.2</b>

The operating profits shown above exclude the Group's share of operating profits and losses of associated undertakings and the exceptional net loss relating to the sale of businesses, which is shown below operating profit on the face of the consolidated profit and loss account (see note 2). Return on sales is defined as operating profit before exceptional items and amortisation of intangibles divided by turnover. Average capital employed is the average monthly capital employed including the intangible assets on the balance sheet. Capital employed excludes net borrowings, deferred consideration due in respect of acquisitions, corporation tax, dividends payable, fixed asset investments and minority interests. Return on average capital employed is defined as operating profit before exceptional items and amortisation of intangibles divided by the average capital employed. Following a change in management responsibilities, the 2001/02 results and capital employed of the Group's Packaging Services Management business have been reclassified from Plastic Packaging to Corrugated and Paper.

## 2 Exceptional items and amortisation of intangibles

	2003 £m	2002 £m
Net loss on sale of businesses	(8.5)	-
Impairment of tangible fixed assets and goodwill	-	(32.4)
Amortisation of intangibles	(2.6)	(1.7)
Amortisation of negative goodwill of associates	0.4	0.3
	<u>(10.7)</u>	<u>(33.8)</u>
Tax on exceptional items	-	6.4
<b>Total</b>	<b><u>(10.7)</u></b>	<b><u>(27.4)</u></b>

The loss on sale of businesses in the current year includes £7.4m of goodwill previously written off to reserves. Last year the Group carried out an extensive review of its operating assets, as a result of which a £32.4m impairment charge against the carrying value of tangible fixed assets and goodwill was charged in arriving at operating profit. A substantial part of this charge related to the Group's Office Products Manufacturing business and the investment in Turkish corrugated packaging.

## 3 Earnings per share

Basic earnings per share are calculated by dividing the profit for the financial year of £47.1m (2002: £17.4m) by the weighted average number of shares in issue and fully paid during the year of 320.3m (2002: 320.2m). The adjusted earnings per share is calculated on the profit for the financial year excluding exceptional items and amortisation of intangibles and on the same number of shares.

Diluted earnings per share are calculated on the same earnings numbers as basic earnings per share but on 321.6m (2002: 321.2m) shares.

## 4 Borrowings

	2003 £m	2002 £m
The Group's book value of net borrowings comprised:		
Bank loans and overdrafts and other loans	251.8	235.2
Finance lease liabilities	4.9	5.2
Short term investments	(26.7)	(16.0)
Cash at bank and in hand	(27.7)	(28.5)
	<u>202.3</u>	<u>195.9</u>
Gearing (net borrowings expressed as a percentage of shareholders' funds)	42.8%	44.6%

The Group refinanced its borrowing facilities during the year. As at 30 April 2003, the Group had committed facilities of £567m, of which £135m will expire in December 2003.

## 5 Group cash flow statement

	2003 £m	2002 £m
<b>(a) Reconciliation of operating profit to net cash inflow from operating activities:</b>		
Operating profit before exceptional items and amortisation of intangibles	88.0	72.0
Depreciation	62.2	63.6
Profit on sale of tangible fixed assets	(0.4)	(2.9)
(Increase)/decrease in working capital	(6.0)	40.6
(Decrease)/increase in provisions	(3.3)	3.9
Other non cash operating items	1.5	0.8
<b>Net cash inflow from operating activities</b>	<b>142.0</b>	<b>178.0</b>
<b>(b) Net (purchase)/sale of short term investments</b>	<b>(8.4)</b>	<b>3.5</b>
Short term investments mainly comprise deposits with banks.		

## 6 Analysis of changes in net debt

	At 30 April 2002 £m	Acquired £m	Cash flow £m	Exchange movements £m	At 30 April 2003 £m
Cash at bank and in hand	28.5	-	(0.9)	0.1	27.7
Overdrafts	(16.2)	-	(21.5)	(2.1)	(39.8)
	12.3	-	(22.4)	(2.0)	(12.1)
Debt due after one year	(206.7)	(1.8)	116.7	(18.3)	(110.1)
Debt due within one year	(12.3)	(0.2)	(87.7)	(1.7)	(101.9)
Finance leases	(5.2)	-	0.9	(0.6)	(4.9)
	(224.2)	(2.0)	29.9	(20.6)	(216.9)
Short term investments	16.0	-	8.4	2.3	26.7
<b>Total</b>	<b>(195.9)</b>	<b>(2.0)</b>	<b>15.9</b>	<b>(20.3)</b>	<b>(202.3)</b>

## 7 Acquisitions and disposals

On 15 July 2002, the Group acquired Zewathener GmbH, one of Europe's leading manufacturers of bag-in-box packaging, located in Schwetzingen, Germany. The business was acquired for a total consideration of £17.5m, including acquired debt, which resulted in goodwill arising of £13.6m.

A further £3.2m of consideration was paid for a number of other acquisitions in the year.

During the year, the Group sold three small businesses for a net consideration of £4.5m.

## Group Profit and Loss Account

### First Half / Second Half Split

For the year ended 30 April 2003

	First half (Unaudited)		Second half (Unaudited)		Total year	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
Turnover	741.1	711.9	737.9	728.3	1,479.0	1,440.2
Operating profit before exceptional items and amortisation of intangibles	48.6	41.9	39.4	30.1	88.0	72.0
Share of profits of associated undertakings	1.6	(0.1)	1.0	2.3	2.6	2.2
Exceptional items and amortisation of intangibles	(0.9)	(0.7)	(9.8)	(33.1)	(10.7)	(33.8)
Profit/(loss) on ordinary activities before interest	49.3	41.1	30.6	(0.7)	79.9	40.4
Net interest payable	(5.4)	(6.0)	(5.5)	(5.6)	(10.9)	(11.6)
Profit/(loss) on ordinary activities before taxation	43.9	35.1	25.1	(6.3)	69.0	28.8
Tax on profit/(loss) on ordinary activities	(12.1)	(10.7)	(9.5)	0.2	(21.6)	(10.5)
Profit/(loss) on ordinary activities after taxation	31.8	24.4	15.6	(6.1)	47.4	18.3
Minority interests – equity	(0.4)	(0.6)	0.1	(0.3)	(0.3)	(0.9)
Profit/(loss) for the period	31.4	23.8	15.7	(6.4)	47.1	17.4
Earnings per share:						
Basic	9.8p	7.4p	4.9p	(2.0)p	14.7p	5.4p
Adjusted (note 1)	10.1p	7.7p	7.9p	6.3p	18.0p	14.0p

#### Notes

- Adjusted earnings per share exclude exceptional items and amortisation of intangibles.