

# DS Smith Plc

Interim Results 2006/07

Antony Hichens  
Chairman

# Headlines

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- Adjusted PBT <sup>1</sup>: £29.0m (£30.5m)
- Adjusted EPS <sup>1</sup>: 5.1p (5.5p)
- Taplow closure and land sale: £30m land sale proceeds
- Free cash before dividends, acquisitions and disposals: £18.5m (£23.2m)
- Interim dividend unchanged at 2.6p

<sup>1</sup> before exceptional items

# Financial Review

Gavin Morris

Group Finance Director

# Group Income Statement

£million	H1 06/07	H1 05/06	Change H1 06/07 Vs H1 05/06	FY 05/06
Revenue	868.5	821.6	5.7%	1,652.7
Adjusted operating profit <sup>1</sup>	30.4	33.2	(2.8)	60.4
Associated companies	1.9	2.2	(0.3)	4.1
Net interest	(7.1)	(5.8)	(1.3)	(12.3)
Employment benefit finance income	3.8	0.9	2.9	1.2
Adjusted profit before tax <sup>1</sup>	<b>29.0</b>	<b>30.5</b>	<b>(1.5)</b>	<b>53.4</b>

<sup>1</sup> before exceptional items

# Group Income Statement (cont.)

£million	H1 06/07	H1 05/06	Change H1 06/07 Vs H1 05/06	FY 05/06
Adjusted profit before tax <sup>1</sup>	<b>29.0</b>	<b>30.5</b>	<b>(1.5)</b>	<b>53.4</b>
Exceptional items	10.0	(1.9)	11.9	(42.4)
Profit before taxation	<b>39.0</b>	<b>28.6</b>	<b>10.4</b>	<b>11.0</b>
Taxation	(5.5)	(9.8)	4.3	(5.7)
Profit after taxation	<b>33.5</b>	<b>18.8</b>	<b>14.7</b>	<b>5.3</b>
Adjusted operating margin <sup>1</sup> – %	3.5%	4.0%	(0.5)pts	3.7%
Capital employed <sup>2</sup> – £m	907.1	939.8	(32.7)	930.0
Adjusted return on capital employed <sup>1,2</sup> – %	6.7%	7.1%	(0.4)pts	6.5%

<sup>1</sup> before exceptional items

<sup>2</sup> monthly average

# Energy

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- H1 energy bill c. £45m (H1 05/06: c. £41m); c. £8m underlying increase (adjusting for closures/disposals)
  - Market price for gas up 21% in H1
  - Market price for electricity down 1% in H1; DSS full-year effect of new, floating, electricity contract (from 10/05)
- Closures of Sudbrook (03/06) and Taplow (10/06) remove the least energy efficient plants
- Ongoing measures to limit energy impact
  - Continuing initiatives to reduce energy consumption
  - Combined-heat-and-power & waste-to-energy plants (Kemsley; France)
  - Active hedging in forward energy markets has reduced effect of market price volatility

# Exceptional Items

£million	H1 06/07	H1 05/06	FY 05/06
Gain on sale of Taplow site (10/06)	20.5	-	-
UK Paper & Corrugated restructuring	(10.5)	-	(28.9)
Loss on disposal of businesses	-	(1.9)	(4.3)
Impairment charges	-	-	(9.2)
	<b>10.0</b>	<b>(1.9)</b>	<b>(42.4)</b>
Cash restructuring costs	(2.7)	-	(4.6)
Proceeds from sale of Taplow site	30.3	-	-

# Earnings and Dividends

£million	H1 06/07	H1 05/06	FY 05/06
Average shares in issue	388.7	386.7	387.2
Earnings per share – adjusted <sup>1</sup> – pence	5.1p	5.5p	10.0p
– basic – pence	8.5p	4.8p	1.1p
Dividends per share – pence	2.6p	2.6p	8.4p

Shares in issue at 31/10/2006 – 390.9m

<sup>1</sup> before exceptional items

# UK Paper and Corrugated Packaging

	H1 06/07	H1 05/06	Change H1 06/07 Vs H1 05/06	FY 05/06
Revenue - £m	342.6	331.1	3.5%	649.6
Adjusted EBITDA <sup>1</sup> – £m	29.2	32.0	(2.8)	55.2
Adjusted EBITDA margin <sup>1</sup> – %	8.5%	9.7%	(1.2)pts	8.5%
Adjusted operating profit <sup>1</sup> – £m	13.5	14.4	(0.9)	20.5
Adjusted operating margin <sup>1</sup> – %	3.9%	4.3%	(0.4)pts	3.2%
Capital employed <sup>2</sup> – £m	488.0	520.1	(32.1)	509.3
Adjusted return on capital employed <sup>1,2</sup> – %	5.5%	5.5%	-	4.0%

<sup>1</sup> before exceptional items

<sup>2</sup> monthly average

# Continental European Corrugated Packaging

	H1 06/07	H1 05/06	Change H1 06/07 Vs H1 05/06	FY 05/06
Revenue – £m	151.4	135.3	11.9%	276.6
EBITDA – £m	15.5	16.6	(1.1)	33.6
EBITDA margin – %	10.2%	12.3%	(2.1)pts	12.1%
Operating profit – £m	8.6	9.9	(1.3)	20.1
Operating margin – %	5.7%	7.3%	(1.6)pts	7.3%
Capital employed <sup>1</sup> – £m	165.1	158.6	6.5	162.3
Return on capital employed <sup>1</sup> – %	10.4%	12.5%	(2.1)pts	12.4%

<sup>1</sup> monthly average

# Plastic Packaging

	H1 06/07	H1 05/06	Change H1 06/07 Vs H1 05/06	FY 05/06
Revenue – £m	103.7	101.7	2.0%	202.4
Adjusted EBITDA <sup>1</sup> – £m	10.5	7.8	2.7	19.4
Adjusted EBITDA margin <sup>1</sup> – %	10.1%	7.7%	2.4pts	9.6%
Adjusted operating profit <sup>1</sup> – £m	5.1	2.0	3.1	7.2
Adjusted operating margin <sup>1</sup> – %	4.9%	2.0%	2.9pts	3.6%
Capital employed <sup>2</sup> – £m	124.0	134.0	(10.0)	129.3
Adjusted return on capital employed <sup>1,2</sup> – %	8.2%	3.0%	5.2pts	5.6%

<sup>1</sup> before exceptional items

<sup>2</sup> monthly average

# Office Products Wholesaling

	H1 06/07	H1 05/06	Change H1 06/07 Vs H1 05/06	FY 05/06
Revenue – £m	270.8	248.1	9.1%	518.7
EBITDA – £m	6.4	10.2	(3.8)	19.4
EBITDA margin – %	2.4%	4.1%	(1.7)pts	3.7%
Operating profit – £m	3.2	6.9	(3.7)	12.6
Operating margin – %	1.2%	2.8%	(1.6)pts	2.4%
Capital employed <sup>1</sup> – £m	130.0	122.9	7.1	127.0
Return on capital employed <sup>1</sup> – %	4.9%	11.2%	(6.3)pts	9.9%

<sup>1</sup> monthly average

# Group Balance Sheet

£million	H1 06/07	H1 05/06	FY 05/06
Property, plant and equipment and investments	539.6	595.7	565.8
Intangibles	194.3	196.7	195.4
Other non-current assets	1.4	3.7	3.1
Net current assets	148.4	156.9	124.1
Deferred tax	(67.4)	(76.8)	(67.3)
Long term creditors and provisions	(6.0)	(11.1)	(6.5)
Net debt	(238.6)	(270.7)	(237.8)
Pension scheme net deficit	(30.0)	(75.7)	(35.3)
<b>Net assets</b>	<b>541.7</b>	<b>518.7</b>	<b>541.5</b>
Gearing – %	44.0%	52.2%	43.9%

# Free Cash Flow

£million	H1 06/07	H1 05/06	FY 05/06
Operating profit <sup>1</sup>	30.4	33.2	60.4
Depreciation & amortisation	31.2	33.4	67.2
<b>Adjusted EBITDA</b>	<b>61.6</b>	<b>66.6</b>	<b>127.6</b>
Working capital movement	(24.6)	8.8	27.4
Exceptional cash costs	(2.7)	-	(4.6)
Other	(7.5)	(5.5)	(12.2)
<b>Cash generated from operations</b>	<b>26.8</b>	<b>69.9</b>	<b>138.2</b>
Capital expenditure	(31.2)	(35.3)	(62.7)
Proceeds of asset/investment sales	35.9	3.5	13.2
Taxation	(6.3)	(8.9)	(13.5)
Interest	(6.7)	(6.0)	(12.0)
<b>Free cash flow</b>	<b>18.5</b>	<b>23.2</b>	<b>63.2</b>

<sup>1</sup> before exceptional items

# Net Cash Flow

£million	H1 06/07	H1 05/06	FY 05/06
<b>Free cash flow</b>	<b>18.5</b>	<b>23.2</b>	<b>63.2</b>
Dividends	(22.5)	(22.4)	(32.6)
<b>Free cash flow before net (acquisitions) / disposals</b>	<b>(4.0)</b>	<b>0.8</b>	<b>30.6</b>
Net disposals / (acquisitions)	1.4	(4.7)	0.5
<b>Net cash flow</b>	<b>(2.6)</b>	<b>(3.9)</b>	<b>31.1</b>

# Net Debt Movements

£million	H1 06/07	H1 05/06	FY 05/06
<b>Net cash flow</b>	<b>(2.6)</b>	<b>(3.9)</b>	<b>31.1</b>
Share issues	-	0.3	2.6
Net debt acquired	-	(2.5)	(2.6)
Non-cash movements	1.8	(1.8)	(6.1)
<b>Net debt movement</b>	<b>(0.8)</b>	<b>(7.9)</b>	<b>25.0</b>
<b>Opening net debt</b>	<b>(237.8)</b>	<b>(262.8)</b>	<b>(262.8)</b>
<b>Closing net debt</b>	<b>(238.6)</b>	<b>(270.7)</b>	<b>(237.8)</b>
P&L interest cover – x	4.5 x	6.1 x	5.2 x
Net debt / Adjusted EBITDA – x	1.9 x	2.0 x	1.9 x

# Guidance for 2006/07

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- Underlying energy costs: up c. £10m in FY 06/07 (adjusting for disposals and closures)
  - In H2, benefit of reducing market energy prices partly offset by rises in some energy procurement contracts with lagged pricing
- Tax rate: 32% 06/07; estimate c. 32% in 07/08
- Cash capital expenditure: at +/- depreciation
- Employee benefit finance income approx. 2x that in H1
- Interest: market euro interest rates up c. 1% Vs. 05/06; sterling mainly fixed

# Operations and Strategy

Tony Thorne

Group Chief Executive

# H1 2006/07 Summary

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- Tough half-year
- Packaging
  - Paper and Corrugated Packaging
    - ~ Profits lower: higher energy and net waste costs
    - ~ Underlying improvement
      - Weaker businesses exited or turned around
      - Sales volumes increasing
      - Higher prices
  - Plastic Packaging: good profit advance despite higher polymer costs
- Office Products Wholesaling
  - Profits sharply down
    - ~ UK: higher costs; strong competition; turnaround plan underway
    - ~ Continental Europe: encouraging performance

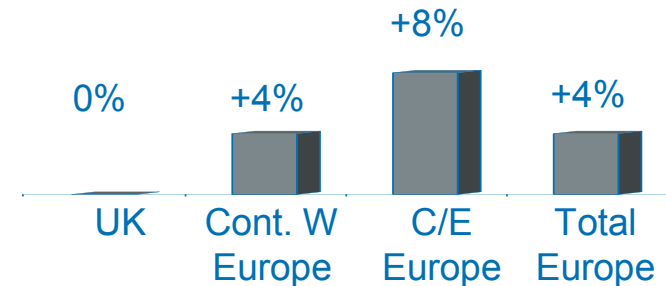
# Paper and Corrugated Packaging

## External conditions

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- Market – stronger demand

Source: FEFCO Jan-Sept 2006  
Corrugated packaging volume by weight



- Input costs:
    - Energy costs: substantial increase in year-on-year average prices
    - Waste paper: UK net increase
      - ~ Strong export demand
      - ~ Lower PRN prices (Average: H1 05/06 £13.50; H1 06/07 £4.50)
  - CCM supply/demand – improved balance
  - Selling prices
    - CCM: recycled and kraft up strongly
    - Corrugated: industry push to recover CCM costs
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# UK Paper and Corrugated Packaging

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- Underlying input costs (energy and net waste) up c. £12m
- Actions:
  - Exited uneconomic capacity; other cost reduction
  - Grew waste paper collection; good speciality paper sales
  - Grew corrugated market share; higher added-value products
  - Pricing – end H1 06/07 Vs end H1 05/06:
    - ~ CCM: c.+35%
    - ~ Boxes: c.+10%
- H2 2006/07:
  - Input costs remain high
  - Increased prices in place

# Continental European Corrugated Packaging

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- Strong volume growth
- Eastern European development
- France / Italy mixed performance
- Box pricing – end H1 06/07 Vs end H1 05/06
  - c.+8%; country performance varies
  - Not yet full recovery of input cost increases
- H2 2006/07: priority to achieve further cost recovery

# Plastic Packaging

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- Margin improvement
- Not yet fully recovered historic input cost increases
- Liquid packaging and dispensing
  - Benefits of cost reduction in Europe
  - Sales and margin growth: new product development
- Returnable transit packaging
  - Strong sales: crates; new product development
  - Price increases recovered H1 polymer cost increases
- H2 2006/07
  - Segment better positioned in its markets
  - Uneven nature of demand for some products

# Office Products Wholesaling – Spicers

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- Sales up: includes full 6 months of Benelux
- UK: profits sharply lower
  - Higher costs
  - Strong competition
- Continental Europe: c. 50% of revenue
  - Encouraging performance; continued development
  - France: good sales and profit progress
  - Spain: new Madrid distribution centre
  - Italy: rapid sales growth

# Spicers UK Turnaround Programme

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- H1 actions targeted at:
  - Strengthening management
  - Raising service levels; especially Dealer Distribution Centre
  - Improving sales mix
  - Cutting costs
  
- H2
  - Building momentum
  - Further cost reduction
  
- Benefits
  - Some in H2 2006/07
  - More in 2007/08

# Outlook

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- H2 outlook for the Group remains unchanged
- Spicers
  - Turnaround programme
  - Some initial benefits in H2; more in 2007/08
- Paper and Corrugated Packaging
  - Better pricing
  - Benefits of restructuring
  - Improving trend through H2
  - Input costs remain high