



## 2003/04 PRELIMINARY RESULTS

DS Smith Plc (LSE:SMDS), the international packaging manufacturer and office products wholesaler, announces its results for the year ended 30 April 2004.

### HIGHLIGHTS

#### Financial

- Profit before tax<sup>(1)</sup> up 2% at £81.4m
- Cash inflow after dividends but before net acquisitions up 3% at £33.1m
- Earnings per share<sup>(2)</sup> up 1% at 16.9p
- Return on average capital employed<sup>(1)</sup> 11.1% (2002/03: 11.3%)
- Gearing 48.9% (42.8%)
- Full year dividend maintained at 8.2p<sup>(3)</sup>
- Results after exceptional items and amortisation of intangibles: profit before tax £77.8m (£69.0m); earnings per share<sup>(4)</sup> 15.9p (13.7p)

#### Operations

- Robust performance, given the weak paper market
- Strong improvement in Corrugated Packaging
- Continued recovery in Office Products Wholesaling
- Strategic development through the £167m acquisition of LINPAC Containers

<sup>(1)</sup> before exceptional items and amortisation of intangibles

<sup>(2)</sup> before exceptional items and amortisation of intangibles and restated for the bonus element of the rights issue

<sup>(3)</sup> interim and prior year dividends restated for the bonus element of the rights issue

<sup>(4)</sup> restated for the bonus element of the rights issue

Commenting on the results, Chairman, Antony Hichens said:

“In 2003/04, we produced a creditable result in tough market conditions. The Group benefited from our continued focus on raising operational performance with further profit advances in Corrugated Packaging and Office Products Wholesaling.

“In the coming year we expect to make further progress in Plastic Packaging and Office Products Wholesaling. However, our key paper and corrugated markets remain highly competitive and, in the face of rising input costs, the recent paper price rise will not be sufficient to restore paper margins. Also as previously indicated, there will now be a significant charge to the profit and loss account in respect of the UK pension scheme. Our result will benefit from the contribution from the LINPAC Containers acquisition but, until the outcome of the Competition Commission inquiry is known, we cannot start to generate the anticipated synergies. This is likely to be another challenging year but the Group’s resilience in recent times gives me confidence in our future.”

**Enquiries****DS Smith Plc****020 7932 5000**

Tony Thorne, Group Chief Executive  
Gavin Morris, Group Finance Director  
Peter Aubusson, Group Communications Manager

**Financial Dynamics****020 7269 7291**

Richard Mountain/Robert Gurner

**CHAIRMAN'S STATEMENT**

In 2003/04, DS Smith produced a creditable result and made important strategic progress. Conditions remained challenging in most of our markets and the cyclical downturn in the paper market reduced margins significantly in our waste-based Paper business. The Group benefited from our continued focus on raising operational performance with further profit advances in Corrugated Packaging and Office Products Wholesaling.

The acquisition of LINPAC Containers, completed in March 2004, enlarged our position in UK Corrugated Packaging. The £167 million acquisition was partly financed by a one-for-five rights issue, which raised £70.4 million, net of expenses. It is disappointing that the acquisition has been referred to the Competition Commission as we believe that it will not lessen the vigorous competition which marks our industry. We are working closely with the Competition Commission to seek to satisfy them and their report is due towards the end of the calendar year. In the meantime, the business is performing well, but we are not able to proceed with the planned integration until the inquiry has been completed.

The Group's earnings per share before exceptional items and amortisation of intangibles was, at 16.9p, slightly better than last year (2002/03: 16.8p restated for the bonus element of the rights issue). Free cash flow, post dividends but before acquisitions, of £33.1 million was marginally ahead of last year (£32.0 million). In spite of the acquisition of LINPAC Containers, gearing only increased from 42.8% to 48.9%.

Your Board is recommending a final dividend of 5.6p per ordinary share which, together with the restated interim dividend of 2.6p, maintains the total dividend for the year, as restated for the rights issue, at 8.2p.

The Group continues to pursue its strategy of operational improvement and the development of its two principal activities, Packaging and Office Products Wholesaling. We will maintain the drive to improve the Group's return on capital employed, which was 11.1% in 2003/04, while investing in capital projects and bolt-on acquisitions which strengthen the Group's position in its chosen markets.

In December 2003, two additional Directors were appointed. Jean-Paul Loison, Divisional Chief Executive of the Kaysersberg Packaging Division, responsible for all Paper and Corrugated Packaging operations in continental Europe, was appointed as an Executive Director. Christopher Bunker, who has been Finance Director on the boards of three PLCs, was appointed as a non-Executive Director. They both bring extensive and valuable experience to the Board.

This year's good performance was achieved through the skills and commitment of the Group's employees worldwide. I thank them all for their continued contribution to meeting the requirements of our customers and raising the standards of our operations.

In the coming year we expect to make further progress in Plastic Packaging and Office Products Wholesaling. However, our key paper and corrugated markets remain highly competitive and, in the face of rising input costs, the recent paper price rise will not be sufficient to restore paper margins. Also as previously indicated, for the first time for many years there will now be a significant charge to the profit and loss account in respect of the UK pension scheme. Our result will benefit from the contribution from the LINPAC Containers acquisition but, until the outcome of the Competition Commission inquiry is known, we cannot start to generate the anticipated synergies. This is likely to be another challenging year but the Group's resilience in recent times gives me confidence in our future."

Antony Hichens  
Chairman

## **CHIEF EXECUTIVE'S REVIEW**

### **Overview**

From the outset, we expected 2003/04 to be a difficult year as margins in our important Paper business were under pressure from increasing competition in the paper market and there were no signs of improvement in the general trading environment. Our principal objectives were to minimise the impact of the downturn in Paper margins while continuing to raise the results of the rest of the Group, maintain the development of our key market positions and generate a healthy cash flow. I am pleased to report a year of considerable success against these objectives. We achieved major profit advances in both Corrugated Packaging, particularly in continental Europe, and Office Products Wholesaling, which largely offset the margin squeeze in Paper and produced a creditable overall financial result. We generated a strong cash surplus after dividends but before net acquisitions. The acquisition of LINPAC Containers enlarged our important UK Corrugated Packaging business. The decision by the Office of Fair Trading to refer the acquisition for review by the Competition Commission means we are unable to proceed with the planned integration into DS Smith until the inquiry is complete.

Group sales and operating profit before exceptional items and amortisation of intangibles were both 1% ahead of last year at £1,488.5 million and £88.8 million, respectively. Excluding the effect of acquisitions, disposals and foreign exchange differences, operating profit before exceptional items and amortisation of intangibles was 1% lower. In the six weeks we owned LINPAC Containers, it contributed £18.1 million of sales and £1.2 million of operating profit to the Group result. Operating margin before exceptional items and amortisation of intangibles increased slightly to 6.0% (2002/03: 5.9%), while return on average capital employed was slightly lower at 11.1% (11.3%). Profit before tax, exceptional items and amortisation of intangibles increased slightly to £81.4 million (£79.7 million) while adjusted earnings per share was also a little ahead. Interest cover remained strong at 8.8 times.

Overall, this was a robust result, given the weak paper market, and reflects the success of our drive to improve and develop the returns of the Group's non-Paper operations.

The cash inflow after dividends but before net acquisitions, was £33.1 million (£32.0 million). After net expenditure on acquisitions of £181.6 million, principally LINPAC Containers, and including the proceeds from the rights issue there was a net cash outflow of £72.4 million which resulted in net borrowings of £274.7 million (£202.3 million) after the effect of exchange rate movements. The balance sheet remains strong with gearing at 48.9%, post the acquisition.

## **Packaging**

In our larger activity, Packaging, which accounted for 64% of Group sales and 74% of operating profit before amortisation of intangibles, demand in our principal markets continued to be flat or declining, and margins were under pressure, particularly in Paper. The overall Packaging operating profit before exceptional items and amortisation of intangibles was 3% down on last year. This reflects a very significant shortfall in Paper, a good advance in Corrugated Packaging, particularly on the continent, and a small increase in Plastic Packaging.

In Paper and Corrugated Packaging, sales were flat while operating profit before exceptional items and amortisation of intangibles fell by 5%. Productivity in our paper operations improved, but operating profit was down sharply due to a particularly hostile combination of lower paper prices and higher costs of raw material and energy. The profit shortfall in Paper was substantially offset by continued improvement in the performance of our Corrugated Packaging operations, particularly in continental Europe, and the contribution from LINPAC Containers in the closing weeks of the year. Paper and box prices increased throughout Europe towards the end of our financial year; this provided little benefit in 2003/04. The start point for 2004/05 was improved by these increases but we have not been able fully to recover increases in input costs.

Although we made progress in Plastic Packaging, with a 7% advance in sales and a 3% increase in operating profit before exceptional items and amortisation of intangibles, the improvement was less than in recent years. In our core businesses of industrial returnable transit packaging (RTP) and liquid packaging and dispensing, profit improved. We grew strongly in RTP where our bottle crate business continued to perform well, helped by product innovation and strong market demand. In liquid packaging and dispensing, the European bag-in-box business, including the German Zewathener business acquired in 2002, traded well but the tap business was affected by increased competitor activity in detergent taps. The division's overall result was held back by the results at two small operations: a specialist coating business, whose exports to Asia and the Middle East fell in the first half of the year, and a modified atmosphere produce packaging business, StePac, in which we have been investing. A programme of initiatives has been implemented across the division to move results forward again through driving sales growth and raising productivity.

## **Office Products**

Total Office Products sales were 1% lower but operating profit before exceptional items and amortisation of intangibles increased by 14%. This advance in profits was despite the office products market across Europe continuing to suffer from poor sales volume and customers trading down to lower specification products.

In Office Products Wholesaling, which accounted for 94% of our Office Products sales, operating profit before amortisation of intangibles increased by 34% to £21.7 million. The

combined profits of our developed businesses, being Spicers UK, France and Ireland, were well up on the previous year, reflecting our actions to cut costs, raise margins through better buying and improve the product mix while maintaining service levels. In our developing markets of Germany and Spain we had satisfactory sales growth. Spicers Germany remained in loss for the year as a whole but generated a positive cash flow and traded at around break-even in the second half, while Spicers Spain made good progress against its plan. In Italy, preparations are well advanced for our entry into the market during 2004/05.

In Office Products Manufacturing, operating profit was £1.4 million (£4.0 million), this decline against last year reflecting both the difficult trading conditions and the sale of Spicer Hallfield towards the end of 2002/03. Action has been taken to reduce costs further and to stimulate sales.

### **LINPAC Containers**

The acquisition of LINPAC Containers on 22 March 2004 made DS Smith the leading corrugated packaging company in the UK. The net cost of the acquisition was £167 million, including fees for the transaction. The acquisition improved our market position, by broadening the Group's customer base, and strengthened our position as a major buyer and seller of paper. The business is trading well and we are pleased to have its high quality people and operations within DS Smith. We remain confident that the synergies outlined in our circular are available but during the Competition Commission inquiry period LINPAC Containers and DS Smith Packaging will carry on business separately; they both have good market positions and will maintain a strong focus on serving their respective customers.

### **Pension Scheme**

In accordance with SSAP 24, the 2003/04 results include a nil pension charge for the Group's UK defined benefit scheme as the amortisation of the 2001 surplus largely offsets the ongoing cost of the scheme. The triennial valuation of the scheme is currently taking place and the report is due in autumn 2004. Recognising that, in adverse markets, the funding position of the scheme had deteriorated since April 2001, the Company resumed payments into the scheme, at the rate of £10 million per annum, in the second half of 2002/03. As previously indicated, the Board expects there to be a charge to the Group's profit and loss account in respect of the scheme in 2004/05. This charge, under SSAP 24, will reflect the ongoing costs of the scheme of approximately £10 million and the amortisation of the prepayments and any deficit identified by the SSAP 24 valuation.

Under the FRS 17 accounting standard, which the Company has not adopted, the scheme had a post-tax net deficit, as at 30 April 2004, of £54.6 million compared with a post-tax net deficit of £93.8 million a year ago.

### **Strategy**

We have pursued a strategy of Improve and Develop over the last three years and this remains in place; the objective being an aggressive programme of raising operational performance across the Group, while seeking areas to develop our strong market positions in Packaging and Office Products Wholesaling. Return on average capital employed is a key measure for us and our return of 11.1% in 2003/04 was slightly above our cost of capital. The commitment of capital to existing operations will remain relatively tight, investment

being concentrated on new products, growth markets and major cost-down opportunities. We will continue to restructure or exit low performing businesses.

In Paper and Corrugated Packaging there is further potential to develop our European market positions. For our established corrugated businesses in the UK and France, where demand is at best flat and price pressure is intense, we have to look to innovate on product and service while lowering costs and increasing efficiency. We remain alert to bolt-on acquisitions and green field development, concentrating on the faster growing markets of southern and eastern Europe. In our UK Paper operations, where margins have been under greater pressure than in the past, we are developing options to address the growing demands of our customers for lighter weight papers and the need to remain internationally competitive over the longer term.

In Plastic Packaging, our strategic segments continue to present profitable growth opportunities. In liquid packaging and dispensing, the highest priority is to deliver increased returns on the investment made in recent years. In industrial RTP, our strong European presence provides a base for further development both organically and through acquisitions.

Spicers is continuing to develop its position as the leading European office products wholesaler. Our well-established businesses in the UK and France are focused on re-invigorating sales growth to raise their profitability further. In our developing businesses, our objectives are to bring Spicers Germany through to good levels of profit, to move the Spanish business to break-even as rapidly as possible, and to launch successfully in Italy. We believe the value of Spicers is being substantially enhanced by its continental expansion and increasing profitability.

## **OPERATING REVIEW**

### **Paper and Corrugated Packaging**

Turnover was slightly ahead at £748.9 million (2002/03: £747.0 million) with a fall in Paper being offset by higher Corrugated Packaging sales. Operating profit before exceptional items and amortisation of intangibles was £50.5 million (£53.1 million) with a significant reduction in profits from Paper being partly compensated for by higher profits in Corrugated Packaging, including a contribution of £1.2 million from LINPAC Containers in the six weeks from the date of acquisition. Operating margin before exceptional items and amortisation of intangibles was 6.7% (7.1%) while return on average capital employed was 9.6% (10.6%).

### **Market overview**

Industry statistics for calendar year 2003 show that overall demand by weight for corrugated board in Europe grew by just 0.5%, reflecting the sluggish economic conditions (Source: European Federation of Corrugated Board Manufacturers). Demand in the UK was 0.9% lower, while France and Italy were slightly ahead by 0.7% and 1.5%, respectively and Poland and Turkey grew strongly by 8.3% and 11.5%, respectively. In the first quarter of calendar year 2004, demand in the UK has shown a small amount of growth while our other major markets have performed at similar levels to 2003. Within the UK market for corrugated case materials (CCM), recycled paper continued to gain market share against virgin kraftliner and the imported share of the market was unchanged.

Against a background in the CCM market of low European demand growth and some existing excess capacity, approximately 600,000 tonnes of new capacity became available within the total market of approximately 20 million tonnes. Although this new capacity was partly offset by some older capacity being removed, it resulted in a destabilisation of selling prices throughout the European market. While no more capacity is expected to come on stream in 2004, further capacity additions are expected in 2005; the effect on prices will depend upon future market growth and the extent of any further rationalisation of uneconomic capacity.

As a result of the soft demand and the additional capacity, much of which is concentrated on lightweight papers, CCM prices fell during 2003. The resulting squeeze on paper producers' margins was exacerbated by fluctuations in the cost of recovered paper, the principal raw material for recycled CCM. The continuing high level of demand for recovered paper in Asia, some of which is being supplied from Europe, is contributing to a modest longer-term structural increase and short-term fluctuations in the price of recovered paper in Europe. In the UK, the net cost of our raw material was also adversely affected by lower demand for Packaging Recovery Notes (PRNs), which are issued as evidence that packaging has been reprocessed in compliance with the UK Packaging Waste Regulations. The government, which did not increase recycling targets for 2003, has now published rising targets for 2004 to 2008 in line with the revised requirements of the EU Packaging and Packaging Waste Directive. There has been some firming of PRN prices in calendar year 2004 to date, although they remain well below recent years' average prices.

### **DS Smith Packaging**

The Group's UK Corrugated Packaging division, DS Smith Packaging, continued its profit improvement despite weak demand, industry over-capacity and price pressure. The continuing focus on higher added value products supported the result, which was also assisted by the addition of the business from three plants acquired from Macfarlane Group in October 2003. One of these plants and a DS Smith sheet plant were subsequently sold in March 2004.

The four conventional plants, which are operated as an integrated group to optimise service to their customers, had mixed results. Of these, the Fordham plant made good progress and achieved record output levels, but the Livingston plant suffered from continued weak demand from Scottish manufacturing industry.

Margins were severely squeezed at our sheet feeding operations, which supply corrugated sheet board, due to intense competition and industry over-supply. We have taken action to lower costs and raise efficiencies. The sheet plants, which convert board into boxes, performed steadily.

The speciality operations advanced through combining better efficiency with providing their customers with product innovation and flexible service. The Lockerbie, Belper and Neath plants, which specialise in high quality printed product, made encouraging progress. The heavy duty business, Tri-Wall, performed reasonably well given the difficulties experienced by its industrial manufacturing customer base.

Results in April were affected by higher paper costs following the Europe-wide increase in CCM prices. Corrugated prices were increased in mid-April with a view to recovering increased input costs.

## **LINPAC Containers**

LINPAC Containers, acquired on 22 March 2004, operated well during the final weeks of the financial year although profit in April was depressed by higher paper costs. It contributed £18.1 million of sales and £1.2 million of operating profit to the Group result for the year. In late April, it raised its box and corrugated sheet prices in an attempt to recover increased costs.

## **Kaysersberg Packaging**

The Group's continental European Paper and Corrugated Packaging division, Kaysersberg Packaging, achieved an excellent result due to strong progress in the French, Polish, Italian and Turkish Corrugated Packaging businesses.

The French paper mills increased their productivity and sales volume, but margins were squeezed, despite successful cost reduction initiatives, by the fall in selling prices and fluctuating recovered paper prices. The French Corrugated Packaging operations benefited from the lower paper prices, good cost management and their focus on higher added value products.

In Italy, Toscana Ondulati further increased its market share and profits with the help of its new Lari factory, which has strengthened its position in key market sectors.

Sales at the Polish business, DS Smith Polska, were held back by capacity constraints, but profits advanced well due to focusing more on selling converted boxes rather than corrugated sheet and developing sales of litho-laminated and other higher value products. A new green field factory is planned to open in late 2005 at Kutno, west of Warsaw, which will allow us to grow our activities in Poland further.

Action taken to raise operational performance and increase market share enabled the Turkish business, Copikas, to reduce its loss substantially, despite selling prices being under pressure.

Our associate operation in the Ukraine, OJSC Rubezhansk Paper and Packaging Mill, advanced strongly helped by a major programme of investment. In December 2003 the business secured a \$14 million loan from the European Bank for Reconstruction and Development to help finance further growth.

## **St Regis Paper Company**

St Regis increased its production and sales volumes through continuing emphasis on higher efficiency and improved process control. Sales to the UK market increased slightly, while exports moved ahead more strongly, assisted in the early months of the year by the strengthening of the euro against sterling. Profits were substantially below those of the previous year due to a combination of lower selling prices, the fluctuating cost of recovered paper, higher energy costs and lower PRN prices.

The Kemsley paper mill, which accounts for over 50% of St Regis' paper production, achieved record output, with machine efficiencies well above the previous year due to continuing process optimisation. A new warehouse was commissioned in autumn 2003, which improved customer service and reduced costs by virtually eliminating the use of third

party warehousing. The other paper mills also raised volumes, and record production was achieved at Sudbrook and Taplow.

The Severnside collection and recycling business continued to expand, although results were affected by fluctuations in the price of recovered paper. It invested further in its collection infrastructure, both in terms of equipment and collection depots. It added one new depot during the year and, since the year end, has acquired the five depots of BPB Recycling, subject to approval from the Office of Fair Trading.

## **Plastic Packaging**

DS Smith Plastics' turnover grew by 7% to £208.7 million. Operating profit before amortisation of intangibles was 3% ahead at £15.2 million and operating margin before amortisation of intangibles was 7.3% (7.5%). Return on average capital employed was 10.7% (11.5%). The division made profit progress in its two principal business sectors, liquid packaging and dispensing and returnable transit packaging (RTP), but its overall performance was held back by the results of two small operations. Polymer prices had no significant impact on results during the year as a whole.

Sales and profits advanced well in RTP principally due to a strong performance in injection moulded bottle crates. Increased crate demand from the brewing sector was stimulated by product innovation and new environmental regulations in Germany which encourage the use of returnable bottles. Demand for other RTP products was patchy, but action to control costs and improve efficiency benefited the results.

In liquid packaging and dispensing, the bag-in-box business in Europe performed well, assisted by the Zewathener business in Germany acquired in 2002. Margins were affected by the particularly strong growth in the relatively lower margin wine bag business. Tap sales and margins were affected by increased competitor activity in detergent taps. Action has been taken to increase the rate of profit growth by focusing on driving sales, cost reduction and productivity improvements.

Of the two smaller businesses that impacted the overall result, our specialist coating business suffered a reduction in exports to Asia and the Middle East due to SARS and the Iraq War; costs have been cut and sales are being rebuilt. The other is a developing business, StePac, which specialises in modified atmosphere packaging for preserving the quality of fresh fruit and vegetables in transit; we have invested to develop the business and are focused on growing sales.

## **Office Products Wholesaling**

Spicers' sales increased by 1% to £498.8 million with higher sales in Germany and Spain being partly offset by declines elsewhere in Europe. Operating profit before amortisation of intangibles increased by 34% to £21.7 million and operating margin before amortisation of intangibles increased from 3.3% to 4.4%. Return on average capital employed advanced from 12.7% to 18.2%.

Spicers' substantial advance in profit was achieved against a background of continuing soft demand for traditional office products across Europe, with consumers being more inclined to buy lower specification, or own brand products. There is growing evidence, in most markets, of confidence recovering and consumption stabilising. Demand for electronic office supplies

(EOS) continues to grow but the low margins on the highest volume EOS products have deteriorated further.

Spicers' improvement in profitability was principally attributable to further strong progress in the UK as a result of the programme of operational initiatives started in 2002. Service levels to customers were raised further and significant cost reductions achieved. The regional distribution centre (RDC) network was restructured with the closure of the Nottingham RDC.

In France, market conditions proved particularly challenging but Spicers' business improved its profitability by cutting costs and managing its margins better. Spicers Germany grew steadily throughout the year. The business is now trading at break-even and generated a positive cash flow for the year as a whole. Results in the first half were substantially affected by a limited number of bad debts.

The Spanish business, launched in 2002, achieved strong sales growth in the year and a highly successful sell-in of the 2004 catalogue augurs well for a further major advance in sales in the year ahead. Spicers' new Italian business will be launched in November 2004. The purpose built head office and first RDC at Castel San Giovanni, just south of Milan, is now occupied and intense preparation is underway to ensure a successful start-up.

### **Office Products Manufacturing**

John Dickinson's sales were £48.0 million (£59.7 million) and operating profit was £1.4 million (£4.0 million); the previous year's result included sales of £6.3 million and operating profit of £0.6 million from the Spicer Hallfield business which was sold in February 2003. Operating margin was 2.9% (6.7%) and return on average capital employed was 9.8% (23.1%).

Sales volumes were significantly lower, particularly for branded products, while imports continue to exert pressure on prices. Growth was achieved in envelopes for direct and transactional mail, while the Black n' Red brand advanced well, with encouraging signs for its development in the US market. Action has been taken to strengthen the division's marketing and sales activity. Costs have been further reduced in production and by management structure rationalisation.

Tony Thorne  
Group Chief Executive

## Group Profit and Loss Account

For the year ended 30 April 2004

	Note	2004			2003		
		Before amortisation of intangibles £m	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	1,488.5	-	1,488.5	1,479.0	-	1,479.0
<b>Group operating profit</b>	1	<b>88.8</b>	<b>(4.0)</b>	<b>84.8</b>	<b>88.0</b>	<b>(2.6)</b>	<b>85.4</b>
Share of operating profits of associated undertakings		3.0	0.4	3.4	2.6	0.4	3.0
<b>Total operating profit</b>		<b>91.8</b>	<b>(3.6)</b>	<b>88.2</b>	<b>90.6</b>	<b>(2.2)</b>	<b>88.4</b>
Exceptional loss on sale of businesses		-	-	-	-	(8.5)	(8.5)
<b>Profit on ordinary activities before interest</b>		<b>91.8</b>	<b>(3.6)</b>	<b>88.2</b>	<b>90.6</b>	<b>(10.7)</b>	<b>79.9</b>
Net interest payable and other similar items		(10.4)	-	(10.4)	(10.9)	-	(10.9)
<b>Profit on ordinary activities before taxation</b>		<b>81.4</b>	<b>(3.6)</b>	<b>77.8</b>	<b>79.7</b>	<b>(10.7)</b>	<b>69.0</b>
Tax on profit on ordinary activities		(22.0)	-	(22.0)	(21.6)	-	(21.6)
<b>Profit on ordinary activities after taxation</b>		<b>59.4</b>	<b>(3.6)</b>	<b>55.8</b>	<b>58.1</b>	<b>(10.7)</b>	<b>47.4</b>
Minority interests – equity		(0.6)	-	(0.6)	(0.3)	-	(0.3)
<b>Profit for the financial year</b>		<b>58.8</b>	<b>(3.6)</b>	<b>55.2</b>	<b>57.8</b>	<b>(10.7)</b>	<b>47.1</b>
Dividends paid and proposed		(30.6)	-	(30.6)	(28.2)	-	(28.2)
<b>Retained profit for the financial year</b>		<b>28.2</b>	<b>(3.6)</b>	<b>24.6</b>	<b>29.6</b>	<b>(10.7)</b>	<b>18.9</b>
<b>Earnings per share:</b>	3						
Basic				15.9p			13.7p
Diluted				15.8p			13.7p
Adjusted		16.9p			16.8p		
<b>Dividends per share</b>	4			<b>8.2p</b>			<b>8.2p</b>

Notes:

- The Group's results shown above are derived from continuing operations. On 22 March 2004 the Group acquired LINPAC Containers Group; the results for the six weeks to 30 April 2004 are not material and have not been shown separately (2003: no material acquisitions). There were no material 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 2002/03 exceptional items relate to the net loss on sale of businesses in the prior year. These include £7.4m of goodwill previously written off to reserves.
- The Annual Report and statements for the year ended 30 April 2004 will be posted to shareholders in July 2004.
- Subject to approval of shareholders at the Annual General Meeting to be held on 10 September 2004, the final dividend of 5.6p will be paid on 21 September 2004 to ordinary shareholders on the register on 20 August 2004.
- The 2003/04 and 2002/03 results in this preliminary statement are not the Group's statutory accounts for these years. The 2003/04 and 2002/03 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 2002/03 statutory accounts have been filed with the Registrar of Companies.
- Earnings per share and dividends per share have been restated for the bonus element of the rights issue.

## Group Statement of Total Recognised Gains and Losses

For the year ended 30 April 2004

	2004 £m	2003 £m
Profit for the financial year	55.2	47.1
Exchange differences	(7.7)	7.3
<b>Total recognised gains and losses relating to the financial year</b>	<b>47.5</b>	<b>54.4</b>

## Group Reconciliation of Movements in Shareholders' Funds

For the year ended 30 April 2004

	2004 £m	2003 £m
Profit for the financial year	55.2	47.1
Dividends	(30.6)	(28.2)
Retained profit for the financial year	24.6	18.9
Exchange differences on foreign currency net investments	(7.7)	7.3
Goodwill previously written off	-	7.4
New share capital issued under option schemes	1.8	0.4
Proceeds from rights issue (net of issue costs of £1.9m)	70.4	-
<b>Net increase in shareholders' funds</b>	<b>89.1</b>	<b>34.0</b>
Opening shareholders' funds	472.9	438.9
<b>Closing shareholders' funds</b>	<b>562.0</b>	<b>472.9</b>

## Group Balance Sheet

	Note	30 April 2004 £m	30 April 2003 £m
<b>Fixed assets</b>			
Intangible assets		185.6	49.0
Tangible assets		568.5	560.9
Investments		31.0	29.0
		<u>785.1</u>	<u>638.9</u>
<b>Current assets</b>			
Stocks		154.9	155.2
Debtors: amounts falling due within one year		345.1	327.5
Debtors: amounts falling due after more than one year		16.4	6.8
Short term investments	5	20.8	26.7
Cash at bank and in hand	5	40.8	27.7
		<u>578.0</u>	<u>543.9</u>
<b>Creditors: amounts falling due within one year</b>			
Trade and other creditors		(361.5)	(355.9)
Borrowings	5	<u>(39.7)</u>	<u>(142.7)</u>
<b>Net current assets</b>		<u><b>176.8</b></u>	<u><b>45.3</b></u>
<b>Total assets less current liabilities</b>		<b>961.9</b>	<b>684.2</b>
<b>Creditors: amounts falling due after more than one year</b>			
Borrowings	5	(296.6)	(114.0)
Other		(2.4)	(2.7)
<b>Provisions for liabilities and charges</b>		<u><b>(95.1)</b></u>	<u><b>(87.9)</b></u>
		567.8	479.6
<b>Minority interests – equity</b>		<u><b>(5.8)</b></u>	<u><b>(6.7)</b></u>
<b>Net assets</b>		<u><b>562.0</b></u>	<u><b>472.9</b></u>
<b>Capital and reserves</b>			
Called up share capital		38.7	32.2
Share premium account		254.6	188.9
Revaluation reserve		8.5	8.8
Profit and loss account		<u>260.2</u>	<u>243.0</u>
<b>Shareholders' funds – equity</b>		<u><b>562.0</b></u>	<u><b>472.9</b></u>

## Group Cash Flow Statement

For the year ended 30 April 2004

	Note	2004 £m	2004 £m	2003 £m	2003 £m
<b>Net cash inflow from operating activities</b>	<b>6(a)</b>		<b>131.8</b>		<b>142.0</b>
<b>Returns on investments and servicing of finance</b>					
Net interest paid		(9.8)		(7.3)	
Interest element of finance leases		(0.2)		(0.2)	
<b>Net cash outflow from returns on investments and servicing of finance</b>			<b>(10.0)</b>		<b>(7.5)</b>
<b>Taxation</b>			<b>(17.9)</b>		<b>(15.1)</b>
<b>Capital expenditure and investments</b>					
Purchase of tangible fixed assets		(51.7)		(63.4)	
Sale of tangible fixed assets		9.1		4.2	
Purchase of holding company shares		(1.0)		(0.8)	
Purchase of fixed asset investments		-		(0.1)	
Sale of fixed asset investments		1.7		0.6	
<b>Net cash outflow from capital expenditure and investments</b>			<b>(41.9)</b>		<b>(59.5)</b>
<b>Acquisitions and disposals</b>					
Purchase of subsidiary undertakings		(182.2)		(19.6)	
Net cash/(overdrafts) acquired		9.0		(0.5)	
Deferred consideration paid in relation to prior year acquisitions		(9.0)		-	
Purchase of associated undertakings		(1.0)		-	
Sale of associated undertakings		0.8		-	
Disposal of businesses		0.8		4.0	
<b>Net cash outflow from acquisitions and disposals</b>			<b>(181.6)</b>		<b>(16.1)</b>
<b>Equity dividends paid</b>			<b>(28.2)</b>		<b>(28.2)</b>
<b>Net cash (outflow)/inflow before use of liquid resources and financing</b>	<b>6(b)</b>		<b>(147.8)</b>		<b>15.6</b>
<b>Management of liquid resources</b>	<b>6(c)</b>		<b>4.3</b>		<b>(8.4)</b>
<b>Financing</b>					
Issue of ordinary shares		74.1		0.3	
Rights issue costs		(1.9)		-	
Increase/(decrease) in debt and lease financing		96.3		(29.9)	
<b>Net cash inflow/(outflow) from financing</b>			<b>168.5</b>		<b>(29.6)</b>
<b>Increase/(decrease) in cash in the year</b>			<b>25.0</b>		<b>(22.4)</b>
<b>Reconciliation of Net Cash Flow to Movement in Net Debt</b>					
Increase/(decrease) in cash in the financial year			25.0		(22.4)
(Increase)/decrease in debt and lease financing			(96.3)		29.9
(Decrease)/increase in liquid resources			(4.3)		8.4
(Increase)/decrease in net debt resulting from cash flow			(75.6)		15.9
Loans and finance leases acquired with subsidiary undertakings			(0.5)		(2.0)
Exchange differences			3.7		(20.3)
<b>Increase in net debt in the financial year</b>			<b>(72.4)</b>		<b>(6.4)</b>
Opening net debt			(202.3)		(195.9)
<b>Closing net debt</b>	<b>5,6(d)</b>		<b>(274.7)</b>		<b>(202.3)</b>

## Notes to the Financial Statements

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

2004	Turnover £m	Group Operating profit before exceptional items and amortisation of intangibles £m	Group Operating profit £m	Return on sales %	Average capital employed £m	Return on average capital employed %
<b>Packaging</b>						
Paper and Corrugated	748.9	50.5	49.5	6.7%	524.1	9.6%
Plastic Packaging	208.7	15.2	12.3	7.3%	141.4	10.7%
	<u>957.6</u>	<u>65.7</u>	<u>61.8</u>	<u>6.9%</u>	<u>665.5</u>	<u>9.9%</u>
<b>Office Products</b>						
Wholesaling	498.8	21.7	21.6	4.4%	119.5	18.2%
Manufacturing	48.0	1.4	1.4	2.9%	14.3	9.8%
Intra-segment	(15.9)	-	-	-	-	-
	<u>530.9</u>	<u>23.1</u>	<u>23.0</u>	<u>4.4%</u>	<u>133.8</u>	<u>17.3%</u>
<b>Total</b>	<b>1,488.5</b>	<b>88.8</b>	<b>84.8</b>	<b>6.0%</b>	<b>799.3</b>	<b>11.1%</b>
United Kingdom	829.4	47.3	46.4	5.7%	503.6	9.4%
Rest of World	659.1	41.5	38.4	6.3%	295.7	14.0%
<b>Total</b>	<b>1,488.5</b>	<b>88.8</b>	<b>84.8</b>	<b>6.0%</b>	<b>799.3</b>	<b>11.1%</b>
<b>2003</b>						
<b>Packaging</b>						
Paper and Corrugated	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>

The operating profits shown above exclude the Group's share of operating profits and losses of associated undertakings and the exceptional net loss in the prior year 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). The prior year exceptional loss of £8.5m arose within the Paper and Corrugated Packaging segment. 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 receivable/due in respect of disposals/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.

## 2 Exceptional items and amortisation of intangibles

	2004 £m	2003 £m
Net loss on sale of businesses	-	(8.5)
Amortisation of intangibles	(4.0)	(2.6)
Amortisation of negative goodwill of associates	0.4	0.4
	<u>(3.6)</u>	<u>(10.7)</u>
Tax on exceptional items	-	-
<b>Total</b>	<u><b>(3.6)</b></u>	<u><b>(10.7)</b></u>

The loss on sale of businesses in the prior year includes £7.4m of goodwill previously written off to reserves.

## 3 Earnings per share

Basic earnings per share are calculated by dividing the profit for the financial year of £55.2m (2003: £47.1m) by the weighted average number of shares in issue and fully paid during the year of 348.2m (2003: 343.4m). The number of shares excludes the weighted average number of the Company's own shares on the Group's balance sheet during the year of 1.5m (2003: 1.1m). The weighted average number of shares has been adjusted for the bonus element of the rights issue, which closed on 26 March 2004. Figures for the prior year have been restated accordingly.

The adjusted earnings per share are calculated on the profit for the financial year excluding exceptional items and amortisation of intangibles of £58.8m (2003: £57.8m) 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 350.1m (2003: 344.8m) shares.

## 4 Dividends per share

The 2003/04 interim dividend per share of 2.8p and the prior year total dividend per share of 8.8p have been restated for the bonus element of the rights issue to 2.6p and 8.2p, respectively. The proposed final dividend for the 2003/04 financial year is 5.6p per ordinary share, together with the adjusted interim dividend of 2.6p, this maintains the total dividend for the year, as adjusted for the rights issue, at 8.2p. Restated dividends per share and dividends paid and to be paid are as follows:

	2004 Pence per share	2003 Pence Per share
<b>Restated for the bonus element of the rights issue</b>		
Interim dividend (2002/03 and 2003/04 restated)	2.6p	2.6p
Final dividend (2002/03 restated)	<u>5.6p</u>	<u>5.6p</u>
<b>Total dividend per share</b>	<u><b>8.2p</b></u>	<u><b>8.2p</b></u>
<b>Dividends to be paid/paid</b>		
Interim dividend paid	2.8p	2.8p
Final dividend to be paid/paid	<u>5.6p</u>	<u>6.0p</u>
<b>Total dividend to be paid/paid</b>	<u><b>8.4p</b></u>	<u><b>8.8p</b></u>

## 5 Borrowings

	2004 £m	2003 £m
The Group's book value of net borrowings comprised:		
Bank loans and overdrafts and other loans	332.5	251.8
Finance lease liabilities	3.8	4.9
Short term investments	(20.8)	(26.7)
Cash at bank and in hand	<u>(40.8)</u>	<u>(27.7)</u>
<b>Total</b>	<u><b>274.7</b></u>	<u><b>202.3</b></u>
Gearing (net borrowings expressed as a percentage of shareholders' funds)	48.9%	42.8%

As at 30 April 2004, the Group had committed facilities of £498m.

## 6 Group cash flow statement

	2004 £m	2003 £m
<b>(a) Reconciliation of operating profit to net cash inflow from operating activities:</b>		
Operating profit before exceptional items and amortisation of intangibles	88.8	88.0
Depreciation	64.5	62.2
Profit on sale of tangible fixed assets	(4.0)	(0.4)
Increase in working capital	(7.0)	(1.0)
UK pension scheme contributions	(10.0)	(5.0)
Decrease in provisions	(0.9)	(3.3)
Other non cash operating items	0.4	1.5
<b>Net cash inflow from operating activities</b>	<b>131.8</b>	<b>142.0</b>
<b>(b) Reconciliation to free cash flow/net cash flow</b>		
Net cash inflow from operating activities (see 6(a))	131.8	142.0
Capital expenditure payments	(51.7)	(63.4)
Proceeds from sale of fixed assets	9.1	4.2
Interest paid	(10.0)	(7.5)
Tax paid	(17.9)	(15.1)
<b>Free cash inflow</b>	<b>61.3</b>	<b>60.2</b>
Dividends	(28.2)	(28.2)
<b>Cash inflow after dividends (before net acquisitions)</b>	<b>33.1</b>	<b>32.0</b>
Net acquisitions	(181.6)	(16.1)
Investments	0.7	(0.3)
<b>Net cash (outflow)/inflow</b>	<b>(147.8)</b>	<b>15.6</b>
<b>(c) Net sale/(purchase) of short term investments</b>	<b>4.3</b>	<b>(8.4)</b>
Short term investments mainly comprise deposits with banks.		
<b>(d) Reconciliation of movement in net borrowings</b>		
Opening net borrowings	(202.3)	(195.9)
Net cash (outflow)/inflow (see 6(b))	(147.8)	15.6
Share issues	74.1	0.3
Rights issue costs	(1.9)	-
Net borrowings acquired	(0.5)	(2.0)
Exchange differences	3.7	(20.3)
<b>Closing net borrowings</b>	<b>(274.7)</b>	<b>(202.3)</b>

## 7 Acquisitions and disposals

In October 2003 the Group acquired the business and certain assets and liabilities of the Macfarlane Group Plc corrugated packaging operations at Dundee, Govan and North Shields. One of these plants and a DS Smith Packaging sheet plant were subsequently sold in March 2004.

On 22 March 2004, the Group acquired LIMPAC Containers Group, a UK manufacturer of corrugated packaging, for a net consideration of £166.8m (including £5.1m of acquisition expenses and £9.0m of acquired cash), which resulted in goodwill arising of £137.0m.

A further £9.5m of consideration was paid relating to acquisitions made in prior years, £9.0m of which was accrued as deferred consideration at the time of the acquisitions.

## 8 Post balance sheet event

On 20 May 2004, the Office of Fair Trading announced that the acquisition of LIMPAC Containers by the Group was to be referred to the UK Competition Commission for further inquiry. On 1 June 2004, the Group announced that it has agreed to acquire BPB Recycling, a recovered paper collection business, from BPB PLC, subject to clearance from the Office of Fair Trading.

## Group Profit and Loss Account

### First Half / Second Half Split

For the year ended 30 April 2004

	First half (Unaudited)		Second half (Unaudited)		Total year	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Turnover	744.7	741.1	743.8	737.9	1,488.5	1,479.0
Operating profit before exceptional items and amortisation of intangibles	43.5	48.6	45.3	39.4	88.8	88.0
Share of profits of associated undertakings	1.5	1.6	1.5	1.0	3.0	2.6
Exceptional items and amortisation of intangibles	(1.5)	(0.9)	(2.1)	(9.8)	(3.6)	(10.7)
Profit on ordinary activities before interest	43.5	49.3	44.7	30.6	88.2	79.9
Net interest payable	(5.5)	(5.4)	(4.9)	(5.5)	(10.4)	(10.9)
Profit on ordinary activities before taxation	38.0	43.9	39.8	25.1	77.8	69.0
Tax on profit on ordinary activities	(10.6)	(12.1)	(11.4)	(9.5)	(22.0)	(21.6)
Profit/(loss) on ordinary activities after taxation	27.4	31.8	28.4	15.6	55.8	47.4
Minority interests – equity	(0.4)	(0.4)	(0.2)	0.1	(0.6)	(0.3)
Profit for the period	27.0	31.4	28.2	15.7	55.2	47.1
Earnings per share:						
Basic	7.8p	9.1p	8.1p	4.6p	15.9p	13.7p
Adjusted (note 1)	8.2p	9.4p	8.7p	7.4p	16.9p	16.8p

#### Notes

- Adjusted earnings per share exclude exceptional items and amortisation of intangibles.
- Interim and prior year earnings per share have been restated for the rights issue.