



## DS SMITH PLC - 2004/05 PRELIMINARY RESULTS

DS Smith Plc (LSE:SMDS), the international packaging manufacturer and office products wholesaler, announces its results for the year ended 30 April 2005.

### **HIGHLIGHTS**

#### **Financial**

- Turnover £1,624.9m (2003/04: £1,488.5m)
- Adjusted<sup>1</sup> profit before tax £76.1m (2003/04 restated<sup>2</sup>: £64.8m; as previously reported: £81.4m)
- Adjusted<sup>1</sup> earnings per share 14.7p (2003/04 restated<sup>2</sup>: 13.6p; as previously reported: 16.9p)
- Free cash inflow before dividends and net acquisitions £55.4m (2003/04: £63.0m)
- Final dividend up 0.2p to 5.8p giving a full year dividend of 8.4p (2003/04: 8.2p)
- Results after exceptional items and amortisation of intangibles: profit before tax £57.1m (2003/04 restated<sup>2</sup>: £61.2m; as previously reported: £77.8m); earnings per share: 10.1p (2003/04 restated<sup>2</sup>: 12.6p; as previously reported: 15.9p)

#### **Operations**

- Results impacted by a weak paper market and c.£16m of higher energy and polymer costs
- Corrugated Packaging:
  - Existing business continued its profit growth
  - Linpac Containers contributed £21.0m to operating profit in first full year's ownership
- Office Products Wholesaling increased profits for the third successive year

<sup>1</sup> before exceptional items and amortisation of intangibles – see note 2 to the accounts

<sup>2</sup> restated for the changes in accounting policy resulting from the adoption of FRS 17 "Retirement benefits" and UITF Abstract 38 "Accounting for ESOP trusts"

Commenting on the results, Chairman, Antony Hichens said:

"Our strategy to enhance earnings through acquisition and organic development enabled the Group to produce a commendable result in a very challenging environment which adversely affected profits in both our Paper and Plastic Packaging businesses. We made progress in Corrugated Packaging, thanks both to an improved result from our existing business and to the substantial contribution from our first full year of ownership of Linpac Containers. The Spicers Office Products Wholesaling business continued to advance, helped by moving into profit in Germany. Given the benefits now accruing from our enlarged Corrugated Packaging business, the improving performance of Spicers and the Group's commitment to generating strong free cash flow, the Board is proposing an increased final dividend.

"As stated in our April trading update, we have begun 2005/06 with energy and other input costs at considerably higher levels than at the start of 2004/05. Since April, future energy costs look like being even higher than previously expected. We anticipate delivering the previously indicated synergies from the integration of Linpac Containers and achieving a further advance at Spicers, but the extent to which these benefits will be offset by additional energy costs is uncertain. We will continue our focus on cost recovery and cash generation."

## **Enquiries**

### **DS Smith Plc**

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Richard Mountain/Robert Gurner

A briefing for analysts and investors will take place today at 9.30am BST at Financial Dynamics, Holborn Gate, 28 Southampton Buildings, London WC2A 1PB. The presentation slides from this briefing will be posted on the Company's website ([www.dssmith.uk.com](http://www.dssmith.uk.com)) at 9.30am and a recording of the briefing will be available on the website within 24 hours of the meeting.

## **CHAIRMAN'S STATEMENT**

In 2004/05, a further weakening in the paper market and sharply higher energy and polymer costs created a very challenging environment, which was reflected in lower profits in both our Paper and Plastic Packaging businesses. Nevertheless, our strategy to enhance earnings through acquisition and organic development enabled the Group to produce a commendable result. We made progress in Corrugated Packaging, thanks both to an improved result from our existing business and to the substantial contribution from our first full year of ownership of Linpac Containers. The Spicers Office Products Wholesaling business continued to advance, helped by moving into profit in Germany.

The Group's adjusted<sup>1</sup> earnings per share were 14.7 pence (2003/04 restated<sup>2</sup>: 13.6 pence). A strong cash flow, before dividends and acquisitions, of £55.4 million (2003/04: £63.0 million) enabled the Group to maintain a healthy balance sheet, benefiting from the new financings put in place in the year. The result includes a significant charge in respect of DS Smith's UK defined benefit pension scheme for the first time for many years and is now reported under the FRS 17 pensions accounting standard. As required in the accounting standard, the 2003/04 result has been restated to include a pension charge in that year. In May 2005, the Group introduced further changes to the pension scheme to mitigate the higher cost of providing pensions. We also increased the cash payments into the scheme from £10 million to £14 million per annum.

We are now well advanced with the integration of Linpac Containers and generating the expected synergies, despite the delay which resulted from the referral of the acquisition to the Competition Commission; the acquisition finally received unconditional clearance in October 2004.

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

<sup>2</sup> restated for the changes in accounting policy resulting from the adoption of FRS 17 "Retirement benefits" and UITF Abstract 38 "Accounting for ESOP trusts"

The Group's financial performance reflects the benefits of the drive over the last three years to raise the profit contribution of our non-Paper activities. This has largely compensated for both the sharp cyclical fall in Paper profits and accounting for the cost of the pension scheme. In Paper and Corrugated Packaging we began to generate considerable benefits from our enlarged position in UK Corrugated Packaging, which materially offset the challenging conditions in UK Paper, while we continued the development of our corrugated packaging business in continental Europe. We further strengthened the UK Paper business by enlarging our recovered paper collection operations and by concluding a major long-term supply agreement with BPB plc for plasterboard liner paper, an important diversification for our paper sales into a growth market. In Office Products, Spicers continued its development in continental Europe; the German business advanced into solid profit, the Spanish operation grew rapidly, and we successfully launched the new Italian business.

Although trading conditions remain difficult, the Group has in recent years taken steps to reduce its reliance on the cyclical Paper business and has demonstrated its commitment to generating strong free cash flow. With the benefits now accruing from the enlarged Corrugated Packaging business and the improving performance of Spicers, the Board is proposing a 0.2 pence increase in the final dividend to 5.8 pence, giving a full year dividend of 8.4 pence (2003/04: 8.2 pence).

## **Outlook**

As stated in our April trading update, we have begun 2005/06 with energy and other input costs at considerably higher levels than at the start of 2004/05. Since April, future energy costs look like being even higher than previously expected. We anticipate delivering the previously indicated synergies from the integration of Linpac Containers and achieving a further advance at Spicers, but the extent to which these benefits will be offset by additional input costs is uncertain. We will continue our focus on cost recovery and cash generation.

Antony Hichens  
Chairman

## **CHIEF EXECUTIVE'S REVIEW**

### **Overview**

At the start of 2004/05, we predicted a difficult year ahead and this proved to be the case. The external trading environment in Paper and Corrugated Packaging remained weak, the Group had to absorb approximately £9 million of increased energy costs and approximately £7 million of higher polymer costs, we faced a Competition Commission inquiry into our acquisition of Linpac Containers, and our results included an £11.7 million net pension charge, the first such charge incurred in many years. I believe the Group has responded well to the challenges, generating satisfactory earnings, particularly at this low point in the paper cycle, and maintaining a strong balance sheet. We had a significant advance in profit in our enlarged Corrugated Packaging business; in addition the Spicers Office Products Wholesaling business increased profits for the third successive year, while further developing its continental European business.

Following the completion of the triennial valuation of our UK defined benefit pension scheme, the Group introduced a number of changes to the scheme to reduce the impact of the increasing cost of pensions. We also raised our payments into the scheme from £10 million to £14 million per annum. The Group's result for 2004/05, which includes a significant charge in respect of the UK pension scheme, is now reported under the FRS 17 pensions accounting standard and the 2003/04 result

has been restated as required by accounting standards; under the previously applied SSAP 24 accounting standard there was no charge. This change aids comparison between financial years and largely anticipates the International Accounting Standard 19 for Pensions which the Group will apply in 2005/06.

## **Financial Results**

Group sales advanced by 9.2% to £1,624.9 million, the full year contribution of Linpac Containers more than offsetting small reductions in some other segments. Adjusted group operating profit was £83.9 million (2003/04 restated: £75.4 million) including a full year's contribution from Linpac Containers of £21.0 million, comprising £14.9 million (2003/04: £1.2 million from six weeks of DS Smith ownership) from its operations and £6.1 million of synergy benefits in DS Smith's existing operations. The Group adjusted return on sales was 5.2% (2003/04 restated: 5.1%) while adjusted return on average capital employed was 9.0% (2003/04 restated: 9.6%). Adjusted profit before tax was £76.1 million (2003/04 restated: £64.8 million). If the £4.5 million of interest paid on the increased debt attributable to the Linpac Containers acquisition is taken into account, the acquisition after synergies contributed a net £16.5 million to adjusted profit before tax. The adjusted profit contribution from Linpac Containers of £21.0 million represents a return on invested capital of 12.3% even before the full synergy benefits have been realised and its contribution to 2004/05 earnings per share was 3.0p.

The cash inflow before, dividends and net acquisitions, was £55.4 million (2003/04: £63.0 million). After net expenditure on acquisitions and dividends, there was a net cash inflow of £12.1 million, which resulted in net borrowings of £260.4 million (2003/04: £274.7 million) after the effect of exchange rate movements. The balance sheet remains strong with gearing at 53.1% (year end 2003/04 restated: 54.9%) and net debt/adjusted EBITDA of 1.7 times (2003/04 restated: 2.0 times). The adoption of the FRS 17 pension accounting standard has resulted in a net pension scheme deficit of £80.3 million being recognised on the balance sheet which accounts for the gearing increasing from the previously reported figure for 2003/04.

The sharp rise in energy costs during the year significantly affected our 2004/05 result, particularly in Paper which incurs approximately three-quarters of the Group's energy and fuel costs. The Group's total costs for gas, electricity and diesel increased from circa £64 million in 2003/04 to circa £73 million in 2004/05, principally due to a 30% year-on-year rise in the UK average price of gas, which was partially hedged; gas accounted for approximately 50% of the 2004/05 total energy and fuel expenditure. The Group has benefited from having hedged its UK electricity until October 2005 but current market prices are substantially higher. Looking forward, the Group expects to incur in 2005/06 a level of increase in energy and fuel costs at least of the scale of that seen in 2004/05 and possibly even greater, depending on energy price developments.

## **Paper and Corrugated Packaging**

In our largest segment, Paper and Corrugated Packaging, which accounted for 55% of Group sales and 62% of adjusted operating profit, demand was slightly stronger than in the previous financial year but pricing remained very competitive throughout the supply chain. Adjusted operating profit was 26% higher than last year as a result of a full year's contribution from Linpac Containers and increased profits from our existing UK Corrugated operations which was partly offset by a further significant fall in profits from Paper.

We achieved a good result from our UK Corrugated Packaging operations, despite the heavy demands placed on management during the five-month-long Competition Commission inquiry into

the Linpac Containers acquisition. After receiving unconditional clearance for the deal from the Commission, we proceeded rapidly with the integration and restructuring. We have already generated substantial synergies and are confident that, by early 2006/07, we will achieve the £14.5 million per annum originally indicated. Our continental European operations also produced a good result, with the Polish business continuing to perform strongly, our Turkish operation reporting a profit after a number of difficult years and our associate in the Ukraine making further good progress.

Although profits in Paper were significantly affected by the pressure on margins from depressed selling prices and higher energy costs, we continued to raise productivity and strengthened the business through a number of strategic moves. We enlarged our important Severnside Recycling recovered paper collection operation through the acquisition of BPB plc's waste collection depots and advanced the development of sales in higher added-value paper products by concluding a long-term agreement to supply plasterboard liner paper to BPB plc, representing an important diversification into a growth market.

### **Plastic Packaging**

Our Plastic Packaging business had a tough year. Sales, which account for 12% of the Group total, were 6% lower than the previous year and adjusted operating profit was 29% lower. The sharp fall in adjusted operating profit was mainly due to the reduced sales and an approximate £3 million under-recovery of the polymer cost increases, this despite securing price increases across our customer base. Sales of industrial returnable transit packaging (RTP) were lower due to a slowdown in new crate contracts, exacerbated by some RTP customers deferring orders owing to the sharp rise in polymer prices. Sales in the liquid packaging and dispensing business were affected by lower demand from the US carbonated soft drinks sector. The combined result of our three smaller speciality businesses was flat year-on-year and, as indicated previously, an exceptional impairment charge of £5.8 million was taken against the goodwill of one of these, a business providing packaging management services.

### **Office Products**

Spicers, our Office Products Wholesaling business, accounted for 31% of total Group sales and 26% of adjusted operating profit. Sales were flat while adjusted operating profit increased by 10%. Spicers' UK and French businesses continued to perform well with the UK having returned to sales growth during the second half of the year. Spicers' development businesses in continental Europe made good progress: Spicers Germany moved into profit; Spicers Spain continued to grow well and reduced its losses; and initial sales in Italy have been encouraging since our launch there in November.

In Office Products Manufacturing, adjusted operating profit fell to break-even, reflecting the continued difficult trading conditions in the envelope market.

### **Strategy**

The strategy we have pursued for the last four years of Improve and Develop remains in place. We have reduced the Group's reliance on the cyclical Paper business and developed and improved our Corrugated Packaging, Plastic Packaging and Office Products Wholesaling activities in order to enhance the quality of earnings. Our aggressive programme to raise operational performance while pursuing opportunities to develop our strong market positions has resulted in a significant rise in the

profit contribution from the Group's non-Paper operations. Adjusted return on average capital employed was 9.0%, primarily reflecting our current poor returns in Paper at this low point in the paper cycle. Although this level of return is in line with our cost of capital, we are making determined efforts to improve it, concentrating particularly on raising returns in Packaging. We are continuing our programme to reduce costs and raise operational performance while concentrating capital in areas offering good profit opportunity. We will maintain investment in our key assets; capital expenditure projects in 2005/06 will include completion of the new green-field corrugated packaging plant in Poland and upgrading paper manufacturing at our Kemsley and Wansbrough mills to underpin the supply of plasterboard liner paper to BPB plc.

In Paper and Corrugated Packaging our focus in the UK is on realising the remaining synergies from the Linpac Containers acquisition and improving the return from our substantial integrated position. This will be through cost reduction and growing the sales of differentiated products. In continental Europe we will seek development opportunities arising from any further consolidation in the industry and in the higher growth markets of eastern Europe.

In Plastic Packaging, the priority is to improve significantly the profitability of our two strategic businesses. In liquid packaging and dispensing this will be through increasing cost competitiveness in the mature end-use sectors, such as wine and carbonated soft drinks, while concentrating development resource in faster-growing end-use sectors such as dairy products and fruit juice. In industrial RTP, profit growth will be through maintaining our strong existing market positions while following our customers into new geographic markets.

Spicers is already producing high levels of return on its capital employed but we believe it has potential for further profit improvement. Our medium term goal is to see the Spicers' business model profitably established in the major markets of western Europe. In our established markets of the UK, Ireland and France, the key objective is to generate profitable sales growth; our goal in Germany is to build profits further; we expect the Spanish business to be in profit in 2005/06 while we shall be driving sales in our new Italian operation.

## **Our People**

I would like to thank all our employees worldwide for their considerable efforts over the last year. As I travel around the Group, I am continually impressed with the skills of our people and their contribution to raising our performance. I particularly wish to acknowledge the support and commitment that our new colleagues from Linpac Containers maintained through the uncertain period of the Competition Commission hearing.

## **Prospects**

The considerable operational and strategic progress made over recent years provides a sound base from which to tackle the current tough trading environment and the uncertainty as to the future level of increase in energy costs. We have opportunities for improvement and we will be pursuing these hard in 2005/06.

Tony Thorne  
Group Chief Executive

## FINANCIAL REVIEW

The major drivers of the 2004/05 results were a full year's contribution from Linpac Containers, significant energy and polymer cost increases and the adoption of FRS 17 "Retirement benefits" for pensions accounting, the effects of which are explained in detail below. The 2003/04 figures have been restated for the effects of changes in accounting policy, as required by the accounting standard.

### Group Profit and Loss Account

Turnover for the financial year ended 30 April 2005 increased by 9.2% over the prior year; it was 7.4% higher in the first half of the year and 10.9% higher in the second half compared to the same periods in 2003/04. Excluding the net increase in turnover from Linpac Containers and the effect of movements in foreign exchange rates, turnover was up 0.8% on 2003/04 (down 1.2% in the first half of the year and up 2.7% in the second half).

Adjusted group operating profit, which includes an operating pension charge of £12.8 million (2003/04 restated: £13.4 million), increased by 11.3%, from £75.4 million in 2003/04 (as restated) to £83.9 million in 2004/05. The adjusted return on sales grew from 5.1% in 2003/04 (as restated) to 5.2% in 2004/05. The adjusted return on capital employed (which is defined as the period's annualised adjusted operating profit divided by the average month-end capital employed over the period) decreased from 9.6% (as restated) to 9.0%.

The Group's 2004/05 adjusted total operating profit included £4.1 million as the Group's share of associated undertakings' adjusted operating profit, up £1.1 million from last year. This increase related mainly to the inclusion of profit from Tri-Wall KK, the Group's 33.3% owned Japanese packaging company (a previous impairment against this business was also released as an exceptional item, as described below). The Group's share of operating profit from OJSC Rubezhansk, the Group's 39% owned paper and packaging company in the Ukraine, was slightly ahead of last year.

Net interest expense rose from £10.4 million in 2003/04 to £13.0 million in 2004/05. The Group benefited from lower average interest rates as a result of increasing the proportion of borrowings in euros, but the total interest charge was higher as a result of the interest on the additional borrowings used to finance part of the Linpac Containers acquisition in March 2004. Other finance income of £1.1 million (2003/04 restated: other finance expense of £3.2 million) is included in accordance with FRS 17 and is explained in detail in the pensions accounting section below. Adjusted profit before tax was £76.1 million (2003/04 restated: £64.8 million). Group adjusted interest cover, excluding other finance income, was 6.8 times (2003/04 restated: 7.5 times).

The Group's net exceptional charges against profit before tax of £9.6 million (£8.2 million after tax) (2003/04: £nil), comprise: exceptional restructuring costs of £4.9 million related to the integration of Linpac Containers; a provision of £5.8 million for an impairment against the goodwill related to a small business in Plastic Packaging; and the release of a previous impairment against the investment in Tri-Wall KK of £1.1 million. Total operating profit after exceptional items and amortisation of intangibles fell from £74.8 million in 2003/04 (as restated) to £69.0 million in 2004/05. Profit before tax after exceptional items and the amortisation of intangibles was £57.1 million (2003/04 restated: £61.2 million).

The Group's effective tax rate, excluding exceptional items and the amortisation of intangibles, at 25.0%, was 1.2% below last year's rate of 26.2%. The rate benefited from a prior year credit of £4.4 million following the agreement of certain matters with overseas tax authorities. The effective tax rate is expected to return to a rate closer to the UK statutory rate in the coming year.

Adjusted earnings per share (before exceptional items and amortisation of intangibles) increased from 13.6p in 2003/04 (as restated) to 14.7p in 2004/05, reflecting the higher profit before tax and the lower effective tax rate. The proposed final dividend is 5.8p, an increase of 0.2p or 3.6% on the final dividend last year. The total dividend for the year is 8.4p (2003/04: 8.2p). Dividend cover before exceptional items and amortisation of intangibles rose from 1.5 times in 2003/04 (as restated) to 1.7 times in 2004/05.

## **Cash Flow**

Cash flow from operating activities was £139.3 million, up £7.5 million from last year, reflecting higher operating profit. The Group made payments of £10.0 million into the UK Group Pension scheme in both years (which form part of cash flow from operating activities) and has announced its agreement with the Trustees of the UK Group pension scheme to increase its contributions to £14.0 million in subsequent years. Purchase of fixed assets was £53.6 million, £14.6 million below depreciation, and included the first expenditure on the development of a corrugated box plant on a green-field site in Poland.

Tax payments were £23.7 million, approximately the same as the current tax charge for the year but higher than last year's payments of £17.9 million as a result of reversing deferred tax timing differences, mainly arising from reduced capital expenditures.

Free cash flow (before dividends and net acquisitions) was £55.4 million (2003/04: £63.0 million). Cash dividend cover, defined as free cash flow divided by dividends paid/declared for the year, was 1.7 times, down from 2.1 times in 2003/04, reflecting higher interest costs and cash tax payments in 2004/05.

The net cash outflow on acquisitions and disposals related mainly to the acquisition of BPB Recycling for £9.4 million during the period. The amount in 2003/04 was primarily the consideration and costs, net of acquired cash, for the acquisition of Linpac Containers of £166.8 million.

## **Financial Position**

Shareholders' funds totalled £482.3 million at 30 April 2005, down from £494.4 million at 30 April 2004, as restated. Shareholders' funds have been decreased by a total of £80.3 million at 30 April 2005 (2003/04 restated £54.7 million) through the inclusion of the after-tax FRS 17 pension liability. Net assets per share were 126p (2003/04 restated: 129p), or 147p (2003/04: 143p) if the FRS 17 pension scheme liability is added back.

The Group's closing net borrowings were £260.4 million, £14.3 million lower than at the end of last year. In August 2004, the bank borrowings repayable by September 2005 used to part finance the acquisition of Linpac Containers were refinanced from the proceeds of a private placement, due in 2014 and 2016, of US\$200 million. In addition, the Group's previous £325 million revolving credit facilities were replaced in April 2005 by a syndicated revolving credit facility of £250 million which expires in 2010; these re-financings have extended the weighted average maturity of the Group's borrowings to 6.9 years and reduced their cost.

Gearing was 53.1% (2003/04 restated: 54.9%; as previously reported: 48.9%). The increase in gearing relative to the previously reported figure is due to the inclusion of the net pension scheme liability. Adjusted interest cover was 6.8 times, compared with 7.5 times last year (as restated), the

lower cover reflecting the additional interest arising on the borrowings used to part finance the purchase of Linpac Containers in March 2004. The ratio of net debt to EBITDA (before exceptional items) was 1.7 times (2003/04 restated: 2.0 times).

### **International Financial Reporting Standards (IFRS)**

The Group's project to implement the transition from reporting under UK GAAP to IFRS is largely complete. As the Group has adopted FRS 17 for pension accounting in 2004/05 and, with it, has anticipated its pensions accounting under IFRS (as FRS 17 is consistent with the Group's planned adoption of IAS 19, which governs pensions accounting under IFRS), it is expected that the transition to IFRS will not otherwise have a significant effect on the profit and loss account or shareholders' funds in the future. A reconciliation of the UK GAAP 2004/05 results to IFRS will be provided in the autumn in advance of announcing the Group's Interim Results.

### **Pensions Accounting – Adoption of FRS 17**

DS Smith previously reported under the SSAP 24 pensions accounting standard. Following the 2004 triennial valuation of the UK defined benefit pension scheme and in anticipation of the introduction of IFRS for 2005/06, the Group has adopted FRS 17 "Retirement benefits" for financial year 2004/05. This change has had a profound effect on the Group's reported results.

Under FRS 17 a charge of £12.8 million (2003/04 restated: £13.4 million) has been made against operating profit for the 'service cost' that results from employees accruing additional pension during the year. This charge should remain relatively stable over time.

FRS 17 also requires the inclusion in the profit and loss account, beneath operating profit, of the net return on the scheme's own assets and liabilities as 'other finance income or expense'. This item is the difference between the expected return on a scheme's assets and the interest cost on the liabilities and can be volatile, since it is affected by external factors such as expected asset returns and interest rates, and whether there is a surplus or deficit in the scheme. In 2004/05, the Group recorded net other finance income of £1.1 million, whereas in 2003/04 there was net other finance expense of £3.2 million; the year-on-year difference of £4.3 million was principally due to a lower opening scheme deficit and higher investment returns in 2004/05.

Finally, under FRS 17 the Group is required to recognise the after-tax deficit of its pension scheme in the balance sheet as a reduction in net assets. This results in greater balance sheet volatility: the after-tax deficit was £80.3 million at 30 April 2005, £54.7 million at 30 April 2004 and £93.8 million at 30 April 2003. The funding position of the scheme, being the difference between the scheme's assets and liabilities, is reflected in the deficit, and is sensitive to stock market conditions and actuarial assumptions. The value of the scheme's assets depends primarily on the level of stock markets and investment returns. The amount of the liabilities depends on a number of actuarial assumptions, including discount and inflation rates, future salary and pension increases and mortality. The presence of a pension scheme liability or asset on the balance sheet brings greater volatility to the Group's gearing and net assets per share.

### **OPERATING REVIEW**

In anticipation of the UK legislation requiring changes to the content of companies' Operating and Financial Reviews to be published from April 2006 onwards, we have increased the detail provided on our markets in this review.

## Paper and Corrugated Packaging

	2005	2004 restated <sup>2</sup>
Turnover	£896.9m	£748.9m
Adjusted <sup>1</sup> operating profit	£52.3m	£41.4m
Adjusted <sup>1</sup> return on sales	5.8%	5.5%
Adjusted <sup>1</sup> return on average capital employed	7.9%	8.0%

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

<sup>2</sup> restated for the changes in accounting policy resulting from the adoption of FRS 17 “Retirement benefits” and UITF Abstract 38 “Accounting for ESOP trusts”; the 2004 adjusted operating profit reported previously under the SSAP 24 accounting standard was £50.5 million

The adjusted operating profit of £52.3 million (2003/04 restated: £41.4 million), which includes a pension charge of £9.1 million (2003/04 restated: £9.1 million), advanced due to a strong performance from the existing Corrugated Packaging operations, a full year £14.9 million contribution (2003/04: £1.2 million from six weeks of DS Smith ownership) from Linpac Containers and synergy benefits of £6.1 million, which, combined, more than offset a significant reduction in profits from Paper.

### *Market Overview*

The European market for corrugated packaging is estimated to be approximately €17 billion, equivalent to 20 million tonnes or 38 billion square metres<sup>3</sup>. Within this, the UK market is estimated to be approximately 10% of the total European market. Demand for corrugated packaging is principally influenced by overall economic activity and manufacturing output.

In the calendar year 2004, the European market by weight for corrugated board grew by 2.2%, compared with 1.3% in 2003<sup>4</sup>. In western Europe the market grew by 1.1% (2003: 0.3%) while growth in eastern and central Europe continued to be much stronger at 12.8% (2003: 10.9%). In DS Smith’s principal markets, demand fell slightly in the UK and France, by 0.1% and 0.4%, respectively, while Italy was 1.2% ahead and Poland and Turkey grew strongly by 16.6% and 14.2%, respectively. The ongoing trend towards the use of lighter-weight packaging for cost and environmental reasons, resulted in demand, when measured by area, being up 1.7% in the UK and up 1.6% in western Europe as a whole. The market softened as 2004 progressed and has subsequently weakened further in the early months of 2005; offtake in all the leading western European countries is reported to be down year-on-year in the first quarter of calendar year 2005.

Within the total European market, the growth rates of different segments vary considerably. Corrugated packaging usage in some industrial manufacturing sectors of western Europe has tended to decline as a result of the transfer of manufacturing to lower cost countries, while usage for fast-moving consumer goods, which accounts for at least 55% of the corrugated market, has been relatively strong due to the continuing growth of this economic sector. Other current growth segments are the home delivery of products from internet purchases, and shelf-ready packaging which can be used as both transit and display packaging. Supply of corrugated board and boxes is generally relatively local to the point of production due to moderately high transport costs for a low density product and the service requirements of customers.

Downward pressure on selling prices is an ongoing feature of the corrugated packaging market due to the purchasing power of retailers and direct customers. In addition, pricing and margins in corrugated packaging are strongly influenced by pricing developments on CCM, the paper used as

<sup>3</sup> Source: European Federation of Corrugated Board Manufacturers/DS Smith

<sup>4</sup> Source: European Federation of Corrugated Board Manufacturers

the principal component in manufacturing corrugated packaging, which typically accounts for approximately 50% of the cost of a box.

Within the total estimated European market for CCM of circa 20 million tonnes, approximately 75% is recycled paper. European CCM producers sell their product throughout Europe, so demand and pricing for CCM is heavily influenced by demand for corrugated packaging and the CCM supply position in Europe as a whole. During 2003 and 2004, low growth in corrugated packaging and some excess CCM manufacturing capacity resulted in CCM prices being depressed. This situation has been exacerbated in early 2005 by the commissioning of four new continental European CCM machines, with an aggregate capacity of approximately 1.2 million tonnes. Although this new capacity, which is concentrated on lighter-weight papers, has been partly offset by the removal of an estimated 0.6 million tonnes of older capacity since the start of 2004, it has resulted in a continued destabilisation of selling prices throughout the European market. In the next two years, the level of capacity additions is expected to be much lower than in the last two years. However, the outlook for CCM prices in the coming year will depend upon future market growth across Europe and the extent to which uneconomic capacity is rationalised further.

The squeeze on paper producers' margins from depressed selling prices has been exacerbated by increased energy costs and by the relatively high 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 secular increase and short-term fluctuations in the price of recovered paper in Europe. In the UK, the net cost of our raw material is also affected by the price of Packaging Recovery Notes (PRNs), which are issued as evidence that packaging has been reprocessed in compliance with the UK Packaging Waste Regulations and for which we receive revenue to set against the cost of recovered paper. The price of paper PRNs remained relatively low during 2004 but has firmed in calendar year 2005 to date.

#### ***2004/05 Performance – UK***

In the UK, the Group benefited from a substantial increase in contribution from Corrugated Packaging, which more than offset the reduced contribution from Paper.

DS Smith Packaging, our UK Corrugated Packaging business, produced a good result despite flat demand, due to higher profits from DS Smith's existing operations, the £14.9 million (2003/04: £1.2 million) first full year's profit contribution from the former Linpac Containers business and £6.1 million of initial synergy benefits from the integration of the two businesses. Prices were increased early in the financial year to recover some of the higher input costs but market pressure resulted in some erosion in the second half of the financial year.

Our drive to raise efficiency lifted profitability across our conventional corrugated network. Our speciality and heavy duty segments, which concentrate on higher added-value products, advanced further, particularly due to better returns from several plants in which we have invested recently. Our sheet feeding operations, which supply corrugated sheet board, benefited from raised service levels in a market which continued to be highly competitive and affected by industry over-supply.

The referral of the Linpac Containers acquisition to the Competition Commission meant that we could not begin the process of generating the expected synergies until the second half of the financial year. Following the Commission's conclusion in October 2004 that the acquisition would not lead to a substantial lessening of competition in the market, we rapidly began implementation of an extensive integration programme. The headquarters were merged, two factories were closed with a high proportion of the business being successfully transferred to other plants, and two plants are now being operated in tandem, thereby reducing costs. A new, combined raw materials procurement function is producing the envisaged benefits in paper sourcing. Despite the delay in

beginning the integration process, we are confident of generating the expected pre-tax synergies of £14.5 million per annum, identified at the time of the acquisition; £6.1 million has been achieved to date and we anticipate generating at least 75% of the £14.5 million in 2005/06, with the balance being generated in 2006/07. Exceptional restructuring charges of £4.9 million were incurred in 2004/05 with a cash cost of approximately £2.5 million.

At our UK paper business, St Regis, profits were again significantly lower than in the previous year due to continuing depressed prices for our main product, CCM, and margins were squeezed further by substantial increases in gas costs and the relatively high cost of our raw material, recovered paper. The impact of these external factors was partly mitigated by improvements in productivity and output volume, favourable sales mix, and improved raw material and energy usage. The Kemsley paper mill, which accounts for over 50% of St Regis's paper production, achieved another year of record total output and production per employee, due to its ongoing programme of process optimisation. Wansbrough and Hollins mills increased their output through increased efficiency and operating rates respectively; both mills benefited from an improved sales mix as a result of the Linpac Containers acquisition.

In March 2005 we made a major advance in our drive to increase sales of higher added-value product by entering into a long-term agreement with BPB plc for the supply of plasterboard liner paper. St Regis has been developing its sales of this product in recent years and, under this agreement, will raise sales to BPB plc to 100,000 tonnes per annum. In order to satisfy this supply agreement, St Regis will undertake a £30 million capital expenditure programme to upgrade existing machines at its Kemsley and Wansbrough mills over the next two years. This programme will also enhance the quality of St Regis' CCM and coreboard, used for manufacturing tubes.

St Regis raised its CCM prices in March 2005, seeking to recover part of the gas and recovered paper cost increases, but this had no significant effect on the 2004/05 result. The extent to which this will benefit the Group's overall result in 2005/06 depends upon developments in prices throughout the corrugated packaging supply chain during the year; currently paper pricing across Europe remains weak.

The results of St Regis' subsidiary, Severnside Recycling, were affected by increased competition for recovered paper with strong export demand leading to Severnside having to pay a higher price to source its recovered paper. It further enlarged its recovered paper collection operations with the acquisition, in August 2004, of the five collection depots of BPB Recycling; this substantially increased Severnside's ability to meet St Regis' recovered paper requirement from its own collection infrastructure. Severnside also increased its trading in recycled materials and grew its business in managing customers' entire waste recycling and disposal needs through facilities management.

#### ***2004/05 Performance – Continental Europe***

Our continental European division, DS Smith Kaysersberg, performed well and reported a small increase in profits despite difficult conditions in many of its markets; it benefited from strong progress in the Polish and Turkish businesses.

The French paper mills, which principally manufacture solid board, increased their productivity and sales volume following an investment programme, but margins were squeezed, despite improved productivity, by weak market conditions, lower selling prices and higher energy costs. Results at the French Corrugated Packaging operations were lower due to a decline in the French market and intense price pressure from customers. In Italy, we increased sales volume and market share in a difficult market, assisted by good productivity levels from our well-invested factories. However, profits were affected by lower selling prices due to competitor activity.

Output and profits at the Polish business advanced strongly, in line with our plan to build sales at our existing factory ahead of the opening of our new green-field factory at Kutno, west of Warsaw, in autumn 2005. In Turkey, our programme of action over the last two years to raise operational performance and increase market share, enabled the business to record a further increase in sales and to move into profit for the year. Our associate operation in the Ukraine, OJSC Rubezhansk Paper and Packaging Mill, continued to perform well, benefiting from the recent major programme of investment.

## Plastic Packaging

	<b>2005</b>	<b>2004 restated<sup>2</sup></b>
Turnover	£195.9m	£208.7m
Adjusted <sup>1</sup> operating profit	£9.9m	£14.0m
Adjusted <sup>1</sup> return on sales	5.1%	6.7%
Adjusted <sup>1</sup> return on average capital employed	7.1%	10.0%

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

<sup>2</sup> restated for the changes in accounting policy resulting from the adoption of FRS 17 “Retirement benefits” and UITF Abstract 38 “Accounting for ESOP trusts”; the 2004 adjusted operating profit reported previously under the SSAP 24 accounting standard was £15.2 million

DS Smith Plastics’ adjusted operating profit of £9.9 million (2003/04 restated: £14.0 million), which included a pension charge of £1.0 million (2003/04: £1.2 million), was adversely affected by lower sales, particularly in RTP, and in the second half of the financial year by the under-recovery of polymer costs following their sharp rise.

### *Market Overview*

The bag-in-box market worldwide is estimated to be worth over \$500 million and has been growing at over 5% per annum by volume<sup>5</sup>. The principal uses of bag-in-box packaging are for wine and carbonated soft drink concentrate but there is growing usage in other sectors such as the dairy industry, edible oils, fruit juices and chemicals. In the USA, where usage is principally in the carbonated soft drink concentrate industry, the market is estimated to be static in volume while in Europe, where usage is primarily in the wine industry, the market is estimated to be growing at over 10% per annum by volume. Prices in both the USA and Europe are under increasing pressure as the market matures. Usage is at an early stage of development and growing rapidly in Asia. The market for taps, other than for bag-in-box systems, is fragmented across a wide range of uses; a major sector supplied by DS Smith, principally in the USA, is liquid detergent, which is estimated to be growing strongly.

The European market for RTP is fragmented into many sub-sectors but has in total grown steadily in recent years, due to the increased requirement for multi-trip, reusable packaging on cost and environmental grounds for some uses. This market is heavily influenced by industry sector activity levels and, as RTP is often a capital purchase driven by particular projects, annual demand can be of an uneven nature.

### *2004/05 Performance*

In liquid packaging and dispensing, the bag-in box business was affected by lower demand from the US carbonated soft drinks sector, increased competitor activity in the European wine market and a

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<sup>5</sup> DS Smith estimates

change in mix towards lower value-added bags. The tap business produced an improved result, following action in 2003/04 to reduce costs and strengthen sales and product development.

The RTP business was affected by a slowdown in new crate contracts, principally from the brewing industry, after especially strong demand in 2003/04. Margins in the extruded sheet sector were additionally squeezed due to industry capacity increases at a time of weaker demand and increased sourcing of packaging from eastern Europe as some customers move their operations to that region.

The division's overall result was adversely affected in the second half of the year by the sharp rise in polymer prices which ended the financial year some 35-40% higher than at the start of 2004/05 for our main polymer types. Although we raised our selling prices several times during the year it was not always possible to recover these cost increases in full. The cumulative effect of this input cost under-recovery was approximately £3 million, largely concentrated in the RTP business. The high polymer prices also resulted in reduced sales in sectors of the market such as crates and pallets, as some customers deferred orders in the expectation that polymer prices would not remain at such high levels.

The combined result of the three smaller speciality businesses was flat year-on-year, and in one of these, which provides packaging management services and was acquired in 1998, the Group took an exceptional impairment charge in 2004/05 of £5.8 million against its goodwill; this business is trading at around breakeven and generating cash.

## Office Products Wholesaling

	2005	2004 restated <sup>2</sup>
Turnover	£499.7m	£498.8m
Adjusted <sup>1</sup> operating profit	£21.7m	£19.7m
Adjusted <sup>1</sup> return on sales	4.3%	3.9%
Adjusted <sup>1</sup> return on average capital employed	18.3%	16.7%

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

<sup>2</sup> restated for the changes in accounting policy resulting from the adoption of FRS 17 "Retirement benefits" and UITF Abstract 38 "Accounting for ESOP trusts"; the 2004 adjusted operating profit reported previously under the SSAP 24 accounting standard was £21.7 million

The adjusted operating profit of £21.7 million (2003/04 restated: £19.7 million), which included a pension charge of £1.7 million (2003/04: £2.0 million), advanced principally due to the German business moving into profit, which more than offset the increased costs of the newly-launched Italian business.

## Market Overview

Spicers' principal office products wholesaling markets of the UK, France and Germany are estimated to be worth approximately €9.0 billion, €7.7 billion and €1.1 billion, respectively, and in 2004 were estimated to have declined by at least 2%, with the traditional stationery sector declining at a higher rate than this, and electronic office supplies (EOS) growing at up to 10% per annum<sup>6</sup>. There was growing evidence during 2004/05 of rising market volumes but prices remained under pressure. EOS, which now accounts for 40-50% of the total office products market, is particularly price competitive and margins on the highest volume EOS products continue to be eroded. The value of the overall market is also being eroded by the trend for consumers to buy lower specification or own-branded products.

<sup>6</sup> DS Smith estimates based on national data

### **2004/05 Performance**

Spicers' met its key objectives for the year: Spicers Germany moved into profit; sales in the UK grew; the Italian business was successfully launched; the Spanish business made progress towards profitability. The good result for the year was assisted by total costs being held constant despite the increased costs required to establish the Italian business.

In the UK, turnover grew slightly in the second quarter of the financial year, being the first quarter in which growth had been recorded for over three years; this trend was maintained through to the financial year-end, despite some renewed softening of the market in the final quarter. Good service levels were maintained and a sound financial performance was achieved due to further cost reduction and productivity improvements. Profits in Ireland were significantly affected by reduced sales and price pressure in an especially weak market; costs were reduced and sales improved towards the end of the financial year.

The French business continued to perform well and gained market share in a challenging market environment by supporting its customers with service at a record high level. Spicers Germany achieved a profit for the year, helped by exiting unprofitable business and reducing costs, while growing sales with independent dealers. The Spanish business continued to grow sales strongly and reduced its losses; in addition to growing in the Barcelona area adjacent to its distribution centre, it has begun to develop the market in the Madrid area. Spicers Italy was launched in November 2004; initial catalogue sales were strong and product sales to date have been encouraging.

### **Office Products Manufacturing**

	<b>2005</b>	<b>2004 restated<sup>2</sup></b>
Turnover	£46.8m	£48.0m
Adjusted <sup>1</sup> operating profit	£nil	£0.3m
Adjusted <sup>1</sup> return on sales	-	0.6%
Adjusted <sup>1</sup> return on average capital employed	-	2.2%

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

<sup>2</sup> restated for the changes in accounting policy resulting from the adoption of the FRS 17 "Retirement benefits" and UITF Abstract 38 "Accounting for ESOP trusts"; the 2004 adjusted operating profit reported previously under the SSAP 24 accounting standard was £1.4 million

The adjusted breakeven result (2003/04 restated: £0.3 million), which included a pension charge of £1.0 million (2003/04: £1.1million), was lower due to substantial European industry over-supply in envelopes and the trend towards own-label product. Strengthened merchandising and new products assisted increased sales of branded books; costs have been reduced further across the business. John Dickinson's leading brands, product range developments and productivity initiatives provide a good base for improvement.

## Group Profit and Loss Account

For the year ended 30 April 2005

	Note	2005			2004		
		Before exceptional items and amortisation of intangibles £m	Exceptional items and amortisation of intangibles (note 2) £m	Total £m	Before amortisation of intangibles (restated) £m	Amortisation of intangibles (note 2) £m	Total (restated) £m
<b>Turnover</b>	1	1,624.9	-	1,624.9	1,488.5	-	1,488.5
<b>Group operating profit</b>	1	<b>83.9</b>	<b>(20.5)</b>	<b>63.4</b>	<b>75.4</b>	<b>(4.0)</b>	<b>71.4</b>
Share of operating profits of associated undertakings		4.1	1.5	5.6	3.0	0.4	3.4
<b>Total operating profit</b>		<b>88.0</b>	<b>(19.0)</b>	<b>69.0</b>	<b>78.4</b>	<b>(3.6)</b>	<b>74.8</b>
Net interest payable and other similar items		(13.0)	-	(13.0)	(10.4)	-	(10.4)
Other finance income/(expense)		1.1	-	1.1	(3.2)	-	(3.2)
<b>Profit on ordinary activities before taxation</b>		<b>76.1</b>	<b>(19.0)</b>	<b>57.1</b>	<b>64.8</b>	<b>(3.6)</b>	<b>61.2</b>
Tax on profit on ordinary activities		(19.0)	1.4	(17.6)	(17.0)	-	(17.0)
<b>Profit on ordinary activities after taxation</b>		<b>57.1</b>	<b>(17.6)</b>	<b>39.5</b>	<b>47.8</b>	<b>(3.6)</b>	<b>44.2</b>
Minority interests – equity		(0.6)	-	(0.6)	(0.6)	-	(0.6)
<b>Profit for the financial year</b>		<b>56.5</b>	<b>(17.6)</b>	<b>38.9</b>	<b>47.2</b>	<b>(3.6)</b>	<b>43.6</b>
Dividends paid and proposed		(32.3)	-	(32.3)	(30.6)	-	(30.6)
<b>Retained profit for the financial year</b>		<b>24.2</b>	<b>(17.6)</b>	<b>6.6</b>	<b>16.6</b>	<b>(3.6)</b>	<b>13.0</b>
<b>Earnings per share:</b>	3						
Basic				10.1p			12.6p
Diluted				10.0p			12.5p
Adjusted		14.7p			13.6p		
<b>Dividends per share</b>	4			<b>8.4p</b>			<b>8.2p</b>

Notes:

- The Group's results shown above are derived from continuing operations.
- The difference between the reported and historical cost profits for each of the years reported above is not material.
- The 2004/05 exceptional items relate to: restructuring costs of £4.9m related to integrating the operations of Linpac Containers; a £5.8m charge for an impairment against goodwill in a small business in Plastic Packaging; and a credit of £1.1m for the reversal of previous impairment of an associate. Amortisation of intangibles was £9.4m. See also Note 2.
- The results for 2003/04 have been restated for the changes in accounting policy resulting from the adoption of FRS 17 'Retirement benefits' and UTIF Abstract 38 'Accounting for ESOP trusts'.
- The Annual Report and statements for the year ended 30 April 2005 will be posted to shareholders in July 2005.
- Subject to approval of shareholders at the Annual General Meeting to be held on 7 September 2005, the final dividend of 5.8p will be paid on 20th September 2005 to ordinary shareholders on the register on 19th August 2005.
- The 2004/05 and 2003/04 results in this preliminary statement are not the Group's statutory accounts for these years. The 2004/05 and 2003/04 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 2003/04 statutory accounts have been filed with the Registrar of Companies.

## Group Statement of Total Recognised Gains and Losses

For the year ended 30 April 2005

	2005	2004 (restated)
	£m	£m
Profit for the financial year	38.9	43.6
Exchange differences on foreign currency net investments	(0.3)	(7.7)
Actuarial (losses)/gains recognised in the pension scheme	(31.2)	62.5
Movement on deferred tax relating to actuarial (losses)/gains	9.5	(18.8)
<b>Total recognised gains and losses relating to the financial year</b>	<u>16.9</u>	<u>79.6</u>
Prior year adjustments	(67.6)	
<b>Total recognised gains and losses since last annual report</b>	<u>(50.7)</u>	

## Group Reconciliation of Movements in Shareholders' Funds

For the year ended 30 April 2005

	2005	2004 (restated)
	£m	£m
<b>Opening shareholders' funds:</b>		
As previously stated	562.0	472.9
Prior year adjustments	(67.6)	(99.0)
<b>Opening shareholders' funds as restated</b>	<u>494.4</u>	<u>373.9</u>
Profit for the financial year	38.9	43.6
Dividends	(32.3)	(30.6)
Retained profit for the financial year	6.6	13.0
Exchange differences on foreign currency net investments	(0.3)	(7.7)
Actuarial (losses)/gains recognised in the pension scheme	(31.2)	62.5
Movement on deferred tax relating to actuarial (losses)/gains	9.5	(18.8)
New share capital issued under optional schemes	2.6	1.8
Proceeds from rights issue (net of issue costs of £1.9m)	-	70.4
Transfer of share-based payment obligation	2.6	-
Net purchase of own shares	(1.9)	(0.7)
(Decrease)/increase in shareholders' funds	<u>(12.1)</u>	<u>120.5</u>
<b>Closing shareholders' funds</b>	<u><b>482.3</b></u>	<u><b>494.4</b></u>

## Group Balance Sheet

		30 April 2005	30 April 2004 (restated)
	Note	£m	£m
<b>Fixed assets</b>			
Intangible assets		173.7	185.6
Tangible assets		560.4	568.5
Investments		28.9	28.6
		<u>763.0</u>	<u>782.7</u>
<b>Current assets</b>			
Stocks		164.0	154.9
Debtors: amounts falling due within one year		356.8	345.1
Debtors: amounts falling due after more than one year		1.0	1.4
Short-term investments	5	28.4	20.8
Cash at bank and in hand	5	30.4	40.8
		<u>580.6</u>	<u>563.0</u>
<b>Creditors: amounts falling due within one year</b>			
Trade and other creditors		(370.9)	(361.5)
Borrowings	5	(25.1)	(39.7)
<b>Net current assets</b>		<u>184.6</u>	<u>161.8</u>
<b>Total assets less current liabilities</b>		<b>947.6</b>	<b>944.5</b>
<b>Creditors: amounts falling due after more than one year</b>			
Borrowings	5	(294.1)	(296.6)
Other		(2.4)	(2.4)
Provisions for liabilities and charges		(80.7)	(90.6)
		<u>(377.2)</u>	<u>(399.6)</u>
<b>Net assets excluding pension liability</b>		<b>570.4</b>	<b>554.9</b>
Net pension liability		(80.3)	(54.7)
<b>Net assets including pension liability</b>		<u>490.1</u>	<u>500.2</u>
<b>Capital and reserves</b>			
Called up share capital		38.9	38.7
Share premium account		257.0	254.6
Revaluation reserve		7.9	8.5
Profit and loss account		178.5	192.6
		<u>482.3</u>	<u>494.4</u>
<b>Shareholders' funds – equity</b>		<b>482.3</b>	<b>494.4</b>
Minority interests – equity		7.8	5.8
		<u>490.1</u>	<u>500.2</u>

## Group Cash Flow Statement

For the year ended 30 April 2005

	Note	2005 £m	2005 £m	2004 (restated) £m	2004 (restated) £m
<b>Net cash inflow from operating activities</b>	<b>6(a)</b>		<b>139.3</b>		<b>131.8</b>
<b>Returns on investments and servicing of finance</b>					
Net interest paid		(13.1)		(9.8)	
Interest element of finance leases		(0.2)		(0.2)	
<b>Net cash outflow from returns on investments and servicing of finance</b>			<b>(13.3)</b>		<b>(10.0)</b>
<b>Taxation</b>			<b>(23.7)</b>		<b>(17.9)</b>
<b>Capital expenditure and financial investment</b>					
Purchase of tangible fixed assets		(53.6)		(51.7)	
Sale of tangible fixed assets		5.2		9.1	
Sale of fixed asset investments		1.5		1.7	
<b>Net cash outflow from capital expenditure and financial investment</b>			<b>(46.9)</b>		<b>(40.9)</b>
<b>Acquisitions and disposals</b>					
Purchase of subsidiary undertakings		(11.7)		(182.2)	
Net cash acquired		-		9.0	
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	
<b>Net cash outflow from acquisitions and disposals</b>			<b>(11.7)</b>		<b>(181.6)</b>
<b>Equity dividends paid</b>			<b>(31.6)</b>		<b>(28.2)</b>
<b>Net cash inflow/(outflow) before use of liquid resources and financing</b>	<b>6(b)</b>		<b>12.1</b>		<b>(146.8)</b>
<b>Management of liquid resources</b>	<b>6(c)</b>		<b>(6.9)</b>		<b>4.3</b>
<b>Financing</b>					
Issue of ordinary shares		2.6		74.1	
Purchase of holding company shares		(2.1)		(1.0)	
Rights issue costs		-		(1.9)	
(Decrease)/increase in debt and lease financing		(4.6)		96.3	
<b>Net cash (outflow)/inflow from financing</b>			<b>(4.1)</b>		<b>167.5</b>
<b>Increase in cash in the year</b>			<b>1.1</b>		<b>25.0</b>
<b>Reconciliation of Net Cash Flow to Movement in Net Debt</b>					
Increase in cash in the financial year			1.1		25.0
Decrease/(increase) in debt and lease financing			4.6		(96.3)
Increase/(decrease) in liquid resources			6.9		(4.3)
Decrease/(increase) in net debt resulting from cash flow			12.6		(75.6)
Loans and finance leases acquired with subsidiary undertakings			-		(0.5)
Exchange differences			1.7		3.7
<b>Decrease/(increase) in net debt in the financial year</b>			<b>14.3</b>		<b>(72.4)</b>
Opening net debt			(274.7)		(202.3)
<b>Closing net debt</b>	<b>5, 6(d)</b>		<b>(260.4)</b>		<b>(274.7)</b>

## Notes to the Financial Statements

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

2005	Turnover £m	Group operating profit before exceptional items and amortisation of intangibles £m	Group operating profit £m	Adjusted return on sales <sup>1</sup> %	Year end capital employed £m	Average capital employed £m	Adjusted return on average capital employed <sup>1</sup>
							%
<b>Packaging</b>							
Paper & Corrugated Packaging	896.9	52.3	40.3	5.8%	645.7	663.2	7.9%
Plastic Packaging	195.9	9.9	1.5	5.1%	129.9	139.6	7.1%
	<b>1,092.8</b>	<b>62.2</b>	<b>41.8</b>	<b>5.7%</b>	<b>775.6</b>	<b>802.8</b>	<b>7.7%</b>
<b>Office Products</b>							
Wholesaling	499.7	21.7	21.6	4.3%	125.6	118.4	18.3%
Manufacturing	46.8	-	-	-	12.4	13.8	-
Inter-segment	(14.4)	-	-	-	-	-	-
	<b>532.1</b>	<b>21.7</b>	<b>21.6</b>	<b>4.1%</b>	<b>138.0</b>	<b>132.2</b>	<b>16.4%</b>
<b>Total</b>	<b>1,624.9</b>	<b>83.9</b>	<b>63.4</b>	<b>5.2%</b>	<b>913.6</b>	<b>935.0</b>	<b>9.0%</b>
United Kingdom	970.7	46.1	34.2	4.7%	619.8	637.9	7.2%
Rest of World	654.2	37.8	29.2	5.8%	293.8	297.1	12.7%
<b>Total</b>	<b>1,624.9</b>	<b>83.9</b>	<b>63.4</b>	<b>5.2%</b>	<b>913.6</b>	<b>935.0</b>	<b>9.0%</b>
<b>2004 (restated<sup>2</sup>)</b>							
<b>Packaging</b>							
Paper & Corrugated Packaging	748.9	41.4	40.4	5.5%	648.2	517.8	8.0%
Plastic Packaging	208.7	14.0	11.1	6.7%	134.2	139.8	10.0%
	<b>957.6</b>	<b>55.4</b>	<b>51.5</b>	<b>5.8%</b>	<b>782.4</b>	<b>657.6</b>	<b>8.4%</b>
<b>Office Products</b>							
Wholesaling	498.8	19.7	19.6	3.9%	121.3	117.8	16.7%
Manufacturing	48.0	0.3	0.3	0.6%	13.1	13.9	2.2%
Inter-segment	(15.9)	-	-	-	-	-	-
	<b>530.9</b>	<b>20.0</b>	<b>19.9</b>	<b>3.8%</b>	<b>134.4</b>	<b>131.7</b>	<b>15.2%</b>
<b>Total</b>	<b>1,488.5</b>	<b>75.4</b>	<b>71.4</b>	<b>5.1%</b>	<b>916.8</b>	<b>789.3</b>	<b>9.6%</b>
United Kingdom	829.4	33.9	33.0	4.1%	624.8	493.6	6.9%
Rest of World	659.1	41.5	38.4	6.3%	292.0	295.7	14.0%
<b>Total</b>	<b>1,488.5</b>	<b>75.4</b>	<b>71.4</b>	<b>5.1%</b>	<b>916.8</b>	<b>789.3</b>	<b>9.6%</b>

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

<sup>2</sup> 2004 results have been restated for the change in accounting policy resulting from the adoption of FRS 17 'Retirement benefits' and UITF Abstract 38 'Accounting for ESOP trusts'

The operating profits shown above exclude the Group's share of operating profits and losses of associated undertakings. Adjusted 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, corporation tax balances, deferred tax provisions, dividends payable, fixed asset investments and net pension liabilities. Adjusted 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

	2005	2004
	£m	£m
Exceptional restructuring costs	(4.9)	-
Impairment of goodwill	(5.8)	-
Reversal of previous impairment of associate	1.1	-
Total exceptional items	<u>(9.6)</u>	<u>-</u>
Amortisation of intangibles	(9.8)	(4.0)
Amortisation of negative goodwill of associates	0.4	0.4
	<u>(19.0)</u>	<u>(3.6)</u>
Tax on exceptional items	1.4	-
<b>Total</b>	<b><u>(17.6)</u></b>	<b><u>(3.6)</u></b>

The exceptional restructuring costs relate to costs incurred in the Paper and Corrugated Packaging segment in integrating the operations of Linpac Containers acquired in March 2004.

The impairment of goodwill relates to a subsidiary in the Plastic Packaging segment and follows the Group's annual assessment of the carrying amount of fixed assets, including goodwill. The reversal of the previous impairment of associate relates to a 33% owned Japanese packaging company.

## 3 Earnings per share

Basic earnings per share are calculated by dividing the profit for the financial year of £38.9m (2004 restated: £43.6m) by the weighted average number of shares in issue and fully paid during the year of 385.3m (2004: 348.2m). The number of shares excludes the weighted average number of the Company's own shares held by the General Employee Benefit Trust of 2.5m (2004: 1.5m).

The adjusted earnings per share are calculated on the profit for the financial year excluding exceptional items and amortisation of intangibles of £56.5m (2004 restated: £47.2m) 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 387.3m (2004: 350.1m) shares.

## 4 Dividends per share

	2005	2004
	Pence	Pence
	per share	Per share
<b>Dividends proposed</b>		
Interim dividend paid	2.6p	2.6p
Final dividend proposed/paid	5.8p	5.6p
<b>Total dividend to be paid</b>	<b><u>8.4p</u></b>	<b><u>8.2p</u></b>

The prior year interim dividend per share has been restated for the bonus element of the rights issue on 26 March 2004.

## 5 Borrowings

	2005 £m	2004 £m
The Group's book value of net borrowings comprised:		
Bank loans and overdrafts and other loans	316.3	332.5
Finance lease liabilities	2.9	3.8
Short term investments	(28.4)	(20.8)
Cash at bank and in hand	(30.4)	(40.8)
<b>Total</b>	<b>260.4</b>	<b>274.7</b>
Gearing (net borrowings expressed as a percentage of net assets including pension liability)	53.1%	54.9%
Net debt to EBITDA (net debt expressed as a percentage of EBITDA before exceptional items)	1.7x	2.0x

As at 30 April 2005, the Group had committed facilities of £497.4m.

## 6 Group cash flow statement

	2005 £m	2004 (restated) £m
<b>(a) Reconciliation of operating profit to net cash inflow from operating activities:</b>		
Operating profit before exceptional items and amortisation of intangibles	83.9	75.4
Exceptional cash costs	(2.5)	-
Depreciation	68.2	64.5
Increase in working capital	(7.1)	(7.0)
Other	(3.2)	(1.1)
<b>Net cash inflow from operating activities</b>	<b>139.3</b>	<b>131.8</b>
<b>(b) Reconciliation to free cash flow/net cash flow</b>		
Net cash inflow from operating activities (see 6(a))	139.3	131.8
Capital expenditure payments	(53.6)	(51.7)
Proceeds from sale of fixed assets	6.7	10.8
Interest paid	(13.3)	(10.0)
Tax paid	(23.7)	(17.9)
<b>Free cash inflow</b>	<b>55.4</b>	<b>63.0</b>
Dividends	(31.6)	(28.2)
<b>Cash inflow after dividends (before net acquisitions)</b>	<b>23.8</b>	<b>34.8</b>
Net acquisitions	(11.7)	(181.6)
<b>Net cash inflow/(outflow)</b>	<b>12.1</b>	<b>(146.8)</b>
<b>(c) Net (purchase)/sale of short term investments</b>	<b>(6.9)</b>	<b>4.3</b>
Short term investments mainly comprise deposits with banks.		
<b>(d) Reconciliation of movement in net borrowings</b>		
Opening net borrowings	(274.7)	(202.3)
Net cash inflow/(outflow) (see 6(b))	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	-	(0.5)
Exchange differences	1.7	3.7
<b>Closing net borrowings</b>	<b>(260.4)</b>	<b>(274.7)</b>

## **7 Acquisitions and disposals**

The Group acquired BPB Recycling, a recovered paper collection business, from BPB plc in August 2004, for consideration of £9.4m. The book amounts of assets acquired were: tangible fixed assets, £6.5m; and working capital, £1.7m. A fair value adjustment of £1.4m was made, to increase the book amount of land and buildings in fixed assets, and negative goodwill of £0.2m arose.

The Group completed the process of assessing the fair value of assets and liabilities acquired as part of the acquisition of Lincac Containers Group in the year to 30 April 2004. The adjustments, none of which was significant, resulted in additional goodwill of £1.8m.

Fair value adjustments on other acquisitions are not significant. Goodwill associated with these and other finalisations of fair value adjustments totalled £1.7m.

## Group Profit and Loss Account

### Half-yearly profit and loss account analysis

For the year ended 30 April 2005	First half (Unaudited)		Second half (Unaudited)		Total year	
	2005	2004 (restated)	2005	2004 (restated)	2005	2004 (restated)
	£m	£m	£m	£m	£m	£m
Turnover	800.1	744.7	824.8	743.8	1,624.9	1,488.5
Operating profit before exceptional items and amortisation of intangibles	42.1	36.8	41.8	38.6	83.9	75.4
Share of profits of associated undertakings	1.5	1.3	2.6	1.7	4.1	3.0
Exceptional items and amortisation of intangibles	(4.7)	(1.3)	(14.3)	(2.3)	(19.0)	(3.6)
Profit on ordinary activities before interest	38.9	36.8	30.1	38.0	69.0	74.8
Net interest payable	(6.8)	(5.5)	(6.2)	(4.9)	(13.0)	(10.4)
Other finance income/(expense)	0.5	(1.6)	0.6	(1.6)	1.1	(3.2)
Profit on ordinary activities before taxation	32.6	29.7	24.5	31.5	57.1	61.2
Tax on profit on ordinary activities	(9.3)	(8.1)	(8.3)	(8.9)	(17.6)	(17.0)
Profit on ordinary activities after taxation	23.3	21.6	16.2	22.6	39.5	44.2
Minority interests – equity	(0.2)	(0.4)	(0.4)	(0.2)	(0.6)	(0.6)
Profit for the period	23.1	21.2	15.8	22.4	38.9	43.6
Earnings per share:						
Basic	6.0p	6.2p	4.1p	6.4p	10.1p	12.6p
Adjusted (note 1)	7.2p	6.6p	7.5p	7.0p	14.7p	13.6p

#### Notes

- Adjusted earnings per share exclude exceptional items and amortisation of intangibles.