

# **DS Smith Plc**

**Preliminary Results 2005/06**

**29 June 2006**

# Antony Hichens Chairman

# Headlines

- **Adjusted<sup>1</sup> PBT: £53.4m (£73.9m)**
- **Adjusted<sup>1</sup> EPS: 10.0p (14.4p)**
- **Energy costs +£23m; stronger competition in UK Office Products**
- **£42.4m exceptional charge, mainly from restructuring actions**
- **Strategic actions taken to improve performance**
  - Achieved £14.5m of synergies in UK Corrugated Packaging
  - Closed uneconomic paper capacity; sold two non-core businesses
  - Improved product mix; developed in continental Europe
- **Cash inflow before dividends and acquisitions: £63.2m (£55.8m)**
- **Dividend unchanged**

<sup>1</sup> before exceptional items of £42.4m (2004/05: £9.6m)

# Financial Review

**Gavin Morris**  
**Group Finance Director**

# Group Income Statement

£m	05/06	04/05	Change 05/06 v 04/05
Revenue	1,652.7	1,624.9	1.7%
Adjusted EBITDA <sup>1</sup>	127.6	151.2	(15.6)%
Adjusted operating profit <sup>1</sup>	60.4	82.6	(26.9)%
Associated companies	4.1	3.4	
Net interest	(12.3)	(13.2)	
Pension interest	1.2	1.1	
Adjusted profit before tax <sup>1</sup>	53.4	73.9	(27.7)%

<sup>1</sup> before exceptional items of £42.4m (2004/05: £9.6m)

# Group Income Statement (cont)

£m	05/06	04/05
Adjusted profit before tax <sup>1</sup>	53.4	73.9
Exceptional items	(42.4)	(9.6)
Profit before taxation	11.0	64.3
Taxation	(5.7)	(16.2)
Profit after taxation	5.3	48.1
Adjusted EBITDA margin <sup>1</sup> – %	7.7%	9.3%
Adjusted operating margin <sup>1</sup> – %	3.7%	5.1%
Capital employed <sup>2</sup> – £m	930.0	949.0
Adjusted return on capital employed <sup>1,2</sup> – %	6.5%	8.7%

<sup>1</sup> before exceptional items

<sup>2</sup> monthly average

# Energy

- **2004/05 energy bill £73m**
- **2005/06: market prices for energy up substantially:**
  - Gas: +76%
  - Electricity +71%
- **2005/06: our energy bill up £23m (+32%) (after disposals) to £95m**
- **Number of measures taken to limit energy impact:**
  - Energy saving projects: 6% reduction in consumption
  - Combined Heat and Power & Waste-to-Energy plants
  - Investment in energy-efficient plants; withdrawal from least efficient
  - Hedging of forward energy requirements

# Linpac Containers Synergies

£m	05/06	04/05	Change 05/06 v 04/05
Synergies	14.5	6.1	8.4

- Linpac Containers acquired March 2004
- Synergies of £14.5m in line with expectations
- Synergy benefits from:
  - Box plant rationalisation
  - Improved paper sales mix

# Exceptional Items

£m	FY 05/06
UK Paper and Corrugated Packaging restructuring costs	(28.9)
Loss on disposal of businesses	(4.3)
Impairment charges	(9.2)
<b>Total exceptional items</b>	<b>(42.4)</b>

- Note: exceptional items £9.6m in 2004/05

# Earnings and Dividends

£m	05/06	04/05
Average shares in issue	387.2	385.3
Earnings per share – adjusted <sup>1</sup> – pence	10.0p	14.4p
– basic – pence	1.1p	12.2p
Final dividend per share – pence	5.8p	5.8p
Total annual dividend per share – pence	8.4p	8.4p
P&L dividend cover <sup>1</sup> – times	1.2x	1.7x
Cash dividend cover <sup>1, 2</sup> – times	1.9x	1.7x

<sup>1</sup> before exceptional items

<sup>2</sup> (free cash flow before net acquisitions and dividends)/(dividend payable in year)

Shares in issue at 28/06/2006 – 390.9m

# UK Paper and Corrugated Packaging

	05/06	04/05	Change 05/06 v 04/05
Revenue – £m	649.6	631.2	2.9%
Adjusted operating profit <sup>1</sup> – £m	20.5	31.6	(35.1)%
Adjusted operating margin <sup>1</sup> – %	3.2%	5.0%	
Capital employed <sup>2</sup> – £m	509.3	528.3	
Adjusted return on capital employed <sup>1,2</sup> – %	4.0%	6.0%	

<sup>1</sup> before exceptional items of £28.9m (2004/05: £4.9m)

<sup>2</sup> monthly average

# Continental European Corrugated Packaging

	05/06	04/05	Change 05/06 v 04/05
Revenue – £m	276.6	265.7	4.1%
Operating profit – £m	20.1	20.2	(0.5)%
Operating margin – %	7.3%	7.6%	
Capital employed <sup>1</sup> – £m	162.3	147.1	
Return on capital employed <sup>1</sup> – %	12.4%	13.7%	

<sup>1</sup> monthly average

# Plastic Packaging

	05/06	04/05	Change 05/06 v 04/05
Revenue – £m	202.4	195.9	3.3%
Adjusted operating profit <sup>1</sup> – £m	7.2	9.3	(22.6)%
Adjusted operating margin <sup>1</sup> – %	3.6%	4.7%	
Capital employed <sup>2</sup> – £m	129.3	140.5	
Adjusted return on capital employed <sup>1,2</sup> – %	5.6%	6.6%	

<sup>1</sup> before exceptional items of £2.6m (2004/05: £5.8m)

<sup>2</sup> monthly average

# Office Products Wholesaling

	05/06	04/05	Change 05/06 v 04/05
Revenue – £m	518.7	499.7	3.8%
Operating profit – £m	12.6	21.5	(41.4)%
Operating margin – %	2.4%	4.3%	
Capital employed <sup>1</sup> – £m	127.0	119.0	
Return on capital employed <sup>1</sup> – %	9.9%	18.1%	

<sup>1</sup> monthly average

# Acquisitions and Disposals

- **Acquired Timmermans NV**
  - Became part of Spicers on 1 October 2005
  - Largest office products wholesaler in Benelux region
  - 2004 sales €45m; 130 employees; contributed £15m sales in 2005/06
- **Disposed of John Dickinson and BSK**
  - John Dickinson
    - 2004/05: year-end capital employed – £12.6m; external sales – £32.4m
  - BSK
    - 2004/05: year-end capital employed – £8.5m; sales – £15.7m

# Pension Accounting Effects

£m	05/06	04/05
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## IAS19

Market value of assets	706.1	559.3
Actuarial value of liabilities	(756.4)	(674.1)
Deficit before related deferred tax asset	(50.3)	(114.8)
Deferred tax asset	15.0	34.5
Net deficit	(35.3)	(80.3)

# Group Balance Sheet

£m	05/06	04/05
Property, plant, equipment and investments	565.8	591.5
Intangibles	195.4	190.9
Other non-current assets	2.5	1.0
Net current assets	141.3	166.9
Deferred tax	(67.3)	(77.6)
Long term creditors and provisions	(23.1)	(11.9)
Net borrowings <sup>1</sup>	(237.8)	(260.7)
Pension scheme net deficit	(35.3)	(80.3)
Net assets/shareholders' funds	541.5	519.8
<b>Gearing – %</b>	<b>43.9%</b>	<b>50.2%</b>

<sup>1</sup> including related derivative financial instruments for 2005/06

# Free Cash Flow

£m	05/06	04/05
Operating profit	60.4	82.6
Depreciation and amortisation	67.2	68.6
EBITDA	127.6	151.2
Working capital movement	27.4	(6.9)
Exceptional cash costs	(4.6)	(2.5)
Other	(12.2)	(2.1)
Cash generated from operations	138.2	139.7
Capital expenditure	(62.7)	(53.6)
Proceeds from sales of assets/investments	13.2	6.7
Taxation	(13.5)	(23.7)
Interest	(12.0)	(13.3)
Free cash flow	63.2	55.8

# Net Cash Flow

£m	05/06	04/05
Free cash flow	63.2	55.8
Dividends	(32.6)	(31.6)
Free cash flow before acquisitions	30.6	24.2
Net acquisitions	0.5	(11.7)
Net cash flow	31.1	12.5

# Borrowings Movements

£m	05/06	04/05
Net cash flow	31.1	12.5
Share issues	2.6	2.6
Net purchase of own shares	-	(2.1)
Net borrowings acquired/disposed	(2.6)	-
Non-cash movements	(6.1)	1.7
Net borrowings movement	25.0	14.7
Opening net borrowings <sup>1</sup>	(262.8)	(275.4)
Closing net borrowings	(237.8)	(260.7)
Interest cover – x	4.9x	6.3x
Net debt/EBITDA – x	1.9x	1.7x

<sup>1</sup> opening net borrowings at 1 May 2005 restated for the adoption of IAS 39

# Guidance

- **Energy: somewhat higher than the £10m increase indicated in our April guidance**
- **Tax: rate of circa 31%**
- **Capital expenditure: below 2005/06 and slightly below depreciation**

# Operations and Strategy

**Tony Thorne**  
**Group Chief Executive**

# 2005/06 Performance Drivers

Adjusted operating profit	2005/06	2004/05	Difference	Key Drivers	
	£m	£m	£m	+	-
UK Paper and Corrugated Packaging	20.5	31.6	(11.1)	Synergies	} Energy costs Pricing
Continental European Corrugated Packaging	20.1	20.2	(0.1)	Sales growth	
Plastic Packaging	7.2	9.3	(2.1)	H2: sales	RTP: polymer LP&D: prices
Office Products Wholesaling	12.6	21.5	(8.9)	Continental profits	UK gross margin
Operating profit before exceptional items	60.4	82.6	(22.2)		

# Return on Average Capital Employed

	Capital Employed	ROACE 2005/06	ROACE 2003/04 & 2004/05
Office Products Wholesaling	£127m	9.9%	17.5%
Plastic Packaging	£129m	5.6%	8.6%
Continental European Corrugated Packaging	£162m	12.4%	13.8%
UK Paper and Corrugated Packaging	£509m	4.0%	6.0%
Cost of capital = c.9%		Group 6.5%	Group 9.3%

# Strategic Context

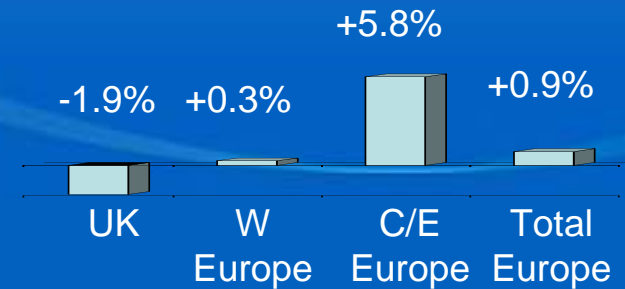
- **Direction**
  - Improve operations
  - Enhance business mix: reduce reliance on CCM; expand non-UK base
- **Actions**
  - £14.5m synergy savings in UK Paper and Corrugated Packaging
  - Closed high-cost UK CCM capacity
  - Grew plasterboard liner sales
  - Sold two non-core businesses
  - Introduced new products in Plastic Packaging
  - Expanded Corrugated Packaging in eastern Europe
  - Spicers' continental expansion
- **Imperatives**
  - Raise returns in UK Paper and Corrugated Packaging and Spicers UK

# Paper and Corrugated Packaging

## External environment

- **Market – better growth on continent**

Source: FEFCO 2005  
Volume by weight



- **CCM – industry restructuring ongoing**
  - Some overcapacity remains
- **Energy costs**
  - UK: further up; winter price spikes
  - Continent: up but less than UK
- **Prices**
  - Waste paper: high relative to CCM due to strong export demand
  - CCM: H1 major decline; H2 c.20% increase
  - Boxes: H1 decline; H2 increases well short of cost recovery

# UK Paper and Corrugated Packaging

- **Strategic emphasis given to:**
  - Severnside expansion
  - Paper mills able to be competitive long-term
  - Cost competitive conventional box plant network
  - Selected speciality businesses
- **Basis for profit uplift:**
  - Cost reduction; structure; productivity
  - Differentiated products
  - Price increases to recover input costs

# Continental European Corrugated Packaging

- **Targeted approach**
- **Strategic emphasis to:**
  - Maintain competitiveness of French and Italian operations
  - Grow in differentiated products
  - Expand in central and eastern Europe
- **Sustaining/growing current profit levels:**
  - Productivity to offset wage inflation
  - Price increases to recover input cost rises

# Plastic Packaging

- **H1 profit erosion; H2 improving trend**
- **Liquid packaging and dispensing**
  - USA: good product development
  - Europe: benefits of cost reduction and new products
- **Returnable transit packaging**
  - Stronger crate sales
  - Expansion in eastern Europe
  - H2 price improvement
- **Smaller businesses**
  - Improved result; BSK sold

# Office Products Wholesaling Spicers UK

- **Profits substantially down**
- **Key factors**
  - Extra costs to overcome service issues
  - Lower prices; increased sales rebates
  - Late recognition of margin decline
- **Action taken**
  - Problem defined and recognised in the year
  - UK management replaced
  - Processes reinforced
  - Service issues being resolved
- **Expectation**
  - H1 down; weaker margin trend
  - H2 benefiting from actions

# Office Products Wholesaling Continental Europe

- Overall solid advance
- France: profits at historic high
- Germany: profits increased
- Spain: “in the black”
- Italy: strong sales advance
- Acquisition in Benelux
- Emphasis to growing sales from existing base

# Outlook

- **Key factors influencing 2006/07**
  - Extent of input cost recovery in pricing
  - Energy costs
  - Speed of turnaround in Spicers UK
- **Medium-term goals**
  - Better returns in UK Paper and Corrugated Packaging
  - Spicers UK: better profits
  - Sustain growth in non-UK business base

**DS SMITH**

# APPENDIX

# Divisional EBITDA & EBITDA Margin

£m	05/06	04/05
UK Paper and Corrugated Packaging	55.1	67.3
	8.5%	10.7%
Continental European Corrugated Packaging	33.6	33.6
	12.1%	12.6%
Plastic Packaging	19.3	20.6
	9.5%	10.5%
Office Products Wholesaling	19.2	28.5
	3.7%	5.7%
Group	127.6	151.2
	7.7%	9.3%