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# DS Smith Plc



**Full-Year Results 2008/09**  
**25 June 2009**

# Overview

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- Robust results
- Weak markets – timing of economic upturn uncertain
- Benefiting from our strategy
- Action Programme
- Well positioned for the economic upturn when it arrives

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# Financial Review

Steve Dryden

Group Finance Director

# Financial Highlights

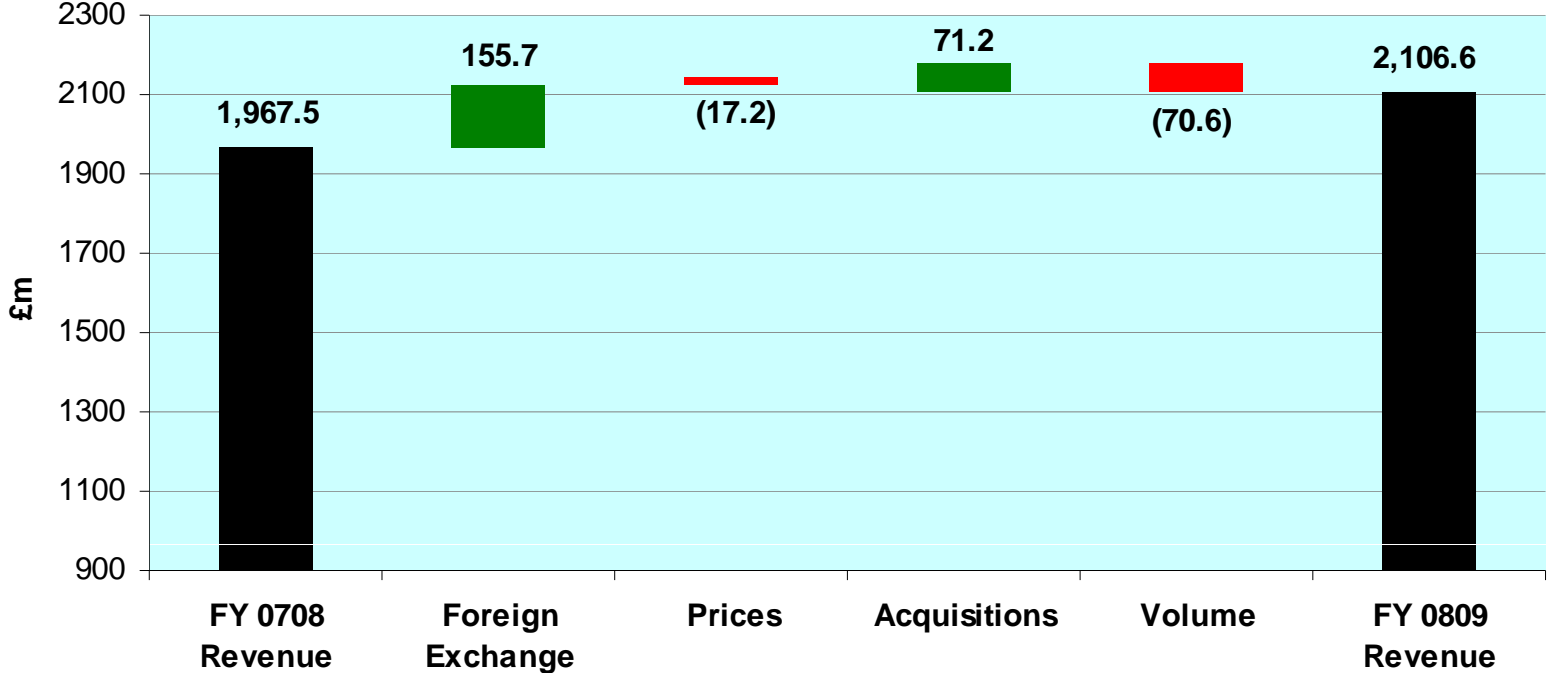
	2008/09 £m		Change to 2007/08 £m
<b>Cash generated from operations*</b>	183.6	↓	(2.0)
<b>Revenue</b>	2,106.6	↑	139.1
<b>Adjusted Operating Profit*</b>	94.0	↓	(25.6)
<b>Adjusted Profit before tax*</b>	72.5	↓	(38.5)
<b>Adjusted EPS*</b>	12.6p	↓	(7.3)p
<b>Dividend</b>	4.4p	↓	(4.4)p

\* Before exceptional items

# Group Cash Flow

	2008/09 £m	2007/08 £m	Change £m
Operating profit	94.0	119.6	(25.6)
Depreciation and amortisation	69.9	62.0	7.9
<b>EBITDA</b>	<b>163.9</b>	<b>181.6</b>	<b>(17.7)</b>
Working capital	30.8	13.2	17.6
Other	(11.1)	(9.2)	(1.9)
<b>Cash generated from operations</b>	<b>183.6</b>	<b>185.6</b>	<b>(2.0)</b>
Capital expenditure	(87.4)	(66.5)	(20.9)
Asset disposals	7.7	9.3	(1.6)
Taxation	(21.0)	(27.8)	6.8
Interest	(23.0)	(16.8)	(6.2)
Dividend Received	-	1.0	(1.0)
<b>Free cash flow</b>	<b>59.9</b>	<b>84.8</b>	<b>(24.9)</b>
Exceptional items	(17.2)	(5.8)	(11.4)
Dividends to Group shareholders	(34.4)	(33.7)	(0.7)
Dividends to Minorities in Group Subsidiaries	(1.9)	-	(1.9)
Acquisitions/disposals	(1.2)	(87.2)	86.0
<b>Net Cash flow</b>	<b>5.2</b>	<b>(41.9)</b>	<b>47.1</b>

# Revenue Analysis



## Segmental Operating Profit - H1:H2 Split

Before exceptional items £m	H1 2008/09	H2 2008/09	H1 2007/08	H2 2007/08
UK Paper and Corrugated	28.8	7.7	39.9	28.6
Continental European Corrugated	16.1	14.3	8.0	12.3
Plastic	4.0	3.0	5.7	5.0
<b>Packaging</b>	<b>48.9</b>	<b>25.0</b>	<b>53.6</b>	<b>45.9</b>
Office Products Wholesaling	5.5	14.6	6.8	13.3
<b>Adjusted operating profit</b>	<b>54.4</b>	<b>39.6</b>	<b>60.4</b>	<b>59.2</b>

# Group Income Statement

	2008/09 £m	2007/08 £m	Change £m
<b>Adjusted operating profit</b>	<b>94.0</b>	<b>119.6</b>	<b>(25.6)</b>
Net interest	(23.6)	(20.8)	(2.8)
Employee benefit finance income	1.5	8.8	(7.3)
Associated companies	0.6	3.4	(2.8)
<b>Profit before tax and exceptional items</b>	<b>72.5</b>	<b>111.0</b>	<b>(38.5)</b>
Exceptional items	(55.7)	(1.9)	(53.8)
Tax	(28.0)	(30.9)	2.9
<b>Profit after tax</b>	<b>(11.2)</b>	<b>78.2</b>	<b>(89.4)</b>
Adjusted EBITDA margin – %	<b>7.8%</b>	<b>9.2%</b>	<b>(1.4)</b>
Adjusted return on sales – %	<b>4.5%</b>	<b>6.1%</b>	<b>(1.6)</b>
Capital employed <sup>1</sup> – £m	<b>1009.5</b>	<b>925.7</b>	<b>83.8</b>
Adjusted return on capital employed <sup>1</sup> – %	<b>9.3%</b>	<b>12.9%</b>	<b>(3.6)</b>

<sup>1</sup> Monthly average

## Exceptional charges and benefits

	2008/09 £m	2007/08 £m	Benefits £m
<b>Restructuring</b>			
UK Paper and Corrugated Packaging	(18.2)		12.0
Continental European Packaging	(1.6)		4.0
Plastic Packaging	(3.5)	(1.9)	4.0
Office Products Wholesaling	(3.7)		6.0
<b>Sub total</b>	<b>(27.0)</b>	<b>(1.9)</b>	<b>26.0</b>
Rubezhansk – investment impairment	(18.1)		
Rubezhansk – share of exchange loss	(5.1)		
Turkey – asset impairment	(5.0)		
Other	(0.5)		
<b>Sub total</b>	<b>(55.7)</b>	<b>(1.9)</b>	<b>26.0</b>
Tax	(5.4)	0.7	(8.0)
<b>Total</b>	<b>(61.1)</b>	<b>(1.2)</b>	<b>18.0</b>

# UK Paper and Corrugated Packaging

	2008/09	2007/08	Change
Revenue – £m	785.8	753.2	32.6
Adjusted EBITDA – £m	73.2	100.4	(27.2)
Adjusted EBITDA margin – %	9.3	13.3	(4.0)
Adjusted operating profit – £m	36.5	68.5	(32.0)
Adjusted operating margin – %	4.6	9.1	(4.5)
Capital employed <sup>1</sup> – £m	545.2	479.4	65.8
Adjusted return on capital employed <sup>1</sup> – %	6.7	14.3	(7.6)

<sup>1</sup> Monthly average

# UK Paper and Corrugated Packaging

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- Lower box demand, fall in the price of CCM and lower collections of waste paper
- Recycling services: large swings in waste paper prices and lower sales volumes mitigated by Facilities Management model
- Paper: margins under pressure due to decline in CCM prices and higher input costs
- Corrugated packaging: strengthened position in FMCG, market weaker overall and prices under pressure
- New mill at Kemsley on stream January 09, product positively received

# Continental European Corrugated Packaging

	2008/09	2007/08	Change
Revenue – £m	363.4	346.0	17.4
Adjusted EBITDA – £m	45.8	33.9	11.9
Adjusted EBITDA margin – %	12.6	9.8	2.8
Adjusted operating profit – £m	30.4	20.3	10.1
Adjusted operating margin – %	8.4	5.9	2.5
Capital employed <sup>1</sup> – £m	199.6	186.2	13.4
Adjusted return on capital employed <sup>1</sup> – %	15.2	10.9	4.3

<sup>1</sup> Monthly average

# Continental European Corrugated Packaging

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- Benefited from fall in price of CCM, good cost control and previous action to raise prices
- France: improved margins and operational progress
- Poland: strong gains in market share in a flat market
- Czech Republic and Slovakia: performance impacted by downturn in automotive market
- Turkey: performance impacted by economic downturn
- Ukraine (associate): weaker sales volumes and margin pressure

# Plastic Packaging

	2008/09	2007/08	Change
Revenue – £m	236.9	223.4	13.5
Adjusted EBITDA – £m	19.2	21.2	(2.0)
Adjusted EBITDA margin – %	8.1	9.5	(1.4)
Adjusted operating profit – £m	7.0	10.7	(3.7)
Adjusted operating margin – %	3.0	4.8	(1.8)
Capital employed <sup>1</sup> – £m	132.8	126.7	6.1
Adjusted return on capital employed <sup>1</sup> – %	5.3	8.4	(3.1)

<sup>1</sup> Monthly average

# Plastic Packaging

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- Returnable Transit Packaging
  - Revenue lower due to weak and variable demand across most segments
  - Construction, automotive and beverage crates particularly affected
- Liquid Packaging and Dispensing
  - USA: continued good performance – developed new market sectors
  - Europe: results affected by competitive pressure; restructuring in Germany completed April 09, UK restructuring underway

# Office Products Wholesaling - Spicers

	2008/09	2007/08	Change
Revenue – £m	720.5	644.9	75.6
Adjusted EBITDA – £m	25.7	26.1	(0.4)
Adjusted EBITDA margin – %	3.6	4.0	(0.4)
Adjusted operating profit – £m	20.1	20.1	-
Adjusted operating margin – %	2.8	3.1	(0.3)
Capital employed <sup>1</sup> – £m	131.9	133.4	(1.5)
Adjusted return on capital employed <sup>1</sup> – %	15.2	15.1	0.1

<sup>1</sup> Monthly average

# Office Products Wholesaling – Spicers

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- UK: sales growth, primarily in lower margin EOS products
- Continental established businesses: solid performance despite overall market decline
- Continental development businesses:
  - Germany: good revenue growth
  - Spain: severe economic slow-down affected revenue
  - Italy: first full year of profit

# Group Balance Sheet

	2008/09 £m	2007/08 £m	Change £m
Property, plant & equipment & investments	638.2	638.6	(0.4)
Intangibles	222.0	215.2	6.8
Other non-current assets	0.9	0.8	0.1
Net current assets	83.9	118.3	(34.4)
Derivatives	9.3	16.2	(6.9)
Deferred tax	2.7	(39.8)	42.5
Long-term creditors and provisions	(17.8)	(19.7)	1.9
Net debt	(291.5)	(251.8)	(39.7)
Pension scheme deficit	(191.3)	(75.9)	(115.4)
Net assets/shareholders' funds	456.4	601.9	(145.5)

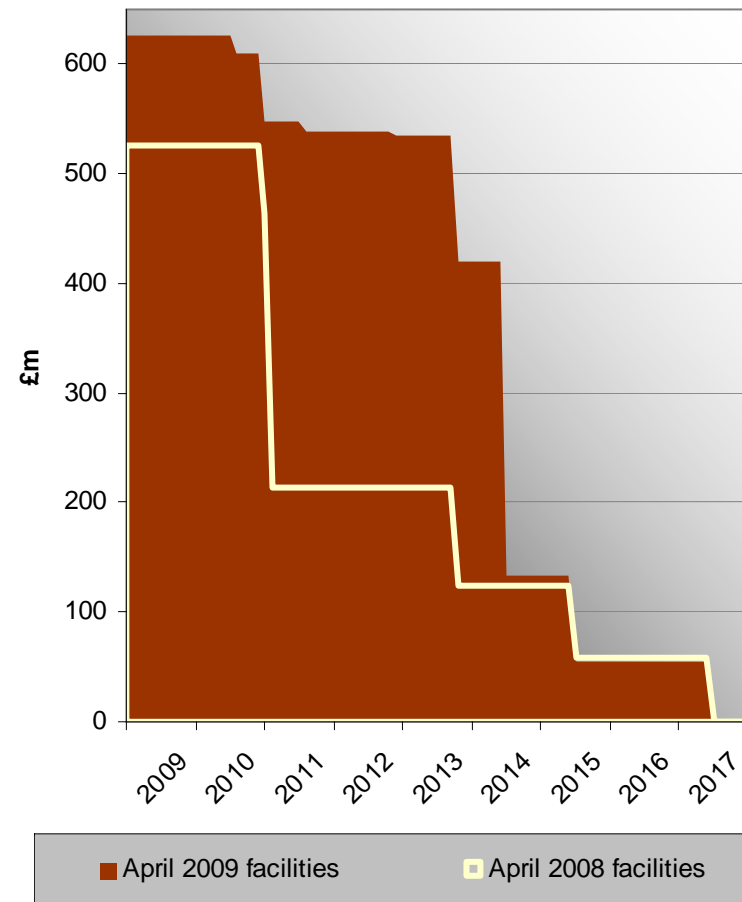
# Impact of the Pension Deficit

	2007/08 Actual £m	2008/09 Actual £m	2009/10 Forecast £m
<u>Balance Sheet</u>			
Assets	721.8	555.3	
Liabilities	(797.7)	(746.6)	
<b>Pension Deficit</b>	<b>(75.9)</b>	<b>(191.3)</b>	
<u>Key Assumptions</u>			
Expected return on assets	6.7%	6.4%	
Discount rate	5.9%	6.4%	
<u>Income Statement</u>			
Expected return on Assets		47.9	36.0
Finance charge on liabilities		(46.4)	(47.0)
<b>Employee benefit finance income/(charge)</b>		<b>1.5</b>	<b>(11.0)</b>

# Refinancing

- A new syndicated loan facility was put in place in August 2008 for £287.5m.
- The average maturity of the facilities was 4 years 1 month (at 30 April 2009)
- A bilateral loan facility of £50m is due to expire in 2010
- Committed facilities to 2012 of £525m

DS Smith: debt maturity



# Banking Covenants

	Ratio			Headroom Cover		
	2008/09 £m	2007/08 £m	Change %	2008/09 £m	2007/08 £m	Change £m
Net Assets* > £360m	594.4	656.4	(9%)	234.4	296.4	(62.0)
Net Debt/EBITDA* < 3.25	1.8	1.4	(29%)	74.2	104.1	(29.9)
Interest Cover* > 3.00	4.5	7.6	(41%)	34.6	78.9	(44.3)

\* Excludes pension finance costs and exceptional items

## Key Points

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- Strong market positions and tight cost control underpin performance
  - Good cash generation from operations – lower capital investment in 2009/10: £20m below depreciation
  - Impairment charges – prudent response to current environment
  - Refinanced at market competitive rates in August 2008
  - Restructured to a lower cost base to underpin future results
  - Recommending a halving of dividend to strengthen financial position
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# Strength Today Action for Tomorrow

Tony Thorne  
Group Chief Executive

# Agenda

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## Operating Environment

- Major economies in decline
- Packaging
  - Volumes down
  - Paper prices down
  - Key Input costs now rising
- Office Products Wholesaling
  - Demand down
- Timing of any recovery uncertain

## Our Response

- Strategy unchanged
- Operational priorities
- Action Programme
  - Cost reduction
  - Cash conservation

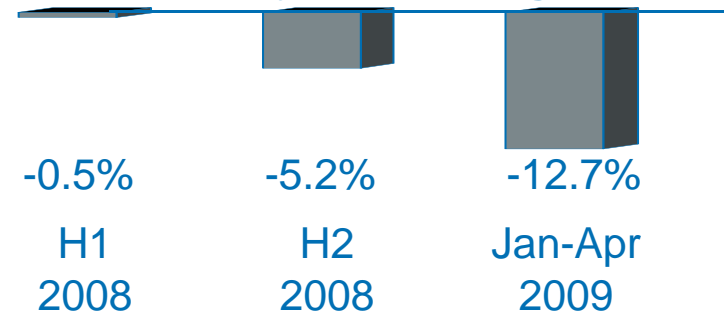
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# Packaging: External Environment - Demand and Supply

- Corrugated packaging (box) demand
  - Early 2009 particularly weak
  - FMCG stronger than industrial
  
- Paper
  - CCM
    - ~ Lower demand
    - ~ New capacity in 2009, some closures BUT 'capacity overhang'
  - Plasterboard liner market down c. 30%
  
- Plastic packaging market
  - RTP: weak
  - Bag-in-box: satisfactory

## European Corrugated Demand Year-on-year % change



Source: FEFCO  
Corrugated packaging volume (M. sq. metres)

# Packaging: External Environment - Prices and Costs

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- Prices:
  - CCM:
    - ~UK prices fallen since late 2008
    - ~UK & continent now little above variable cost
  - Boxes: some weakening
  
- Costs:
  - Energy – rising again
  - Waste paper: costs high relative to CCM price
  - Polymer: rising after sharp fall

# Office Products Wholesaling: External Environment

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- Demand
  - Job losses driving sharp drop in usage
  
- Competitive environment
  - Inter-channel competition high
  - Dealer channel relatively robust
  - UK wholesaling very competitive

# Agenda

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## Operating Environment

- Major economies in decline
- Packaging
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  - Paper prices down
  - Key Input costs now rising
- Office Products Wholesaling
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## Our Response

- Strategy unchanged
- Operational priorities
- Action Programme
  - Cost reduction
  - Cash conservation

# Packaging Strategy – Core Aspects

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- Greater concentration on converted packaging particularly for FMCG (retail-ready/promotional)
- Development in continental Europe
- Expanded recycling activity
- Targeted development in paper - UK

# Lightweight CCM at Kemsley

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Lightweight Paper Machine

- Right product for the market
- Kemsley is a highly competitive site
  - Product range
  - Cost base
- Substantial strategic asset

# Office Products Wholesaling Strategy – Core Aspects

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- UK
  - Lower cost base
  - Strengthen product and service offering
- Continental Europe
  - Reinforce position in established markets
  - Drive progress in development businesses

# Operational Priorities

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- Strong attention to service levels
- Price management
- Credit risk management
- Meeting cost base targets
- Drive the better placed businesses

# Action Programme: Cost Reduction

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- Includes:
  - plant closures, including PM1 machine
  - reduction in shifts
  - leaner administration (head office moves)
  
- Programme costs £27m
  
- Implementation ahead of Plan
  
- Anticipated annual benefits >£26m
  
- Extent of programme kept under review

# Action Programme: Cash Conservation

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- Working capital
  - Sustain improvement: £30m
  - Build on success
- Capital expenditure: reduce to £20m below depreciation
- Dividend reduced

# Outlook

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- Global economy in recession
- Current trading in line with our expectations
- Results underpinned by strategy and action programme
- Timing of upturn uncertain
- Group well positioned

# Appendix

## Guidance 2009/10

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- Non cash pension charge in Income statement next year of £11m
- Restructuring benefit of £26m to underpin future results
- Energy costs lower due to effective hedging strategy
- Capital expenditure will be lower – less than £50m

# Energy

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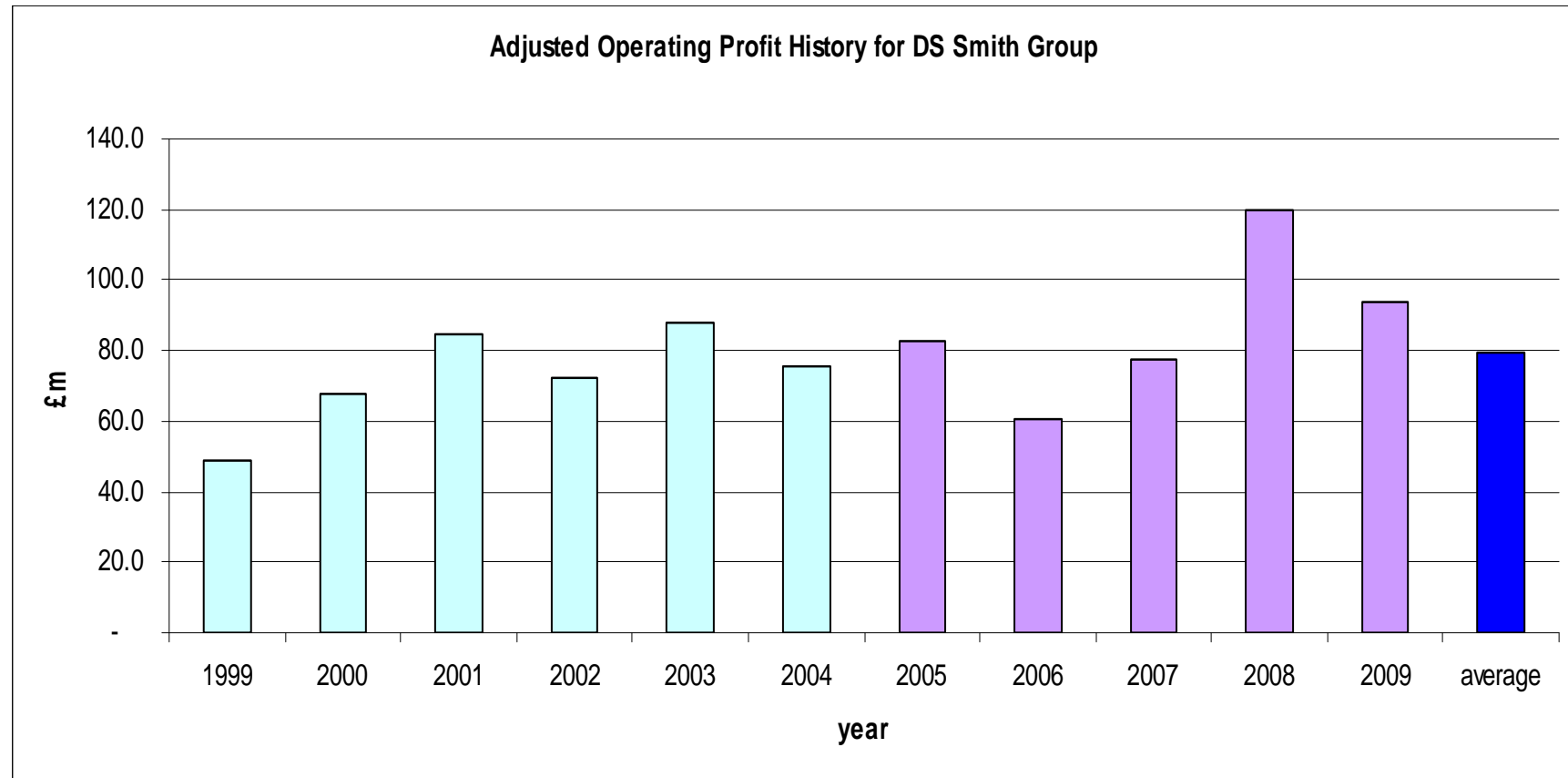
- 2008/09 energy bill £114m (2007/08: £91m)
- Underlying\* increase of £5m year-on-year

## Key Factors

- Increase in costs mainly in continental Europe
- Lagged price movements from supply contracts – relate to c. 40% of the Group's energy costs (CHP plants at largest paper mills)
- Price-hedging used to limit volatility on our open market purchases

\* Adjusted for the acquisition of New Thames Mill

# Operating Profit History



1999 – 2004 UK GAAP

2005 – IFRS