



DS SMITH PLC – 2007/08 PRELIMINARY RESULTS

DS Smith Plc, the international packaging and office products wholesaling company, announces its results for the year ended 30 April 2008.

Highlights

- Strong revenue growth, improved margins and good cash flow
- Packaging: better pricing recovering higher input costs; growth in value-added products
- Office Products Wholesaling – Spicers: good progress in rebuilding profits
- Investments for future growth; most significantly, the development in lighter-weight packaging

Financial Summary

	2007/08	2006/07	% change
Revenue – £m	1,967.5	1,766.1	+11%
Adjusted profit before tax ⁽¹⁾ – £m	111.0	74.6	+49%
Profit before tax – £m	109.1	78.5	+39%
Adjusted earnings per share ⁽¹⁾ – pence	19.9	13.1	+52%
Earnings per share – pence	19.6	15.6	+26%
Adjusted return on average capital employed ⁽¹⁾ – %	12.9%	8.7%	
Free cash inflow ⁽²⁾ – £m	79.0	84.0	
Net debt/adjusted EBITDA – times	1.4x	1.3x	
Total dividend per share – pence	8.8	8.6	

(1) before exceptional charge of £1.9m (2006/07: net exceptional income of £3.9m)

(2) before dividends and net acquisitions; (2006/07: £54.4m excluding the net cash consideration of £29.6m from the sale of the Taplow site)

Commenting on the results, Chairman, Peter Johnson said:

“These strong results reflect the benefits of our continuing actions to raise returns across the Group. In Packaging, we are taking advantage of opportunities to invest in growth areas and seeking to improve the stability of this activity’s results over the cycle. In Office Products Wholesaling, we continue to rebuild profits in the UK, while developing our existing continental European businesses. In the light of these results and our confidence in the Group’s future prospects, the Board is proposing an increased final dividend.”

Tony Thorne, Group Chief Executive said:

“The 2007/08 result provides a good profit base. The current financial year’s operating performance will be affected by slowing demand and higher input costs. We expect to partly offset the effect of this tougher trading environment through tight cost and cash discipline across all our operations and continued progress in our strengthened Packaging converting and Office Products Wholesaling businesses. We remain on track to commission our new lightweight paper machine in January 2009.”

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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 the following numbers:

UK participants: 0845 146 2004

International participants: +44 (0) 1452 569 393

Call reference number - 50586878

The presentation slides used at this briefing will be posted in the Investors/Presentations section of the Group's website (www.dssmith.uk.com) from 9.25am.

A replay of the briefing will be available by telephone for five days, from 30 minutes after the meeting has ended on: +44 (0) 1452 550 000 (PIN: 50586878#) and an audio recording of the briefing will be available on the website from approximately 2.00pm BST today.

CHIEF EXECUTIVE'S REVIEW

In 2007/08, the Group achieved a 54% advance in adjusted operating profit to £119.6 million.

A tighter supply position for corrugated case material (CCM) and corrugated packaging during much of the financial year provided good support for our price increase programme, aimed at recovering the higher input costs we have been incurring for some time. We also benefited from the actions taken in both our activities, Packaging and Office Products Wholesaling, to improve the business mix and raise cost competitiveness.

Towards the end of the financial year, we announced a major investment project aimed at reinforcing our position as a leader in lighter-weight packaging, by giving us a significant capability in the growth segment of high-quality lightweight CCM.

The improvement in the Group's pre-tax adjusted return on average capital employed in 2007/08 of 12.9% (2006/07: 8.7%) represents good progress towards meeting our target to exceed the Group's estimated weighted average cost of capital of 11.5% over the business cycle.

Strategy

The Board regularly reviews the Group's composition and strategy to assess that these are best able to generate value for shareholders. We are confident that the strategy we are pursuing will provide good opportunities for organic development of the Group. In instances where it will enable us to fulfil our strategic development plans we will acquire businesses. We remain prepared to exit businesses which are not likely to meet our strategic objectives in the longer-term.

The strategy has strengthened the Group, giving us a good base from which to compete. It is ensuring that we are developing our strong market positions in both Packaging and Office Products Wholesaling and raising operational performance across our businesses. An aim of our strategy is to dampen the volatility of the Group's results through our industry's business cycle, particularly by ensuring that there is sufficient profit growth in the less cyclical parts of our Packaging operations to achieve long-term progress.

In the coming financial year we are prepared for tougher trading conditions, reflecting difficulties in the world economies, particularly those of the UK, the rest of western Europe and the USA. We have established a number of strategic priorities with the objective of continuing to progress the implementation of the strategy whilst maintaining cost discipline and a strong balance sheet.

In Packaging, we will provide market-leading service to our customers across the product range, but concentrate our pursuit of growth in targeted higher value-added sectors of the market. In Corrugated Packaging, these include retail-ready and promotional packaging, mainly for the fast-moving consumer goods market, and heavy-duty packaging for industrial users, while in Plastic Packaging we have a number of good growth opportunities for our returnable transit packaging (RTP) business in both the industrial and retail parts of the market. We will build on our existing positions in the faster-growing markets of central and eastern Europe and Russia. We are targeting to extend our recycling capability to take advantage of the demand for increased recycling associated with the environmental pressures to reduce the quantity of waste going to landfill. In Paper, the priority is to reinforce our position in CCM, by successfully completing our project to supply high-quality lightweight CCM at Kemsley Mill, but we will also develop further our growing position in plasterboard liner.

In Office Products Wholesaling, we will maintain our focus on rebuilding profits in the UK while developing the considerable potential of our existing businesses in continental Europe. We will increase further our support for our dealer customers by developing our fulfilment services, enhancing our e-commerce and promotional tools and exploiting our capability to supply those products that resellers choose to offer but do not stock.

Packaging

2007/08 was a relatively good year across our Packaging activity. Despite significant cost pressure, we advanced in all three segments. The improved results were built around cost recovery through better pricing but this would not have been possible without our close attention to providing good customer care and high service levels. It was pleasing to see the growth coming through in the targeted higher value-added sectors of our businesses, a result of our improved product and market development capability supported by focused capital investment.

In the year, we made a major acquisition to support the development of our capability in lightweight CCM at Kemsley Mill, we strengthened our position in promotional packaging through the acquisition of Multigraphics and we extended our network of packaging converting operations in eastern Europe through establishing new manufacturing facilities. We also strongly supported our Ukrainian associate in its substantial development programme.

UK Paper and Corrugated Packaging

In 2007/08, the UK Paper and Corrugated Packaging segment, which accounts for 38% of Group revenue and 52% of Group average capital employed, achieved a £32.0 million improvement in adjusted operating profit to £68.5 million and an adjusted return on average capital employed of 14.3%. All three elements of the supply chain in this segment – Severnside Recycling, St Regis Paper and DS Smith Packaging – contributed well to the improved result.

Our programme to raise prices enabled us largely to recover the previously incurred higher input costs although further increases in energy costs are maintaining the pressure on margins.

Severnside Recycling, which supplies the waste paper raw material for our own recycled paper mills, continued to develop the services it provides to third parties to generate additional revenue from its waste collection network and recycling expertise. Our UK paper business continued to focus on raising the operational performance of its mills and the development of plasterboard liner sales. In our UK corrugated packaging business, we benefited further from our capability to service the market competitively with value-added products from our conventional box plant network and our group of speciality corrugated businesses. The investment and product development effort we have targeted at the growing retail-ready and decorative packaging sectors contributed strongly to our success.

In February 2008, we announced our plan to produce high-quality lightweight CCM at Kemsley Mill through the acquisition and subsequent modification of the adjacent New Thames Paper Mill. The entire project is expected to cost circa £104 million, funded from the Group's existing debt facilities. Work is already well-advanced on the modification of the facilities and we plan to commence production of lightweight CCM in January 2009. This investment will materially strengthen the long-term competitiveness of our UK Paper and Corrugated Packaging business by giving us, at a very advantageous investment cost, a significant capability in an important growth segment of the CCM market. It demonstrates our commitment to developing our UK business and reinforces the Group's position as a leader in meeting the growing demand for high-quality lighter-weight corrugated packaging. The project is expected to generate good financial returns in its first full year of operation (2009/10) and provide very good returns for shareholders in the longer-term.

Having raised the level of returns in UK Paper and Corrugated Packaging to a more satisfactory level, we are now focused on sustaining an improved level of returns from this segment over the business cycle. As we start the financial year, the strength of the euro is assisting our competitiveness and pricing but we are faced with some slowing in demand, continued high waste paper costs, further rises in energy costs and lower paper prices on the continent; although we expect margins in our Paper business to be under pressure, we will drive for further progress in our recycling and converted packaging operations.

Continental European Corrugated Packaging

Despite facing significantly higher input costs, this segment achieved improved results with operating profit increasing to £20.3 million (2006/07: £18.2 million). Our businesses in the established markets of France and Italy performed creditably, assisted by their attention to raising productivity and their focus on higher value-added sectors of the market, such as heavy-duty packaging. As indicated at the half-year, results were poor in Turkey, where market conditions were tough; we are implementing an extensive action plan to rebuild profits. By contrast, our developing Polish business made further strong progress due to a combination of good growth and an increased proportion of higher value-added product in our sales mix. The high-quality operation that we have developed in Poland provides us with a good hub from which to develop in central and eastern Europe. We already have satellite operations in three countries and will be seeking to extend our network of businesses in this region as well as developing further in Poland.

Results at our Ukrainian associate business were adversely affected by a major fire; its performance is now recovering. Its investment programme, designed to raise capacity and extend its product range, is progressing; we have established a good capability in the fast growing market of plasterboard liner.

In Continental European Corrugated Packaging, we are faced with higher energy costs and softer demand as we start 2008/09. We will maintain our focus on the higher value-added sectors of the market and the opportunities presented by our developing markets.

Plastic Packaging

Plastic Packaging achieved a solid advance in adjusted operating profit to £10.7 million (2006/07: £10.2 million). Good progress in RTP and the division's two smaller businesses was partly offset by weaker results in liquid packaging and dispensing.

In RTP, beverage crate sales were strong as a result of the fulfilment of several large contracts and the success of new products. The extruded products businesses recovered some of the higher costs of polymer and benefited from our previous actions to strengthen the sales and product development functions; we have good opportunities for further sales development based on new products and our growing presence in eastern Europe. In liquid packaging and dispensing, profit margins in both taps and bags were affected by competitive pressures. The USA business benefited from the introduction of new products and the development of new markets; this progress was more than offset by weaker results in the European business due to continuing competitive pressures. The programme for implementing the restructuring of our German bag-in-box operations has been agreed with our employees and is due to be completed by April 2009. The smaller packaging management and modified atmosphere packaging businesses both achieved good profit improvement.

Polymer costs have recently risen again; a priority for the coming year will be the mitigation of these higher input costs. We expect developments in new products and new market sectors to assist us in this objective.

Office Products Wholesaling

The significant improvement in this segment's results was in line with our three-year plan, initiated in 2006/07, to rebuild profits. Adjusted operating profit increased by £7.3 million to £20.1 million due to advances in both the UK and continental Europe.

In Spicers UK, our programme of actions resulted in improved service levels as we moved through 2007/08, reaching a good level as we exited the financial year. The strong sales growth was all in electronic office supplies (EOS) products, which reflects a deliberate move to support our dealers in these products. The proportion of EOS in our sales mix now more closely reflects that of the market as a whole and we will look to grow our sales of both EOS and non-EOS product as we develop the business. Costs were lowered in the distribution network through the closure of the Park Royal distribution centre. Our e-commerce system has been strengthened further and is providing a good basis for competitive advantage. Our UK action programme is being reinforced to ensure the achievement of our targeted further progress in this important business.

In our continental European businesses, which account for circa 50% of Spicers' total revenue, the established French and Benelux businesses again performed well while our businesses in Germany, Spain and Italy each achieved significant goals in their development plans. The growth of the Italian business, ahead of its plan, is particularly encouraging.

Spicers has been well-received when it has entered new continental European markets. The size of its product range, its purchasing power and its service offering, enable dealers to compete more effectively in the market, thus boosting sales in the dealers' distribution channel. The performance of our continental European development businesses has further reinforced our confidence in the potential for the Spicers business model across Europe.

Our objective for Spicers is to maintain progress on two fronts: continuing the rebuilding of profits at Spicers UK and developing further our existing continental European network.

Our People

The considerable advances in the Group's operational performance and our substantially improved results have been achieved through the skills, ideas and hard work of our employees. When I visit any of our businesses I am hugely impressed by the extent of the commitment, enthusiasm and creativity demonstrated by our people. I am grateful to them for their enormous contribution to the success of the Group.

Outlook

The 2007/08 result provides a good profit base. The current financial year's operating performance will be affected by slowing demand and higher input costs. We expect to partly offset the effect of this tougher trading environment through tight cost and cash discipline across all our operations and continued progress in our strengthened Packaging converting and Office Products Wholesaling businesses. We remain on track to commission our new lightweight paper machine in January 2009. As expected, profit before tax in 2008/09 will be impacted by a non-cash increase of circa £10 million in the finance costs related to the employment benefit finance charge.

FINANCIAL REVIEW

Trading Results

Revenue for the financial year ended 30 April 2008 increased by 11.4% over the prior year; 8.5% higher in the first half of the year and 14.2% higher in the second half. Excluding the effects of the acquisitions of M-real New Thames Limited and Multigraphics Holdings Limited, and closures in the prior year, revenue was up 11.0%. If, in addition, the translation effect of movements in foreign exchange rates is

excluded, revenue was up 8.4% on 2006/07 (up 9.6% in the first half of the year and up 7.2% in the second half).

Adjusted Group operating profit (excluding exceptional items) in 2007/08 was £119.6 million (2006/07: £77.7 million). The increase in adjusted Group operating profit resulted from improvements in all four reporting segments. There was a strong advance of £32.0 million in UK Paper and Corrugated Packaging, while Office Products Wholesaling increased by £7.3 million, Continental European Corrugated Packaging progressed by £2.1 million and Plastic Packaging increased by £0.5 million. Group adjusted operating profit in the first half of the year was £60.4 million (2006/07 H1: £30.4 million) and in the second half was £59.2 million (2006/07 H2: £47.3 million). The Group's adjusted return on sales was 6.1% (2006/07: 4.4%).

The Group recorded exceptional charges before interest and tax of £1.9 million during the year (2006/07: net exceptional benefit of £1.9 million). This net exceptional charge arose from the restructuring of our European liquid packaging and dispensing operations within Plastic Packaging. Operating profit after exceptional items was £117.7 million (2006/07: £79.6 million).

The Group's adjusted return on average capital employed (which is defined as the adjusted operating profit divided by the average capital employed) increased from 8.7% in 2006/07 to 12.9% in 2007/08, above the Group's estimated pre-tax cost of capital of 11.5%. The improvement in the Group's return on capital employed reflects better returns in 2007/08 in UK Paper and Corrugated Packaging and also Office Products Wholesaling, offset by lower returns in Continental European Corrugated Packaging, whilst returns from Plastic Packaging were broadly flat.

Interest, Tax and Earnings per Share

Net interest expense increased from £15.0 million in 2006/07 to £20.8 million in 2007/08, reflecting higher interest rates and increased average net debt. Net interest expense also increased due to a £3.1 million charge from an increase in the fair value of put options held by minority, non-controlling shareholders in a subsidiary of the Group. Employment benefit net finance income, which is a non-cash item, was £8.8 million (2006/07: £8.0 million), reflecting the lower opening deficit of the defined benefit schemes. For 2008/09, given the higher discount rate used and higher opening deficit, it is anticipated that there will be an increase in the employment benefit finance charges of circa £10 million.

The Group included £3.4 million as the Group's adjusted share of associated undertakings' after-tax profits, down from £3.9 million in 2006/07. Within this amount, £3.3 million (2006/07: £3.6 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; the decline in the profits from associates is also due to the Group's lower share of profits from its Japanese packaging associate, following the disposal in the year of the Group's remaining share of 6.3%.

Adjusted profit before tax was £111.0 million (2006/07: £74.6 million). Profit before tax after exceptional items was £109.1 million (2006/07: £78.5 million).

The Group's effective tax rate, excluding exceptional items and associates, at 29.4%, was lower than last year's rate of 32.2%, due to the release of £2.4 million of deferred tax provisions following the reduction in the UK rate of corporation tax from 30% to 28% with effect from 1 April 2008. Excluding the effect of the deferred tax provision release, the effective tax rate was slightly lower than the prior period due to the increased proportion of UK generated profit within the total Group profit. Adjusted basic earnings per share were 19.9p (2006/07: 13.1p). Basic earnings per share were 19.6p (2006/07: 15.6p).

Dividend

The proposed final dividend is increased to 6.2p (2006/07: 6.0p). The total dividend for the year is 8.8p (2006/07: 8.6p). Dividend cover before exceptional items was 2.3 times in 2007/08 (2006/07: 1.5 times). Dividend cover after exceptional items was 2.2 times (2006/07: 1.8 times).

Cash Flow

Cash generated from operations was £179.8 million (2006/07: £128.0 million). This reflects the higher adjusted operating profit, lower exceptional cash restructuring costs and an increased inflow from working capital. The cash outflow in respect of exceptional restructuring costs was £5.8 million (including cash outflows related to exceptional charges made in 2006/07), compared with a cash outflow from restructuring costs of £7.2 million in 2006/07. There was a strong focus on working capital management which resulted in a cash inflow of £13.2 million. In respect of pension payments, the agreed annual contribution into the combined UK Group Pension scheme was £14.6 million in 2007/08 (2006/07: £14.6 million). Capital expenditure payments were £66.5 million, up from £55.8 million in 2006/07; the most significant investments were new printing technology in the UK and Continental Europe and increased production capability for plasterboard liner production in UK. The proceeds from the sales of assets reduced by £31.7 million; the 2006/07 amount included the net cash consideration of £29.6 million for the sale of the Taplow site. The interest paid increased in line with the income statement charge.

Tax payments were £27.8 million (2006/07: £15.1 million) principally due to the higher adjusted trading profit described above. Free cash flow, before acquisitions, disposals and dividends, was £79.0 million (2006/07: £84.0 million). Excluding sale of assets, free cash flow generated was £69.7 million (2006/07: £43.0 million) an improvement of 62.1%.

Cash dividend cover, defined as free cash flow divided by dividends paid in the year, was 2.3 times, down from 2.6 times in 2006/07.

The net cash outflow on acquisitions and disposals was £87.2 million (2006/07: £0.2 million inflow) principally accounted for by the acquisitions of M-real New Thames Limited (£67.4 million) and Multigraphics Holdings Limited (£6.7 million). Additionally £11.9 million was incurred as settlement of deferred consideration to minority shareholders in the Group's subsidiary in Italy, Toscana Ondulati SpA.

Financial Position

Shareholders' funds totalled £601.7 million at 30 April 2008, up from £569.4 million at 30 April 2007. Net assets per share were 153.9p (30 April 2007: 144.9p). The profit attributable to the shareholders of DS Smith Plc was £76.6 million and dividends of £33.7 million were paid during the year. In addition, after-tax actuarial losses of £51.6 million on the Group's defined benefit pension schemes were debited to reserves through the statement of recognised income and expense. Other items recognised directly in equity, relate to currency translation of £24.3 million, movements in cash flow hedges of £14.5 million and other movements of £2.2 million.

The Group's closing net debt was £251.8 million, £70.6 million higher than at the start of the year, the major elements of which were the net cash outflow during the year of £41.9 million (after £87.2 million of net acquisitions) and non-cash movements, principally exchange differences and related fair-value movements, of £25.6 million.

Gearing was 41.8% (30 April 2007: 32.0%); the movement reflected the increase in borrowings resulting from the net cash outflow for the year, which was proportionally greater than the increase in shareholders' funds. Adjusted interest cover was 5.8 times, compared with 5.2 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 1.4 times (2007/08: 1.3 times).

Energy Costs

The high level of energy costs continued to be a significant factor for the Group in 2007/08. The Group's total costs for gas, electricity and diesel fuel increased from £88 million in 2006/07 to £91 million in 2007/08. After adjusting for the effects of the acquisition of New Thames Paper Mill and the closure of Taplow Mill, this represents an underlying increase of £2 million. Market prices for energy in the UK increased over the year, more so for electricity than gas. The Group continued with its strategy of hedging the energy costs with suppliers and financial institutions.

Approximately 40% of the Group's energy costs, principally related to our largest energy-consuming facilities, are incurred under supply contracts in which movements in our energy costs tend to lag the trends in market prices.

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 2008 were £721.8 million and the gross liabilities at 30 April 2008, calculated under IAS 19, were £797.7 million, resulting in the recognition of a gross balance sheet deficit of £75.9 million (30 April 2007: £18.6 million), a net deficit of £54.5 million (30 April 2007: £13.0 million) after the establishment of a deferred tax asset of £21.4 million (30 April 2007: £5.6 million). The increase of £57.3 million in the gross deficit was principally due to changing the mortality assumptions for the UK scheme to PMA92/PFA92 medium cohort, and reduced asset values.

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 lower current service cost in 2007/08, £8.7 million compared with £9.4 million in 2006/07, is principally due to reduced membership of the scheme. The Group's agreed annual fixed cash contributions to the combined UK scheme were £14.6 million (2006/07: £14.6 million). The triennial valuation of the scheme as at 30 April 2007 will be finalised by 31 July 2008.

OPERATING REVIEW

PACKAGING

Paper and Corrugated Packaging Market Overview

The corrugated packaging market

Usage of corrugated packaging (boxes) for the fast-moving consumer goods (FMCG) sector, which accounts for approximately two thirds of the corrugated market, has remained strong. Demand from the FMCG sector has particularly benefited from the continued growth of 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 value-added boxes, often requiring multi-passes within the production process, has contributed to a higher level of capacity utilisation across the corrugated industry. Another consumer-focused area of usage for corrugated packaging which is growing is promotional applications, incorporating high-quality printing and design for RRP, retail and promotional display material and other uses.

In the calendar year 2007, the European market for corrugated packaging, measured in square metres, grew by 2.6%¹. Demand in western Europe grew by 1.8%, although within this the UK market fell by 1.2%. Demand growth in eastern and central Europe continued to be much stronger at 7.0%. Owing to cost and environmental pressures, there is an increasing emphasis in most markets on reducing the average weight of packaging. As a result, European demand growth when measured by weight was 1.6% and the UK market, which is at the forefront of the lightweighting trend, fell by 2.9%. Across Europe, market growth began to slow during the second half of 2007 and recent indicators suggest that the market has continued to be sluggish in the early months of 2008.

The corrugated case material market

The total demand for CCM in Europe (including eastern and central Europe but not Russia) is circa 25 million tonnes. The strong trend towards the greater use of lighter-weight corrugated packaging is being driven not only by the continuing pressure through the supply chain to reduce the cost of packaging but also the increased attention being given to the quantity and type of packaging being used in order to reduce the amount of waste going to landfill. Corrugated packaging is fully recyclable and the trend towards use of lighter-weight boxes has been enabled by the increasing availability of high-quality

¹ Source: European Federation of Corrugated Board Manufacturers/Confederation of Paper Industries

lightweight recycled CCM with good strength characteristics. This lightweight CCM allows box manufacturers to produce packaging with high performance characteristics while reducing the weight of material used. Lightweight recycled CCM is estimated to account for circa 7% (circa 1.8 million tonnes) of the total European CCM market currently and this share is expected to rise to circa 15% (circa 4 million tonnes) by 2010, representing a growth of circa 2 million tonnes. Although there is strong demand for high-quality, lightweight CCM, growth in this segment of the CCM market will continue to be limited by the available supply of lightweight paper as the majority of the existing CCM machines are unable to manufacture lightweight papers cost-effectively or to an acceptable quality.

The European industry supply and demand position for recycled CCM has been broadly in balance since early 2006. Although no significant CCM capacity additions are expected in the second half of 2008, four European recycled CCM producers, including DS Smith, have announced their intentions to invest in new machines capable of producing lightweight CCM. These four new machines will be located in the UK, Germany, Poland and Hungary and are due to start production during 2009. The new capacity will produce circa 1.8 million tonnes per annum when it is fully operational, which will represent an overall increase in capacity of approximately 7%. It is expected that the production from the new machines will principally be targeted at satisfying the rapidly growing European demand for lightweight paper.

CCM and box prices

Following a period during 2004 and 2005 of falling CCM and box prices and sharply rising energy and waste paper input costs, a tighter European supply and demand position on CCM and corrugated packaging enabled CCM and box producers to increase their prices, in several stages, during 2006 and 2007. This resulted in a recovery of the higher input costs of energy and waste paper and improved margins. The most recent CCM price increase occurred in September 2007, following which box producers increased their prices over the subsequent months to recover the higher paper costs. Since the start of 2008, the slow-down in demand for boxes has resulted in some softening of CCM prices, particularly in continental Europe. The strength of the euro has provided support to prices in the UK.

Waste paper

The price of old corrugated containers (OCC), the principal grade of waste paper used for producing CCM, rose by circa 35% between January 2007 and April 2008². This was largely due to the continuing high level of demand for it from Asia as a result of the recent substantial investment in recycled paper manufacturing in that region. In the UK, the higher net cost of our raw material has also been exacerbated by the continuing very low value of Packaging Recovery Notes (PRNs), which are issued as evidence that packaging has been reprocessed, in compliance with the UK Packaging Waste Regulations.

UK Paper and Corrugated Packaging

	2007/08	2006/07
Revenue – £m	753.2	687.1
Adjusted operating profit – £m*	68.5	36.5
Adjusted EBITDA – £m*	100.4	68.0
Key performance indicators:		
Revenue growth – %	9.6%	5.8%
Adjusted return on sales – %*	9.1%	5.3%
Adjusted EBITDA margin – %*	13.3%	9.9%
Adjusted return on average capital employed – %*	14.3%	7.6%

* 2006/07 before an exceptional profit of £6.7 million

2007/08 Performance

Results in the UK Paper and Corrugated Packaging segment advanced strongly, reflecting good recovery of higher input costs through better pricing and the previous actions taken to strengthen further the Group's UK market positions in waste paper collection, recycled paper and boxes. Revenue advanced by

² Source: RISI, Inc.

10% to £753.2 million; on a like-for-like basis, excluding the paper mill closed in October 2006 and New Thames Paper Mill acquired in February 2008, revenue increased by 9%. Adjusted operating profit was substantially higher at £68.5 million (2006/07: £36.5 million).

We raised our prices of CCM and boxes in order to recover the further increases in the costs of energy and waste paper. Although these price increases enabled us to rebuild our margins, further increases in the cost of energy and the continuing high cost of waste paper put pressure on our margins during the second half of the financial year.

Our waste collection business, Severnside Recycling, grew strongly, assisted by the increased demand for recycling services and government action to reduce the amount of waste going to landfill. In addition to fulfilling its primary role of securing the required quantities of fibre for our UK paper mills, we developed further its value-added waste management services. Severnside and our UK box business, DS Smith Packaging, collaborate in marketing our cradle-to-cradle environmental capability. This encompasses the Group's expertise in designing packaging that will minimise waste throughout the supply chain, our manufacturing network for producing recycled paper and corrugated boxes which are fully recyclable, and Severnside's services for managing customers' entire waste recycling and disposal needs.

St Regis, our UK paper business, increased its total sales volume from our ongoing mills through improved productivity. We enhanced our margin by means of the recovery of higher input costs through raised prices, reduced operating costs as a result of our previous restructuring action, and our increased capability to produce higher value-added products at Kemsley and Wansbrough Mills following recent investment. Kemsley Mill performed well, assisted by further strong sales growth in plasterboard liner. The mill's sales were curtailed by a fire which incapacitated one of its machines for three weeks towards the end of the year. The three smaller mills, which principally produce higher value-added speciality products, made good progress.

In February 2008, DS Smith acquired from M-real Corporation, for a consideration of £60 million in cash, the New Thames Paper Mill, which is located adjacent to St Regis' Kemsley Mill, as well as the 50% balance of Grovehurst Energy, the mills' energy and services supplier, not already owned by DS Smith. In addition, we incurred a net cash cost of £7 million from a one-off payment, net of tax, towards the costs of the transfer of the associated pension scheme to a third party. The acquired facility currently produces fine uncoated paper and, using the latest papermaking technology, we intend to invest a further circa £37 million in the modification of the acquired facility to enable it to produce high-quality lightweight recycled CCM with effect from January 2009. The total cost of this project is expected to be circa £104 million and will be funded from the Group's existing debt facilities.

This acquisition and investment will materially strengthen the long-term competitiveness of our UK Paper and Corrugated Packaging business. It reinforces us in our aim to be a leader in the area of high-quality lighter-weight packaging and gives us a significant capability in the growth segment of high-quality lightweight CCM. Total UK demand for lightweight recycled CCM is expected to grow from an estimated 400,000 tonnes in 2007 to over 600,000 tonnes by 2010. At present, UK demand is very largely met by imports from continental Europe as total UK manufacturing of this product is less than 100,000 tonnes per annum. The Group currently has very limited capacity to produce lightweight CCM, which accounts for approximately 25% (approximately 150,000 tonnes per annum) of the CCM usage of our UK corrugated packaging operations. This project is expected to generate good financial returns in its first full year of operation (2009/10) and provide very good returns for shareholders in the longer-term. The first stage of the modification of the acquired facility, the construction of a new stock preparation plant, is progressing to plan.

DS Smith Packaging's revenue and profit advanced as a result of good sales growth in higher value-added converted products and the mitigation of higher input costs through raised prices and improved productivity. Our results benefited from our focus on the growing RRP and decorative sectors of the market, which require greater design input and more sophisticated manufacturing capability. In our sheet feeding operations, which supply corrugated sheet to box converters, sales were adversely affected by our emphasis on recovering the higher input costs.

In March 2008, the Group acquired Multigraphics Holdings Limited from funds managed by 3i and from the Multigraphics management team. Multigraphics specialises in the design and printing of retail and promotional display material. DS Smith Packaging is a substantial supplier of high-quality printed display material. This acquisition further strengthened the Group's position in this fast-growing sector of the market.

Entering 2008/09, energy, waste and starch input costs are exerting further pressure on our margins. We will seek to mitigate these higher costs through pricing, raised productivity and cost reduction. A key priority is to implement our lightweight CCM project in line with our plan. In this segment, our strong market positions and our focus on the higher value-added sectors of the market provide us with a good base from which to compete.

Continental European Corrugated Packaging

	2007/08	2006/07
Revenue – £m	346.0	308.0
Operating profit – £m	20.3	18.2
EBITDA – £m	33.9	31.5
Key performance indicators:		
Revenue growth – %	12.3%	11.4%
Return on sales – %	5.9%	5.9%
EBITDA margin – %	9.8%	10.2%
Return on average capital employed – %	10.9%	11.1%

2007/08 Performance

DS Smith Kaysersberg achieved a good result principally due to its programme to recover higher input costs through better pricing and its focus on higher value-added products. Revenue grew by 12% to £346.0 million. This segment, which is a substantial net buyer of paper, was adversely affected in the first half of the financial year by higher input costs, which we recovered during the second half of the year. Operating profit increased by 12% to £20.3 million.

In our established markets, the French paper business, which focuses on providing a high level of customer service on speciality products, performed creditably. Our French corrugated packaging business improved its margin through improvements in productivity, recovery of the higher input costs and its focus on higher value-added sectors such as heavy-duty packaging. We restructured our commercial, marketing and support functions to strengthen further the business's approach to its market. Through capital investment we are increasing our capability in RRP which should help us in the coming year. In Italy, our two highly efficient factories performed well in a particularly price competitive market environment.

In our developing markets, the Polish business achieved a further strong advance through substantial sales growth, in excess of the rapidly expanding market, and an increased concentration on higher value-added products. We continued the development of our small converting businesses in the Czech Republic and Slovakia aimed principally at the automotive industry in central Europe. Results at our business in Turkey, which focuses on the brown and white goods and automotive sectors were depressed by slower market growth and increased price pressure, principally as a result of the weakening of the Turkish economy. We have implemented an extensive programme aimed at restoring profitability by widening the business mix and lowering costs. Results at our Ukrainian associate business, Rubezhansk, which is reported under associates, were affected by a fire at its paper mill. The investment project to increase its capacity significantly and broaden its product range is progressing.

In 2008/09, our priorities in this segment are to restore profitability in our Turkish business, improve further the operational performance in our established markets and continue to develop our businesses in eastern and central Europe; we will continue to concentrate particularly on higher value-added product sectors in all our markets.

Plastic Packaging

	2007/08	2006/07
Revenue – £m	223.4	201.8
Adjusted operating profit – £m*	10.7	10.2
Adjusted EBITDA – £m*	21.2	21.9
Key performance indicators:		
Revenue growth – %	10.7%	(0.3)%
Adjusted return on sales – %*	4.8%	5.1%
Adjusted EBITDA margin – %*	9.5%	10.9%
Adjusted return on average capital employed – %*	8.4%	8.3%

* before an exceptional charge of £1.9 million (2006/07: £1.9 million)

2007/08 Performance

DS Smith Plastics grew its revenue by 11% to £223.4 million. There was a 5% advance in operating profit to £10.7 million, due to good performance in RTP and the two smaller businesses which was partly offset by weaker results in LP&D.

Revenue in RTP, which accounted for 48% of the segment revenue, advanced by 16%. The beverage crate business performed well, assisted by the fulfilment of several large contracts, good sales of its innovative keg pallet and the start-up of a new operation in Portugal. Sales of other RTP product lines in total achieved an improved result, benefiting from previous actions taken to strengthen the sales and product development functions. A new business was launched aimed at providing bespoke RTP replenishment solutions for food and beverage companies in the retail distribution market. We grew RTP sales from our operations in the Czech Republic and Slovakia which supply customers, particularly in the automotive sector, in that region.

In LP&D, revenue, which accounted for 41% of the segment, grew by 1%. Pressure on prices affected both the American and European businesses and increased competition in wine bags also held back results in Europe. Our USA operations performed well, benefiting from innovative new products and the development of new market sectors for bag-in-box packaging.

An agreement has been reached with our employees in Germany about the proposed restructuring of our European LP&D operations. The injection moulding of taps in Europe is in the process of being consolidated at our Merton site in the UK. Bag production in Germany will be consolidated at our Schwetzingen site near Frankfurt between February and April 2009, prior to production ceasing at our Düren site in April 2009. The total restructuring charge, taken in 2006/07 and 2007/08 is £3.8 million; we expect the improved results of this business to provide a three year payback on this charge.

Our small packaging management business benefited from our recent investment and previous restructuring actions. StePac, our development business which specialises in modified atmosphere packaging, continued to grow its sales and profit strongly.

At this early stage of the year this segment is facing further increases in polymer costs as a result of the high price of oil; we will look to mitigate any higher input costs through raising prices and productivity improvements. Other priorities for 2008/09 are, in RTP, to grow profitable sales in new products and markets and, in LP&D, to complete the restructuring of our European operations and to rebuild profits.

Office Products Wholesaling

	2007/08	2006/07
Revenue – £m	644.9	569.2
Adjusted operating profit – £m*	20.1	12.8
Adjusted EBITDA – £m*	26.1	19.2
Key performance indicators:		
Revenue growth – %	13.3%	9.7%
Adjusted return on sales – %*	3.1%	2.2%
Adjusted EBITDA margin – %*	4.0%	3.4%
Adjusted return on average capital employed – %*	15.1%	9.8%

* 2006/07: before an exceptional charge of £2.9 million

2007/08 Performance

Office Products Wholesaling – Spicers – achieved a significantly improved result due to continued progress in the continental European businesses and an advance in the UK. The result is in line with our three-year plan to restore profits. We increased revenue by 13% to £644.9 million, with particularly strong growth in the UK and Italy. Adjusted operating profit advanced by 57% to £20.1 million.

Spicers UK results benefited from the ongoing action programme to raise our profits in this important business and the previous restructuring of the regional distribution centre network. Service levels significantly improved as we moved through 2007/08, reaching a good level as we exited the year. There was a substantial increase in sales. All of this increase was in electronic office supply (EOS) products. The proportion of EOS within our sales mix now more closely reflects that of the market as a whole, which helps us in providing good support to our dealers. We are looking to continue the development of our sales in both EOS and non-EOS products. Further actions to improve the longer-term competitiveness of the UK distribution network continue to be reviewed.

In continental Europe, our two well-established businesses in France and the Benelux region, which account for 31% of Spicers' total revenue, developed further their strong market positions and maintained their good performance. In France, we benefited from the recruitment of new customers and action to lower costs, while Spicers Benelux achieved a significant sales advance in the Netherlands as a result of refocusing its sales effort separately on the Belgian and Dutch markets.

In the continental development businesses, which represent 17% of Spicers' total revenue, Spicers Germany achieved good progress on the back of high service levels and raised productivity. The Spanish business grew by extending its customer base, benefiting from its second distribution centre opened near Madrid in October 2006, while in Italy sales continued to grow rapidly, ahead of our plan; the business is now established as a significant supplier to the Italian market.

For 2008/09, we are focused on achieving a further advance in profits in the UK and maintaining progress in our development businesses in continental Europe.

Consolidated Income Statement

For the year ended 30 April 2008

	Note	Before exceptional items 2008 £m	Exceptional items (note 2) 2008 £m	After exceptional items 2008 £m	Before exceptional items 2007 £m	Exceptional items (note 2) 2007 £m	After exceptional items 2007 £m
Revenue	1	1,967.5	-	1,967.5	1,766.1	-	1,766.1
Operating profit	1	119.6	(1.9)	117.7	77.7	1.9	79.6
Finance income	3	3.3	-	3.3	1.7	-	1.7
Finance costs	3	(24.1)	-	(24.1)	(16.7)	-	(16.7)
Employment benefit net finance income		8.8	-	8.8	8.0	-	8.0
Net financing costs		(12.0)	-	(12.0)	(7.0)	-	(7.0)
Profit after financing costs		107.6	(1.9)	105.7	70.7	1.9	72.6
Share of profit of associates		3.4	-	3.4	3.9	2.0	5.9
Profit before income tax		111.0	(1.9)	109.1	74.6	3.9	78.5
Income tax (expense) / credit	4	(31.6)	0.7	(30.9)	(22.8)	5.6	(17.2)
Profit for the financial year		79.4	(1.2)	78.2	51.8	9.5	61.3
Profit for the financial year attributable to:							
DS Smith Plc equity shareholders		77.8	(1.2)	76.6	51.1	9.5	60.6
Minority interest		1.6	-	1.6	0.7	-	0.7
Basic earnings per share (pence)	5	19.9p		19.6p	13.1p		15.6p
Diluted earnings per share (pence)	5	19.8p		19.4p	13.0p		15.4p
Dividend per share – interim, paid (pence)	6			2.6p			2.6p
– final, proposed (pence)	6			6.2p			6.0p

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 2008 will be posted to shareholders in July 2008. Statutory accounts for the year ended 30 April 2007 have been delivered to the Registrar of companies.
- Subject to approval of shareholders at the Annual General Meeting to be held on 3 September 2008, the final dividend of 6.2p will be paid on 16 September 2008 to ordinary shareholders on the register on 15 August 2008.
- The 2007/08 and 2006/07 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 2007/08 results and 2006/07 comparatives have been extracted from the 2007/08 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 2008

	2008	2007
	£m	£m
Actuarial (losses)/gains on defined benefit pension schemes	(73.0)	17.0
Movements on deferred tax relating to actuarial losses/(gains)	21.4	(5.1)
Currency translation differences, including tax	25.0	(6.7)
Movements in cash flow hedges, including tax	14.5	(1.2)
Net (expense)/income recognised directly in equity	(12.1)	4.0
Profit for the financial year	78.2	61.3
Total recognised income and expense attributable to equity shareholders and minority interest relating to the financial year	66.1	65.3
<hr/>		
Total recognised income and expense relating to the financial year attributable to:		
DS Smith Plc equity shareholders	63.8	64.7
Minority interest	2.3	0.6

Consolidated Balance Sheet

As at 30 April 2008

	2008 £m	2007 £m
Assets		
Non-current assets		
Intangible assets	215.2	192.9
Property, plant and equipment	607.1	517.1
Investments in associates	30.0	30.5
Other investments	1.5	0.5
Deferred tax assets	31.4	21.4
Other receivables	0.8	2.4
Derivative financial instruments	10.2	0.2
Total non-current assets	896.2	765.0
Current assets		
Inventories	187.7	160.5
Other investments	0.1	0.1
Income tax receivable	1.6	0.9
Trade and other receivables	406.9	350.2
Cash and cash equivalents	69.7	92.4
Derivative financial instruments	7.3	0.7
Total current assets	673.3	604.8
Total assets	1,569.5	1,369.8
Liabilities		
Non-current liabilities		
Interest-bearing loans and borrowings	(260.7)	(230.9)
Post-retirement benefits	(75.9)	(18.6)
Other payables	(4.0)	(5.1)
Provisions	(15.7)	(8.9)
Deferred tax liabilities	(71.2)	(81.4)
Derivative financial instruments	(41.2)	(31.7)
Total non-current liabilities	(468.7)	(376.6)
Current liabilities		
Bank overdrafts	(13.7)	(10.8)
Interest-bearing loans and borrowings	(6.4)	(1.6)
Trade and other payables	(455.0)	(384.8)
Income tax liabilities	(9.7)	(16.6)
Provisions	(13.3)	(10.6)
Derivative financial instruments	(0.8)	(1.7)
Total current liabilities	(498.9)	(426.1)
Total liabilities	(967.6)	(802.7)
Net assets	601.9	567.1
Equity		
Issued capital	39.3	39.3
Share premium	263.1	262.9
Reserves	299.3	267.2
DS Smith Plc shareholders' equity	601.7	569.4
Minority interest	0.2	(2.3)
Total equity	601.9	567.1

Consolidated Statement of Cash Flows

For the year ended 30 April 2008

	Note	2008 £m	2007 £m
Operating Activities			
Cash generated from operations	7	179.8	128.0
Interest received		2.6	2.8
Interest paid		(19.4)	(16.9)
Dividends received from associate		1.0	-
Tax paid		(27.8)	(15.1)
Cash flows from operating activities		136.2	98.8
Investing Activities			
Acquisition of subsidiary businesses and joint ventures, net of cash and cash equivalents acquired		(89.2)	(0.8)
Disposal of subsidiary businesses, net of cash and cash equivalents disposed of		2.0	1.0
Capital expenditure payments		(66.5)	(55.8)
Proceeds from the sale of property, plant and equipment and intangible assets		8.2	39.2
Proceeds from the sale of investments, net of additions of £1.0m (2007: £0.5m)		1.1	1.8
Cash flows from investing activities		(144.4)	(14.6)
Financing Activities			
Proceeds from issue of share capital		0.2	3.7
Purchase of own shares		(2.0)	-
New/(repayment of) borrowings		10.6	(28.7)
Repayment of finance lease obligations		(0.4)	(2.5)
Dividends paid		(33.7)	(32.7)
Cash flows from financing activities		(25.3)	(60.2)
(Decrease)/increase in cash and cash equivalents		(33.5)	24.0
Net cash and cash equivalents at 1 May		81.6	58.9
Exchange gains/(losses) on cash and cash equivalents		7.9	(1.3)
Net cash and cash equivalents at 30 April		56.0	81.6

Notes to the Financial Statements

1. Segment Reporting

Primary reporting format – business segments

Year ended 30 April 2008	Packaging			Sub-total £m	Office Products Wholesaling £m	Total Group £m
	UK Paper and Corrugated £m	Continental European Corrugated £m	Plastic £m			
External revenue	753.2	346.0	223.4	1,322.6	644.9	1,967.5
Adjusted operating profit¹	68.5	20.3	10.7	99.5	20.1	119.6
Exceptional items	-	-	(1.9)	(1.9)	-	(1.9)
Segment result	68.5	20.3	8.8	97.6	20.1	117.7
Other segment items:						
Adjusted return on sales - % ¹	9.1%	5.9%	4.8%	7.5%	3.1%	6.1%
Adjusted EBITDA - £m ¹	100.4	33.9	21.2	155.5	26.1	181.6
Adjusted EBITDA margin - % ¹	13.3%	9.8%	9.5%	11.8%	4.0%	9.2%
Year-end capital employed - £m	503.8	190.0	119.4	813.2	123.6	936.8
Average capital employed - £m ²	479.4	186.2	126.7	792.3	133.4	925.7
Adjusted return on average capital employed - % ^{1,2}	14.3%	10.9%	8.4%	12.6%	15.1%	12.9%

Year ended 30 April 2007

External revenue	687.1	308.0	201.8	1,196.9	569.2	1,766.1
Adjusted operating profit¹	36.5	18.2	10.2	64.9	12.8	77.7
Exceptional items	6.7	-	(1.9)	4.8	(2.9)	1.9
Segment result	43.2	18.2	8.3	69.7	9.9	79.6
Other segment items:						
Adjusted return on sales - % ¹	5.3%	5.9%	5.1%	5.4%	2.2%	4.4%
Adjusted EBITDA - £m ¹	68.0	31.5	21.9	121.4	19.2	140.6
Adjusted EBITDA margin - % ¹	9.9%	10.2%	10.9%	10.1%	3.4%	8.0%
Year-end capital employed - £m	444.6	146.4	110.9	701.9	115.4	817.3
Average capital employed - £m ²	478.4	164.4	122.2	765.0	130.0	895.0
Adjusted return on average capital employed - % ^{1,2}	7.6%	11.1%	8.3%	8.5%	9.8%	8.7%

Secondary reporting format – geographical segments

Year ended 30 April	Revenue	
	2008 £m	2007 £m
UK	1,097.1	999.7
Western Continental Europe	708.1	632.8
Eastern Continental Europe	104.4	82.5
Rest of the World	57.9	51.1
Total	1,967.5	1,766.1

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

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	2008 £m	2007 £m
Restructuring costs		
UK Paper and Corrugated Packaging	-	(13.8)
Plastic Packaging	(1.9)	(1.9)
Office Products Wholesaling	-	(2.9)
Total restructuring costs	(1.9)	(18.6)
Gain on sale of Taplow Mill	-	20.5
Total exceptional items recognised in operating profit	(1.9)	1.9
Negative goodwill recognised in associate accounting	-	2.0
Total exceptional items	(1.9)	3.9

2007/08

The 2007/08 exceptional charge of £1.9m relates to the continued restructuring of our European liquid packaging and dispensing operations within Plastic Packaging.

2006/07

The UK Paper and Corrugated Packaging restructuring costs of £13.8m related to the closure of paper-making operations at Taplow Mill and related restructurings.

The Plastic Packaging restructuring costs of £1.9m related to the proposed restructuring of our European liquid packaging and dispensing operations.

The Office Products Wholesaling restructuring costs of £2.9m related 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.

3. Financing income and costs	2008	2007
	£m	£m
Interest on bank loans and overdrafts	6.4	5.3
Interest on other loans	13.0	11.2
Finance lease interest	0.3	0.2
Other	4.4	-
Total financing costs	24.1	16.7
Interest income from financial assets held at amortisation cost	(2.7)	(1.5)
Other	(0.6)	(0.2)
Total finance income	(3.3)	(1.7)

Other financing costs largely relate to the increase in the fair value of the non-controlling shareholders' put options in a Group subsidiary.

4. Income tax expense recognised in the income statement	2008	2007
	£m	£m
Current tax expense		
Current year	(29.9)	(17.2)
Over-provided in prior years	0.1	2.3
	(29.8)	(14.9)
Deferred tax (expense)/credit		
Origination and reversal of temporary differences	(3.0)	0.9
Reduction in UK tax rate from 30% to 28%	2.4	-
Under-provided in prior years	(0.5)	(3.2)
	(1.1)	(2.3)
Total income tax expense in income statement	(30.9)	(17.2)

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

	2008	2007
	£m	£m
Profit before tax	109.1	78.5
Less: share of profit of associates	(3.4)	(5.9)
Profit before tax and share of profit of associates	105.7	72.6
Income tax calculated using the domestic corporation tax rate of 29.8% (2007: 30.0%)	(31.5)	(21.8)
Effect of tax rates in foreign jurisdictions	(1.2)	(1.2)
Non-deductible expenses	(2.2)	(0.9)
(Origination of)/use of tax losses not recognised	(0.2)	6.7
Adjustment in respect of prior years	0.4	(0.9)
Effect of change in UK corporation tax rate	2.4	-
Other	1.4	0.9
Income tax expense	(30.9)	(17.2)

5. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 April 2008 is based on the net profit attributable to ordinary shareholders of £76.6m (2006/07: £60.6m) and the weighted average number of ordinary shares outstanding during the year ended 30 April 2008 of 391.5m (2006/07: 389.5m). The number of shares excludes the weighted average number of the Company's own shares held as treasury shares during the year of 1.9m (2006/07: 2.2m).

	2008	2007
Net profit attributable to ordinary shareholders (£m)	£76.6m	£60.6m
Weighted average number of ordinary shares at 30 April (millions)	391.5m	389.5m
Basic earnings per share (pence per share)	19.6p	15.6p

Diluted earnings per share

The calculation of diluted earnings per share at 30 April 2008 is based on net profit attributable to ordinary shareholders of £76.6m (2006/07: £60.6m) and the weighted average number of ordinary shares outstanding during the year ended 30 April 2008, as adjusted for potentially issuable ordinary shares, of 393.9m (2006/07: 392.9m), calculated as follows:

	2008 £m	2007 £m
Net profit attributable to ordinary shareholders	76.6	60.6
In millions of shares		
Weighted average number of ordinary shares at 30 April	391.5	389.5
Potentially dilutive shares issuable under share-based payment arrangements	2.4	3.4
Weighted average number of ordinary shares (diluted) at 30 April	393.9	392.9
Diluted earnings per share (pence per share)	19.4p	15.4p

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:

	2008		2007	
	£m	Pence per share	£m	Pence per share
Basic earnings	76.6	19.6p	60.6	15.6p
Add-back/(deduct) exceptional items after tax	1.2	0.3p	(9.5)	(2.5)p
Adjusted earnings	77.8	19.9p	51.1	13.1p

6. Dividends

Dividends proposed and paid by the Group are as follows:

	2008		2007	
	Pence per share	£m	Pence per share	£m
Interim dividend paid	2.6p	10.2	2.6p	10.2
Final dividend proposed	6.2p	24.4	6.0p	23.5
	8.8p	34.6	8.6p	33.7
			2008	2007
			£m	£m
Paid during the year			33.7	32.7

A final dividend in respect of 2007/08 of 6.2 pence per share (£24.4m) has been proposed by the Directors after the balance sheet date.

7. Cash generated from operations

	2008	2008	2007	2007
	£m	£m	£m	£m
Profit for the financial year		78.2		61.3
Adjustments for:				
Exceptional items charged/(credited) to the income statement	1.9		(3.9)	
Cash outflow for exceptional items	(5.8)		(7.2)	
Depreciation and amortisation	62.0		62.9	
Profit on sale of non-current assets	(4.4)		(6.6)	
Share of profit of associates	(3.4)		(3.9)	
Employment benefit net finance income	(8.8)		(8.0)	
Share-based payment expense	2.1		1.0	
Finance income	(3.3)		(1.7)	
Finance costs	24.1		16.7	
Foreign exchange and fair value movements	(1.3)		-	
Income tax expense	30.9		17.2	
		94.0		66.5
Changes in:				
Inventories	(11.8)		(1.9)	
Trade and other receivables	(20.1)		(11.5)	
Trade and other payables	45.1		21.9	
Provisions and employee benefits	(5.6)		(8.3)	
		7.6		0.2
Cash generated from operations		179.8		128.0

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

	2008	2007
	£m	£m
Operating profit before exceptional items	119.6	77.7
Depreciation and amortisation	62.0	62.9
Adjusted EBITDA	181.6	140.6
Working capital movement	13.2	8.5
Exceptional cash costs	(5.8)	(7.2)
Other	(9.2)	(13.9)
Cash generated from operations	179.8	128.0
Capital expenditure payments	(66.5)	(55.8)
Proceeds from sales of assets and investments	9.3	41.0
Tax paid	(27.8)	(15.1)
Interest paid	(16.8)	(14.1)
Dividend received from associate	1.0	-
Free cash flow before net (acquisitions)/disposals and dividends	79.0	84.0
Dividends	(33.7)	(32.7)
Net (acquisitions)/disposals of subsidiaries	(87.2)	0.2
Net cash flow	(41.9)	51.5
Proceeds from the issue of share capital	0.2	3.7
Purchase of own shares	(2.0)	-
Net debt acquired	(1.3)	-
Foreign exchange and fair value movements	(25.6)	1.4
Net debt movement	(70.6)	56.6
Opening net debt	(181.2)	(237.8)
Closing net debt	(251.8)	(181.2)