

DS Smith Plc

Preliminary Results 2004/05

30 June 2005

Antony Hichens
Chairman

Headlines

- Adjusted¹ PBT £76.1m (2003/04: £64.8m²; previously reported: £81.4m)
- Adjusted¹ EPS 14.7p (2003/04: 13.6p²; previously reported: 16.9p)
- Challenging year: paper prices; energy & polymer costs
- Linpac Containers contributed £16.5m to PBT, including synergies
- New pension charge of £11.7m at PBT level
- Cash inflow before dividends and acquisitions: £55.4m (2003/04: £63.0m)
- Final dividend increased 0.2p to 5.8p (2003/04: 5.6p), or 3.6%; full year dividend 8.4p (2003/04: 8.2p)

¹ before amortisation of intangibles and exceptional items

² restated for the adoption of FRS 17

Financial Review

Gavin Morris
Group Finance Director

Profit and Loss Account

£ million	FY 04/05	FY 03/04 ¹	Change 04/05 Vs 03/04
Turnover	1,624.9	1,488.5	9.2%
Adjusted ² operating profit pre pension charge	96.7	88.8	7.9
FRS 17 pension charge	(12.8)	(13.4)	0.6
Adjusted² operating profit	83.9	75.4	8.5
Associated companies	4.1	3.0	1.1
Interest	(13.0)	(10.4)	(2.6)
Other finance income/(expense)	1.1	(3.2)	4.3
Profit before tax, exceptionals and intangibles amortisation	76.1	64.8	11.3

¹ restated for FRS 17

² before exceptional items and the amortisation of intangibles

Profit and Loss Account (cont.)

£ million	FY 04/05	FY 03/04 ¹	Change 04/05 Vs 03/04
Profit before tax, exceptionals and intangibles amortisation	76.1	64.8	11.3
Amortisation of intangibles	(9.4)	(3.6)	(5.8)
Exceptional items	(9.6)	-	(9.6)
Profit before taxation	57.1	61.2	(4.1)
Taxation	(17.6)	(17.0)	(0.6)
Profit after taxation	39.5	44.2	(4.7)
Operating margin (%)	5.2%	5.1%	0.1 pts
Average capital employed ² (£m)	935.0	789.3	145.7
Return on capital employed ² (%)	9.0%	9.6%	(0.6)pts

¹ restated for FRS 17

² monthly average

Pensions

- **Triennial valuation as at 30/04/04 completed**
- **Further actions to mitigate Scheme costs**
 - Scheme closed to new entrants
 - Employee contributions to rise from 6% to 9% over 2 years
 - Changes agreed and implemented
- **£10m cash paid into scheme 2004/05; £14m per annum to be paid from 2005/06**
- **FRS 17 adopted early, anticipating IAS 19 and to aid comparability**
- **Net FRS 17 costs £11.7m; 2003/04: £16.6m**

Pension Accounting Effects

Profit and Loss Account

£ million	FY 04/05	FY 03/04 ¹	Change 04/05 Vs 03/04
FRS 17 (as adopted)			
Service cost	(12.8)	(13.4)	0.6
Other finance income/(expense)	1.1	(3.2)	4.3
Total	(11.7)	(16.6)	4.9
SSAP 24 (previous standard)			
Service cost	(16.0)	-	(16.0)

¹ restated for FRS 17

Pension Accounting Effects (cont.)

Balance Sheet

£ million	FY 04/05	FY 03/04 ¹	Change 04/05 Vs 03/04
FRS 17 (as adopted)			
Market value of assets	559.3	489.5	69.8
Actuarial value of liabilities	(674.1)	(567.6)	(106.5)
Deficit in the Scheme	(114.8)	(78.1)	(36.7)
Deferred tax	34.5	23.4	11.1
Net pension liability	(80.3)	(54.7)	(25.6)
SSAP 24 (previous standard)			
Prepayment	N/A	15.1	

¹ restated for FRS 17

Linpac Containers Acquisition

£ million	FY 04/05	FY 03/04 ¹	Change 04/05 Vs 03/04
Turnover	151.5	18.1	133.4
Trading profit	14.9	1.2	13.7
Synergies	6.1	-	6.1
Interest on incremental borrowings	(4.5)	(0.5)	(4.0)
Total pre-tax contribution	16.5	0.7	15.8

FY 04/05: exceptional costs £4.9m; £2.5m cash outflow effect

¹ Six weeks under DS Smith ownership

Exceptional Items: Profit and Loss

£ million	FY 04/05
Linpac Containers integration	(4.9)
Plastic Packaging - Packaging Management impairment	(5.8)
Tri-Wall KK impairment reversal	1.1
Total exceptional items	(9.6)

- Note: there were no exceptional items in 2003/04

Earnings & Dividends

	FY 04/05	FY 03/04 ¹
Average shares in issue	385.3m	348.2m
Earnings per share - adjusted ²	14.7p	13.6p
- basic	10.1p	12.6p
Final dividend per share	5.8p	5.6p
Total annual dividend per share	8.4p	8.2p
P&L dividend cover - times	1.7x	1.5x
Cash dividend cover - times ³	1.7x	2.1x

¹ restated for FRS 17

² before exceptional items and amortisation of intangibles

³ (free cash flow before net acquisitions and dividends) ÷ (dividend payable in year)

Shares in issue at 24/06/05 – 389.2m

Paper and Corrugated Packaging

	FY 04/05	FY 03/04 ¹	Change 04/05 Vs 03/04
Turnover (£m)	896.9	748.9	19.8%
Adjusted operating profit pre pension charge	61.4	50.5	10.9
FRS17 pension charge	(9.1)	(9.1)	-
Adjusted² operating profit (£m)	52.3	41.4	10.9
Operating margin ² (%)	5.8%	5.5%	0.3pts
Average capital employed ³ (£m)	663.2	517.8	145.4
Return on capital employed ^{2,3} (%)	7.9%	8.0%	(0.1)pts

¹ restated for FRS 17

² before associates, exceptional items and amortisation of intangibles

³ monthly average

Plastic Packaging

	FY 04/05	FY 03/04 ¹	Change 04/05 Vs 03/04
Turnover (£m)	195.9	208.7	(6.1)%
Adjusted operating profit pre pension charge	10.9	15.2	(4.3)
FRS17 pension charge	(1.0)	(1.2)	0.2
Adjusted² operating profit (£m)	9.9	14.0	(4.1)
Operating margin ² (%)	5.1%	6.7%	(1.6)pts
Average capital employed ³ (£m)	139.6	139.8	(0.2)
Return on capital employed ^{2,3} (%)	7.1%	10.0%	(2.9)pts

¹ restated for FRS 17

² before associates, exceptional items and amortisation of intangibles

³ monthly average

Office Products Wholesaling

	FY 04/05	FY 03/04 ¹	Change 04/05 Vs 03/04
Turnover (£m)	499.7	498.8	0.2%
Adjusted operating profit pre pension charge	23.4	21.7	1.7
FRS17 pension charge	(1.7)	(2.0)	0.3
Adjusted² operating profit (£m)	21.7	19.7	2.0
Operating margin ² (%)	4.3%	3.9%	0.4pts
Average capital employed ³ (£m)	118.4	117.8	0.6
Return on capital employed ^{2,3} (%)	18.3%	16.7%	1.6pts

¹ restated for FRS 17

² before associates, exceptional items and amortisation of intangibles

³ monthly average

Office Products Manufacturing

	FY 04/05	FY 03/04 ¹	Change 04/05 Vs 03/04
Turnover (£m)	46.8	48.0	(2.5%)
Adjusted operating profit pre pension charge	1.0	1.4	(0.4)
FRS17 pension charge	(1.0)	(1.1)	0.1
Adjusted² operating profit (£m)	-	0.3	(0.3)
Operating margin ² (%)	-	0.6%	(0.6)pts
Average capital employed ³ (£m)	13.8	13.9	(0.1)
Return on capital employed ^{2,3} (%)	-	2.2%	(2.2)pts

¹ restated for FRS 17

² before associates, exceptional items and amortisation of intangibles

³ monthly average

Group Balance Sheet

£ million	FY 04/05	FY 03/04 ¹
Fixed assets	589.3	597.1
Intangibles	173.7	185.6
Net current assets	150.9	139.9
Deferred tax	(71.6)	(74.8)
Long term creditors and provisions	(11.5)	(18.2)
Net borrowings	(260.4)	(274.7)
Pension scheme net deficit	(80.3)	(54.7)
Net assets	490.1	500.2
Gearing ^{2,3}	53.1%	54.9%
NAV per share ¹	126p	129p

¹ restated for FRS 17 and UITF 38

² including FRS 17 net pension deficit

³ note: excluding net pension deficit: gearing 45.7% (2003/04: 49.5%); NAV per share: 147p (2003/04: 143p)

Free Cash Flow

£ million	FY 04/05	FY 03/04 ¹
Operating profit	83.9	75.4
Depreciation	68.2	64.5
EBITDA	152.1	139.9
Working capital movement	(7.1)	(7.0)
Exceptional cash costs	(2.5)	-
Other items	(3.2)	(1.1)
Net cash inflow from operating activities	139.3	131.8
Capital expenditure payments	(46.9)	(40.9)
Taxation	(23.7)	(17.9)
Interest	(13.3)	(10.0)
Free cash flow	55.4	63.0

¹ restated for FRS 17

Net Cash Flow

£ million	FY 04/05	FY 03/04 ¹
Free cash flow	55.4	63.0
Dividends	(31.6)	(28.2)
Free cash flow before acquisitions	23.8	34.8
Acquisitions	(11.7)	(181.6)
Net cash flow	12.1	(146.8)

¹ restated for FRS17

Borrowings Movements

£ million	FY 04/05	FY 03/04 ¹
Net cash flow	12.1	(146.8)
Share issues	2.6	74.1
Purchase of own shares	(2.1)	(1.0)
Rights issue costs	-	(1.9)
Net borrowings (acquired)/disposed of	-	(0.5)
Exchange differences	1.7	3.7
Net borrowings movement	14.3	(72.4)
Opening net borrowings	(274.7)	(202.3)
Closing net borrowings	(260.4)	(274.7)
Interest cover – times	6.8x	7.5x
Net debt/EBITDA - times	1.7x	2.0x

¹ restated for FRS 17

Funding update

- **August 2004:**
 - **\$200m (£109m) US private placement to refinance Linpac Containers acquisition bridging facility**
 - 10- and 12-year money
 - £41m swapped into fixed-rate sterling
 - balance in floating rate euros
- **April 2005:**
 - **£250m new, 5-year syndicated revolving credit facility**
 - replaced previous £325m bilateral facilities
- **Weighted average borrowings' maturity now 6.9 years**

Conversion to International Financial Reporting Standards

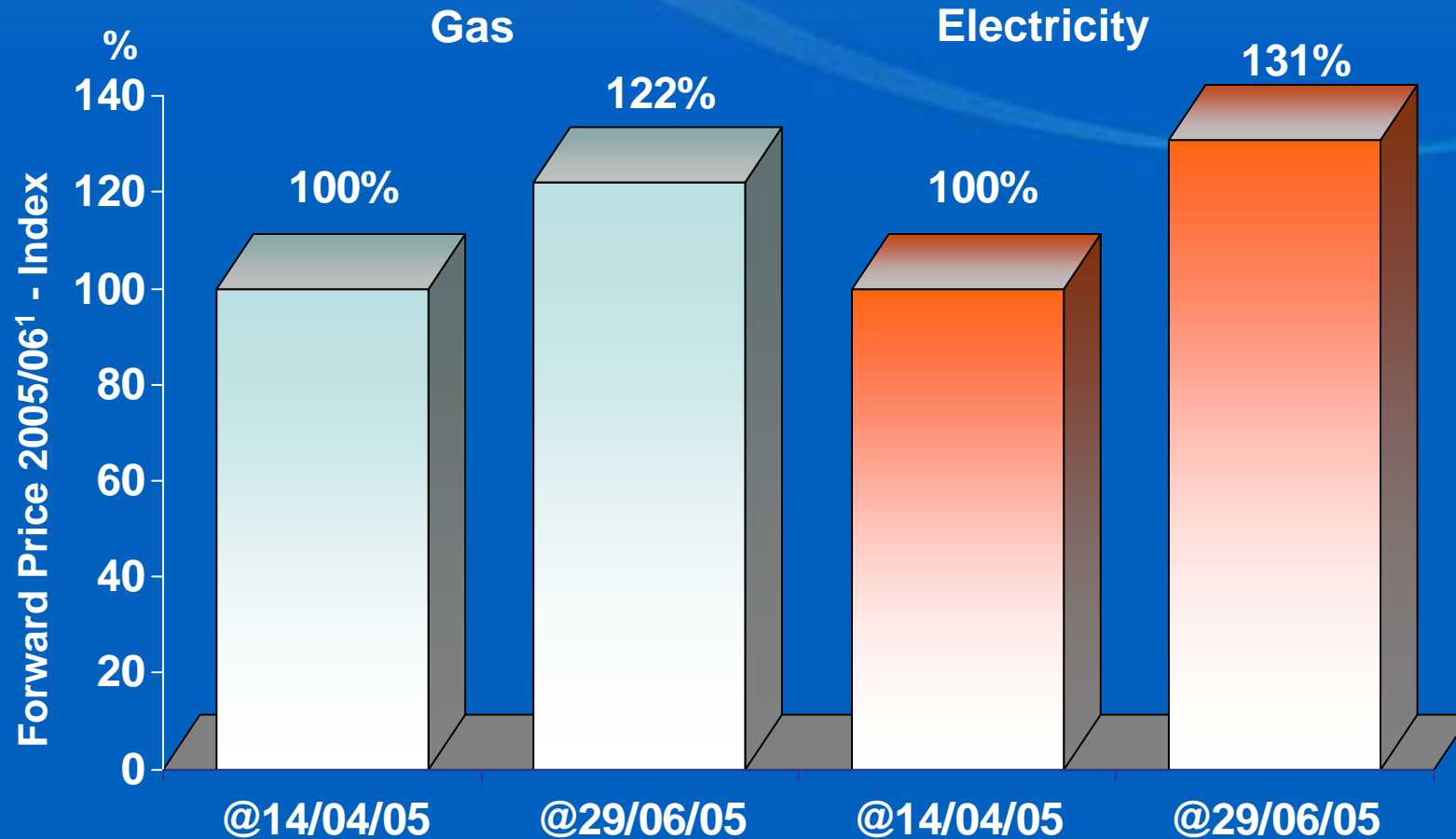
- Conversion programme largely complete
- Limited impact on profit and loss and balance sheet as pensions accounting changes already dealt with by early adoption of FRS 17
- No changes to business operations, free cash flow or dividend policy
- Expect to publish comparative statements in Autumn

Guidance

- **Market uncertainties remain**
 - Paper pricing
 - Energy costs

Gas and Electricity Prices

Movement in 2005/06¹ Forward Prices Since April 2005



¹ 01/05/05 – 30/04/06 DS Smith financial year

Guidance

- **Market uncertainties remain**
 - Paper pricing
 - Energy costs
- **Further Linpac Containers synergy benefits**
- **Spicers' European rollouts continue to improve their results**
- **Tax rate for 2005/06 – 31%**
- **Cash capex close to depreciation**
- **Pension cost allocation by division in appendix**

Recap

- **Results strong despite paper pricing, energy and pension costs**
- **Delivered on the initial Linpac synergies**
- **Return on capital employed 9%**
- **Delivered a healthy cash flow before dividends**
- **Raised the final dividend**
- **Strong balance sheet, despite FRS17, has benefited from refinancings**
 - Ratios sound: gearing; interest cover; net debt/EBITDA; debt maturity
- **Robust performance in difficult markets that continue**

Operational and Strategic Development

Tony Thorne
Group Chief Executive

Strategy

Improve and Develop

- **Paper and Corrugated Packaging**
 - UK: raise returns from our strong integrated position
 - Continental Europe: grow, particularly in eastern Europe
- **Plastic Packaging**
 - Grow in our two focused businesses
- **Spicers**
 - Strengthen our major UK and French businesses
 - Build our continental European positions

Changed Shape of DS Smith

- **Reduced reliance on the cyclical Paper business**
- **Non-Paper business grown substantially**
 - **Corrugated Packaging: significant profit increase**
 - **Plastic Packaging: good market positions**
 - **Office Products Wholesaling: profit recovery/new markets**

A Challenging Year

- **Weak paper and corrugated packaging market**
- **£9m rise in energy costs**
- **£7m polymer cost increases; £3m not recovered**
- **New £11.7m net pension charge**
- **Competition Commission inquiry**

Paper and Corrugated Packaging

Market Environment

- **Market growth**
 - 2004:
 - UK flat
 - Western Europe +1%
 - Central/Eastern Europe +13%
 - 2005 to date: weaker than 2004
- **New corrugated case material (CCM) capacity:**
 - 1.2m tonnes in early 2005
- **Prices 2004/05**
 - OCC: prices remained high relative to paper selling prices
 - CCM: price increases not sustained
 - Boxes:
 - UK – prices increased, but under pressure
 - Continent – prior year increases eroded

Paper and Corrugated Packaging UK

Major integrated position
Turnover £620m



Challenging conditions in Paper but business reinforced

- **Expanded recovered paper collection including acquisition of BPB Recycling**
- **Improved CCM sales mix**
 - Increased UK sales – Linpac Containers acquisition
 - BPB plasterboard liner supply agreement
- **Corrugated Packaging**
 - Linpac Containers results and synergies
 - Existing business improved
- **Continued emphasis on cost reduction**

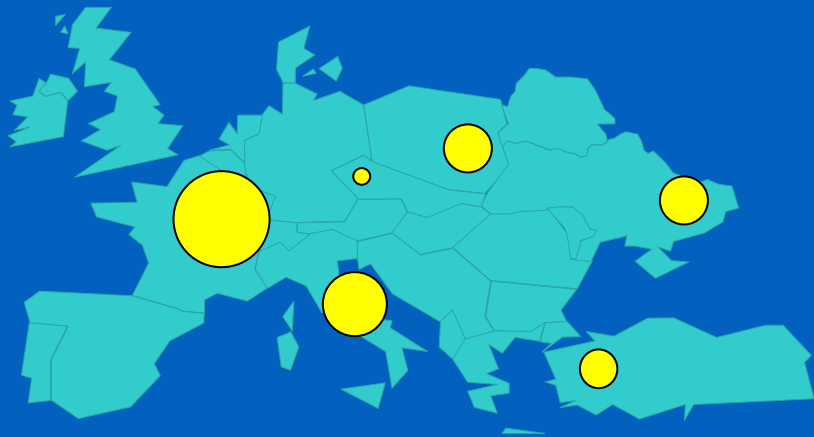
Linpac Containers Acquisition

- Erith plant closed September 2004
- Competition clearance October 2004
- Head offices merged
- Bristol and Devizes plants run in tandem at lower cost
- Glasgow plant consolidated into Livingston April 2005
- New raw materials procurement function set up
- Operating profit £14.9m; synergies £6.1m; net PBT benefit £16.5m

Paper and Corrugated Packaging

DS Smith Kaysersberg

Targeted approach
Turnover £266m



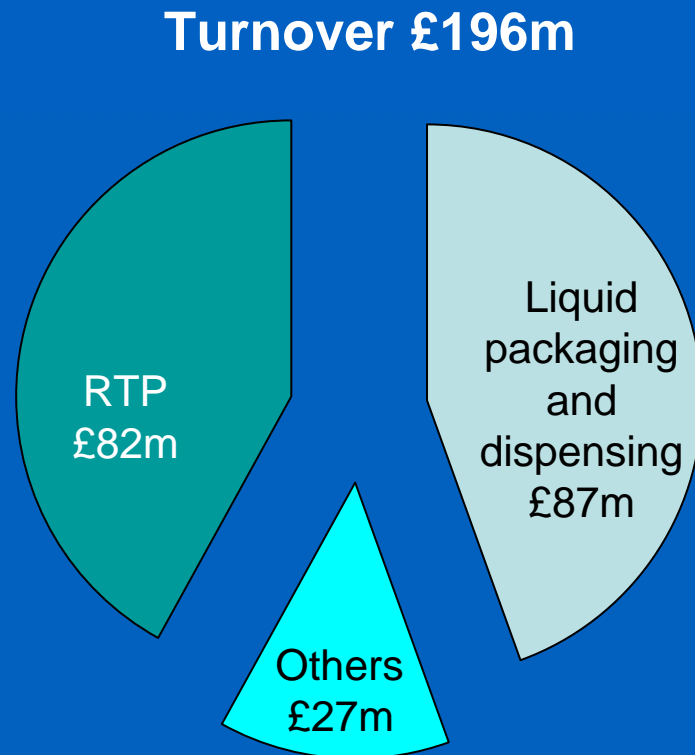
NB Indicative relative sizes of operations
– not drawn strictly to scale

- **France and Italy**
 - Added value products
- **Poland**
 - New factory under construction
- **Turkey**
 - Into profit
- **Ukraine**
 - Further expansion

Plastic Packaging Market Environment

- **Polymer prices**
 - Substantial increases on main types
 - Partial recovery in product prices
- **Demand slowdown due to economic conditions**

Plastic Packaging



- **RTP**
 - Crate sales well down
 - Beverage contracts ending
 - Deferred orders
 - Following customers to E. Europe
- **LP&D**
 - Sales: static in US; growing in Europe
 - Further cost reduction - mature sectors
 - Increased focus - growth sectors
- **Smaller businesses**
 - Flat combined result

Office Products Wholesaling Market Environment

- **Traditional products: signs of growth**
- **Electronic office supplies: continued growth, but price erosion**
- **Dealer segment maintaining share**

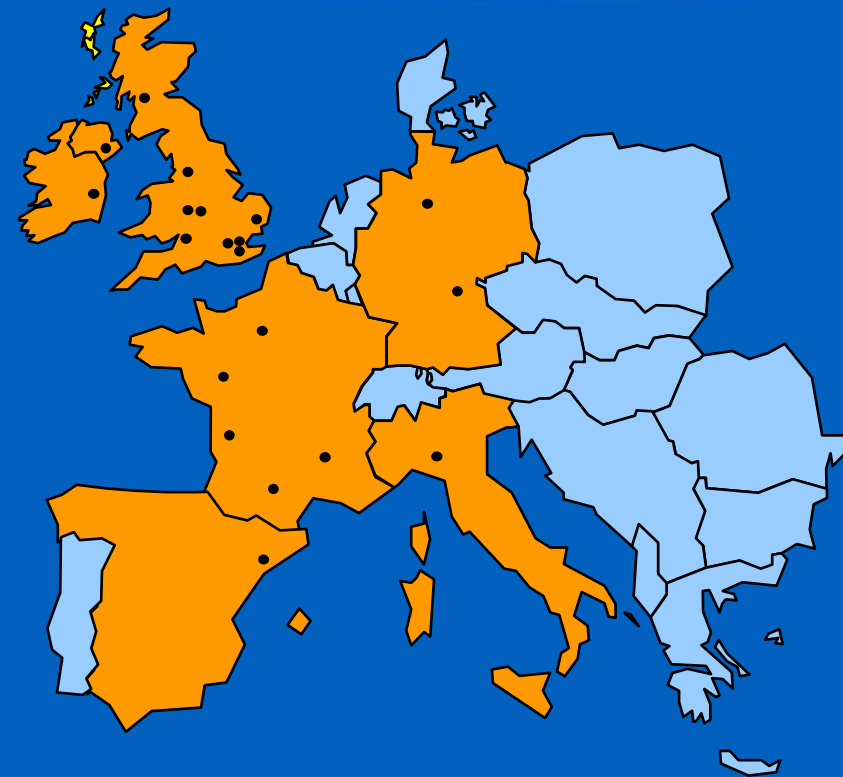
Spicers is the leading European wholesaler

Office Products Wholesaling

Spicers Country Performance

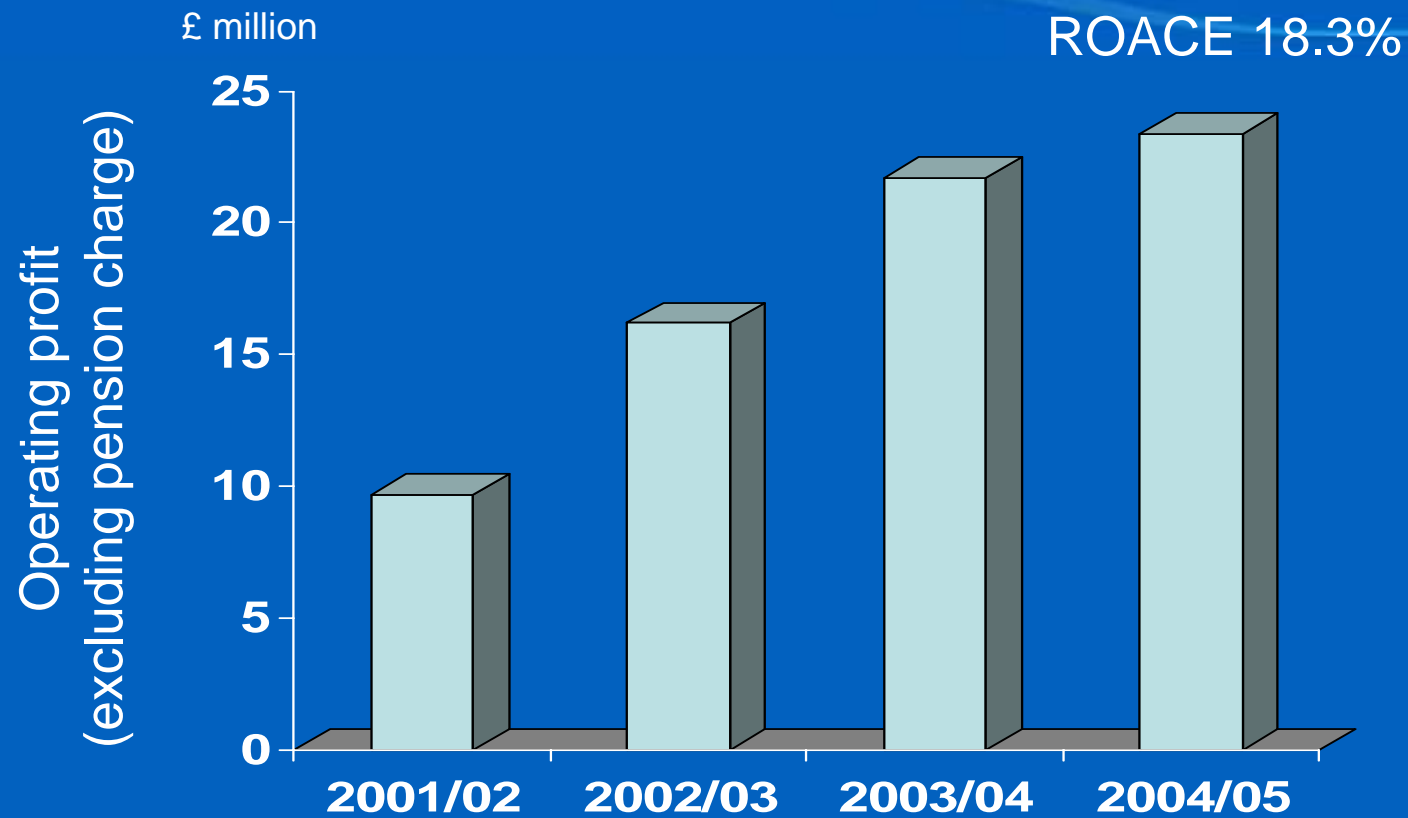
- **UK**
 - Into growth
- **France**
 - Maintained profit generation
- **Germany**
 - Into profit
- **Spain**
 - Growing fast
- **Italy**
 - Successful launch

Turnover £500m



• Distribution centres

Office Products Wholesaling Operating Profit 2001/02 - 2004/05



Outlook

- **Market**
 - Lower box demand
 - Paper capacity increase
 - Energy costs still rising
- **DS Smith**
 - Improved business mix
 - Further Linpac Containers' synergies
 - Spicers' momentum

2005/06 Priorities

- **Exploit profit growth opportunities**
- **Drive to offset higher input costs**
 - Lowering operating costs
 - Increasing prices wherever possible
- **Maintain good cash management**

Appendix

FRS 17

Pension Charge by Division

£ million	FY 04/05	FY 03/04 ²
Paper & Corrugated Packaging	9.1	9.1
Plastic Packaging	1.0	1.2
Packaging	10.1	10.3
Wholesaling	1.7	2.0
Manufacturing	1.0	1.1
Office Products	2.7	3.1
Group total	12.8	13.4

¹ 'service cost'; does not include other finance income/(cost)

² restated for FRS17