



DS SMITH PLC - 2005/06 PRELIMINARY RESULTS

DS Smith Plc, the international packaging manufacturer and office products wholesaler, announces its results for the year ended 30 April 2006.

Financial Summary

	2005/06	2004/05
Revenue	£1,652.7m	£1,624.9m
Adjusted profit before tax ⁽¹⁾	£53.4m	£73.9m
Profit before tax ⁽²⁾	£11.0m	£64.3m
Adjusted earnings per share ⁽¹⁾	10.0p	14.4p
Earnings per share ⁽²⁾	1.1p	12.2p
Free cash inflow before dividends and net acquisitions	£63.2m	£55.8m
Gearing ⁽³⁾	43.9%	50.7%
Total dividend per share	8.4p	8.4p

(1) before exceptional items of £42.4m (2004/05: £9.6m); (2) after exceptional items of £42.4m (2004/05: £9.6m);

(3) after restatement for the adoption of IAS 39 as at 1 May 2005

Operational Summary

- Group results affected by:
 - £23m increase in energy costs
 - Stronger competition in UK Office Products Wholesaling
 - £42.4m exceptional charge, mainly arising from restructuring actions
- Strategic actions taken to improve performance:
 - Achieved £14.5m of synergy benefits in UK Corrugated Packaging
 - Closed uneconomic paper capacity
 - Sold two non-core businesses
 - Grew sales of plasterboard liner strongly
 - Expanded our Corrugated Packaging operations in eastern Europe
 - Further developed Office Products Wholesaling in continental Europe
- We increased paper and corrugated packaging prices in the second half of the year

Commenting on the results, Chairman, Antony Hichens said:

“As indicated at the time of our trading update in April, the Group’s results were significantly affected by the further rise in energy costs and stronger competition in the UK office products wholesaling market. However, our strategic actions have strengthened the Group: we closed uneconomic capacity; sold two non-core businesses; improved our product mix; and further developed our presence in continental Europe.

“We are achieving box price increases, but so far they have been insufficient to recover fully the input cost rises incurred through the supply chain. Based on current forward energy market prices, we anticipate the increase in our underlying energy costs in 2006/07 will be somewhat higher than the £10 million that we indicated at the time of our trading update in April. In Office Products Wholesaling, we expect our actions to result in improved performance in the second half of the 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. The presentation slides from 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 by approximately 1.00pm BST.

CHAIRMAN'S STATEMENT

The Group's results in 2005/06 were significantly affected by the further rise in energy costs. Additionally, stronger competition in the UK office products wholesaling market eroded sales margins in our Spicers Office Products Wholesaling UK business. However, the strategic actions we have taken to reduce the Group's reliance on commodity corrugated case materials (CCM) and to grow our business base outside the UK have strengthened DS Smith. In the UK, we achieved the anticipated synergy benefits from our 2004 corrugated packaging acquisition, grew sales of plasterboard liner strongly, closed two uneconomic paper production operations and sold two non-core, loss-making businesses. On the continent, we expanded further both our eastern European corrugated packaging and Spicers businesses.

Our actions to improve short-term performance have included cost cutting and, in the second half of the financial year, raising paper and corrugated packaging prices after an extended period of price decline; these price rises did not benefit the 2005/06 result significantly.

The Group's adjusted profit before tax was £53.4 million (2004/05: £73.9 million) and adjusted earnings per share were 10.0 pence (2004/05: 14.4 pence). Cash flow, before dividends and acquisitions, was £63.2 million (2004/05: £55.8 million).

Actions to restructure our UK operations and streamline the portfolio accounted for the majority of the exceptional charge in 2005/06 of £42.4 million (2004/05: £9.6 million); the balance included the impairment of an investment in an independent UK packaging business.

The Board is proposing a final dividend of 5.8 pence which, together with the interim dividend of 2.6 pence, maintains the total dividend for the year at 8.4 pence.

During the year, we further strengthened the Group's management with the appointments of Huub van Beijeren as Chief Operating Officer, Packaging and Rob Vale as Chief Executive, Spicers. Both these senior executives bring valuable experience and expertise to the Group's operations.

As we announced in March, I will be retiring from the Board at the end of 2006, having reached the age of 70. During my seven years as Chairman, we have improved the operational performance of many of our businesses while pursuing our strategy to change the shape of the Group. We have expanded our downstream Packaging activities through several major developments. In Corrugated Packaging, we have grown profits, substantially through acquisition, and we have also significantly raised the profits from our continental European operations. In Plastic Packaging, we have built an international position in liquid packaging

and dispensing. These moves have reduced the Group's reliance on the cyclical Paper business where we have also enhanced our product mix, particularly through the development of our plasterboard liner business. In Office Products Wholesaling, we have established a significant presence for Spicers in continental Europe. These achievements are the result of the continued hard work and enthusiasm of our people, often in the face of difficult market conditions. I thank them for their determination and the improvements they have made within their businesses.

I am handing over the role of Chairman to Peter Johnson with effect from 1 January 2007. Peter has made a major contribution to the Board's deliberations and decision making as a non-Executive Director. I am confident that he will guide the Group wisely as it continues its development. Jean-Paul Loison will be retiring from his role as Divisional Chief Executive of DS Smith Kaysersberg and stepping down from the Board at the end of September 2006. I thank him, on behalf of the Board, for his major contribution to the development of our continental European paper and corrugated packaging business for which he has had responsibility for many years.

Outlook

We are achieving box price increases, but so far they have been insufficient to recover fully the input cost rises incurred through the supply chain. Based on current forward energy market prices, we anticipate the increase in our underlying energy costs in 2006/07 to be somewhat higher than the £10 million that we indicated at the time of our trading update in April. In Office Products Wholesaling, we expect our actions to result in improved performance in the second half of the year.

CHIEF EXECUTIVE'S REVIEW

Overview

In 2005/06, the trading environment for the Group as a whole was extremely challenging; the impact of this varied across our business segments. Adjusted operating profit in UK Paper and Corrugated Packaging, where increased energy costs of approximately £18 million were incurred, was down by £11.1 million on the prior year. Although underlying performance in this segment has improved, we must now recover a greater proportion of the increase in energy costs for us to earn acceptable returns. Continental European Corrugated Packaging produced a good result: profits were broadly unchanged from the previous year, despite higher energy costs, and we continued our growth in eastern Europe. In Plastic Packaging, our profits started to fall away some 18 months ago. Our results were down £2.1 million in 2005/06 but the segment exited the year on a much improved trend. Spicers' results were £8.9 million down on the previous year. Its continental operations performed well, turning in higher profits compared with the previous year, but the UK business saw a dramatic drop in profits, the result of both a substantial reduction in sales margins, in the face of stronger competition, and an increase in costs. Cash performance across the Group was good, highlighting the strong attention our managers give to cash management.

Energy costs continue to have a profound impact on the Group. They have increased from £64 million in 2003/04 to £95 million in 2005/06, despite our consumption in 2005/06 being 6% less than in the previous year. Based on forward energy market prices, we now expect the increase in our underlying energy costs in 2006/07 to be somewhat higher than the £10 million that we indicated at the time of our trading update in April. We are benefiting from earlier investments made in on-site combined heat and power generation plants at our two largest paper mills and in a waste-to-energy plant at our biggest mill. It is our smaller mills that have been most severely affected by the steep rise in costs. Our purchasing teams in the UK and France are hedging part of their forward energy requirements, but the rise in energy prices has been so substantial and sustained that we have only been able to mitigate a small proportion of the increase. Our business plans are based on the assumption that energy prices

will remain at higher than historical levels. Consequently, in our energy-intensive paper business we are concentrating investment where we have competitive energy costs and exiting those units where energy costs cannot be recovered in their product markets.

In view of the challenging trading environment we have put a lot of emphasis on raising short-term performance, principally through a drive on cost recovery, through increasing prices and raising productivity. While we concentrated on accelerating our profit improvement efforts, we continued with our strategy to strengthen the Group. We sold two non-core businesses: the John Dickinson office products manufacturing business and the plastic film lamination operation, BSK. We closed loss-making paper capacity that could not be competitive in the long-term and also exited some small loss-making corrugated packaging operations. In the UK, we captured the expected benefits from our major corrugated packaging acquisition in 2004 and expanded plasterboard liner paper sales substantially. We grew our continental European corrugated packaging business and opened a new corrugating plant in Poland. We finished the year with a much stronger order book in Plastic Packaging, thanks to a number of product development initiatives. In Spicers, we grew our start-up businesses in Spain and Italy strongly and acquired Timmermans, the leading office products wholesaler in the Benelux region. These moves, which strengthen our business base, should all contribute to the Group's performance going forward.

Paper and Corrugated Packaging

During most of calendar year 2005, the paper industry suffered from weak demand, overcapacity – particularly in corrugated case material (CCM), high waste paper prices and greatly increased energy costs. As a result of the overcapacity, selling prices of CCM and corrugated packaging (boxes) fell significantly over a large part of the year. This downward pricing trend, coupled with rising input costs, led to industry profits being hit hard. The severe industry conditions applied right across Europe but were worst in the UK, where demand was particularly weak and both the energy cost rises and the energy price spikes were higher than on the continent; the latter were most marked during the 2005/06 winter months.

Our response to these external pressures has been to concentrate on supporting our stronger businesses, pushing for price increases, improving the product mix and cutting costs. In the UK, we achieved the expected £14.5 million of synergies following the restructuring we initiated after our 2004 corrugated packaging acquisition. We now have a more competitive conventional corrugated plant network and are concentrating on running it hard. In our UK Paper business, our CCM raw material supply position was helped by the previous expansion in 2004 of our Severnside Recycling operations, and we further enriched the product mix by growing sales of plasterboard liner. We are seeking to mitigate the effect of the sustained high energy costs as far as possible through a broad programme of actions, but the prospect of energy cost levels continuing to be higher than historical levels has led us to close paper capacity at two of our most energy-intensive mills. On the continent, our results benefited from our concentration on higher added-value products. Our speciality paper mill in France had a good year, benefiting from recent investment, and our expanded operations in Poland showed good sales and profit growth. In the Ukraine, our associate business had another good year and we are supporting its expansion plans.

The business environment improved during the second half of our financial year; better growth on the continent, the impact of CCM capacity closures and the sustained cost pressure within the industry, led to CCM price rises during winter 2005/06. In DS Smith, we achieved CCM price increases of approximately 20%. The Group is broadly balanced between the quantity of CCM produced and the quantity of CCM used in our box converting operations; therefore, we need these higher CCM prices to be passed through to our external customers by means of higher box prices if the Group is to derive any benefit. We are achieving box price increases, but they are coming through slower than we had anticipated and at a level that does not fully recover the input cost increases; this will have to be addressed in 2006/07.

Our programme of actions to raise returns in our UK Paper and Corrugated Packaging operations is being led by Huub van Beijeren, whom we appointed as Chief Operating Officer, Packaging in May 2006. Huub has held a number of senior management positions in manufacturing industry, most recently as a Main Board Director of British Vita Plc. In continental Europe, Jean Lienhardt, currently Finance Director of DS Smith Kaysersberg, will take over as Chief Executive of that division following the planned retirement of Jean-Paul Loison at the end of September 2006. Jean has been a key member of the team which has grown the sales and profits of our continental corrugated packaging business in recent years.

Plastic Packaging

The Group has built good market positions in its two principal sectors of liquid packaging and dispensing and returnable transit packaging (RTP). Profits in both sectors were eroded during the second half of 2004/05 and in the first half of 2005/06 by a combination of increased competition and sharply higher polymer costs; the latter we were unable to pass on in full to our customers. We have further focused the division by selling one of its smaller businesses, BSK, and are currently concentrating on rebuilding profits in both sectors towards the levels we achieved previously. In liquid packaging and dispensing, we have strengthened our product development and sales functions and are winning new business both in Europe and the USA. In RTP, we are rebuilding sales volumes. We have a number of promising new product developments and are extending into eastern Europe, where we are growing sales in tandem with our Corrugated Packaging operations in that region. Our immediate objective is to maintain the improving profit trend established in the second half of 2005/06.

Office Products Wholesaling

The deterioration in Spicers' result was all in the UK. We made good progress on the continent: we moved into the Benelux region through acquisition and our existing businesses in France, Germany, Spain and Italy performed in line with our plans. Profits at Spicers UK were markedly down as a result of both a severe reduction in sales margin, in the face of tough competition, and higher costs. The fall in margin was the result of a number of factors. Selling prices were under pressure from general price deflation in the office products market. In addition, the competitive environment in the wholesaling sector has intensified, which has resulted in lower prices and led to higher levels of retrospective rebates being paid to customers. Higher costs were incurred in overcoming service shortcomings at a limited number of our UK distribution centres. Some of these factors were apparent in the first half of the year but the extent of the increased customer rebates did not become fully apparent until close to the year-end; the higher costs were very much weighted towards the final months of our financial year. We are giving significant attention to getting the Spicers UK business back to healthy profitability. Despite the poor UK performance and the fact that two of the continental businesses are still in a development phase, Spicers as a whole generated a good cash flow and its return on capital employed exceeded the Group's cost of capital.

In February 2006, we appointed Rob Vale as Chief Executive, Spicers, following the retirement of his predecessor. Rob, who has extensive experience in office products, has carried out a comprehensive review of the Spicers business. In the UK, he has made a number of management changes, strengthened the sales and operations functions, tightened the financial disciplines and accelerated the programme to reduce the cost base. We are confident that in the coming year we can start to rebuild profits in the UK and continue progress on the continent.

Strategy

Our objective is to generate value for shareholders through operational improvement and the development of an enhanced business mix; reducing the Group's reliance on commodity CCM and expanding outside the UK. In the near-term, strong emphasis will be given to raising returns in both our UK Paper and Corrugated Packaging business and Spicers UK.

In UK Paper and Corrugated Packaging, our goal is to improve rapidly the returns from our substantial existing market position. The priorities for achieving this are: recovery of the input cost rises; structural cost reduction; productivity improvement; and targeting growth sectors of the market. We will focus our investment on: Severnside Recycling; those paper mills which we believe can be long-term competitive at the likely future level of energy costs; our network of conventional box plants; and a selected number of speciality businesses.

Our objective in Continental European Corrugated Packaging is to build on our current good returns and growth rates. We will continue our targeted approach, concentrating on selected markets and higher added-value product segments. We will maintain the competitiveness of our operations in France and Italy while seeking further development opportunities in higher-growth markets.

In Plastic Packaging, our aim is to improve significantly the profitability of our two principal businesses, particularly through new product development and increased productivity. In liquid packaging and dispensing, we will build on our established international position through developing new outlets. In industrial RTP, we will continue to focus on the European market, seeking particularly to extend our business in central and eastern Europe.

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 raise profits in the important UK business. This will include restructuring the cost base. On the continent we will maintain the competitiveness of our major established positions in France and Benelux and continue to drive up the results of our developing businesses in Germany, Spain and Italy.

We operate in markets that are expected to remain relatively tough. However, I am confident that the actions we have already taken and the strategy that we are pursuing will enable the Group to make satisfactory returns and to grow.

FINANCIAL REVIEW

Trading Results

The major drivers of the 2005/06 results were the substantial increases in energy costs of circa £23 million, incurred principally in the Paper and Corrugated segments, stronger competition in the UK business of the Office Products Wholesaling segment and higher polymer costs and increased competition in the Plastic Packaging segment.

Revenue for the financial year ended 30 April 2006 increased by 1.7% over the prior year; it was 2.7% higher in the first half of the year and 0.8% higher in the second half compared to the same periods in 2004/05. Excluding the effects of the acquisition of Timmermans and the disposals of John Dickinson and BSK, turnover was up 3.7%. If in addition, one excludes the effect of movements in foreign exchange rates, turnover was up 3.1% on 2004/05.

Adjusted Group operating profit (excluding exceptional items) in 2005/06 was £60.4 million (2004/05: £82.6 million). The reduction in adjusted Group operating profit resulted from decreases in UK Paper and Corrugated Packaging of £11.1 million, in Plastic Packaging of £2.1 million and in Office Products Wholesaling of £8.9m. Performance in Continental European Corrugated Packaging was broadly flat (down £0.1 million). Group adjusted operating profit in the first half of the year was £33.2 million (2004/05 H1: £42.6 million) and

in the second half was £27.2 million (2004/05 H1: £40.0 million). Adjusted full year operating profit from UK operations fell by £26.4 million to £18.4 million, principally due to lower profits in UK Paper and Corrugated Packaging and the UK business within Office Products Wholesaling. Adjusted operating profits from non-UK operations were up £4.2 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 3.7% (2004/05: 5.1%).

The Group incurred exceptional charges of £42.4 million during the year (2004/05: net exceptional charges of £9.6 million). These arose on the closure of loss-making paper capacity and related restructuring in UK Paper and Corrugated Packaging (£28.9 million), the disposals of the Office Products Manufacturing business (£1.7 million) and a business in the Plastic Packaging segment (£2.6 million), and an impairment charge against an investment in an independent UK packaging business (£9.2 million). Operating profit after exceptional items was £18.0 million (2004/05: £71.9 million).

The Group's adjusted return on capital employed (which is defined as the annualised adjusted operating profit divided by the average month-end capital employed) decreased from 8.7% in 2004/05 to 6.5% in 2005/06. This return is unacceptable as it is below the Group's estimated pre-tax cost of capital of circa 9%. The decline in the Group's return on capital employed reflects lower returns in 2005/06 across all the Group's segments, either as a result of the lower operating profits described above or, in the case of Continental European Corrugated Packaging, an increase in the capital employed following substantial investment in 2005/06, notably in a new Polish corrugated plant, the full-year benefits of which are not yet reflected in the result.

Net interest expense decreased from £13.2 million in 2004/05 to £12.3 million in 2005/06, mainly reflecting lower euro interest rates on broadly similar average net debt. Employment benefit finance income was £1.2 million (2004/05: £1.1 million).

The Group included £4.1 million as the Group's share of associated undertakings' after-tax profit, up from the adjusted share of after-tax profits of £3.4 million in 2004/05. This increase related mainly to the Group's share of operating profit from OJSC Rubezhansk, the Group's 39%-owned paper and packaging company in the Ukraine.

Adjusted profit before tax was £53.4 million (2004/05: £73.9 million). Profit before tax after exceptional items was £11.0 million (2004/05: £64.3 million).

The Group's effective tax rate, excluding exceptional items and associates, at 27%, was slightly higher than last year's rate of 25%, both years' rates 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.

Adjusted basic earnings per share were 10.0p (2004/05: 14.4p). Basic earnings per share were 1.1p (2004/05: 12.2p).

Dividend

The proposed final dividend is maintained at 5.8p (2004/05: 5.8p). The total dividend for the year is 8.4p (2004/05: 8.4p). Dividend cover before exceptional items was 1.2 times in 2005/06 (2004/05: 1.7 times). Dividend cover after exceptional items was 0.1 times (2004/05: 1.5 times).

Cash Flow

Cash generated from operations was £138.2 million (2004/05: £139.7 million). This reflects the lower adjusted operating profit, higher payments in respect of exceptional items, a significant inflow from working capital and an increase in pension payments. There were cash outflows in respect of exceptional items of £4.6 million (including cash outflows related to exceptional charges made in 2004/05), compared with £2.5 million in 2004/05. There was a strong focus on working capital management which resulted in a cash inflow of £27.4 million. In respect of pension payments, the Group agreed with the trustees to increase its annual contributions into the UK Group Pension scheme from £10.0 million in 2004/05 to £14.0 million in 2005/06, which is reflected in the higher pension cash contributions; contributions by the Group to the UK scheme will remain at this level in 2006/07. Purchase of fixed assets was £62.7 million; the £9.1million increase from 2004/05 reflects the investment in the new corrugated packaging facility in Poland and the investment within St Regis to support growth in plasterboard liner production in the UK.

Tax payments were £13.5 million (2004/05: £23.7 million) as a result of the lower adjusted trading profit described above and the 2005/06 exceptional charges, a substantial proportion of which gave rise to current tax deductions.

Free cash flow, before acquisitions, disposals and dividends, was £63.2 million (2004/05: £55.8 million). Cash dividend cover, defined as free cash flow divided by dividends paid/declared for the year, was 1.9 times, up from 1.7 times in 2004/05.

The net cash outflow on acquisitions and disposals of £0.3 million (2004/05: £11.7 million outflow) reflected disposal proceeds of £11.0 million, primarily on the sales of John Dickinson and BSK, offset by the £10.5 million paid on the acquisition of the Benelux office products wholesaling business, Timmermans NV. The amount in 2004/05 was primarily the consideration and costs for the acquisition of BPB Recycling.

Financial Position

Shareholders' funds totalled £532.1 million at 30 April 2006, up from £511.5 million at 30 April 2005. Net assets per share were 138.5p (2004/05: 133.6p). The profit attributable to the shareholders of DS Smith Plc was £4.2 million and dividends of £32.6 million were charged to reserves during the year. (These dividends were the 2004/05 final dividend and the 2005/06 interim dividend, since under IFRS the current year proposed dividend is not accrued in the year-end balance sheet.) In addition, after-tax actuarial gains of £37.9 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, related to foreign currency differences and hedge accounting, totalled £9.9 million.

The Group's closing net debt was £237.8 million, £25.0 million lower than at the start of the year, after adjusting for the adoption of IAS 39.

Gearing was 43.9% (2004/05: 50.7%, after adjusting for IAS 39); the decrease reflected the improvement in borrowings from the net cash inflow for the year and the increase in shareholders' funds from the reduction in the net pension deficit. Adjusted interest cover was 4.9 times, compared with 6.3 times last year, the lower cover reflecting the lower adjusted operating profit. The ratio of net debt to EBITDA (before exceptional items) was 1.9 times (2004/05: 1.7 times).

Energy Costs

The Group's result in 2005/06 was significantly affected by a further rise in energy costs, particularly during the winter period, even though the Group reduced its consumption by 6%; the cost increase had a particularly marked effect on our UK Paper operations which incur over three-quarters of the Group's energy and fuel costs. The Group's total costs for gas, electricity and diesel fuel increased from circa £73 million in 2004/05 to circa £95 million in

2005/06. This equates to an increase of circa £23 million, after adjusting for disposals, and was principally due to a 76% year-on-year rise in the UK average market price of gas, which we had partially hedged, and the expiry in October 2005 of the Group's favourable previous fixed-price UK electricity contract. A new floating-rate electricity contract, including flexible hedging arrangements, replaced the previous contract, reflecting the increase in the market price for electricity which was up 71% in the year.

The Group is managing its energy costs through a five point strategy:

- Maximising in-house energy generation from our combined heat and power (CHP) plants in the UK and France and a UK waste-to-energy plant, thereby taking advantage of the greater efficiency of the CHP process and benefiting from long-term energy supply contracts.
- Focusing our operational development and investment on our most energy-efficient plants while withdrawing from the least energy-efficient operations, such as Sudbrook Mill, the closure of which took place in April 2006.
- Reducing our energy usage across the Group through energy-saving projects, including investment in more energy-efficient boilers and electronic controls for heating and lighting systems. The Group's sites consumed 6% less energy in 2005/06 compared with 2004/05.
- Developing further our centralised energy purchasing operations in the UK and France. This approach enables us to obtain economies of scale in buying and to apply high levels of expertise, including using the application of the increasingly sophisticated price-hedging methods that are available.
- Monitoring regulatory developments in the energy market and collaborating with other heavy energy users in the paper and other industry sectors to influence government on energy policy and the operation of the energy markets.

Despite these actions, based on current forward energy market prices we expect the increase in our underlying energy costs in 2006/07 to be somewhat higher than the £10 million that we indicated at the time of our trading update in April.

Pensions

The Group operates two defined benefit pension schemes in the UK and has some small, overseas arrangements. The aggregate gross assets of the schemes at 30 April 2006 were £706.1 million and the gross liabilities at 30 April 2006, calculated under IAS 19, were £756.4 million, resulting in the recognition of a gross balance sheet deficit of £50.3 million (30 April 2005: £114.8 million); a net £35.3 million (30 April 2005: £80.3 million) after the establishment of a deferred tax asset of £15.0 million (30 April 2005: £34.5 million).

In order to control the future costs and financial obligations of these schemes, the Group's UK defined benefit pension schemes were closed to new members. The contributions collected from members have been increased during 2005/06 and will further increase during 2006/07. The lower service cost in 2005/06, £11.4 million compared with £12.8 million in 2004/05, reflects these higher member contributions. The Group also agreed to increase its contributions to the main UK scheme, from £10 million in 2004/05 to £14 million from 2005/06. The next triennial valuation of the scheme is to be carried out as at 30 April 2007.

The balance sheet funding position of the schemes is sensitive to market conditions, in particular the level of stock markets and bond yields, and actuarial assumptions, including the assumed longevity of scheme members. The balance sheet valuation of the schemes' obligations, under IAS 19, is generally more conservative than the valuations carried out by the trustees' actuary, since the balance sheet valuation discounts the future liabilities of the schemes at a bond rate which takes no account of the expected long-term out-performance of the schemes' investment in equities over gilts; the trustees' actuary's valuations take some of this out-performance into account.

The balance sheet deficit (before related deferred tax) decreased from £114.8 million at 30 April 2005 to £50.3 million at 30 April 2006. The decrease of £64.5 million included net actuarial gains of £54.4 million; the actual return on assets was higher than the expected return, but this was offset by an increase in the schemes' liabilities that resulted from a reduction in the discount rate used to value the liabilities, from 5.3% at 30 April 2005 to 5.1% at 30 April 2006. 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

The European market for corrugated packaging is estimated to be approximately €16 billion, equivalent to approximately 21 million tonnes or 39 billion square metres¹, of which the UK market is estimated to be approximately 10%. Demand for corrugated packaging is principally influenced by overall economic activity and manufacturing output.

In the calendar year 2005, the European market by weight for corrugated board grew by 0.9%². In western Europe the market grew by 0.3% while growth in eastern and central Europe continued to be much stronger at 5.8%. In DS Smith's principal markets, demand by weight fell by 1.9% in the UK, while in France and Italy it was flat (0.3% and nil growth, respectively), and in Poland and Turkey it grew strongly (by 9.3% and 7.6%, respectively). The continuing trend towards the use of more lighter-weight packaging, for cost and environmental reasons, meant that demand by area declined by 1.5% in the UK while it rose by 1.3% in Europe as a whole. The European market strengthened in the course of calendar year 2005 and has remained relatively buoyant in the early months of 2006, especially in Germany.

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 account for approximately two thirds of the corrugated market, has been relatively strong due to the resilience of this economic sector. Other current growth segments are the home delivery of products from internet purchases, and retail-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, with a typical operational radius of approximately 150 miles, owing to moderately high transport costs for what is a low-density product and the service requirements of customers.

There has been downward pressure on selling prices in recent years. Pricing and margins in corrugated packaging are strongly influenced by pricing developments on corrugated case materials (CCM), the paper used as the principal component in manufacturing corrugated packaging and typically accounting for around 50% of the cost of a box. CCM prices have been falling as a result of overcapacity, although in late 2005 this began to reverse as demand improved and CCM capacity was closed. The overall fall in CCM prices, compounded by the cost-down requirements of our customers, many of which supply retailers, has put significant pressure on prices.

Whereas boxes are generally sold locally, CCM is sold on a pan-European basis and pricing is therefore affected by European supply and demand factors. The total demand for CCM in western Europe is circa 20 million tonnes, with an additional approximately 3 million tonnes of demand in eastern Europe (not including Russia). The market for CCM in Europe is dependent upon European demand for corrugated packaging as imports and exports of

¹ Source: European Federation of Corrugated Board Manufacturers/DS Smith estimates

² Source: European Federation of Corrugated Board Manufacturers

unfilled boxes are negligible. Demand for CCM in Europe as a whole has grown at approximately 1.5% per annum over the last five years, while the UK market, of approximately 2 million tonnes, has been static or declining in recent years and is now some 3% smaller than five years ago. Approximately 75% of the market is waste-based or recycled CCM, with the balance principally comprising kraftliner, made from virgin wood pulp.

During the first half of 2005/06, low growth in corrugated packaging demand and excess CCM manufacturing capacity resulted in CCM prices declining. In early 2005, four new continental European CCM machines, with an aggregate capacity of approximately 1.3 million tonnes were commissioned. This new capacity, which was concentrated on lighter-weight papers, resulted in a severe destabilisation of selling prices throughout the European market. Since the autumn of 2005, the pace of removal of older CCM capacity from the market has increased with announcements of capacity closures from most of the larger producers as well as some from smaller independent companies. It is estimated that approximately 2.3 million tonnes of older capacity has been closed, or has been announced for closure, since the start of 2004. One further CCM machine was commissioned in early 2006, but no other significant capacity additions are expected in western Europe before the end of 2007.

The squeeze on CCM producers' margins from depressed selling prices was exacerbated during 2005 by the sharp increases in energy costs. Against a background of slightly stronger growth in demand for CCM across Europe and the removal of some capacity, CCM producers increased prices by approximately 20% between November 2005 and March 2006 to recover some of the margin decline. In response to this, box producers also increased prices in early 2006. To date, anecdotal evidence suggests that the rise in box prices across the industry is well short of that required to recover the paper and energy cost increases.

The pressure on CCM margins has been exacerbated by the relatively high cost of waste paper, the principal raw material for recycled CCM. Waste paper is a globally traded commodity; its continuing high level of demand from Asia is contributing to a modest continuing increase and short-term spikes in its price 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. As a reprocessor of waste paper, we receive revenue from the sale of PRNs to packaging waste compliance schemes and companies in the packaging supply chain that have an obligation under the Regulations to ensure that sufficient quantities of packaging are being recycled. We can set this PRN revenue against the cost of purchasing waste paper and investment in our waste collection and recycling operations. Paper PRNs were in relatively plentiful supply during 2005, mainly due to the sharply increased quantities of waste packaging being exported for recycling. Consequently, the price of paper PRNs remained relatively low during 2005 and has softened further in calendar year 2006 to date.

UK Paper and Corrugated Packaging

	2005/06	2004/05
Revenue - £m	649.6	631.2
Adjusted operating profit* - £m	20.5	31.6
Adjusted EBITDA* - £m	55.1	67.3
Adjusted return on sales* - %	3.2%	5.0%
Adjusted EBITDA margin* - %	8.5%	10.7%
Adjusted return on average capital employed* - %	4.0%	6.0%

* before exceptional items of £28.9 million (2004/05: £4.9 million)

2005/06 Performance

Our actions over the last two years to enlarge our Corrugated Packaging business and to enrich our product mix in Paper have strengthened the UK Paper and Corrugated Packaging

segment. However, the benefits of these actions were more than offset by lower selling prices during much of the year and a circa £18 million increase in energy costs.

Revenue increased by 2.9% to £649.6 million as a result of increased sales of higher added-value products from Kemsley, our principal paper mill, and growth in Severnside Recycling's external sales. Despite the achievement of the expected synergies of £14.5 million (2004/05: £6.1 million), resulting from the integration benefits of our 2004 corrugated packaging acquisition, adjusted operating profit was lower at £20.5 million (2004/05: £31.6 million).

DS Smith Packaging, our UK Corrugated Packaging business, was affected by the weak demand for boxes in the UK and some disruption to its operations as a result of the integration process which required the closure of two large facilities and the subsequent transfer of production to other plants to reduce costs. In the second half of the financial year, margins were squeezed by increased CCM costs. At the conventional plants, sales were lower and margins were affected by substantial price pressure. The speciality sector, which concentrates on higher added-value products, performed well, benefiting particularly from our businesses' design and printing capabilities. The Tri-Wall heavy-duty business, which sells predominantly to the industrial manufacturing sector of the economy, had a difficult year. Market conditions for our sheet feeding operations, which supply corrugated sheet board, were especially competitive due to industry over-supply.

At our UK paper business, St Regis, profits remained depressed due to a combination of a further squeeze on margins from substantial increases in energy costs and depressed selling prices for our main product, CCM, the latter during the first half of the financial year. We partly mitigated the impact of these external factors by increased production and a better sales mix at the division's largest mill at Kemsley. This improvement came from our drive to increase sales of plasterboard liner resulted in the sales volume of this product increasing to a run-rate of approximately 160,000 tonnes per annum in April 2006 from approximately 95,000 tonnes per annum in April 2005. The capital expenditure programme to upgrade existing machines at the Kemsley and Wansbrough mills, in order to satisfy the plasterboard liner requirements of BPB, is proceeding as planned. This investment will also enhance the quality of other products produced at these mills.

The Kemsley mill benefited from its advantageous energy supply position as a result of previous investment in on-site combined heat and power and waste-to-energy plants. The five smaller mills experienced a further sharp increase in energy costs. This particularly affected results at the Sudbrook, Wansbrough and Taplow mills, all of which were in loss. Hollins mill, which specialises in white top testliner, raised its output and enhanced the quality of one of its key products. Higher Kings mill continued to focus on higher margin, speciality, non-packaging papers. Sudbrook mill, which was St Regis' most energy-intensive production unit, was closed in March 2006 to staunch losses, as part of the Group's strategy to concentrate on mills with a long-term future. The closure of the smaller of the two paper machines at Wansbrough mill is expected early in the 2006/07 financial year. These capacity closures contributed £28.9 million to the overall exceptional charge of £42.4 million in the profit and loss account in 2005/06. Following these closures, Kemsley mill now accounts for over 60% of the division's paper production; it ranks in the upper quartile of European mills in terms of cost-competitiveness.

Sales and profits at our UK waste collection business, Severnside Recycling, advanced, principally as a result of the enlargement of its network of collection depots during the previous financial year. The price of waste paper remained high relative to the selling price of recycled paper with continued strong export demand. In addition to meeting the requirements of St Regis' mills for waste paper, Severnside increased its exports of waste paper and grew further its facilities management business where it manages customers' entire waste recycling and disposal needs.

We raised prices of the main grades of CCM by approximately 20% during the second half of the financial year in order to recover some of the previous margin erosion. Towards the end of the financial year, we increased box prices, which had been falling consistently until that point. Given that the Group's CCM production and usage are broadly in balance overall, higher CCM prices need to be passed on to our external customers through higher box prices in order to benefit the overall result. As the box price increase took place late in our financial year, these box price rises had only a small effect on the 2005/06 profits. The box price increases should benefit results in 2006/07 but the net effect they have on profits across the UK businesses will depend heavily on how input costs develop. We currently expect to incur a further increase in energy and fuel costs in our ongoing operations in this segment in 2006/07. In addition, the net cost of waste paper is continuing to increase as a result of rising demand from Asia and the falling value of PRNs.

Continental European Corrugated Packaging

	2005/06	2004/05
Revenue - £m	276.6	265.7
Operating profit - £m	20.1	20.2
EBITDA - £m	33.6	33.6
Return on sales - %	7.3%	7.6%
EBITDA margin - %	12.1%	12.6%
Return on average capital employed - %	12.4%	13.7%

2005/06 Performance

Despite the tough trading conditions, DS Smith Kaysersberg performed well thanks to our targeted market positions, good management of product mix and growth in eastern Europe.

Revenue increased by 4.1% to £276.6 million, principally as a result of strong growth in Poland and increased sales of solid board in France. Despite an increase in energy costs of circa £3 million and sharply increased CCM costs during the second half of the financial year, adjusted operating profit was flat at £20.1 million (2004/05: £20.2 million).

Sales and profits at the French paper mills grew following investment at the main Kaysersberg mill in 2005 which increased production capacity and reduced costs, thereby raising productivity. This mill, which has reduced its emissions of carbon dioxide through investment in a combined heat and power plant, also benefited from the sale of excess carbon credits under the EU Emissions Trading Scheme. The French Corrugated Packaging operations increased their market share but were affected by the pressure on box prices during much of the financial year. Despite highly competitive trading conditions in its local market, our Italian business performed satisfactorily and maintained its strong positions in the pizza box and ceramics market sectors.

Our Polish business grew both its sales and profits strongly. Its new green-field factory at Kutno, west of Warsaw, opened in November 2005 and complements the existing plant at Kielce. This Polish business primarily supplies the rapidly expanding, fast-moving consumer goods (FMCG) sector in Poland. Profits advanced well at our small converting business in the Czech Republic. In Turkey, where our business broke through into profit in 2004/05, we continued to focus on growing sales in higher margin industrial market sectors. OJSC Rubzhansk Paper and Packaging Mill in the Ukraine, in which we hold a 39% stake and the results of which are reported under associates, continued to perform well.

We implemented box price increases in all continental markets in our efforts to pass on the higher CCM costs but, as in the UK, this had little effect on results in 2005/06. In 2006/07, we anticipate being able to recover a substantial proportion of the increased CCM and energy costs.

Plastic Packaging

	2005/06	2004/05
Revenue - £m	202.4	195.9
Adjusted operating profit* - £m	7.2	9.3
Adjusted EBITDA* - £m	19.3	20.6
Adjusted return on sales* - %	3.6%	4.7%
Adjusted EBITDA margin* - %	9.5%	10.5%
Adjusted return on average capital employed* - %	5.6%	6.6%

* before exceptional items of £2.6 million (2004/05: £ 5.8 million)

Market Overview

The global market for liquid packaging and dispensing products is estimated to be approximately \$750 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). There is modest volume growth in North America and Europe but value growth is lower due to price competition. 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 uses. 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.

The European market for returnable transit packaging (RTP), which is estimated to be approximately €1.4 billion, is fragmented into many sub-sectors. The overall market has experienced steady growth in recent years, due to the increased requirement for the use of multi-trip, reusable packaging on cost and environmental grounds. However, during 2005/06 it is believed that there was relatively little growth in the European RTP market, principally as a result of the higher polymer costs. RTP products are used most within the retail, automotive, electronics and beverage sectors. Demand 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.

2005/06 Performance

Results at DS Smith Plastics were affected by the high level of polymer prices and a more competitive trading environment in both of our major sectors, liquid packaging and dispensing, and RTP. Our actions to raise prices, strengthen our sales and product development capability and increase productivity resulted in an improving trend of profit in the second half of the financial year.

Revenue increased by 3.3% to £202.4 million but adjusted operating profit was lower at £7.2 million (2004/05: £9.3 million). First half adjusted operating profit was £2.0 million (H1 2004/05: £6.2 million) while that in the second half improved to £5.2 million (H2 2004/05: £3.1 million). This result was adversely affected by polymer and energy costs combined being circa £7 million higher during 2005/06 than in the previous financial year. We endeavoured to pass on these higher costs by raising our selling prices but in some cases this led to a loss of business and where we did achieve increases these were insufficient to restore margins to acceptable levels. The cumulative effect of this input cost under-recovery was approximately £3 million during 2005/06, largely concentrated in our RTP business.

In liquid packaging and dispensing, sales were flat and profits were significantly lower. Our US operations performed satisfactorily on the back of good product development while sales of dispensing products remained strong. In contrast, we faced increased competition in Europe, particularly in higher margin products, although in the second half of the financial year results started to benefit from earlier restructuring action, our increased emphasis on new product development and growth in higher margin sectors.

Sales of RTP for 2005/06 as a whole were significantly higher than in the previous year despite being slow during the first half of the year. Margins were squeezed by the under-recovery of the higher polymer prices and, in the extruded sheet sector, by industry capacity increases at a time of weaker demand. Results improved in the second half of the financial year with the achievement of some price increases and a sharp revival in the volume of crate sales. The extruded product businesses continued to experience difficult trading but benefited, in the second half of the year, from action taken to strengthen its sales function. We are expanding our capability to supply in eastern Europe from the Group's plant in the Czech Republic, in response to increased sourcing of RTP products in that region by some customers.

The aggregate result of the smaller speciality businesses improved significantly. The packaging management business moved from break-even into profit following good sales growth, while sales at StePac, which specialises in modified atmosphere packaging, grew strongly. The small, non-core plastic coating and laminating business, BSK, was sold in December 2005, resulting in a loss on sale of £2.6 million.

Looking forward, a key issue in Plastic Packaging is the outlook for polymer prices and the extent to which we can recover the higher costs and further rebuild margins. We expect the improving trend within this segment to continue in 2006/07.

Office Products Wholesaling

	2005/06	2004/05
Revenue - £m	518.7	499.7
Operating profit - £m	12.6	21.5
EBITDA - £m	19.2	28.5
Return on sales - %	2.4%	4.3%
EBITDA margin - %	3.7%	5.7%
Return on average capital employed - %	9.9%	18.1%

Market Overview

The office products markets of the UK, France and Germany, in which Spicers currently has over 90% of its sales, are estimated to be worth approximately €9 billion, €8 billion and €11 billion, respectively, at trade prices. In 2005, these markets were estimated to have been broadly flat overall, with the traditional stationery sector declining and electronic office supplies (EOS) growing at up to 10% per annum³. 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 sector that Spicers principally supplies, that of office products dealers, 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 markets competition

³ Source: DS Smith estimates based on national data

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 approximately 15% of the total market; they generally sell to larger offices and offer a smaller range of products than dealers. The principal other competitor channels to market are: mail order, office superstores, other retailers and manufacturers selling direct to offices.

2005/06 Performance

Despite continued progress at our continental European businesses, Spicers' result was substantially affected by a sharp decline in the profitability in its UK business, largely from the erosion of its sales margin in the face of stronger competition. Spicers' cash flow remained strong.

Spicers' revenue advanced by 3.8% to £518.7 million, the growth coming almost entirely from the contribution of Timmermans, the Benelux business acquired in October 2005. The fall in profit in the UK more than offset better profits from continental Europe and resulted in the adjusted operating profit being lower at £12.6 million (2004/05: £21.5 million).

Spicers UK's sales were flat but its profit was sharply lower. This reflected general market price deflation, a significantly reduced sales margin from increased competitive pressure, and higher costs incurred to overcome service shortcomings. In response to increased competitor activity, Spicers UK's selling prices were eroded and customer rebates were increased significantly. The substantial deterioration in margins in Spicers UK, particularly from higher levels of customer retrospective rebates, only became fully apparent late in the financial year. This highlighted management process and control issues in Spicers UK which were addressed in that business unit through senior management changes and a review and reinforcement of control processes. The managing director and finance director of Spicers UK have left the business and action has been taken to strengthen the UK sales and operations functions. We are also accelerating the programme to reduce our structural cost base in the UK.

In 2005/06, Spicers made further major advances in rolling out its business model in continental Europe. Spicers France continued to perform well and profits advanced strongly. A new central distribution centre at Chateauroux, in central France, has been commissioned early in 2006/07. Spicers Germany consolidated its profitable position by concentrating its business on higher margin sectors of the market. The Spanish business continued to grow strongly and achieved a profit for the year through substantially higher sales at better margins. A new distribution centre near to Madrid is due to open in autumn 2006 which will extend our sales coverage across central and southern Spain. Spicers Italy, which was launched in the autumn of 2004, continued its encouraging build-up of sales. On 1 October 2005, we further extended Spicers' sales coverage in continental Europe through the acquisition of Timmermans NV, the leading office products wholesaler in the Benelux region; Timmermans has performed in line with our expectations.

Consolidated Income Statement

For the year ended 30 April 2006

	Note	Before exceptional items 2006 £m	Except- ional items (note 2) 2006 £m	After exceptional items 2006 £m	Before exceptional items 2005 £m	Except- ional items (note 2) 2005 £m	After exceptional items 2005 £m
Revenue	1	1,652.7	-	1,652.7	1,624.9	-	1,624.9
Operating profit	1	60.4	(42.4)	18.0	82.6	(10.7)	71.9
Finance income		2.3	-	2.3	4.7	-	4.7
Finance costs		(14.6)	-	(14.6)	(17.9)	-	(17.9)
Employment benefit finance income		1.2	-	1.2	1.1	-	1.1
Net financing costs		(11.1)	-	(11.1)	(12.1)	-	(12.1)
Profit after financing costs		49.3	(42.4)	6.9	70.5	(10.7)	59.8
Share of profit of associates		4.1	-	4.1	3.4	1.1	4.5
Profit before income tax		53.4	(42.4)	11.0	73.9	(9.6)	64.3
Income tax (expense) / credit	3	(13.4)	7.7	(5.7)	(17.6)	1.4	(16.2)
Profit for the financial year		40.0	(34.7)	5.3	56.3	(8.2)	48.1
Profit for the financial year attributable to:							
DS Smith Plc equity shareholders		38.9	(34.7)	4.2	55.3	(8.2)	47.1
Minority interest		1.1	-	1.1	1.0	-	1.0
Basic earnings per share (pence)	4	10.0p		1.1p	14.4p		12.2p
Diluted earnings per share (pence)	4	10.0p		1.1p	14.3p		12.1p
Dividend per share - interim, paid (pence)	5			2.6p			2.6p
- final, proposed (pence)	5			5.8p			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 2006 will be posted to shareholders in July 2006.
- Subject to approval of shareholders at the Annual General Meeting to be held on 6 September 2006, the final dividend of 5.8p will be paid on 19 September 2006 to ordinary shareholders on the register on 18 August 2006.
- The 2005/06 and 2004/05 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 2005/06 results and 2004/05 comparatives have been extracted from the 2005/06 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. The 2004/05 statutory accounts, which were prepared under UK generally accepted accounting principles (UK GAAP), have been reported on by the Group's auditors and filed with the Registrar of Companies.
- 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 2006

	2006	2005
	£m	£m
Actuarial gains/(losses) on defined benefit pension schemes	54.4	(31.2)
Movements on deferred tax relating to actuarial (gains)/losses	(16.5)	9.5
Currency translation differences, net of tax	9.7	(0.3)
Changes in the fair value of cash flow hedges, net of tax	0.2	
Net income / (expense) recognised directly in equity	47.8	(22.0)
Profit for the financial period	5.3	48.1
Total recognised income and expense attributable to the equity shareholders and minority interests relating to the financial year	53.1	26.1
Changes in accounting policy – adoption of IAS 32 & 39 from 1 May 2005	(1.5)	
Total recognised income and expense since the last financial statements	51.6	
Total recognised income and expense relating to the financial year attributable to:		
DS Smith Plc equity shareholders	52.0	25.1
Minority interest	1.1	1.0

Consolidated Balance Sheet

As at 30 April 2006

	2006 £m	2005 £m
Assets		
Non-current assets		
Intangible assets	195.4	190.9
Property, plant and equipment	536.1	559.3
Investments in associates	29.2	22.1
Other investments	0.5	10.1
Deferred tax assets	24.0	35.6
Other receivables	2.5	1.0
Derivative financial instruments	1.4	
Total non-current assets	789.1	819.0
Current assets		
Inventories	163.3	161.7
Other investments	0.1	-
Income tax receivable	4.8	1.0
Trade and other receivables	347.2	358.4
Cash and cash equivalents	60.4	58.8
Derivative financial instruments	3.7	
Total current assets	579.5	579.9
Total assets	1,368.6	1,398.9
Liabilities		
Non-current liabilities		
Interest-bearing loans and borrowings	(264.9)	(294.1)
Post-retirement benefits	(50.3)	(114.8)
Other creditors	(3.6)	(2.4)
Provisions	(2.8)	(7.2)
Deferred tax liabilities	(76.3)	(78.7)
Derivative financial instruments	(25.0)	
Total non-current liabilities	(422.9)	(497.2)
Current liabilities		
Bank overdrafts	(1.5)	(17.6)
Interest-bearing loans and borrowings	(7.7)	(7.8)
Trade and other payables	(355.3)	(335.5)
Income tax liabilities	(21.0)	(18.7)
Provisions	(16.7)	(2.3)
Derivative financial instruments	(2.0)	
Total current liabilities	(404.2)	(381.9)
Total liabilities	(827.1)	(879.1)
Net assets	541.5	519.8
Equity		
Issued capital	39.1	38.9
Share premium	259.4	257.0
Reserves	233.6	215.6
DS Smith Plc shareholders' equity	532.1	511.5
Minority interest	9.4	8.3
Total equity	541.5	519.8

Consolidated Statement of Cash Flows

For the year ended 30 April 2006

	Note	2006 £m	2005 £m
Operating Activities			
Cash generated from operations	6	138.2	139.7
Interest received		0.8	4.7
Interest paid		(12.8)	(18.0)
Income tax paid		(13.5)	(23.7)
Net cash flows from operating activities		112.7	102.7
Investing Activities			
Acquisition of subsidiary businesses, net of cash acquired		(10.5)	(11.7)
Divestment of subsidiary businesses, net of cash disposed of		11.0	-
Capital expenditure		(62.7)	(53.6)
Proceeds from sale of assets		9.7	5.2
Proceeds from sale of associate and other non-current investments		3.5	1.5
Cash flows from investing activities		(49.0)	(58.6)
Financing Activities			
Proceeds from issue of share capital		2.6	2.6
Purchase of own shares		-	(2.1)
Repayments of borrowings		(17.2)	(3.7)
Repayment of finance leases obligations		(0.9)	(0.9)
Dividends paid		(32.6)	(31.6)
Cash flows from financing activities		(48.1)	(35.7)
Net increase in cash and cash equivalents		15.6	8.4
Cash and cash equivalents at 1 May 2005		41.2	31.1
Exchange gains on cash and cash equivalents		2.1	1.7
Cash and cash equivalents at 30 April 2006		58.9	41.2

Notes to the Financial Statements

1. Segment Reporting

Primary reporting format – business segments

Year ended 30 April 2006	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	649.6	276.6	202.4	518.7	5.4	1,652.7
Operating profit before exceptional items	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%

Year ended 30 April 2005

External revenue	631.2	265.7	195.9	499.7	32.4	1,624.9
Operating profit before exceptional items	31.6	20.2	9.3	21.5	-	82.6
Exceptional items	(4.9)	-	(5.8)	-	-	(10.7)
Segment result	26.7	20.2	3.5	21.5	-	71.9

Other segment items:

Adjusted return on sales - % ¹	5.0%	7.6%	4.7%	4.3%	-	5.1%
Adjusted EBITDA - £m ¹	67.3	33.6	20.6	28.5	1.2	151.2
Adjusted EBITDA margin - % ¹	10.7%	12.6%	10.5%	5.7%	3.7%	9.3%
Year-end capital employed - £m	508.3	149.6	132.2	126.2	12.6	928.9
Average capital employed - £m ²	528.3	147.1	140.5	119.0	14.1	949.0
Adjusted Return on average capital employed - % ^{1,2}	6.0%	13.7%	6.6%	18.1%	-	8.7%

Secondary reporting format – geographical segments

Year ended 30 April	Turnover	
	2006 £m	2005 £m
UK	957.6	970.7
Western Continental Europe	570.5	543.3
Eastern Continental Europe	74.5	64.9
Rest of World	50.1	46.0
Total	1,652.7	1,624.9

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 represents the activity of the former Office Products Manufacturing segment and, in 2005/06, the loss on the disposal of that business and the impairment 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.

	2006 £m	2005 £m
Loss on disposal of businesses	(4.3)	-
UK Paper and Corrugated Packaging segment restructuring costs	(28.9)	(4.9)
Impairment charges	(9.2)	(5.8)
Reversal of previous impairment of associate	-	1.1
Total exceptional items	(42.4)	(9.6)

The loss on disposal of businesses 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 UK Paper and Corrugated Packaging restructuring costs in 2005/06 related to the closure of a paper mill, £20.3m, the closure of a paper machine at another mill, £5.0m, and other restructuring costs, £3.6m. The UK Paper and Corrugated Packaging restructuring costs in 2004/05 related to the restructuring of an acquired business.

The impairment charge in 2005/06 related to an investment in the debt securities of an independent UK packaging business, the performance of which has been affected by the current difficult trading conditions and the high costs of energy. The charge in 2004/05 related to the impairment of goodwill in a business in the Plastic Packaging segment.

The reversal of the previous impairment of associate in 2004/05 related to the Group's minority investment in a Japanese packaging company.

3. Income tax expense

Recognised in the income statement

	2006 £m	2005 £m
Current tax expense		
Current year	(13.5)	(23.3)
Over-provided in prior years	1.9	1.4
	(11.6)	(21.9)
Deferred tax expense		
Origination and reversal of temporary differences	6.2	1.3
Over-provided in prior years	(0.3)	4.4
	5.9	5.7
Total income tax expense in income statement	(5.7)	(16.2)

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

	2006	2005
	£m	£m
Profit before tax	11.0	64.3
Less: share of profits of associates	(4.1)	(4.5)
Profit before tax and share of profit of associates	6.9	59.8
Income tax calculated using the domestic corporation tax rate of 30%	2.1	17.9
Effect of tax rates in foreign jurisdictions	1.5	1.9
Non-deductible expenses	5.6	3.1
Recognition of previously unrecognised tax losses	(1.9)	(0.7)
Other	-	(0.2)
Adjustment in respect of prior years	(1.6)	(5.8)
Income tax expense	5.7	16.2

4. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 April 2006 is based on the net profit attributable to ordinary shareholders of £4.2m (2005: £47.1m) and the weighted average number of ordinary shares outstanding during the year ended 30 April 2006 of 387.2m (2005: 385.3m). The number of shares excludes the weighted average number of the Company's own shares held as treasury shares during the year of 2.5m (2005: 2.5m).

	2006	2005
	£m	£m
Net profit attributable to ordinary shareholders	4.2	47.1
Weighted average number of ordinary shares at 30 April (millions)	387.2	385.3
Basic earnings per share (pence per share)	1.1p	12.2p

Diluted earnings per share

The calculation of diluted earnings per share at 30 April 2006 is based on net profit attributable to ordinary shareholders of £4.2m (2005: £47.1m) and the weighted average number of ordinary shares outstanding during the year ended 30 April 2006, as adjusted for potentially issuable ordinary shares, of 388.8m (2005: 387.3m), calculated as follows:

	2006	2005
	£m	£m
Net profit attributable to ordinary shareholders	4.2	47.1

In millions of shares

Weighted average number of ordinary shares at 30 April	387.2	385.3
Potentially dilutive shares issuable under share option schemes	0.3	0.5
Estimated vesting of Long-Term Incentive Plan shares	1.3	1.5
Weighted average number of ordinary shares (diluted) at 30 April	388.8	387.3
Diluted earnings per share (pence per share)	1.1p	12.1p

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:

	2006		2005	
	£m	Pence per share	£m	Pence per share
Basic earnings	4.2	1.1	47.1	12.2
Add back: exceptional items in operating profit, after tax	34.7	8.9	9.3	2.5
Deduct: reversal of impairment of associate	-	-	(1.1)	(0.3)
Adjusted earnings	38.9	10.0	55.3	14.4

5. Dividends

Dividends declared and paid by the Group are as follows:

	2006		2005	
	Pence per share	£m	Pence per share	£m
Interim dividend paid	2.6	10.1	2.6	9.9
Final dividend proposed	5.8	22.5	5.8	22.4
	8.4	32.6	8.4	32.3

	2006	2005
	£m	£m
Paid during the year	32.6	31.6

A final dividend in respect of 2005/06 of 5.8 pence per share (£22.5m) was proposed by the Directors after the balance sheet date. Under IFRS, this dividend has not been provided for in the financial statements.

Subject to approval of shareholders at the Annual General Meeting to be held on 6 September 2006, the final dividend will be paid on 19 September 2006 to shareholders on the register at the close of business on 18 August 2006.

6. Cash generated from operations

	2006 £m	2006 £m	2005 £m	2005 £m
Profit for the year		5.3		48.1
Adjustments for:				
Exceptional items – non-cash amounts	37.8		7.1	
Depreciation and amortisation	67.2		68.6	
Profit on sale of non-current assets	(7.1)		(1.8)	
Share of profit of associates (after tax)	(4.1)		(3.4)	
Other finance income	(1.2)		(1.1)	
Equity settled share-based payment expenses	0.1		1.1	
Interest income	(2.3)		(4.7)	
Interest expense	14.6		17.9	
Income tax expense	5.7		16.2	
		110.7		99.9
Changes in working capital:				
- Inventories	(4.2)		(9.1)	
- Trade and other receivables	13.1		(9.5)	
- Trade and other payables	18.5		11.7	
- Provisions and employee benefits	(5.2)		(1.4)	
		22.2		(8.3)
Cash generated from operations		138.2		139.7

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

	2006 £m	2005 £m
Operating profit before exceptional items	60.4	82.6
Depreciation and amortisation	67.2	68.6
EBITDA	127.6	151.2
Working capital movement	27.4	(6.9)
Exceptional cash costs	(4.6)	(2.5)
Other	(12.2)	(2.1)
Cash generated from operations	138.2	139.7
Capital expenditure	(62.7)	(53.6)
Proceeds from sales of assets and investments	13.2	6.7
Taxation	(13.5)	(23.7)
Interest	(12.0)	(13.3)
Free cash flow before net acquisitions/disposals and dividends	63.2	55.8
Dividends	(32.6)	(31.6)
Net (acquisitions)/disposals of subsidiaries	0.5	(11.7)
Net cash flow	31.1	12.5
Proceeds from issue of share capital	2.6	2.6
Net purchase of own shares	-	(2.1)
Borrowings (acquired)/disposed of	(2.6)	-
Non-cash movements	(6.1)	1.7
Net debt movement	25.0	14.7
Opening net debt*	(262.8)	(275.4)
Closing net debt	(237.8)	(260.7)

* Opening net debt at 1 May 2005 has been restated for the effects of the adoption of IAS 39, as explained further in note 9 below.

8. Acquisitions and disposals

On 30 September 2005, the Group acquired 100% of the voting share capital of Timmermans NV, the largest office products wholesaler in the Benelux region of Europe. The effect of the acquisition on the Group's assets and liabilities was as follows:

	Carrying values before acquisition £m	Provisional fair values £m
Intangible assets	-	1.7
Property, plant and equipment	0.6	3.4
Other working capital items and provisions	7.3	5.2
Other interest-bearing loans and borrowings	(2.6)	(2.6)
Net assets acquired	5.3	7.7
Goodwill		2.8
Consideration		10.5
Consideration satisfied by:		
Cash paid of £11.7m, less cash and cash equivalents acquired of £1.2m		10.5

The fair value adjustments relate to the recognition of intangible assets, the valuation of land and buildings and the alignment of accounting policies within working capital and provisions. The fair value adjustments contain some provisional amounts; these will be finalised in the accounts to 30 April 2007.

The Group paid £11.7m as consideration for the purchase of Timmermans, acquired cash and cash equivalents of £1.2m and acquired borrowings of £2.6m, as shown in the table above. Additional consideration, of up to £2.8m, is payable to the previous owners depending on the performance of the business in future financial periods.

In July 2005, the Group sold its Office Products Manufacturing business, John Dickinson, for a loss of £1.7m. In December 2005, the Group sold its plastic coating and laminating business, BSK, in the Plastic Packaging segment for a loss of £2.6m. Total proceeds for the disposals in the year were £11.0m, net of cash and cash equivalents disposed of.

In August 2004, the Group acquired BPB Recycling, a recovered paper collection business, from BPB Plc for consideration of £9.4m. Negative goodwill of £0.2m arose, which was credited to the income statement.

9. Basis of preparation – adoption of IFRS

The financial statements for the year to 30 April 2006 have been prepared under International Financial Reporting Standards, as adopted for use in the EU (IFRS). The 2004/05 comparative information has been restated from UK GAAP accordingly, other than for financial instruments, in respect of which the Group has chosen to adopt IAS 32 and IAS 39 from 1 May 2005. A comprehensive analysis and explanation of the adjustments made by the Group on the transition to IFRS from UK GAAP was first published on 13 October 2005 and a copy of this announcement can be found on the Company's website www.dssmith.uk.com/invest-report.asp.