

DS Smith Plc

Preliminary Results 2006/07

28 June 2007

Financial Review

Gavin Morris

Group Finance Director

Headlines

- Adjusted¹ PBT: £74.6m (2005/06 £53.4m)
- Adjusted¹ EPS: 13.1p (2005/06: 10.0p)
- Good organic growth – revenue up 6.9% to £1,766m (2005/06: £1,653m)
- Benefiting from previous restructuring actions
- Margins improving from price increases to recover higher Paper and Corrugated Packaging input costs
- Strong cash inflow before dividends and acquisitions boosted by Taplow land sale: £84.0m (2005/06: £63.2m)
- Gearing down to 32% (2005/06: 44%)
- Total dividend for the year 8.6p, an increase of 2.4% (2005/06: 8.4p)

¹ before exceptional items

Group Income Statement

£million	06/07	05/06	Change 06/07 vs 05/06
Revenue	1,766.1	1,652.7	6.9% ²
Adjusted EBITDA ¹	140.6	127.6	13.0
Adjusted operating profit ¹	77.7	60.4	17.3
Share of profit of associates ¹	3.9	4.1	(0.2)
Net interest	(15.0)	(12.3)	(2.7)
Employment benefit net finance income	8.0	1.2	6.8
Adjusted profit before tax ¹	74.6	53.4	21.2

¹ Before exceptional items

² Change 2006/07 vs 2005/06 after the effect of acquisitions, disposals, plant closures and foreign currency movements: 10.8%

Group Income Statement (cont.)

£million	06/07	05/06	Change 06/07 vs 05/06
Adjusted profit before tax ¹	74.6	53.4	21.2
Exceptional items	3.9	(42.4)	46.3
Profit before taxation	78.5	11.0	67.5
Taxation	(17.2)	(5.7)	(11.5)
Profit after taxation	61.3	5.3	56.0
Adjusted EBITDA margin – % ¹	8.0%	7.7%	0.3pts
Adjusted operating margin – % ¹	4.4%	3.7%	0.7pts
Capital employed – £m ²	£895.0m	£930.0m	£(35.0)m
Adjusted return on capital employed – % ^{1,2}	8.7%	6.5%	2.2pts

¹ Before exceptional items

² Monthly average

Earnings and Dividends

	06/07	05/06	Change 06/07 vs 05/06
Average shares in issue - million	389.5m	387.2m	2.3m
Earnings per share: adjusted – pence ¹	13.1p	10.0p	3.1p
basic – pence	15.6p	1.1p	14.5p
Final dividend per share – pence	6.0p	5.8p	0.2p
Total annual dividend per share – pence	8.6p	8.4p	0.2p
P&L dividend cover – times ¹	1.5x	1.2x	0.3x
Cash dividend cover – times ^{1,2}	2.5x	1.9x	0.6x

¹ Before exceptional items

² (Free cash flow before net acquisitions and dividends)/(dividend payable in year)

Shares in issue at 30/04/07 – 391.4m

Segmental Result – H1 : H2 Split

	H1 05/06	H2 05/06	H1 06/07	H2 06/07
Operating Profit – £million				
UK Paper & Corrugated	14.4	6.1	13.5	23.0
Continental Europe Corrugated	9.9	10.2	8.6	9.6
Plastic Packaging	2.0	5.2	5.1	5.1
Office Products Wholesaling	6.9	5.7	3.2	9.6
Adjusted operating Profit	33.2	27.2	30.4	47.3
Adjusted operating margin – %				
UK Paper & Corrugated	4.3%	1.9%	3.9%	6.7%
Continental Europe Corrugated	7.3%	7.2%	5.7%	6.1%
Plastic Packaging	2.0%	5.2%	4.9%	5.2%
Office Products Wholesaling	2.8%	2.1%	1.2%	3.2%
Adjusted operating margin	4.0%	3.3%	3.5%	5.3%

Energy

- Underlying increase of £6m year-on-year, adjusted for paper mill closures
 - 2006/07 energy bill £88m (2005/06: £95m)
- Key Factors
 - Expiry of favourable UK fixed-price electricity contract in October 2005
 - Lagged price increases from supply contracts
 - Easing of UK gas prices

Exceptional Items

£million	06/07	05/06
Restructuring costs		
UK Paper and Corrugated Packaging	(13.8)	(28.9)
Plastic Packaging	(1.9)	-
Office Products Wholesaling	(2.9)	-
Total restructuring costs	(18.6)	(28.9)
Gain on sale of Taplow Mill	20.5	-
Negative goodwill recognised in associate accounting	2.0	-
Loss on disposal of businesses	-	(4.3)
Impairment charge	-	(9.2)
Total exceptional items	3.9	(42.4)

UK Paper and Corrugated Packaging

	06/07	05/06	Change 06/07 vs 05/06
Revenue – £m	687.1	649.6	5.8% ³
Adjusted EBITDA – £m ¹	68.0	55.1	12.9
Adjusted EBITDA margin – % ¹	9.9%	8.5%	1.4pts
Adjusted operating profit – £m ¹	36.5	20.5	16.0
Adjusted operating margin – % ¹	5.3%	3.2%	2.1pts
Capital employed – £m ²	478.4	509.3	(30.9)
Adjusted return on capital employed – % ^{1,2}	7.6%	4.0%	3.6pts

¹ Before exceptional credit of £6.7m (2005/06: exceptional charges of £(28.9)m)

² Monthly average

³ Change 2006/07 vs 2005/06 after the effect of plant closures: 13.0%

Continental European Corrugated Packaging

	06/07	05/06	Change 06/07 vs 05/06
Revenue – £m	308.0	276.6	11.4% ²
EBITDA – £m	31.5	33.6	(2.1)
EBITDA margin – %	10.2%	12.1%	(1.9)pts
Operating profit – £m	18.2	20.1	(1.9)
Operating margin – %	5.9%	7.3%	(1.4)pts
Capital employed – £m ¹	164.4	162.3	2.1
Return on capital employed – % ¹	11.1%	12.4%	(1.3)pts

¹ Monthly average

² Change 2006/07 vs 2005/06 after the effect of foreign currency movements: 13.4%

Plastic Packaging

	06/07	05/06	Change 06/07 vs 05/06
Revenue – £m	201.8	202.4	(0.3)% ³
Adjusted EBITDA – £m ¹	21.9	19.3	2.6
Adjusted EBITDA margin – % ¹	10.9%	9.5%	1.4pts
Adjusted operating profit – £m ¹	10.2	7.2	3.0
Adjusted operating margin – % ¹	5.1%	3.6%	1.5pts
Capital employed – £m ²	122.2	129.3	(7.1)
Adjusted return on capital employed – % ^{1,2}	8.3%	5.6%	2.7pts

¹ Before exceptional charges of £(1.9)m (2005/06: exceptional charges of £(2.6)m)

² Monthly average

³ Change 2006/07 vs 2005/06 after the effect of disposals and foreign currency movements: 7.3%

Office Products Wholesaling

	06/07	05/06	Change 06/07 vs 05/06
Revenue – £m	569.2	518.7	9.7% ³
Adjusted EBITDA – £m ¹	19.2	19.2	-
Adjusted EBITDA margin – % ¹	3.4%	3.7%	(0.3)pts
Adjusted operating profit – £m	12.8	12.6	0.2
Adjusted operating margin – %	2.2%	2.4%	(0.2)pts
Capital employed – £m ²	130.0	127.0	3.0
Adjusted return on capital employed – % ^{1,2}	9.8%	9.9%	(0.1)pts

¹ Before exceptional charges of £(2.9)m (2005/06: £nil)

² Monthly average

³ Change 2006/07 vs 2005/06 after the effect of acquisitions and foreign currency movements: 6.2%

Post-Retirement Benefits – IAS19

Balance Sheet Effects

£million	06/07	05/06	Change 06/07 vs 05/06
Market value of schemes' assets	737.9	706.1	31.8
Actuarial value of schemes' liabilities	(756.5)	(756.4)	(0.1)
Deficit before related deferred tax asset	(18.6)	(50.3)	31.7
Deferred tax asset	5.6	15.0	(9.4)
Net pension schemes' deficit	(13.0)	(35.3)	22.3

Group Balance Sheet

£million	06/07	05/06	Change 06/07 vs 05/06
Property, plant & equipment & investments	548.1	565.8	(17.7)
Intangibles	192.9	195.4	(2.5)
Other non-current assets	2.4	2.5	(0.1)
Net current assets	108.1	141.3	(33.2)
Deferred tax	(65.6)	(67.3)	1.7
Long-term creditors and provisions	(24.6)	(23.1)	(1.5)
Net debt	(181.2)	(237.8)	56.6
Pension schemes' net deficit	(13.0)	(35.3)	22.3
Net assets	567.1	541.5	25.6
Gearing – %	32.0%	43.9%	(11.9)pts

Free Cash Flow

£million	06/07	05/06	Change 06/07 vs 05/06
Operating profit	77.7	60.4	17.3
Depreciation and amortisation	62.9	67.2	(4.3)
EBITDA	140.6	127.6	13.0
Working capital movement	8.5	27.4	(18.9)
Exceptional cash costs	(7.2)	(4.6)	(2.6)
Other	(13.9)	(12.2)	(1.7)
Cash generated from operations	128.0	138.2	(10.2)
Capital expenditure payments	(55.8)	(62.7)	6.9
Proceeds from sales of assets & investments	41.0	13.2	27.8
Tax paid	(15.1)	(13.5)	(1.6)
Interest paid	(14.1)	(12.0)	(2.1)
Free cash flow	84.0	63.2	20.8

Net Cash Flow

£million	06/07	05/06	Change 06/07 vs 05/06
Free cash flow	84.0	63.2	20.8
Dividends	(32.7)	(32.6)	(0.1)
Free cash flow before net acquisitions	51.3	30.6	20.7
Net (acquisitions)/disposals	0.2	0.5	(0.3)
Net cash flow	51.5	31.1	20.4

Borrowings Movements

£million	06/07	05/06	Change 06/07 vs 05/06
Net cash flow	51.5	31.1	20.4
Share issues	3.7	2.6	1.1
Net debt acquired	-	(2.6)	2.6
Non-cash movements	1.4	(6.1)	7.5
Net debt movement	56.6	25.0	31.6
Opening net debt	(237.8)	(262.8)	25.0
Closing net debt	(181.2)	(237.8)	56.6
P & L interest cover – x	5.2x	4.9x	0.3x
Net debt/adjusted EBITDA – x	1.3x	1.9x	(0.6)x

Guidance for 2007/08

- Corrugated input cost recovery programme continues – pricing
- Spicers UK turnaround underway
- Underlying tax rate of circa 32%
- Capital expenditure at around depreciation
- Employment benefit net finance income broadly at 2006/07 level
- Interest charge up on higher rates

Key Points

- A much better year for profit:
 - Clawed-back a lot of the historic input cost increases through higher prices;
 - Expect some further benefits from this in the current year
- Strong cash flow performance; tight working capital management
- The pension deficit: not a significant balance sheet issue
- Our balance sheet is strong: good debt capacity for acquisitions
- We've raised our returns on capital employed; we are committed to raising them further

Operations and Strategy

Tony Thorne
Group Chief Executive

Group Strategic Objectives

- Generate value for shareholders through:
 - Operational improvement
 - Enhancing the business mix
 - ~ Higher added-value products
 - ~ Markets with growth potential

- Near-term emphasis on:
 - Pricing in Paper and Corrugated Packaging
 - Spicers UK

2006/07 Performance Drivers

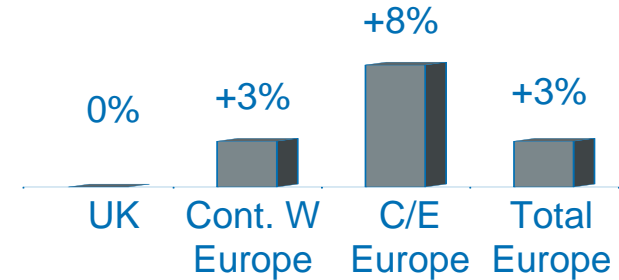
Adjusted operating profit	2006/07	Change	Key Drivers
		Vs '05/'06	
	£m	£m	
Packaging	64.9	17.1	
UK Paper and Corrugated Packaging	36.5	16.0	Restructuring; box volumes; pricing
Continental European Corrugated Packaging	18.2	(1.9)	Volumes and prices up but higher CCM costs
Plastic Packaging	10.2	3.0	Sales growth; good cost recovery
Office Products Wholesaling	12.8	0.2	UK further down; continental profits up
Operating profit before exceptional items	77.7	17.3	2 nd half uplift

Paper and Corrugated Packaging

External conditions

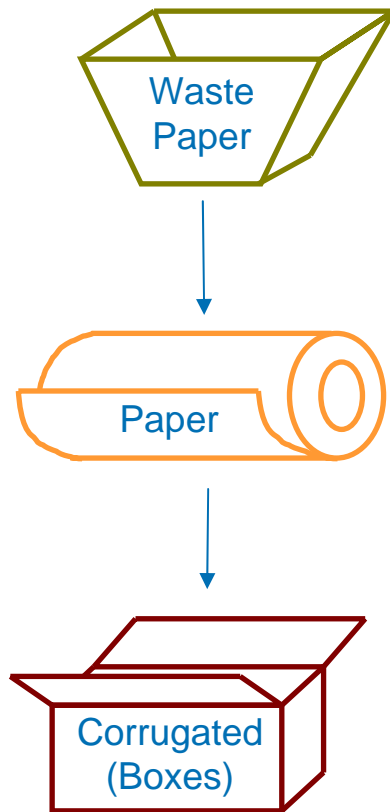
- Market – stronger demand

Source: FEFCO 2006
Corrugated packaging volume by weight



- Input costs
 - Energy costs: remain high
 - Waste paper: UK net increase
 - ~ Strong export demand
 - ~ Lower PRN prices
- CCM supply/demand – much improved balance
- Selling prices
 - CCM: recycled up strongly
 - Corrugated: recovery of higher input costs

UK Paper and Corrugated Packaging



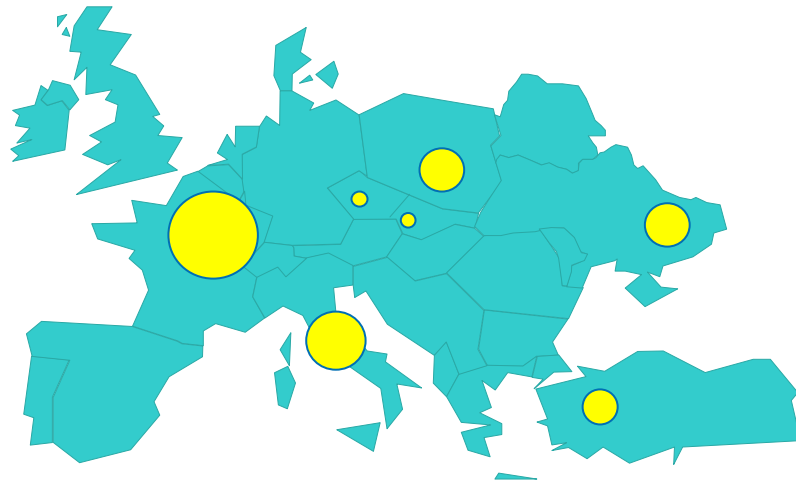
- Strong advance despite £19m higher input costs
- Waste paper
 - Grew volume collected - expanded depot network
 - Developed added-value services
- Paper
 - Restructured – Taplow mill closed and site sold
 - Major machine upgrades
 - Raised CCM prices
- Corrugated
 - Grew sales volume
 - Increased efficiency of Conventional network
 - Raised prices to recover higher input costs

Retail-Ready Packaging



- Transit pack and display pack combined
- Potential overall packaging reduction
- Lower supply chain costs
- Greater manufacturing cost but higher added-value

Continental European Corrugated Packaging



NB Indicative relative sizes of operations
– not drawn strictly to scale

- France
 - Enlarged paper capacity
 - Improved corrugated productivity
- Italy
 - Gained market share
- Poland
 - Benefited from investment
- Turkey
 - Developed in focused sectors
- Ukraine (associate)
 - Increased holding to 49.6%
 - Investing for growth

Plastic Packaging

Bag-in-box packaging



- Good progress in our two focused sectors
- Liquid packaging and dispensing
 - Grew sales through new products
 - Increased productivity

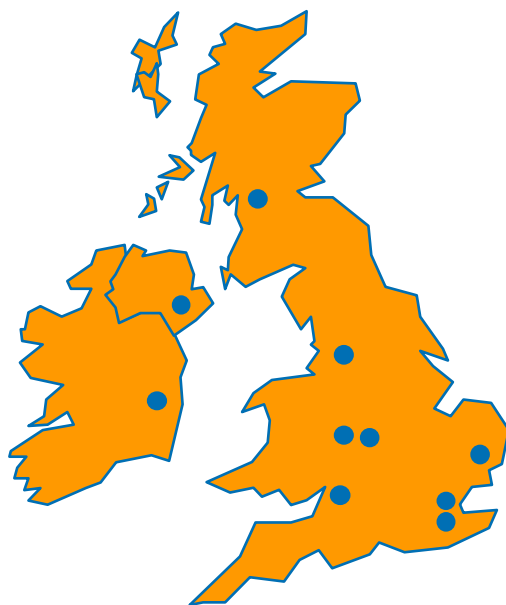
Returnable transit packaging



- Returnable transit packaging (RTP)
 - Grew sales
 - Improved sales mix
 - Developed in eastern Europe
- StePac moved into profit

Office Products Wholesaling – Spicers

UK



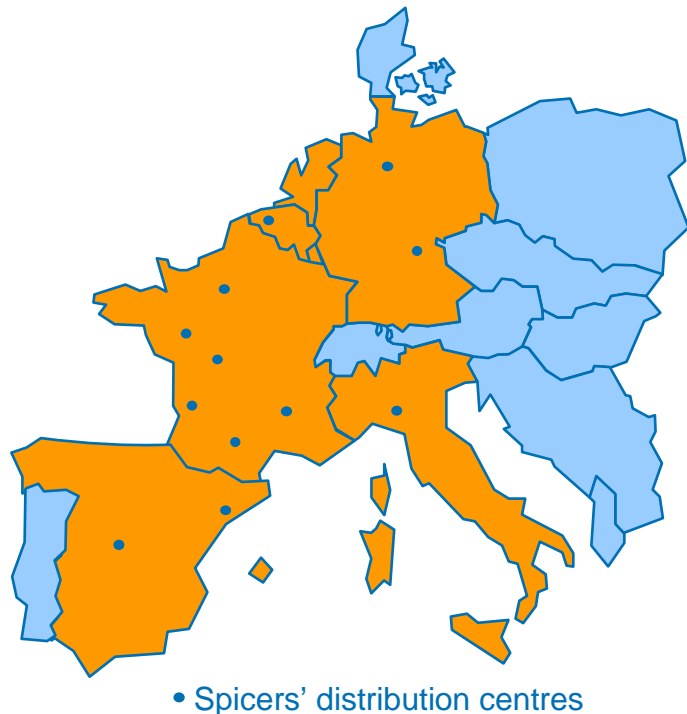
• Spicers' distribution centres

Three year turnaround programme (Sept. 2006)

- Reducing costs
 - Raising dealer distribution centre efficiency
 - Closed a London regional distribution centre
- Increasing sales effectiveness
 - Improved operating procedures
 - Refocused sales team
- Building a high performance management team
 - Made new appointments
 - Changed structure

Expected profit improvement through 2007/08

Office Products Wholesaling – Spicers Continental Europe



- France
 - Gained market share
 - Opened new central distribution centre
- Benelux: performed well
- Germany: continued progress
- Spain
 - Grew well
 - Opened Madrid regional distribution centre
- Italy: built sales strongly
- Continued development

Conclusion

- 2006/07: substantial improvement

- Priorities for 2007/08
 - Drive for recovery of high input costs in Packaging
 - Rebuild profits at Spicers UK
 - Continue strategic development of the Group

- Outlook
 - Business performing well
 - Confident of good progress