

DS SMITH PLC – 2006/07 PRELIMINARY RESULTS

DS Smith Plc, the international packaging manufacturer and office products wholesaler, announces its results for the year ended 30 April 2007.

Financial Summary

	2006/07	2005/06
Revenue	£1,766.1m	£1,652.7m
Adjusted profit before tax ⁽¹⁾	£74.6m	£53.4m
Profit before tax	£78.5m	£11.0m
Adjusted earnings per share ⁽¹⁾	13.1p	10.0p
Earnings per share	15.6p	1.1p
Free cash inflow before dividends and net acquisitions ⁽²⁾	£84.0m	£63.2m
Gearing	32.0%	43.9%
Total dividend per share	8.6p	8.4p

(1) before net exceptional income of £3.9m (2005/06: exceptional charge £42.4m)

(2) including the net cash consideration of £29.6m for the sale of the Taplow site

Highlights

- Good organic growth achieved across our businesses
- Results benefited from our previous restructuring actions
- Spicers UK turnaround programme now underway
- Continuing price increases in Paper and Corrugated Packaging to recover the higher input costs
- Strong cash flow boosted by the sale of the Taplow site

Commenting on the results, Chairman, Peter Johnson said:

“In 2006/07, the Group benefited from both a better pricing environment in the paper and corrugated packaging market and the actions taken to improve the underlying business base. These actions have enhanced the Group’s business mix, increased operational efficiency and lowered operating costs. There was an improving trend in the Group’s results through the second half of the financial year and profit for the full year was well ahead of the 2005/06 result. Given these positive developments and the Group’s potential to build on its strengthened position, the Board is proposing an increased final dividend.”

Tony Thorne, Group Chief Executive said:

“Our priorities are to continue to drive for recovery of the high input costs within our Packaging businesses and to raise profits at Spicers, particularly in the UK. Entering 2007/08, the business is performing well and I am confident that the Group will make good progress this year.”

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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. This briefing may be heard live by dialing in on: +44 (0)1452 569 393. The presentation slides used at this briefing will be posted on the Group's website (www.dssmith.uk.com) at 9.30am and an audio recording of the briefing will be available on the website from approximately 1.00pm BST today.

CHIEF EXECUTIVE'S REVIEW

The Group achieved a marked improvement in its profits in 2006/07. Although the results throughout the financial year were held back by high input costs in Packaging and lower profits in our UK Office Products Wholesaling business, we benefited from actions taken to strengthen the Group and from an easing of the recent harsh trading environment in Paper and Corrugated Packaging. Strong European packaging demand combined with a tightened supply position for corrugated case material (CCM) created a firmer pricing environment in both CCM and corrugated boxes. In this changed situation, our drive to raise selling prices so as to recover the previous substantial increases in our input costs of energy and waste paper became increasingly successful. Additionally, our good market positions allowed us to grow our sales volumes strongly in many sectors of our business.

The positive trend in the Group's performance was reflected in the results for the two halves of the financial year. While in the first half of 2006/07 adjusted operating profit was 8% lower than in the same period of the previous year, in the second half of the year it was 74% higher than in the previous second half; for 2006/07 as a whole it was 29% up on 2005/06 at £77.7 million.

UK Paper and Corrugated Packaging

The most significant segmental profit improvement was achieved in UK Paper and Corrugated Packaging, where adjusted operating profit for the full year increased by £16.0 million to £36.5 million. This advance was the result of a combination of the extensive actions we have taken to raise efficiency, as well as the improved pricing in both paper and corrugated packaging and strong growth in corrugated packaging.

The programme to improve the cost competitiveness of our business and to enhance the product mix was continued during 2006/07. In our UK paper business, we closed Taplow Mill, which was loss-making and was not likely to be competitive over the longer-term, and we sold the Taplow site for a net cash consideration of £29.6 million. We continued the development of sales of plasterboard liner, supported by an extensive capital expenditure programme to upgrade existing machines. Our Severnside Recycling business strengthened its capability to supply the waste paper raw material for our own mills and to generate other revenue from its waste collection infrastructure and expertise. In our UK corrugated packaging business, we are seeing the benefit of our actions to establish a more competitive conventional box plant network and a strong group of speciality corrugated businesses. The significant attention we have given to supporting our customers in the trend to retail-ready packaging and promotional packaging has contributed to our growth in corrugated box sales in these sectors of the market.

The considerable CCM and corrugated products price increases achieved during 2006/07 enabled us to recover a substantial proportion of the additional approximately £19 million of input cost increases incurred during the year and the earlier margin erosion we experienced during the previous financial year. The programme to raise returns in the UK Paper and Corrugated Packaging segment will remain a focus for attention in the coming year.

Continental European Corrugated Packaging

Revenue advanced strongly in Continental European Corrugated Packaging. However, operating profit in this segment, which is a substantial net buyer of paper, was lower at £18.2 million (2005/06: £20.1 million) as a result of the higher costs of CCM which it was not able fully to recover through increased prices during the financial year. We gained market share in all our major markets and grew sales particularly strongly in Italy, Poland and Turkey. Our corrugated box businesses continued to benefit from concentrating on higher added-value products, while our speciality paper mill in France had another good year, exploiting its increased capacity as a result of recent investment.

Our Ukrainian associate business continued to make good profits and we are supporting its investment programme which is designed to meet the growth in market demand and to broaden its product range.

Box price increases were slower to take effect on the continent but have started to come through strongly since the autumn of 2006. These increases have not been sufficient, however, to recover the previous increases in our input costs and the pressure on margins is being compounded by further rises in CCM and energy costs in 2007/08. In the current financial year we will continue our strong efforts to achieve the necessary cost recovery.

Plastic Packaging

Plastic Packaging achieved a healthy advance in adjusted operating profit to £10.2 million (2005/06: £7.2 million). A further increase in energy, polymer and film costs of around £5 million during the financial year was almost entirely recovered through higher selling prices and a better sales mix. The result also benefited from a 4.9% underlying advance in revenue, excluding the plastic coating and laminating business which was sold in December 2005.

The Group has developed good market positions in its two principal sectors of returnable transit packaging (RTP) and liquid packaging and dispensing. In RTP, beverage crate sales were particularly strong in the early months of the financial year but then slowed as a number of large contracts came to an end. The extruded products businesses benefited from our previous actions to strengthen the sales function and improve the sales mix. We have developed several encouraging new product opportunities and are growing sales in eastern Europe in partnership with our Corrugated Packaging operations in that region.

The liquid packaging and dispensing sector benefited from a higher-margin sales mix, sales growth as a result of its strengthened product range and improved operating efficiency. We are consulting with our employees about the proposed restructuring of our European liquid packaging and dispensing operations.

Our Plastic Packaging segment is expected to continue to show steady progress.

Office Products Wholesaling

Adjusted operating profit was marginally higher at £12.8 million (2005/06: £12.6 million). The profitability of the UK business declined, in line with expectations, but this was more than offset by the growth in profits from the continental European businesses.

Revenue in Spicers UK, which represents 50% of Spicers' total revenue, grew but the impact of strong competition on pricing and higher operating costs resulted in a significant drop in profits. Our priority for

2006/07 was to strengthen the UK management team and make good progress on implementing a comprehensive programme to rebuild Spicers UK's profits over a three-year period. The new management team has taken decisive action and there is good momentum behind a range of improvement initiatives, principally aimed at enhancing the sales mix, raising service levels and lowering costs. The UK distribution network has been streamlined further through the closure in early June 2007 of the Park Royal distribution depot in London. We are seeing the initial evidence of improved performance arising from this ongoing turnaround programme and further considerable benefits are expected over the next two years.

On the continent, the well-established French and Benelux businesses maintained their strong performance and further confirmed the considerable potential for Spicers' business model across Europe. The businesses in Germany, Spain and Italy, which are each at a different stage in their development, all made good progress. The Spanish business opened its new distribution centre near to Madrid in October 2006 which gives it better national coverage.

The objectives within Spicers are to rebuild profitability in Spicers UK and continue the development of our existing continental European network.

Our People

Our employees have made a very significant contribution to the recent improvement in the Group's results. I am grateful for their considerable skill and enthusiasm as we have looked to drive up our results. I thank them for their hard work, commitment and support.

Strategy

In recent years, we have significantly changed the balance of the Group's business. We have developed our Paper and Corrugated Packaging and Plastic Packaging businesses in higher added-value and faster-growing product and market sectors and grown the Office Products Wholesaling business in continental Europe. At the same time, we have sold several peripheral activities and closed parts of our Paper business that were not likely to be viable in the longer-term. These moves have strengthened DS Smith and provided a good base from which we can develop the Group further.

Adjusted return on average capital employed improved to 8.7% in 2006/07 (2005/06: 6.5%) but this remains below our return target, which is to exceed the Group's weighted average pre-tax cost of capital of circa 10% over the business cycle. We are determined to achieve our targeted returns. This will be done by continuing to focus on raising operational performance, exiting operations that will not deliver adequate returns and concentrating capital in those parts of the business which offer the best opportunities for profit growth. Given our range of businesses and our strong market positions, we are confident that there will be many opportunities for organic development of the Group. We also expect that there will be further restructuring in the European paper and corrugated packaging industry and that this may present opportunities for further development through acquisitions.

In UK Paper and Corrugated Packaging, our objectives are to improve further the returns from our substantial UK market positions and to sustain these better returns over the business cycle. The priorities for achieving this are: a continued drive to recover the current high input costs; further cost reduction; and targeting growth sectors of the market. Investment will be concentrated on: expanding Severnside Recycling; increasing the efficiency and enhancing the product mix of our paper and conventional corrugated box businesses; and developing a selected number of our specialist corrugated packaging businesses.

Our goal in Continental European Corrugated Packaging is to sustain and build on our existing solid returns and good growth rates. We will continue our targeted approach, concentrating on selected markets and higher added-value product segments. In the short-term a priority is to recover the recent and

prospective rises in input costs. Investment will be concentrated on maintaining the competitiveness of our existing operations and their expansion, through organic development and bolt-on acquisitions.

In Plastic Packaging, our aim is to grow the profits of our two principal businesses. We have an established international position in liquid packaging and dispensing; our priorities in this business are to increase our competitiveness through structural cost reduction and to expand sales through new product development and penetration into new markets. In returnable transit packaging, we will continue to focus on the European market but use our enhanced development capability to grow in new markets, particularly in central and eastern Europe. We will continue to make bolt-on acquisitions where these support either a product range or market extension.

Our goal in Office Products Wholesaling is to establish the Spicers business model profitably across the major markets of western Europe. An immediate priority is to restore profits in the important UK business through improving the sales mix, raising service levels and lowering costs. On the continent we will maintain the competitiveness of our major established positions in France and the Benelux region and continue to grow the returns from our developing businesses in Germany, Spain and Italy.

Outlook

Our priorities are to continue to drive for recovery of the high input costs within our Packaging businesses and to raise profits at Spicers, particularly in the UK. Entering 2007/08, the business is performing well and I am confident that the Group will make good progress this year.

FINANCIAL REVIEW

Trading Results

Revenue for the financial year ended 30 April 2007 increased by 6.9% over the prior year; it was 5.7% higher in the first half of the year and 8.0% higher in the second half. Excluding the effects of the acquisition of Timmermans within Office Products Wholesaling and the closures of the Sudbrook and Taplow mills within UK Paper and Corrugated (and the previous disposals of John Dickinson and the BSK plastic coating and laminating business), revenue was up 9.9%. If, in addition, the effect of movements in foreign exchange rates is excluded, revenue was up 10.8% on 2005/06 (up 8.7% in the first half of the year and up 12.9% in the second half).

Adjusted Group operating profit (excluding exceptional items) in 2006/07 was £77.7million (2005/06: £60.4 million). The increase in adjusted Group operating profit resulted from rises in UK Paper and Corrugated Packaging of £16.0 million, in Plastic Packaging of £3.0 million and £0.2 million in Office Products Wholesaling, while Continental European Corrugated Packaging fell £1.9 million. Group adjusted operating profit in the first half of the year was £30.4million (2005/06 H1: £33.2 million) and in the second half was £47.3 million (2005/06 H2: £ 27.2 million). Adjusted full year operating profit from UK operations increased by £10.2million to £28.6million, principally due to higher profits in UK Paper and Corrugated Packaging, offset by a slump in the profits in the UK business within Office Products Wholesaling. Adjusted operating profits from non-UK operations were up £7.1 million, reflecting the stronger continental European performance of Office Products Wholesaling, including the acquired business in the Benelux region, and a different geographical mix of profits within Plastic Packaging. The Group's adjusted return on sales was 4.4% (2005/06: 3.7%).

The Group recorded net exceptional income before tax of £3.9 million during the year (2005/06: net exceptional charges of £42.4 million). This net exceptional income arose from a profit of £20.5 million on the sale of the Taplow paper mill site and a negative goodwill credit related to an increase in our ownership of our associate, Rubezhansk, of £2.0 million, offset by costs on the closure of loss-making paper capacity, and related restructuring, in UK Paper and Corrugated Packaging (£13.8million), the proposed restructuring of our European liquid packaging and dispensing operations within Plastic

Packaging (£1.9million) and the restructuring of the UK operations of Office Products Wholesaling (£2.9 million). Operating profit after exceptional items was £79.6 million (2005/06: £18.0 million).

The Group's adjusted return on capital employed (which is defined as adjusted operating profit divided by the average capital employed) increased from 6.5% in 2005/06 to 8.7% in 2006/07.

Interest, Tax and Earnings per Share

Net interest expense increased from £12.3 million in 2005/06 to £15.0 million in 2006/07, mainly reflecting higher euro interest rates on slightly lower average net debt. Employment benefit net finance income was £8.0 million (2005/06: £1.2 million), reflecting the lower opening deficit on the defined benefit schemes.

The Group included £3.9 million as the Group's adjusted share of associated undertakings' after-tax profits, down from £4.1 million in 2005/06. Within this amount, £3.6 million (2005/06: £3.3 million) related to the Group's share of the after-tax operating profit of Rubezhansk, the Group's associate paper and packaging company in Ukraine (in which the Group's ownership increased from 38.8% to 49.6% towards the end of 2006/07); the decline in the associates' profit is due to the Group's lower share of the profits from its Japanese packaging associate, following the reduction in its stake from 14.8% to 6.3% during 2006/07.

Adjusted profit before tax was £74.6 million (2005/06: £53.4 million). Profit before tax after exceptional items was £78.5 million (2005/06: £11.0 million).

The Group's effective tax rate, excluding exceptional items and associates, at 32%, was higher than last year's rate of 27%, the 2005/06 rate benefiting from prior year items following the resolution of historical tax uncertainties. Excluding the effect of any prior year items, the effective tax rate is expected to be slightly higher than the UK statutory rate in the coming year, largely because of higher overseas tax rates.

Adjusted basic earnings per share were 13.1p (2005/06: 10.0p). Basic earnings per share were 15.6p (2005/06: 1.1p).

Dividend

The proposed final dividend is increased to 6.0p (2005/06: 5.8p). The total dividend for the year is 8.6p (2005/06: 8.4p). Dividend cover before exceptional items was 1.5 times in 2006/07 (2005/06: 1.2 times). Dividend cover after exceptional items was 1.8 times (2005/06: 0.1 times).

Cash Flow

Cash generated from operations was £128.0 million (2005/06: £138.2 million). This reflects the higher adjusted operating profit, offset by the exceptional cash restructuring costs and a reduced inflow from working capital. The cash outflow in respect of exceptional restructuring costs of £7.2 million (including cash outflows related to exceptional charges made in 2005/06), compared with a cash outflow from restructuring costs of £4.6 million in 2005/06. This was more than offset by the £29.6 million of net exceptional cash realised on the sale of the Taplow site, included within sales of assets. There was a strong focus on working capital management which resulted in a cash inflow of £8.5 million. In respect of pension payments, the agreed annual contributions into the UK Group Pension scheme were £14.0 million in 2006/07 (2005/06: £14.0 million). Capital expenditure payments were £55.8 million, the most significant investment being within St Regis to support growth in plasterboard liner production in the UK, down from £62.7m in 2005/06, which included the cost of our new corrugated plant in Poland and the first phase of the St Regis plasterboard liner investment. The proceeds from the sales of assets include £29.6m (after disposal costs) from the sale of the Taplow mill site. The interest paid increased in line with the income statement charge.

Tax payments were £15.1 million (2006/07: £13.5 million) as the effect of the higher adjusted trading profit described above was partially offset by the tax deductions from the exceptional restructuring charges (the exceptional gain being relieved by previously unrecognised tax losses).

Free cash flow, before acquisitions, disposals and dividends (but including the proceeds from the disposal of the Taplow site), was £84.0 million (2005/06: £63.2 million). Cash dividend cover, defined as free cash flow divided by dividends paid/declared for the year, was 2.5 times, up from 1.9 times in 2005/06.

The net cash inflow on acquisitions and disposals was £0.2 million (2005/06: £0.5 million inflow).

Financial Position

Shareholders' funds totalled £569.4 million at 30 April 2007, up from £532.1 million at 30 April 2006. Net assets per share were 144.9p (2005/06: 138.5p). The profit attributable to the shareholders of DS Smith Plc was £60.6 million and dividends of £32.7 million were paid to reserves during the year. In addition, after-tax actuarial gains of £11.9 million on the Group's defined benefit pension schemes were credited to reserves through the statement of recognised income and expense, as explained further below. Other items recognised directly in equity, relating to the issue of new share capital, foreign currency differences, hedge accounting, and share-based payment expense (all with associated tax), totalled £2.5 million.

The Group's closing net debt was £181.2 million, £56.6 million lower than at the start of the year, reflecting the net cash inflow during the year of £55.2 million and non-cash movements, principally exchange differences and related fair-value movements, of £1.4 million.

Gearing was 32.0 % (2005/06: 43.9%); the decrease reflected the improvement in borrowings from the net cash inflow for the year and the increase in shareholders' funds from the profit for the year and the reduction in the net pension deficit. Adjusted interest cover was 5.2 times, compared with 4.9 times last year, the higher cover reflecting the higher adjusted operating profit partially offset by the increased interest charge. The ratio of net debt to EBITDA (before exceptional items) was 1.3 times (2005/06: 1.9 times).

Energy Costs

The high level of energy costs continued to be a significant factor for the Group in 2006/07. The Group's total costs for gas, electricity and diesel fuel decreased from circa £95 million in 2005/06 to circa £88 million in 2006/07; after adjusting for the effects of the closures of two paper mills, this represents an underlying increase of circa £6 million. Although market energy prices in the UK eased to some extent during the year, the benefits of this were more than offset by the expiry in October 2005 of the Group's previous favourable fixed-price UK electricity contract and the effects of lagged price increases resulting from the supply contracts for some of our operations.

Approximately 40% of the Group's energy costs, principally related to our largest energy-consuming facilities, are incurred under supply contracts in which our energy costs tend to lag the trends in market prices. The remainder of our energy costs relate to fuel which is purchased on the open market, for which we use price-hedging techniques, as appropriate, to limit pricing volatility.

Pensions

The Group operates one defined benefit pension scheme in the UK and has some small, overseas arrangements. The aggregate gross assets of the schemes at 30 April 2007 were £737.9 million and the gross liabilities at 30 April 2007, calculated under IAS 19, were £756.5 million, resulting in the recognition of a gross balance sheet deficit of £18.6 million (30 April 2006: £50.3 million), a net deficit of £13.0 million (30 April 2006: £35.3 million) after the establishment of a deferred tax asset of £5.6 million (30 April 2006: £15.0 million).

In order to control the future costs and financial obligations of these schemes, the Group's UK defined benefit pension scheme is closed to new members. The contributions collected from members have been increased during 2006/07. The lower current service cost in 2006/07, £9.4 million compared with £11.1 million in 2005/06, reflects these higher member contributions and the reduction in the number of active scheme members following the closure or disposal of facilities. The Group's agreed annual cash contributions to the main UK scheme were £14.0 million (2005/06: £14.0 million). The next triennial valuation of the scheme is to be carried out as at 30 April 2007.

The balance sheet deficit (before a related deferred tax asset) decreased from £50.3 million at 30 April 2006 to £18.6 million at 30 April 2007. The decrease of £31.7 million included net actuarial gains of £17.0 million, principally because the scheme's liabilities decreased as a result of the increase in the discount rate used to value the liabilities, from 5.1% at 30 April 2006 to 5.4% at 30 April 2007. No changes were made during the year to the assumptions made in respect of the longevity of scheme members.

OPERATING REVIEW

Paper and Corrugated Packaging Market Overview

In the calendar year 2006, the European market by weight for corrugated packaging grew by 3.1% (2005: 0.9%)¹. In western Europe the market grew by 2.5% (2005: 0.3%) while growth in eastern and central Europe continued to be much stronger at 7.7% (2005: 5.8%). DS Smith's principal markets are the UK, where demand by weight was flat (2005: a fall of 1.9%), France and Italy, where it grew moderately by 0.9% and 2.2%, respectively (2005: 0.3% and nil), and Poland and Turkey, where it grew more strongly, by 4.7% and 14.3%, respectively (2005: 9.3% and 7.6%). The stronger demand in the total European market in 2006 was significantly influenced by Germany, the largest national market, where demand grew by 4.8% (2005: 3.1%). Indicators of demand in the early months of 2007 suggest that growth is at similar levels to those of 2006.

A major feature of the corrugated packaging market during the last two years has been the increasing demand for retail-ready packaging (RRP) which can be readily converted from its initial role as a protective transit pack into its second role as a box or tray that can be placed on display in the retail store. The increased proportion of these higher added-value boxes, often requiring multi-passes within the production process, has absorbed some of the excess capacity across the corrugated industry.

The combination of stronger demand and the closure of over 1.5 million tonnes of older corrugated case material (CCM) capacity in Europe during 2005 and 2006, resulted in a significant change in the European industry's supply and demand balance during 2006. Since November 2005 selling prices of CCM have been increased on several occasions in order to recover the severe margin erosion that had occurred as a result of industry over-capacity and the sharp rise in energy costs. In June 2007 CCM prices are on average circa 45%² higher than in the autumn of 2005. In response to this, box producers have increased prices several times to recover the higher CCM costs. Box price increases were slower to take effect in continental Europe as the impact of energy cost increases on the supply chain occurred later and with less severity than in the UK. However, the upward pressure on CCM and box prices from energy cost increases has continued through into the spring of 2007 in many continental countries. To date, anecdotal evidence suggests that the rises in box prices achieved across the European industry have not yet been sufficient to recover all of the paper and energy cost increases.

The pressure on CCM producers to increase selling prices has been intensified by the relatively high cost of waste paper, the principal raw material for recycled CCM. Waste paper is a globally traded

¹ Source: European Federation of Corrugated Board Manufacturers

² Source: RISI industry price data for the UK and France

commodity; the continuing high level of demand for it from Asia, where there has recently been substantial investment in recycled paper manufacturing, is contributing to European prices remaining firm and being subject to short-term, demand-driven spikes. Waste paper prices were relatively stable during 2006 but rose by approximately 20% in March 2007. 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. The price of paper PRNs fell steadily through 2006 to a current very low level, raising the net cost of our waste paper.

Looking ahead, no significant CCM capacity additions are expected in western Europe during 2007 or 2008 but new capacity is expected to come on stream from 2009. If the CCM market continues to grow by over 2% per annum, demand for CCM will have increased by at least 1.5 million tonnes between 2006 and 2009.

UK Paper and Corrugated Packaging

	2006/07	2005/06
Revenue – £m	687.1	649.6
Adjusted operating profit – £m*	36.5	20.5
Adjusted EBITDA – £m*	68.0	55.1
Key performance indicators:		
Revenue growth – %	5.8%	2.9%
Adjusted return on sales – %*	5.3%	3.2%
Adjusted EBITDA margin – %*	9.9%	8.5%
Adjusted return on average capital employed – %*	7.6%	4.0%

* before an exceptional credit of £6.7 million (2005/06: exceptional charge £28.9 million)

2006/07 Performance

Results in UK Paper and Corrugated Packaging benefited from a combination of the improved pricing environment in the European paper and corrugated packaging market and the actions we have taken over the last three years to strengthen our businesses in this segment. The strong advance in adjusted operating profit was achieved despite a circa £19 million increase in the segment's input costs for energy and net waste paper.

Revenue advanced by 5.8% to £687.1 million as a result of higher sales in Corrugated Packaging, raised selling prices for both Paper and Corrugated Packaging and increased external sales of waste paper and services by Severnside Recycling. On a like-for-like basis, excluding the two paper mills that were closed during calendar year 2006, revenue increased by 13.0%. Adjusted operating profit was markedly higher at £36.5 million (2005/06: £20.5 million).

Against a background of stronger European demand for CCM and corrugated boxes, and tighter European supply of CCM, we significantly raised our prices of CCM and boxes over the course of the financial year in order to recover the higher input costs. These increases, in conjunction with those achieved in the second half of the prior year, are enabling us to recover a substantial proportion of the margin erosion experienced as a result of the higher input costs and the fall in prices that took place over the previous two years. The box price increase programme is being maintained so as to recover more fully the most recent increases in CCM costs.

DS Smith Packaging, our UK Corrugated Packaging business, achieved strong sales volume, partly as a result of its focus on meeting the increased demand for retail-ready packaging. Throughout the financial year, margins were under pressure from the rises in CCM costs. Our network of conventional plants benefited from better productivity while the speciality sector, which concentrates on higher added-value products, performed well despite its higher input costs. Sales of heavy-duty packaging, which is predominantly used by the industrial manufacturing sector, held up well given the continued pressure on its customer base. Our sheet feeding operations, which supply corrugated sheet, performed well,

particularly as a result of strong sales of lighter-weight and speciality board. Our sheet plant business, which converts corrugated board into boxes, was affected by us having to close a plant after a major customer transferred its production to eastern Europe.

At our UK paper business, St Regis, revenue was flat as the benefits of the higher selling prices for paper and the increased revenue at Severnside Recycling were offset by lower paper sales volume as a result of the closures of Sudbrook Mill in March 2006 and Taplow Mill in October 2006. Margins improved significantly as a result of the plant closures and the actions taken to increase selling prices and enrich the business mix.

The capital expenditure programme to upgrade existing machines at the Kemsley and Wansbrough mills, in order to enhance the quality of plasterboard liner and other products produced at these mills, is well-advanced and is expected to be completed by the end of 2007. Kemsley Mill, which now accounts for approximately 65% of St Regis' ongoing paper production, made good progress despite some planned loss of production during the upgrading of one of its three machines. The mill continues to benefit from the previous investment in its combined heat and power plant and waste-to-energy plant but its energy costs rose as a result of the lagged pricing arrangements in the energy supply contracts for these plants. Hollins Mill benefited from healthy demand for its principal product, white top testliner, and the action taken to raise its product quality. Increased output, as a result of our recent investment, contributed to an improved result at Wansbrough Mill. The previously announced closure of PM1, the smaller of the two paper machines, at Wansbrough Mill, which was planned to take place at the end of June 2006, was re-considered following the closure in mid-June 2006 of another UK paper producer. In view of the consequent improvement in the market environment for envelope and imitation kraft paper grades, products PM1 is well suited to producing, it was decided to continue operating PM1 to satisfy the increased demand for these speciality grades. Higher Kings Mill, which focuses on higher margin, speciality, non-packaging papers, grew its sales volume, raised its prices and improved its profitability.

Taplow Mill, which made losses in 2005/06, was closed at the end of October 2006 because it was not likely to be an economic proposition over the longer-term, even under a more benign market and energy environment. The Taplow site was sold to a commercial property developer for a net cash consideration of £29.6 million, resulting in a net gain, after the costs of closure of the mill's operations and related restructuring, of £6.7 million.

Our UK waste collection business, Severnside Recycling, which we enlarged through acquisition in 2004, sourced a greater volume of material and made good progress. In addition to meeting the requirements of St Regis' mills for waste paper, Severnside exported an increased quantity of waste paper for recycling in continental Europe and Asia. It also grew its added-value services, including its facilities management business which manages customers' entire waste recycling and disposal needs.

In 2007/08, we will look to build on the progress made in 2006/07. This will be through continuing our efforts to recover the higher input costs through price increases, growing sales in the higher value-added sectors and raising the efficiency of our operations.

Continental European Corrugated Packaging

	2006/07	2005/06
Revenue – £m	308.0	276.6
Operating profit – £m	18.2	20.1
EBITDA – £m	31.5	33.6
Key performance indicators:		
Revenue growth – %	11.4%	4.1%
Return on sales – %	5.9%	7.3%
EBITDA margin – %	10.2%	12.1%
Return on average capital employed – %	11.1%	12.4%

2006/07 Performance

DS Smith Kaysersberg grew its revenue by 11.4% to £308.0 million through strong advances in sales volume and higher selling prices. This segment, which is a substantial net buyer of paper, was affected by higher input costs of CCM and energy which it was not able fully to recover through increased box prices during the financial year. Operating profit was lower at £18.2 million (2005/06: £20.1 million).

We implemented a box price increase programme across our continental European markets with the aim of recovering the higher input costs. The considerable increase in prices we have achieved has recovered part of the additional costs of energy and CCM which we have incurred and the price increase programme is continuing.

Our French paper business, which focuses on providing a high level of customer service in speciality markets, had another good year despite increases in its energy and waste paper costs. We increased production and sales, assisted by the previous investment which enlarged the capacity at the main Kaysersberg Mill.

Strong sales volumes and higher selling prices enabled our corrugated packaging businesses partially to offset the effects of higher bought-in paper and energy costs. The French business increased its market share and raised productivity, while in Italy we also gained share in this highly competitive market. Our Polish business, which we are developing through substantial investment, maintained its high growth-rate despite some slow-down in the market as a whole. It is benefiting from its highly-competitive Kutno factory, opened in autumn 2005, which supplies the rapidly expanding FMCG sector in Poland. Our small converting business in the Czech Republic, which principally supplies heavy-duty packaging to the automotive industry, performed well. We have recently created a similar operation in Slovakia and have opened a marketing unit in Lithuania. Our business in Turkey continues to develop its sales, principally in speciality products and industrial market sectors although profits are being affected by the slow progress in passing on the higher CCM costs. We are investing in this business to enable it to meet the considerable potential demand in Turkey. We increased our stake in our Ukrainian associate business, Rubezhansk, which is reported under associates, taking our holding to 49.6%. This business continued to perform well and is investing further to broaden its product range and meet the burgeoning demand in its region.

Our priorities in this sector in 2007/08 are to continue our price increase programme to recover the higher input costs and to grow further our market share in higher added-value sectors.

Plastic Packaging

	2006/07	2005/06
Revenue – £m	201.8	202.4
Adjusted operating profit – £m*	10.2	7.2
Adjusted EBITDA – £m*	21.9	19.3
Key performance indicators:		
Revenue growth – %	(0.3)%	3.3%
Adjusted return on sales – %*	5.1%	3.6%
Adjusted EBITDA margin – %*	10.9%	9.5%
Adjusted return on average capital employed – %*	8.3%	5.6%

* before exceptional charges of £1.9 million (2005/06: £2.6 million)

Market Overview

Returnable transit packaging (RTP) products are mostly used within the retail, automotive, electronics and beverage sectors. Demand is heavily influenced by industry sector activity levels. As RTP is often a capital purchase for our customers, being driven by particular projects, and raw materials represent a high proportion of the cost, annual demand can be of an uneven nature. The European market for RTP, which

is estimated to be approximately €1.5 billion, is fragmented into many product sub-sectors and has a large number of suppliers. In western Europe, market growth is estimated to be approximately 2-3% per annum; the trend towards the use of multi-trip, reusable packaging on cost and environmental grounds has been slower over the last two years than was previously the case. The slow-down in demand has been partly as a result of the higher polymer costs and partly due to the relocation of some major customer sectors, such as the automotive and electronics industries, to eastern Europe, where RTP market growth is estimated to be approximately 15% per annum.

The global market for liquid packaging and dispensing products is estimated to be approximately £400 million. The principal uses of bag-in-box packaging are for wine, agricultural produce (such as fruit juice and dairy products) and food service applications such as carbonated soft-drink concentrate (for the hotel and restaurant industries). Volume growth in the North American and European markets is estimated to be approximately 5% per annum while the market in Asia-Pacific is at an early stage of development and growing rapidly. The market for dispensing products (principally taps), other than for bag-in-box systems, is fragmented across a wide range of applications. DS Smith is a major supplier to the wine and liquid detergent sector; the latter has grown strongly in recent years in the USA and is now starting to develop in Europe.

2006/07 Performance

Revenue at DS Smith Plastics was broadly flat but on an underlying basis, excluding the BSK plastic coating and laminating business which was sold in December 2005, it increased by 4.9% to £201.8 million as a result of our actions to strengthen our sales and product development capability and to raise prices. Adjusted operating profit advanced by 41.7% to £10.2 million with good progress in both RTP and liquid packaging and dispensing. This result was achieved despite energy, polymer and film costs being approximately £5 million higher than in the previous year; almost all of this was recovered during the year through higher prices and a better sales mix.

Revenue in RTP, which accounted for 46% of the segment revenue, advanced by 5.2%. Beverage crate sales were particularly strong in the first half of the financial year due to the fulfilment of a number of large contracts in that period. The extruded product businesses grew their sales well and achieved a richer sales mix, benefiting from our actions to strengthen and to co-ordinate better the sales and product development functions on a pan-European basis. We are expanding our capability to supply RTP in eastern Europe from an existing plant in the Czech Republic and a new one in Slovakia, in response to increased sourcing of RTP products in that region by some customers, particularly in the automotive sector.

In liquid packaging and dispensing, which accounted for 45% of the segment revenue, we increased revenue by 2.7%. Our US operations grew sales in new market sectors through innovative product development. In Europe, we benefited from a higher margin sales mix, sales growth as a result of a strengthened product range, and improved operating performance following the restructuring undertaken in 2005/06. In April 2007 we established a small joint venture in Bulgaria to increase our sales of wine bags into the rapidly growing eastern European market. We are consulting with our employees about the proposed restructuring of our European liquid packaging and dispensing operations.

Our small packaging management business was adversely affected during much of 2006/07 by competitive pressure and the contraction of a major customer's operations; nevertheless, the business remained in profit and is now benefiting from restructuring action taken in the UK and some new business which has been subsequently won. Our Israel-based development business, StePac, which specialises in modified atmosphere packaging, achieved record sales and moved into profit for the first time.

Although present indications are that in 2007/08 this segment is likely to face higher energy costs in its continental operations and further increases in polymer costs, our objective is to achieve steady progress in the year ahead.

Office Products Wholesaling

	2006/07	2005/06
Revenue – £m	569.2	518.7
Adjusted operating profit – £m*	12.8	12.6
Adjusted EBITDA – £m*	19.2	19.2

Key performance indicators:

Revenue growth – %	9.7%	3.8%
Adjusted return on sales – %*	2.2%	2.4%
Adjusted EBITDA margin – %*	3.4%	3.7%
Adjusted return on average capital employed – %*	9.8%	9.9%

* before exceptional charges of £2.9 million (2005/06: nil)

Market Overview

The office products markets of the UK, France and Germany, in which Spicers currently has approximately 85% of its sales, are estimated to be worth approximately €7 billion, €6 billion and €8 billion, respectively, at manufacturers' selling prices. Recent annual growth in these markets is estimated to have been low or flat overall, with the traditional stationery sector being flat or in decline and the electronic office supplies (EOS) sector showing strong growth³. The volume of products bought by offices continues to increase, but the value of the market is being held back by price deflation caused by intense competition between suppliers and the trend for consumers to buy lower-specification or own-branded products. EOS, which is a growing sector of the market, accounts for approximately 50% of the total office products market; it is especially price-competitive on the high-volume EOS products.

The relative shares of the various supply channels to the end-user market differ by country. However, in the countries in which Spicers operates, the channel that Spicers principally supplies - that of office products dealers or resellers - accounts, on average, for approximately 35% of the total office products market. The share of the market held by dealers has been relatively stable in recent years. Office products dealers primarily sell to smaller and medium-sized offices, generally offer a high standard of service to their customers, and source most of their products either from wholesalers or direct from manufacturers.

Wholesalers, on average, account for approximately 10% of the total market. The direct wholesaling competition that Spicers faces varies by country. In the UK there is one other significant national wholesaler of office products. In most continental European markets competition from other national wholesalers is limited, but there are significant numbers of regional and local wholesalers. The European scale of Spicers' business assists it in offering a broad range of products at competitive prices relative to those of many of its smaller wholesaling competitors. Spicers' commitment to supplying only the trade, and not, as some of its competitors do, supplying end-users, gives it a competitive advantage. Spicers competes indirectly with a number of other distribution channels. The most significant of these, contract stationers, accounts for 10-15% of the total market; they generally sell to larger offices and offer a smaller range of products than is stocked by Spicers. The other principal competitor channels to market are: mail order, office superstores, other retailers and manufacturers selling direct to offices.

2006/07 Performance

Spicers' revenue advanced by 9.7% to £569.2 million, both as a result of a full year's contribution from Timmermans, the Benelux business acquired in October 2005, and strong growth in Spain and Italy. Significantly higher profit from the continental European businesses was largely offset by a substantial decline in profit in the UK but overall there was a slight increase in adjusted operating profit to £12.8 million (2005/06: £12.6 million).

Although Spicers UK continued to be significantly affected throughout the year by competitive pressure, its performance towards the end of the second half reflected some initial benefits from the steps we have

³ Source: DS Smith estimates based on national data

taken to date, as part of our three-year plan to restore UK profits. The business ended the year with an encouraging sales trend while service levels at the important dealer distribution centre improved significantly. The substantially strengthened UK management team is vigorously implementing a programme of actions aimed at improving the sales mix, raising service levels and lowering costs. The regional distribution centre (RDC) network has been further consolidated with the closure in early June 2007 of the Park Royal RDC in London. We expect the benefits of these actions to be increasingly evident through the 2007/08 financial year.

In 2006/07, Spicers made further advances in developing its business and profitability in continental Europe. Spicers France continued to gain market share and grew its profit, particularly as a result of the further expansion of its own branded dealer groups, Plein Ciel and Calipage. In January 2007, a new central distribution centre was commissioned at Châteauroux, in central France, to support sales growth and to improve further customer service. The Benelux business, Timmermans, continued to perform well; its increased focus on developing its business in The Netherlands contributed to good sales growth. Spicers Germany advanced, partly as a result of new marketing initiatives which enabled it to grow sales with its target dealer customer base. The Spanish business saw excellent sales growth; it consolidated its profitable position and, in October 2006, opened its new distribution centre near Madrid; this has extended our distribution coverage across central and southern Spain. Spicers Italy, which has been in operation for two and a half years, continued to broaden its customer base and build its sales rapidly. It recently concluded an important supply agreement with Italy's leading franchised stationery store operator.

In 2007/08, we will focus on rebuilding Spicers' profit performance in the UK and further developing our continental businesses.

Consolidated Income Statement
For the year ended 30 April 2007

	Note	Before exceptional items 2007 £m	Exceptional items (note 2) 2007 £m	After exceptional items 2007 £m	Before exceptional items 2006 £m	Exceptional items (note 2) 2006 £m	After exceptional items 2006 £m
Revenue	1	1,766.1	-	1,766.1	1,652.7	-	1,652.7
Operating profit	1	77.7	1.9	79.6	60.4	(42.4)	18.0
Finance income		1.7	-	1.7	2.3	-	2.3
Finance costs		(16.7)	-	(16.7)	(14.6)	-	(14.6)
Employment benefit net finance income		8.0	-	8.0	1.2	-	1.2
Net financing costs		(7.0)	-	(7.0)	(11.1)	-	(11.1)
Profit after financing costs		70.7	1.9	72.6	49.3	(42.4)	6.9
Share of profit of associates		3.9	2.0	5.9	4.1	-	4.1
Profit before income tax		74.6	3.9	78.5	53.4	(42.4)	11.0
Income tax (expense) / credit	3	(22.8)	5.6	(17.2)	(13.4)	7.7	(5.7)
Profit for the financial year		51.8	9.5	61.3	40.0	(34.7)	5.3
Profit for the financial year attributable to:							
DS Smith Plc equity shareholders		51.1	9.5	60.6	38.9	(34.7)	4.2
Minority interest		0.7	-	0.7	1.1	-	1.1
Basic earnings per share (pence)	4	13.1p		15.6p	10.0p		1.1p
Diluted earnings per share (pence)	4	13.0p		15.4p	10.0p		1.1p
Dividend per share – interim, paid (pence)	5			2.6p			2.6p
– final, proposed (pence)	5			6.0p			5.8p

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 Annual Report and statements for the year ended 30 April 2007 will be posted to shareholders in July 2007. Statutory accounts for the year ended 30 April 2006 have been delivered to the Registrar of companies.
- Subject to approval of shareholders at the Annual General Meeting to be held on 5 September 2007, the final dividend of 6.0p will be paid on 18 September 2007 to ordinary shareholders on the register on 17 August 2007.
- The 2006/07 and 2005/06 results in this preliminary statement do not constitute the statutory accounts of DS Smith Plc within the meaning of section 240 of the Companies Act 1985. The 2006/07 results and 2005/06 comparatives have been extracted from the 2006/07 statutory accounts, which have been prepared under International Financial Reporting Standards as adopted by the EU (IFRS) and which contained an unqualified audit report with no adverse statement under Section 237 (2) or (3) of the Companies Act 1985.
- Whilst the financial information included in the preliminary announcement has been prepared in accordance with IFRS, this announcement does not itself contain sufficient information to comply with all the disclosure requirements of IFRS.
- Items are presented as 'exceptional' in the accounts where they are significant items of financial performance that the directors consider should be separately disclosed, to assist in the understanding of the trading and financial results achieved by the Group (see note 2).

Consolidated Statement of Recognised Income and Expense

For the year ended 30 April 2007

	2007	2006
	£m	£m
Actuarial gains on defined benefit pension schemes	17.0	54.4
Movements on deferred tax relating to actuarial gains	(5.1)	(16.5)
Currency translation differences, including tax	(6.7)	9.7
Changes in the fair value of cash flow hedges, including tax	(1.2)	0.2
Net income recognised directly in equity	4.0	47.8
Profit for the financial period	61.3	5.3
Total recognised income and expense attributable to equity shareholders and minority interest relating to the financial year	65.3	53.1
<hr/>		
Total recognised income and expense relating to the financial year attributable to:		
DS Smith Plc equity shareholders	64.7	52.0
Minority interest	0.6	1.1

Consolidated Balance Sheet

As at 30 April 2007

	2007 £m	2006 £m
Assets		
Non-current assets		
Intangible assets	192.9	195.4
Property, plant and equipment	517.1	536.1
Investments in associates	30.5	29.2
Other investments	0.5	0.5
Deferred tax assets	21.4	24.0
Other receivables	2.4	2.5
Derivative financial instruments	0.2	1.4
Total non-current assets	765.0	789.1
Current assets		
Inventories	160.5	163.3
Other investments	0.1	0.1
Income tax receivable	0.9	4.8
Trade and other receivables	350.2	347.2
Cash and cash equivalents	92.4	60.4
Derivative financial instruments	0.7	3.7
Total current assets	604.8	579.5
Total assets	1,369.8	1,368.6
Liabilities		
Non-current liabilities		
Interest-bearing loans and borrowings	(230.9)	(264.9)
Post-retirement benefits	(18.6)	(50.3)
Other payables	(5.1)	(3.6)
Provisions	(8.9)	(2.8)
Deferred tax liabilities	(81.4)	(76.3)
Derivative financial instruments	(31.7)	(25.0)
Total non-current liabilities	(376.6)	(422.9)
Current liabilities		
Bank overdrafts	(10.8)	(1.5)
Interest-bearing loans and borrowings	(1.6)	(7.7)
Trade and other payables	(384.8)	(355.3)
Income tax liabilities	(16.6)	(21.0)
Provisions	(10.6)	(16.7)
Derivative financial instruments	(1.7)	(2.0)
Total current liabilities	(426.1)	(404.2)
Total liabilities	(802.7)	(827.1)
Net assets	567.1	541.5
Equity		
Issued capital	39.3	39.1
Share premium	262.9	259.4
Reserves	267.2	233.6
DS Smith Plc shareholders' equity	569.4	532.1
Minority interest	(2.3)	9.4
Total equity	567.1	541.5

Consolidated Statement of Cash Flows

For the year ended 30 April 2007

	Note	2007 £m	2006 £m
Operating Activities			
Cash generated from operations	6	128.0	138.2
Interest received		2.8	0.8
Interest paid		(16.9)	(12.8)
Tax paid		(15.1)	(13.5)
Cash flows from operating activities		98.8	112.7
Investing Activities			
Acquisition of subsidiary businesses and joint ventures, net of cash and cash equivalents acquired		(0.8)	(10.5)
Disposal of subsidiary businesses, net of cash and cash equivalents disposed of		1.0	11.0
Capital expenditure payments		(55.8)	(62.7)
Proceeds from the sale of assets		39.2	9.7
Proceeds from the sale of associates, net of additions of £0.5m (2006: nil)		1.8	3.5
Cash flows from investing activities		(14.6)	(49.0)
Financing Activities			
Proceeds from issue of share capital		3.7	2.6
Repayment of borrowings		(28.7)	(17.2)
Repayment of finance lease obligations		(2.5)	(0.9)
Dividends paid		(32.7)	(32.6)
Cash flows from financing activities		(60.2)	(48.1)
Increase in cash and cash equivalents		24.0	15.6
Net cash and cash equivalents at 1 May 2006		58.9	41.2
Exchange (losses)/gains on cash and cash equivalents		(1.3)	2.1
Net cash and cash equivalents at 30 April 2007		81.6	58.9

Notes to the Financial Statements

1. Segment Reporting

Primary reporting format – business segments

Year ended 30 April 2007	UK Paper and Corrugated Packaging £m	Continental European Corrugated Packaging £m	Plastic Packaging £m	Office Products Wholesaling £m	Other ³ £m	Total Group £m
External revenue	687.1	308.0	201.8	569.2	-	1,766.1
Adjusted operating profit¹	36.5	18.2	10.2	12.8	-	77.7
Exceptional items	6.7	-	(1.9)	(2.9)	-	1.9
Segment result	43.2	18.2	8.3	9.9	-	79.6

Other segment items:

Adjusted return on sales - % ¹	5.3%	5.9%	5.1%	2.2%	-	4.4%
Adjusted EBITDA - £m ¹	68.0	31.5	21.9	19.2	-	140.6
Adjusted EBITDA margin - % ¹	9.9%	10.2%	10.9%	3.4%	-	8.0%
Year-end capital employed - £m	444.6	146.4	110.9	115.4	-	817.3
Average capital employed - £m ²	478.4	164.4	122.2	130.0	-	895.0
Adjusted return on average capital employed - % ^{1,2}	7.6%	11.1%	8.3%	9.8%	-	8.7%

Year ended 30 April 2006

External revenue	649.6	276.6	202.4	518.7	5.4	1,652.7
Adjusted operating profit¹	20.5	20.1	7.2	12.6	-	60.4
Exceptional items	(28.9)	-	(2.6)	-	(10.9)	(42.4)
Segment result	(8.4)	20.1	4.6	12.6	(10.9)	18.0

Other segment items:

Adjusted return on sales - % ¹	3.2%	7.3%	3.6%	2.4%	-	3.7%
Adjusted EBITDA - £m ¹	55.1	33.6	19.3	19.2	0.4	127.6
Adjusted EBITDA margin - % ¹	8.5%	12.1%	9.5%	3.7%	7.4%	7.7%
Year-end capital employed - £m	471.4	162.0	109.9	122.8	-	866.1
Average capital employed - £m ²	509.3	162.3	129.3	127.0	2.1	930.0
Adjusted return on average capital employed - % ^{1,2}	4.0%	12.4%	5.6%	9.9%	-	6.5%

Secondary reporting format – geographical segments

Year ended 30 April	Turnover	
	2007 £m	2006 £m
UK	999.7	957.6
Western Continental Europe	632.8	570.5
Eastern Continental Europe	82.5	74.5
Rest of World	51.1	50.1
Total	1,766.1	1,652.7

1. Before exceptional items (see note 2)
2. The return on average capital employed is defined as operating profit before exceptional items divided by average capital employed; average capital employed is the average monthly capital employed
3. Other in 2005/06 represents the activity of the former Office Products Manufacturing segment, the loss on the disposal of that business and the impairment of an investment described in note 2 below

2. Exceptional items

Items are presented as 'exceptional' in the accounts where they are significant items of financial performance that the Directors consider should be separately disclosed, to assist in the understanding of the trading and financial results achieved by the Group.

Exceptional items	2007	2006
	£m	£m
Restructuring costs		
UK Paper and Corrugated Packaging	(13.8)	(28.9)
Plastic Packaging	(1.9)	-
Office Products Wholesaling	(2.9)	-
Total restructuring costs	(18.6)	(28.9)
Gain on sale of Taplow Mill	20.5	-
Loss on disposal of businesses	-	(4.3)
Impairment charge	-	(9.2)
Total exceptional items recognised in operating profit	1.9	(42.4)
Negative goodwill recognised in associate accounting	2.0	-
Total exceptional items	3.9	(42.4)

The restructuring costs relate to the following.

The UK Paper and Corrugated Packaging restructuring costs in the year to 30 April 2007 of £13.8m related to the closure of paper-making operations at Taplow Mill and related restructurings. The UK Paper and Corrugated Packaging restructuring costs in 2005/06 related to the closure of a paper mill (£20.3m), the planned closure of a paper machine at another mill (£5.0m), and other restructuring costs (£3.6m).

The Plastic Packaging restructuring costs in the year to 30 April 2007 relate to the proposed restructuring of our European liquid packaging and dispensing operations.

The Office Products Wholesaling restructuring costs in the year to 30 April 2007 relate to the closure of a regional distribution centre within the UK operations and related restructuring.

The gain of £20.5m arising on the sale of the Taplow site, in the UK Paper and Corrugated Packaging segment, resulted from the sale of the site for net proceeds of £29.6m.

The negative goodwill credit recognised in associate accounting of £2.0m arose in respect of an increase in the Group's investment in Rubezhansk.

The loss on disposal of businesses in 2005/06 arose on the disposal of the Office Products Manufacturing business (loss of £1.7m) and a business in the Plastic Packaging segment (loss of £2.6m).

The impairment charge in 2005/06 related to an investment in the debt securities of an independent UK packaging business.

3. Income tax expense

Income tax expense recognised in the income statement	2007 £m	2006 £m
Current tax (expense)/credit		
Current year	(17.2)	(13.5)
Over-provided in prior years	2.3	1.9
	(14.9)	(11.6)
Deferred tax (expense)/credit		
Origination and reversal of temporary differences	0.9	6.2
Under-provided in prior years	(3.2)	(0.3)
	(2.3)	5.9
Total income tax expense in income statement	(17.2)	(5.7)

The reconciliation of the actual tax charge to that at the domestic corporation tax rate is as follows:

	2007 £m	2006 £m
Profit before tax	78.5	11.0
Less: share of profit of associates	(5.9)	(4.1)
Profit before tax and share of profit of associates	72.6	6.9
Income tax calculated using the domestic corporation tax rate of 30%	(21.8)	(2.1)
Effect of tax rates in foreign jurisdictions	(1.2)	(1.5)
Non-deductible expenses	(0.9)	(5.6)
Recognition of previously unrecognised tax losses	6.7	1.9
Adjustment in respect of prior years	(0.9)	1.6
Other	0.9	-
Income tax expense	(17.2)	(5.7)

4. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 April 2007 is based on the net profit attributable to ordinary shareholders of £60.6m (2006: £4.2m) and the weighted average number of ordinary shares outstanding during the year ended 30 April 2007 of 389.5m (2006: 387.2m). The number of shares excludes the weighted average number of the Company's own shares held as treasury shares during the year of 2.2m (2006: 2.5m).

	2007	2006
Net profit attributable to ordinary shareholders (£m)	£60.6m	£4.2m
Weighted average number of ordinary shares at 30 April (millions)	389.5m	387.2m
Basic earnings per share (pence per share)	15.6p	1.1p

Diluted earnings per share

The calculation of diluted earnings per share at 30 April 2007 is based on net profit attributable to ordinary shareholders of £60.6m (2006: £4.2m) and the weighted average number of ordinary shares outstanding during the year ended 30 April 2007, as adjusted for potentially issuable ordinary shares, of 392.9m (2006: 388.8m), calculated as follows:

	2007	2006
	£m	£m
Net profit attributable to ordinary shareholders	60.6	4.2

In millions of shares

Weighted average number of ordinary shares at 30 April	389.5	387.2
Potentially dilutive shares issuable under share-based payment arrangements	3.4	1.6
Weighted average number of ordinary shares (diluted) at 30 April	392.9	388.8
Diluted earnings per share (pence per share)	15.4p	1.1p

Adjusted earnings per share

The Directors believe that the presentation of an adjusted earnings per share amount, being the basic earnings per share adjusted for exceptional items, helps to explain the underlying performance of the Group. A reconciliation of basic to adjusted earnings per share is as follows:

	2007		2006	
	£m	Pence per share	£m	Pence per share
Basic earnings	60.6	15.6p	4.2	1.1p
(Deduct)/add-back exceptional items after tax	(9.5)	(2.5)p	34.7	8.9p
Adjusted earnings	51.1	13.1p	38.9	10.0p

5. Dividends

Dividends proposed and paid by the Group are as follows:

	2007		2006	
	Pence per share	£m	Pence per share	£m
Interim dividend paid	2.6p	10.2	2.6p	10.1
Final dividend proposed	6.0p	23.5	5.8p	22.5
	8.6p	33.7	8.4p	32.6
			2007	2006
			£m	£m
Paid during the year			32.7	32.6

A final dividend in respect of 2006/07 of 6.0 pence per share (£23.5m) has been proposed by the Directors after the balance sheet date.

6. Cash generated from operations

	2007	2007	2006	2006
	£m	£m	£m	£m
Profit for the financial year		61.3		5.3
Adjustments for:				
Exceptional items – non-cash amounts	(11.1)		37.8	
Depreciation and amortisation	62.9		67.2	
Profit on sale of non-current assets	(6.6)		(7.1)	
Share of profit of associates	(3.9)		(4.1)	
Employment benefit net finance income	(8.0)		(1.2)	
Share-based payment expense	1.0		0.1	
Finance income	(1.7)		(2.3)	
Finance costs	16.7		14.6	
Income tax expense	17.2		5.7	
		66.5		110.7
Changes in:				
Inventories	(1.9)		(4.2)	
Trade and other receivables	(11.5)		13.1	
Trade and other payables	21.9		18.5	
Provisions and employee benefits	(8.3)		(5.2)	
		0.2		22.2
Cash generated from operations		128.0		138.2

7. Reconciliation of net cash flow to movements in net debt

	2007 £m	2006 £m
Operating profit before exceptional items	77.7	60.4
Depreciation and amortisation	62.9	67.2
Adjusted EBITDA	140.6	127.6
Working capital movement	8.5	27.4
Exceptional cash costs	(7.2)	(4.6)
Other	(13.9)	(12.2)
Cash generated from operations	128.0	138.2
Capital expenditure payments	(55.8)	(62.7)
Proceeds from sales of assets and investments	41.0	13.2
Tax paid	(15.1)	(13.5)
Interest paid	(14.1)	(12.0)
Free cash flow before net (acquisitions)/disposals and dividends	84.0	63.2
Dividends	(32.7)	(32.6)
Net (acquisitions)/disposals of subsidiaries	0.2	0.5
Net cash flow	51.5	31.1
Proceeds from the issue of share capital	3.7	2.6
Net debt acquired	-	(2.6)
Non-cash movements	1.4	(6.1)
Net debt movement	56.6	25.0
Opening net debt	(237.8)	(262.8)
Closing net debt	(181.2)	(237.8)