

DS SMITH PLC

27th June 2002

2001/02 FULL YEAR RESULTS

DS Smith Plc (LSE:SMDS), the international packaging manufacturer and office products wholesaler, announces its preliminary results for the year to 30 April 2002.

KEY POINTS

- Turnover up 3% at £1,440.2 million (2000/01: £1,399.1 million)
- Profit before tax £62.6 million* (2000/01: £72.2 million)
- Cash inflow before acquisitions £43.0 million (2000/01: outflow of £6.9 million)
- In difficult markets, good progress in Packaging offset by lower profits in Office Products
- Adjusted earnings per share 14.0p* (2000/01: 15.1p)
- Dividend maintained at 8.8p for the full year

*before exceptional items and amortisation of intangibles

Commenting on the full year results and outlook, Chairman Antony Hichens said:

“I am pleased to report that our largest activity, Packaging, made good progress and it was disappointing that this was more than offset by lower profits in Office Products. The emphasis on cash management throughout the Group resulted in a significantly higher cash flow compared with the previous year.

“Looking ahead, we expect the decisive actions taken to improve performance in Office Products to result in a measure of recovery in this activity in 2002/03. Conditions in many of the Group’s markets remain uncertain and, in particular, rising recovered paper prices are currently squeezing paper margins. Nevertheless, I am confident that the steps we have taken to raise operational performance across the Group provide a sound basis for progress in the coming year.”

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CHAIRMAN'S STATEMENT

From its outset, we viewed 2001/02 as a testing year due to the deteriorating European economy. In the event, trading conditions worsened more than we had anticipated, particularly following the events of 11 September. I am, therefore, particularly pleased to report that our largest activity, Packaging, made progress despite these tough external conditions. This was due in large part to the ongoing drive for operational improvement, our strong market positions and benefits from recent investments. Disappointingly, the improvement in Packaging was more than offset by a fall in operating profit in Office Products, principally due to the effects of a sharp market slow-down, additional costs put in place to support projected expansion and some short-term operational difficulties. We took decisive action to improve performance and expect a measure of recovery in 2002/03.

The Group's adjusted earnings per share, before exceptionals and amortisation of intangibles, was 14.0p compared with 15.1p in the previous year. The basic earnings per share were 5.4p. Cash inflow after payment of the dividend but before acquisitions was £43.0 million.

Your Board attaches considerable importance to the Group's capacity to pay its shareholders a reliable and significant dividend. This year, in view of the reduced profits, the Board is recommending an unchanged final dividend of 6.0p per ordinary share which, together with the interim dividend of 2.8p, will make a maintained total dividend for the year of 8.8p per ordinary share.

During the past year we progressed a number of strategic capital projects and made six acquisitions which strengthened our competitiveness in selected sectors, most particularly in corrugated packaging in the United Kingdom and in our international liquid packaging business. In Office Products Wholesaling, we continued to expand geographically, opening our second distribution centre in Germany and our first in Spain.

The Group's strategy continues to be the operational improvement and further development of our two principal activities - Packaging and Office Products Wholesaling. We are developing these businesses in parallel while remaining focused on maximising shareholder value.

The name of the Company was changed to DS Smith Plc at the Annual General Meeting last September. This simplification of the name has helped us to present a more cohesive image across the whole spectrum of the Group's activities.

Tony Thorne, who joined us as Group Chief Operating Officer in January 2001 after six years in a senior role with a major packaging competitor, was appointed Group Chief Executive in December 2001. Peter Williams, who stepped down after a decade as Chief Executive, became Deputy Chairman and will retire from the Board at the AGM in September 2002. We owe him a great debt of gratitude for his courageous development of the DS Smith Group in good times and bad during his long period at the helm.

I would also like to thank our 10,900 employees worldwide for their enthusiastic commitment to improving the Group's performance during the year. The relentless quest for greater productivity has had their understanding support.

Conditions in many of our markets remain uncertain and, in particular, rising recovered paper prices are currently squeezing paper margins. Nevertheless, I am confident that the steps we have taken to raise operational performance across the Group provide a sound basis for progress in the coming year.

Antony Hichens
Chairman

CHIEF EXECUTIVE'S REVIEW

I joined the Group in January 2001 and have been Chief Executive for the last six months. We have a number of strong market positions with good potential for further development, a sound asset base and a strong team. In the main, we operate in highly competitive markets where it is essential to meet our customers' quality and service requirements whilst continually driving for operational improvements and greater efficiency. Achieving a good return on the existing capital employed is fundamental and new capital must be committed prudently and prioritised to cost reduction and new products or markets.

In Packaging, the Corrugated and Paper segment has a strong position in the UK and good regional positions in continental Europe. We will continue to build on these, principally through organic development and operational improvements, although we will remain alert to good value, bolt-on acquisition opportunities. Given the nature of the markets, further plant restructuring cannot be ruled out. In Plastics, we have created a growing global business in liquid packaging and dispensing and a strong European business in industrial returnable transit packaging. There is the prospect of good growth in these areas and the potential for further acquisitions.

Our Office Products businesses have suffered setbacks this year, exacerbated by particularly tough market conditions. However, Spicers Wholesaling is a market leader in the UK and our success in France demonstrates the potential returns from taking the Spicers model to other markets. Whilst our short term priority must be to rebuild profitability, we will continue our development in continental Europe, principally through investment in new regional distribution centres.

Going forward, we will drive operational improvements hard in all our businesses and will accelerate the pace of development in selected areas while having regard to maintaining a strong balance sheet. At the same time, in order to ensure focus and not constrain the development of individual business areas, we will look to streamline our portfolio. From the investors' viewpoint, I am seeking to achieve sustainable improvement in underlying earnings per share and return on invested capital. From the customers' perspective, my objective is that Group companies will be the preferred suppliers, based principally on an ability to provide superior service. For employees, my aim is that the Group companies achieve high performance in a safe working environment while recognising our employees' contribution to this process and thereby making the Group a rewarding one to work for.

Highlights of the Year

Overview

Compared to last year, Group sales increased by 3% to £1,440.2 million but Group operating profit before exceptional items and amortisation of intangibles was 15% lower at £72.0 million. This result in part reflected the tough economic and market conditions in which the Group had to operate but, more importantly, a disappointing result in Office Products.

Profit before tax, exceptional items and amortisation of intangibles fell from £72.2 million to £62.6 million. We have taken an exceptional impairment charge of £32.4 million mainly relating to our Office Products Manufacturing business and our investment in Turkish corrugated packaging. Return on year end capital employed was 10.3% compared to last year's 11.7%. Adjusted earnings per share were 14.0p compared with 15.1p in the previous year and basic earnings per share were 5.4p.

Our Packaging activities, which account for 62% of our sales and 89% of operating profit, made good progress. Despite negative growth in a number markets, Packaging sales advanced by 3% and operating profit before exceptional items and amortisation of intangibles increased by 6%. Although Office Products sales were 2% ahead of the previous year, operating profit was 67% lower due to a combination of significantly weaker market conditions, additional costs put in place to support forecast growth and operational difficulties.

In the circumstances, our priority in Office Products has been to ensure that we develop and implement profit recovery plans. These are now well in place. In Packaging, we accelerated the performance improvement programme giving particular attention to a number of low performing businesses. Significant progress has been made in both activities and we have an improved base for the coming year. A number of strategic capital projects have been completed, or significantly advanced, in the year, including the upgrading of our lightweight paper capability, expansion in both heavy duty corrugated conversion and lightweight decorative corrugated and the introduction of new plastic dispensing products. We made six bolt-on acquisitions: two in Corrugated, three in Plastics and one in Office Products. The benefits to earnings from these various initiatives will come through in 2002/03 and subsequent years.

A high degree of emphasis was put on cash management, especially on reducing working capital. The Group generated a cash inflow after dividends but before acquisitions of £43.0 million compared with an outflow of £6.9 million in 2000/01. This enabled us to end the year with virtually unchanged borrowings after spending £44.7 million on acquisitions. Gearing increased marginally to 45% and interest cover remained strong at 6.4 times.

Packaging (Corrugated and Paper; Plastics)

In the Corrugated and Paper segment, a concentration on raising the performance of the existing operations through pricing discipline, structural cost reduction and a pursuit of greater efficiency delivered a slightly improved overall result despite the deterioration in the market. The key feature of the year was the weakness in the global paper market, which caused a progressive fall in European prices for corrugated case materials (CCM). In the second half of the year, the lower CCM prices were not matched by lower recovered paper prices, causing a fall in the profits of St Regis Paper. The Group is an 'open market' player in CCM, producing more CCM than it consumes through its downstream converting operations. It was therefore encouraging that the profit decline at St Regis was compensated by better profits in our corrugated operations, both in the UK and in continental Europe. The improved corrugated returns reflected both better gross margins and greater efficiency. There was considerable success in turning around a number of the lower performing corrugated businesses both in the UK and continental Europe and in particular our UK conventional plants.

During the year, we acquired two UK sheet feeders and eleven sheet plants from Danisco which enabled us to gain both a substantial presence in the growing lightweight speciality sheetboard market and to strengthen our sheet plant network. By combining these operations with existing Group businesses we were able to rationalise the production base and reduce costs.

In Plastics, we made substantial progress in 2001/02. Plastics achieved a 14% increase in sales and 37% advance in operating profit before amortisation of intangibles, partly helped by lower polymer prices in the second half of the year. During the year, we refined the strategy for this division to increase the focus on liquid packaging and dispensing and industrial returnable transit packaging (RTP). Through both acquisitions and organic growth we have

developed scale in these areas and the prospects are positive. In liquid packaging and dispensing, our US business continues to grow rapidly and we formed a joint venture in the year in Australasia in order to secure core technology and have a base there for further geographic expansion. In industrial returnable transit packaging, we have grouped a number of separate businesses under one management and now have a unified European-wide sales force selling an enlarged range of products.

Office Products

The office products market was hit by a sharp slow-down in demand across Europe, the speed and extent of which was greater than expected. This came at a particularly difficult time for Spicers, our Office Products Wholesaling business, which was coming out of a restructuring of its distribution network in the UK and also accelerating its expansion into continental Europe.

In our principal market, the UK, the fall-off in profitability was the result of a number of factors, both external and internal. The UK market slow-down particularly affected sales of higher margin traditional products rather than lower margin electronic office supplies. The resultant poorer sales mix compounded the effect of the overall lower market activity. Our dealer customers were affected by the market slow-down and a number went into liquidation, pushing up our bad debts. The consolidation of four distribution centres into two in late 2000/01 plus the roll-out of the upgraded IT systems created disruption and extra costs, in part related to overcoming a deterioration in service.

Considerable attention has been given to turning around our UK business. Management has been strengthened, the pricing policy reviewed and is in the process of being adjusted, operating disciplines reinforced and costs cut. Further initiatives planned for implementation in 2002/03 have been announced. An essential element in this process is to have the support of our customers. To this end we have targeted and are now achieving a demonstrable uplift in service levels. The improved trend in operational performance, coupled with the elimination of some one-off costs, should provide a better result in 2002/03.

In continental Europe, Spicers France increased its market penetration through organic growth and acquiring a dealer group, Plein Ciel. Despite the costs of integrating Plein Ciel, the business improved its profits. In Germany, expansion continued with the opening of a second distribution centre at Nuremberg. Sales in Germany had been progressing well but difficulty in commissioning an upgraded version of Spicers' integrated IT system led to significant customer service problems with a consequent fall in sales development. By our financial year end the IT problems had been overcome and service levels much improved, as a result of which it is expected that sales will again grow rapidly and the business will return to profit. In Spain, we opened our first distribution centre, in Barcelona. This has been well received by the dealer community but it is too early to determine how fast sales will grow.

Our Office Products Manufacturing business, John Dickinson, also suffered from the fall in market demand as well as from significant price pressure. We have restructured this business, focusing its activities on its more profitable sectors and reducing the workforce. We are confident that these actions will put the business into profit.

Outlook

During the past year, we improved our performance in many areas, completed a number of strategic acquisitions and projects as well as restructuring some businesses. These actions have positioned the Group well to take advantage of any recovery in our markets.

As we start the new financial year, recovered paper prices are rising fast, reflecting increased global usage. This price rise has squeezed paper margins. However, CCM prices are now increasing which will inevitably require higher corrugated prices.

Whilst we have yet to see an improvement in demand in our markets, we are confident that through the actions taken in Office Products and our continuing concentration on raising operational performance throughout the Group, we can expect to make progress in the year ahead.

Tony Thorne
Group Chief Executive

OPERATING REVIEW

Packaging

Total sales increased by 3% to £892.4 million. Operating profit before exceptional items and amortisation of intangibles advanced by 6% to £63.9 million resulting in an operating margin of 7.2% compared with 7.0% in the previous year. Return on year end capital employed was 11.5% compared with 10.6%.

Corrugated and Paper

Sales in the Corrugated and Paper segment increased to £708.5 million (2000/01: £702.1 million). Operating profit before exceptional items and amortisation of intangibles grew slightly to £51.7 million and operating margins were unchanged at 7.3%. Return on capital employed was 10.8% (10.6%).

UK industry data for calendar year 2001 shows a 3.6% fall in demand for corrugated board. The equivalent industry data for France and Germany for 2001 shows falls in demand of 1.9% and 0.1% respectively. These weak market conditions continued in the first quarter of 2002.

UK CCM demand closely mirrored board demand, falling by 3.7% in 2001, while demand in Europe as a whole fell by 0.6%. CCM prices declined in the first half of 2001 and price weakness continued through the remainder of the year and into the early months of 2002, reflecting continued weak demand and high industry stock levels. However, there was a firming of prices in the final weeks of our financial year. New CCM capacity coming on stream in continental Europe has negatively affected the market but the impact has been mitigated to an extent by major producers taking downtime.

Recovered paper prices weakened in the first half of 2001 but have moved ahead sharply since the autumn, reflecting greater demand from Asia and higher usage across Europe. The UK packaging waste regulations imposed higher targets for waste recovery and recycling for 2002 which resulted in higher Packaging Recovery Note (PRN) values. The failure by a major compliance scheme to meet its 2001 obligations under the packaging regulations has been addressed by the government.

DS Smith Packaging

Substantial operational improvement, increased efficiency levels and lower CCM prices enabled DS Smith Packaging to make good progress in sales, profits and cash generation. This was despite the impact of the continuing decline in UK manufacturing and our plants in Scotland being badly hit by the closure of customers in the electronics sector.

Profitability at the conventional corrugated plants, which account for nearly 40% of divisional sales, was helped by lower paper prices, but also through higher efficiency levels. The segment is benefiting from the capital invested in previous years.

Volumes progressed well across the majority of our speciality operations, in part due to the success of ongoing efforts to develop new products and identify new market niches. The decline of the electronics industry affected our high value decorative print business in Scotland but we took swift action to close another operation and combine the businesses, thereby achieving cost savings. The investment in new printing and converting facilities is well underway.

The Tri-Wall heavy duty corrugated business suffered most from the UK manufacturing recession and the relative strength of sterling against the euro in export markets. The investment programme to make this business more cost competitive and to allow it to develop further speciality products is well advanced.

The division continues to focus on innovative product development as a key means of adding value and this was reflected in the four awards it won in the recent Worldstar global packaging competition. Recent successful product introductions have included a system, branded Xtend®, that combines corrugated packaging and a plastic film from the Group company, StePac, to control and extend the ripening period of fresh fruit and vegetables, and ovenable corrugated packs that enable cakes to be baked in their packaging.

In September 2001, the division acquired two sheet feeders and 11 sheet plants from Danisco, based mainly in the south and west of the UK. These operations have been integrated successfully. In particular, the Kettering sheet feeder plant, which is a well invested factory focused on the fast growing lightweight speciality board segment, has been allied with our existing Abbey sheet feeder to form a single business, allowing us to operate with an expanded product range at a lower cost.

Kaysersberg Packaging

The Group's continental European corrugated and paper division, Kaysersberg Packaging, achieved a healthy advance in profitability, principally due to lower CCM prices and good cost control.

Through good product mix management, the French paper mills continued to perform well despite a fall in selling prices and flat volumes. A new combined heat and power plant was commissioned during the year at the Kaysersberg mill leading to a reduction in energy costs and greenhouse gas emissions.

Sales at the main corrugated plants in France fell in line with the decline in the national market. However, profit increased, considerably enhanced by greater efficiency and helped by lower CCM prices. The French corrugated operations' strong position in the heavy duty sector will be further strengthened by the development of a specialist packaging solution for the rubber industry in alliance with Georgia-Pacific Corporation and the opening of an extension to our sheet plant near Orleans.

In Italy, Toscana Ondulati continued to grow its volumes significantly. Its margins improved as a result of increasing its output and a decrease in raw material costs that was partly offset by a fall in selling prices. The new greenfield Lari factory was commissioned at the end of March 2002. It will produce lightweight corrugated packaging for the ceramic and pizza industries, allowing the existing factory at Marlia to focus on heavy duty and conventional products. This places Toscana Ondulati in a strong position across several market sectors.

Our Polish business also made good progress, growing at a faster rate than the national market. Its merchandising operations continue to provide a strong sales outlet for the main plant. The margin improvement reflects the advance in production efficiencies resulting from recent investments and a shift in sales mix to higher added value products.

The Copikas operation in Turkey was seriously affected by the country's difficult economic situation and action was taken to restore the business to profitability. The impact of these actions and the acquisition of a small corrugating operation close to the division's international customers in the Istanbul area, gives encouragement that the business is set for improvement in the coming years.

St Regis Paper

St Regis achieved a resilient performance within the context of a tough trading environment. Sales volumes were flat and selling prices were depressed by the overall market situation. This, together with higher recovered paper prices since the autumn of 2001, led to a fall in both sales revenue and profit. CCM market demand in the UK was subdued but the continuing focus on cost reduction helped to mitigate the poor market conditions.

Trading cash flow showed a significant improvement on the prior year due largely to a reduction in working capital. Margins were assisted by lower recovered paper prices in the early part of the financial year. However, they came under increasing pressure towards the end of the period as input costs rose, due to the supply of recovered paper in the UK being affected by increased exports to Europe and Asia.

The Kemsley paper mill again performed well, producing over half a million tonnes for the second successive year. Wansbrough and Taplow underwent planned downtime while their machines were partly rebuilt and upgraded. This investment will enable Wansbrough to rationalise its product mix to focus on the more profitable paper grades. The upgrade at Taplow increases the division's capability to produce lightweight CCM of a quality to satisfy growing customer demand for lighter weight paper.

The division's specialist paper mills continued to experience heavy competition from overseas but product development enabled them to make reasonable progress.

Sevenside had to contend with the fall in recovered paper prices in the early months of the financial year but, although prices firmed in the second half of the year, the volume of paper recovered was adversely affected by the difficulty of sourcing paper against strong export demand. The division continued to invest in its waste collection capability, adding further mobile compaction vehicles in the year.

Plastics

DS Smith Plastics' sales grew by 14% to £183.9 million through a combination of organic growth and acquisitions. Operating profit before amortisation of intangibles advanced by 37% to £12.2 million, assisted in part by lower polymer prices. Operating margins increased from 5.5% to 6.6% and the return on year end capital employed moved ahead from 10.9% to 15.5%.

The division continued to build its strong position in liquid packaging and dispensing. The division's liquid packaging business, Rapak, is now the number two supplier globally of bag-in-box packaging and maintained its strong sales growth in both Europe and in particular, the USA. In November 2001, it extended its market coverage and secured some core and valuable technology with the acquisition of a 50% interest in a liquid packaging joint venture in Australia and New Zealand. This enables Rapak to provide truly global coverage to its major multinational customers. WD, the dispensing tap business, experienced strong levels of demand across its product range. Its US business completed a major factory extension in the year which enables it to offer its multinational customers an enlarged US manufacturing facility.

Despite the adverse effects of the slow-down in European manufacturing which held back sales in some sectors, we continued to develop our strong position in industrial RTP in Europe. The extruded product operations held up well in difficult market conditions, but profits declined somewhat as a result of lower volumes. In May 2001, we acquired a small extruded plastics packaging company based in Madrid to enable us to develop the Iberian market and we have subsequently relocated an additional extruder to this site. Our competitive position in RTP was enhanced in December 2001 by the acquisition and successful integration of a small plastic pallet manufacturing business. The plastic crate business had a good year, benefiting from strong performances from its Dominican Republic and Spanish operations.

Our packaging management activities had a difficult year due to more aggressive competition throughout Europe. Action has been taken to reduce costs, particularly in the UK.

Office Products

Total sales increased by 2% to £547.8 million but operating profit before exceptional items and amortisation of intangibles was lower at £8.1 million (2000/01: £24.7 million). Operating margin fell to 1.5% (4.6%) and return on year end capital employed was 5.8% (15.5%).

Wholesaling

Spicers' total sales grew by 3% to £500.5 million, despite the sharp slow-down in demand for office products across Europe, particularly in the second half of the year. For the year as a whole, Spicers' sales in France and Germany grew by 15% and 17% respectively, but this was partly offset by sales decreases of around 3% in both the UK and Ireland, where Spicers has more established market positions. Operating profit growth for the year was expected to be low as a result of start-up costs in Germany and Spain and the cost of developing additional capacity in the UK and Ireland. In the event, the downturn in demand in all our markets and a number of operational difficulties in the UK and Germany resulted in a decline in operating profit to £9.7 million (2000/01: £24.4 million) and a reduced operating margin of 1.9% (5.0%). Return on year end capital employed was 7.8% (19.9%).

Electronic office supplies (EOS) are accounting for an increasing share of the office products market worldwide and of Spicers' business. The lower margin available from this growing segment of the business has contributed to the reduction in margin for the business as a whole. Steps are being taken to adapt pricing structures, costs and trading policies to this fundamental change in the sales mix.

The level of bad debts increased as dealer customers suffered from the deteriorating market conditions. The consolidation of four warehouses into two late in 2000/01 plus the roll-out of

the upgraded IT system also created extra costs, in part related to overcoming a deterioration in service. Decisive action was taken to address these issues, including strengthening management, amendments to the pricing policy, the reinforcement of operating disciplines, new procedures for rolling out IT, reduction of the cost base and further tightening of stock and credit control. These actions yielded some significant benefits in the final quarter of the year, in particular in terms of quality and customer service and are expected to improve performance further in 2002/03.

Despite the difficulties in the UK and Ireland, Spicers maintained its strong competitive position. It is continuing to upgrade its operations and the planned relocation of the South London regional distribution centre (RDC) from Bermondsey to Greenwich in the current year will increase capacity, service capabilities and efficiency.

There was a substantial slow-down in the French office products market, but Spicers France continued its growth based on its strong market position and assisted by the acquisition in October 2001 of a smaller competitor, Plein Ciel. This move added a strong brand and sales are being successfully expanded through the Plein Ciel dealer network.

In Germany, the second RDC, at Nuremberg, was opened in April 2001 and became fully operational during the first half of the year, increasing capacity and allowing same day delivery to the whole German market. Difficulties with the implementation of an updated version of Spicers' integrated IT system during autumn 2001 resulted in reduced service levels and a reduction in sales growth. Actions have been taken to rectify the situation and to restore customer confidence. The IT problems have now been resolved, customer confidence is recovering and sales growth is picking up.

Spicers Spain was launched in April 2002 with the opening of the new Barcelona RDC. Plans are well advanced for a second RDC in Madrid, due to open in January 2003. Initial indications and feedback from the dealer community are encouraging, although the business will be loss making for some time to come.

The office products market remains challenging but the actions we have taken in 2001/02 should allow us to improve our position in the coming year, even in the absence of market growth.

Manufacturing

John Dickinson experienced a 7% decline in sales to £66.7 million due to reduced volumes and price pressure in its markets. The division made an operating loss before exceptional items and amortisation of intangibles of £1.6 million compared with a small operating profit of £0.3 million in the previous year. The 2001/02 result however is stated after charging a £1.9 million restructuring charge associated with exiting certain product lines and reducing the workforce by about 100.

Market conditions were tough for all parts of the business but sales of envelopes were particularly badly affected by the economic downturn with severe price competition in part driven by a high level of imports. The Sawston envelope factory was restructured towards the end of the year to reduce capacity, cut costs and focus on the higher added value products. The book and pad stationery business experienced weaker demand but achieved an improvement in product mix towards higher added value products. The Spicer Hallfield photographic stationery business produced a disappointing result due to lower sales and a number of one-off costs.

Group Profit and Loss Account

For the financial year ended 30 April 2002

	Note	2002			2001		
		Before exceptional items and amortisation of intangibles £m	Exceptional items and amortisation of intangibles (Note 2) £m	Total £m	Before exceptional items and amortisation of intangibles (restated) £m	Exceptional items and amortisation of intangibles (Note 2) £m	Total (restated) £m
Turnover	1	1,440.2	-	1,440.2	1,399.1	-	1,399.1
Group operating profit	1	72.0	(34.1)	37.9	84.9	(1.1)	83.8
Share of operating profits/(losses) of associated undertakings		2.2	0.3	2.5	(0.2)	-	(0.2)
Total operating profit		74.2	(33.8)	40.4	84.7	(1.1)	83.6
Exceptional loss on termination of operations		-	-	-	-	(4.3)	(4.3)
Profit on ordinary activities before interest		74.2	(33.8)	40.4	84.7	(5.4)	79.3
Net interest payable		(11.6)	-	(11.6)	(12.5)	-	(12.5)
Profit on ordinary activities before taxation		62.6	(33.8)	28.8	72.2	(5.4)	66.8
Tax on profit on ordinary activities		(16.9)	6.4	(10.5)	(22.9)	1.2	(21.7)
Profit on ordinary activities after taxation		45.7	(27.4)	18.3	49.3	(4.2)	45.1
Minority interests – equity		(0.9)	-	(0.9)	(0.8)	-	(0.8)
Profit for the financial year		44.8	(27.4)	17.4	48.5	(4.2)	44.3
Dividends paid and proposed		(28.2)	-	(28.2)	(28.2)	-	(28.2)
Retained profit/(loss) for the financial year		16.6	(27.4)	(10.8)	20.3	(4.2)	16.1
Earnings per share:	3						
Basic				5.4p			13.8p
Diluted				5.4p			13.8p
Adjusted		14.0p			15.1p		
Dividends per share				8.8p			8.8p

Notes:

- The Group's results shown above are derived from continuing operations. There were no material acquisitions or discontinued operations in either year.
- The difference between the reported and historical cost profits for each of the financial years reported above is not material.
- The Annual Report and financial statements for the financial year ended 30 April 2002 will be posted to shareholders in July 2002.
- Subject to approval of shareholders at the Annual General Meeting to be held on Tuesday 3 September 2002, the final dividend of 6.0p will be paid on 17 September 2002 to ordinary shareholders on the register on 16 August 2002.
- The 2001/02 and 2000/01 results in this preliminary statement are not the Group's statutory accounts for these financial years. The 2001/02 and 2000/01 results have been extracted from statutory accounts which contained unqualified audit reports with no adverse statement under Section 237 (2) or (3) of the Companies Act 1985. The 2000/01 statutory accounts have been filed with the Registrar of Companies.
- The results for the financial year ended 28 April 2001 have been restated for the effects of applying FRS19 'Deferred Tax'.

Group Statement of Total Recognised Gains and Losses

For the financial year ended 30 April 2002

	2002	2001 (restated)
	£m	£m
Profit for the financial year	17.4	44.3
Exchange differences on foreign currency net investments	2.9	5.6
Total recognised gains and losses relating to the financial year	<u>20.3</u>	<u>49.9</u>
Prior year adjustment	(62.2)	-
Total recognised gains and losses since the last financial statements	<u>(41.9)</u>	<u>49.9</u>

The prior year adjustment arises from the implementation during the year of FRS 19 'Deferred Tax'.

Group Reconciliation of Movements in Shareholders' Funds

For the financial year ended 30 April 2002

	2002	2001 (restated)
	£m	£m
Profit for the financial year	17.4	44.3
Dividends	(28.2)	(28.2)
Retained (loss)/profit for the financial year	<u>(10.8)</u>	<u>16.1</u>
Exchange differences on foreign currency net investments	2.9	5.6
New share capital issued	0.6	-
Net (decrease)/increase in shareholders' funds	<u>(7.3)</u>	<u>21.7</u>
Opening shareholders' funds (restated after a prior year adjustment of £62.2m)	<u>446.2</u>	<u>424.5</u>
Closing shareholders' funds	<u>438.9</u>	<u>446.2</u>

Group Balance Sheet

		30 April 2002	28 April 2001 (restated)
	Note	£m	£m
Fixed assets			
Intangible assets		32.1	25.7
Tangible assets		551.6	541.1
Investments		27.8	20.8
		<u>611.5</u>	<u>587.6</u>
Current assets			
Stocks		142.4	155.2
Debtors		319.7	334.6
Short term investments	4	16.0	19.3
Cash at bank and in hand	4	28.5	10.0
		<u>506.6</u>	<u>519.1</u>
Creditors: amounts falling due within one year			
Trade and other creditors		(330.3)	(334.0)
Borrowings	4	(29.4)	(22.1)
Net current assets		<u>146.9</u>	<u>163.0</u>
Total assets less current liabilities		758.4	750.6
Creditors: amounts falling due after more than one year			
Borrowings	4	(211.0)	(200.6)
Other		(11.1)	(6.8)
Provisions for liabilities and charges		<u>(90.1)</u>	<u>(92.0)</u>
		446.2	451.2
Minority interests – equity		<u>(7.3)</u>	<u>(5.0)</u>
Net assets		<u>438.9</u>	<u>446.2</u>
Capital and reserves			
Called up share capital		32.1	32.1
Share premium account		188.6	188.0
Revaluation reserve		8.9	9.5
Profit and loss account		209.3	216.6
Shareholders' funds – equity		<u>438.9</u>	<u>446.2</u>

Group Cash Flow Statement

For the financial year ended 30 April 2002

	Note	2002 £m	2001 £m
Net cash inflow from operating activities	5(a)	178.0	98.6
Returns on investments and servicing of finance	5(b)	(10.0)	(12.2)
Taxation		(26.9)	(3.0)
Capital expenditure and financial investment	5(c)	(69.9)	(62.8)
Acquisitions and disposals	5(d)	(44.6)	(9.1)
Equity dividends paid		(28.2)	(27.5)
Net cash outflow before use of liquid resources and financing		(1.6)	(16.0)
Management of liquid resources	5(e)	3.5	(13.9)
Net cash inflow from financing	5(f)	16.9	29.6
Increase/(decrease) in cash in the financial year		18.8	(0.3)

Reconciliation of Net Cash Flow to Movement in Net Debt

For the financial year ended 30 April 2002

	Note	2002 £m	2001 £m
Increase/(decrease) in cash in the financial year		18.8	(0.3)
Increase in debt and lease financing		(16.3)	(29.6)
(Decrease)/increase in liquid resources		(3.5)	13.9
Increase in net debt resulting from cash flow		(1.0)	(16.0)
Liquid resources acquired with subsidiary undertakings		0.5	-
Loans and finance leases acquired with subsidiary undertakings		(3.2)	(5.3)
Exchange differences		1.2	(9.7)
Increase in net debt in the financial year		(2.5)	(31.0)
Opening net debt		(193.4)	(162.4)
Closing net debt	4,6	(195.9)	(193.4)

Notes to the Financial Statements

1 Analysis of Group turnover, operating profit and capital employed

2002	Turnover £m	Operating profit before exceptional items and amortisation of intangibles £m	Operating profit £m	Return on sales %	Capital employed excluding intangibles £m	Capital employed £m	Return on capital employed %
Packaging							
Corrugated and Paper	708.5	51.7	32.4	7.3	477.8	478.3	10.8
Plastics	183.9	12.2	10.9	6.6	78.5	108.4	15.5
	892.4	63.9	43.3	7.2	556.3	586.7	11.5
Office Products							
Wholesaling	500.5	9.7	9.6	1.9	123.9	125.6	7.8
Manufacturing	66.7	(1.6)	(15.0)	(2.4)	16.3	16.3	(9.8)
Intra-segment	(19.4)	-	-	-	-	-	-
	547.8	8.1	(5.4)	1.5	140.2	141.9	5.8
Total	1,440.2	72.0	37.9	5.0	696.5	728.6	10.3
United Kingdom	892.9	43.7	20.4	4.9	466.4	465.6	9.4
Rest of World	547.3	28.3	17.5	5.2	230.1	263.0	12.3
Total	1,440.2	72.0	37.9	5.0	696.5	728.6	10.3

2001

Packaging							
Corrugated and Paper	702.1	51.3	51.1	7.3	484.4	489.5	10.6
Plastics	161.1	8.9	8.0	5.5	82.0	102.6	10.9
	863.2	60.2	59.1	7.0	566.4	592.1	10.6
Office Products							
Wholesaling	485.0	24.4	24.4	5.0	122.7	122.7	19.9
Manufacturing	71.4	0.3	0.3	0.4	36.4	36.4	0.8
Intra-segment	(20.5)	-	-	-	-	-	-
	535.9	24.7	24.7	4.6	159.1	159.1	15.5
Total	1,399.1	84.9	83.8	6.1	725.5	751.2	11.7
United Kingdom	898.6	56.6	56.5	6.3	497.8	498.7	11.4
Rest of World	500.5	28.3	27.3	5.7	227.7	252.5	12.4
Total	1,399.1	84.9	83.8	6.1	725.5	751.2	11.7

The operating profits shown above exclude the Group's share of operating profits and losses of associated undertakings and the prior year exceptional loss relating to the termination of operations, which is shown below operating profit on the face of the consolidated profit and loss account (see note 2). Capital employed as shown above excludes net borrowings, deferred consideration due in respect of acquisitions, corporation tax, dividends payable, fixed asset investments and minority interests.

Return on sales is defined as operating profit before exceptional items and amortisation of intangibles divided by turnover. Return on capital employed is defined as operating profit before exceptional items and amortisation of intangibles divided by capital employed excluding intangibles.

2 Exceptional items and amortisation of intangibles

	2002 £m	2001 £m
Impairment of tangible fixed assets and goodwill	(32.4)	-
Amortisation of intangibles	(1.7)	(1.1)
Amortisation of goodwill of associates	0.3	-
Exceptional loss on termination of operations: Costs of closure	-	(4.3)
	<u>(33.8)</u>	<u>(5.4)</u>
Tax on exceptional items	6.4	1.2
Total	<u>(27.4)</u>	<u>(4.2)</u>

In the second half of the year the Group carried out an extensive review of its operating assets, as a result of which a £32.4m impairment provision against the carrying value of tangible fixed assets and goodwill has been charged in arriving at operating profit. A substantial part of this change relates to the Group's Office Products Manufacturing business and the investment in Turkish corrugated packaging. The exceptional loss on termination of operations in the previous year related to the closure of the Group's Bracknell corrugated packaging plant.

3 Earnings per share

Basic earnings per share are calculated by dividing the profit for the financial year of £17.4m (2001 - £44.3m) by the weighted average in issue and fully paid during the year of 320.2m (2001 - 320.2m). The adjusted earnings per share is calculated on the profit for the financial year excluding exceptional items and amortisation of intangibles and on the same number of shares.

Diluted earnings per share are calculated on the same earnings numbers as basic earnings per share but on 321.2m (2001 - 321.1m) shares.

4 Borrowings

	2002 £m	2001 £m
Group's net borrowings are:		
Bank loans and overdrafts and other loans	235.2	219.6
Finance lease liabilities	5.2	3.1
Short term investments	(16.0)	(19.3)
Cash at bank and in hand	(28.5)	(10.0)
	<u>195.9</u>	<u>193.4</u>
Gearing (net borrowings expressed as a percentage of shareholders' funds)	44.6%	43.3%

5 Group cash flow statement

	2002 £m	2001 £m
(a) Reconciliation of operating profit to net cash inflow from operating activities:		
Operating profit before exceptional items and amortisation of intangibles	72.0	84.9
Depreciation	63.6	60.4
Profit on sale of tangible fixed assets	(2.9)	(3.2)
Decrease/(increase) in working capital	40.6	(39.7)
Increase/(decrease) in provisions	3.9	(0.1)
Other non cash operating items	0.8	0.8
Cash flow from operating activities before exceptional items	<u>178.0</u>	<u>103.1</u>
Operating cash flow relating to exceptional items (see below)	-	(4.5)
Net cash flow from operating activities	<u>178.0</u>	<u>98.6</u>
<p>The prior year operating cash flows relating to exceptional items mainly comprise the cash costs incurred in closing operations.</p>		
(b) Returns on investments and servicing of finance:		
Interest received	4.9	3.9
Interest paid	(14.7)	(15.9)
Interest element of finance lease rental payments	(0.2)	(0.2)
	<u>(10.0)</u>	<u>(12.2)</u>
(c) Capital expenditure and financial investment:		
Purchase of tangible fixed assets	(75.3)	(70.7)
Sale of tangible fixed assets	7.7	10.1
Purchase of DS Smith Plc shares	(0.6)	(0.1)
Purchase of fixed asset investments	(1.7)	(2.1)
	<u>(69.9)</u>	<u>(62.8)</u>
(d) Acquisitions and disposals:		
Purchase of subsidiary undertakings	(41.5)	(9.9)
Net cash acquired with subsidiaries	0.1	1.1
Investment in associated undertakings	(3.2)	(0.3)
	<u>(44.6)</u>	<u>(9.1)</u>
(e) Net sale/(purchase) of short term investments	<u>3.5</u>	<u>(13.9)</u>
Short term investments mainly comprise deposits with banks.		
(f) Net cash inflow from financing:		
Issue of ordinary shares	0.6	-
New borrowings	20.2	93.9
Borrowings repaid	(3.9)	(64.3)
	<u>16.9</u>	<u>29.6</u>

6 Analysis of changes in net debt

	At 28 April 2001 £m	Acquired £m	Cash flow £m	Exchange movements £m	At 30 April 2002 £m
Cash at bank and in hand	10.0	-	18.7	(0.2)	28.5
Overdrafts	(18.1)	-	(0.1)	1.8	(16.2)
	(8.1)	-	18.8	1.6	12.3
Debt due after one year	(198.2)	(0.1)	(9.4)	1.0	(206.7)
Debt due within one year	(3.3)	-	(7.8)	(1.2)	(12.3)
Finance leases	(3.1)	(3.1)	0.9	0.1	(5.2)
	(204.6)	(3.2)	(16.3)	(0.1)	(224.2)
Short term investments	19.3	0.5	(3.5)	(0.3)	16.0
Total	(193.4)	(2.7)	(1.0)	1.2	(195.9)

7 Acquisitions

On 11 September 2001, the Group acquired a number of corrugated packaging operations on a back-to-back basis from Anglo American International S.A. (an associate of Mondi Packaging UK) following their purchase of the UK paper and packaging operations of Danisco A/S. The acquired operations consisted of two corrugated sheet feeder plants, based at Kettering and Hastings, and 11 corrugated sheet plants mainly located in the south and west of the UK. The businesses were acquired for a consideration of £21.4m.

A further £20.1m of consideration was paid for a number of other acquisitions in the year.

Group Profit and Loss Account

First Half / Second Half Split

For the financial year ended 30 April 2002

	First half (Unaudited)		Second half (Unaudited)		Total year	
	2002	2001 (restated)	2002	2001 (restated)	2002	2001 (restated)
	£m	£m	£m	£m	£m	£m
Turnover	711.9	689.2	728.3	709.9	1,440.2	1,399.1
Operating profit before exceptional items and amortisation of intangibles	41.9	45.0	30.1	39.9	72.0	84.9
Share of profits/(losses) of associated undertakings	(0.1)	(0.1)	2.3	(0.1)	2.2	(0.2)
Exceptional items and amortisation of intangibles	(0.7)	(2.6)	(33.1)	(2.8)	(33.8)	(5.4)
Profit/(loss) on ordinary activities before interest	41.1	42.3	(0.7)	37.0	40.4	79.3
Net interest payable	(6.0)	(5.5)	(5.6)	(7.0)	(11.6)	(12.5)
Profit/(loss) on ordinary activities before taxation	35.1	36.8	(6.3)	30.0	28.8	66.8
Tax on profit/(loss) on ordinary activities	(10.7)	(11.8)	0.2	(9.9)	(10.5)	(21.7)
Profit/(loss) on ordinary activities after taxation	24.4	25.0	(6.1)	20.1	18.3	45.1
Minority interests – equity	(0.6)	(0.4)	(0.3)	(0.4)	(0.9)	(0.8)
Profit/(loss) for the period	23.8	24.6	(6.4)	19.7	17.4	44.3
Earnings per share:						
Basic	7.4p	7.7p	(2.0)p	6.1p	5.4p	13.8p
Adjusted (note 1)	7.7p	8.3p	6.3p	6.8p	14.0p	15.1p

Notes

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