

DS Smith Plc

Interim Results 2005/06

Antony Hichens
Chairman

Headlines

- **PBT £30.5m (£37.4m) ¹**
- **EPS 5.5p (7.3p) ¹**
- **Synergies being achieved in UK Paper and Corrugated Packaging**
- **Benefits more than offset by effects of price erosion, higher energy costs and polymer cost increases**
- **Office Products: acquisition of Benelux wholesaler; John Dickinson sold**
- **Cash inflow before dividends and acquisitions: £23.2m (£26.5m)**
- **Interim dividend unchanged at 2.6p**

¹ before exceptional items

Financial Review

Gavin Morris
Group Finance Director

IFRS/IAS Accounting

- Interim results presented under IFRS
- H1 04/05 and FY 04/05 restated
- FRS17 pensions accounting already adopted in 04/05 limiting IAS19 implementation effect in 05/06
- No amortisation of goodwill
- Charge for share-based payments
- Associates presented on an after-tax basis

Profit and Loss Account

£million	H1 05/06	H1 04/05	Change H1 05/06 Vs H1 04/05	FY 04/05
Turnover	821.6	800.1	2.7%	1,624.9
Operating profit ¹	33.2	42.6	(22.1)%	82.6
Associated companies	2.2	1.1		3.4
Interest	(5.8)	(6.8)		(13.2)
Other finance income/(expense)	0.9	0.5		1.1
Profit before tax ¹	30.5	37.4	(18.4)%	73.9

¹ before exceptional items

Profit and Loss Account (cont.)

£million	H1 05/06	H1 04/05	Change H1 05/06 Vs H1 04/05	FY 04/05
Profit before tax and exceptional item(s)	30.5	37.4	(18.4)%	73.9
Exceptional items	(1.9)	-		(9.6)
Profit before taxation	28.6	37.4	(23.5)%	64.3
Taxation	(9.8)	(9.1)		(16.2)
Profit after taxation	18.8	28.3	(33.6)%	48.1
Operating margin (%)	4.0%	5.3%	(1.3)pts	5.1%
Capital employed ¹ (£m)	939.8	936.9	0.3%	949.0
Return on capital employed ¹ (%)	7.1%	9.1%	(2.0)pts	8.7%

¹ monthly average

Earnings and Dividends

£million	H1 05/06	H1 04/05	FY 04/05
Average shares in issue	386.7m	385.2m	385.3m
Earnings per share - adjusted ¹	5.5p	7.3p	14.4p
- basic	4.8p	7.3p	12.2p
Dividends per share	2.6p	2.6p	8.4p

Number of shares in issue at 31/10/05 – 389.3m

¹ before exceptional items

Energy

- **FY 04/05 energy bill £73m**
- **H1 05/06: market prices for energy up substantially: gas +44%; electricity +46%**
- **H1 05/06: DSS energy bill up £7m (+21%) to c. £41m**
- **Number of measures taken to limit energy impact:**
 - energy conservation measures;
 - CHP & waste-to-energy plants;
 - fixed priced electricity contract to Oct '05;
 - renegotiated energy contracts;
 - active hedging of forward energy requirements

UK Paper and Corrugated Packaging

	H1 05/06	H1 04/05	Change H1 05/06 Vs H1 04/05	FY 04/05
Turnover (£m)	331.1	312.7	5.9%	631.2
Operating profit (£m)	14.4	19.8	(27.3)%	31.6
Operating margin (%)	4.3%	6.3%	(2.0)pts	5.0%
Capital employed ¹ (£m)	520.1	525.9	(1.1)%	528.3
Return on capital employed ¹ (%)	5.5%	7.5%	(2.0)pts	6.0%

¹ monthly average

Continental European Corrugated Packaging

	H1 05/06	H1 04/05	Change H1 05/06 Vs H1 04/05	FY 04/05
Turnover (£m)	135.3	131.5	2.9%	265.7
Operating profit (£m)	9.9	9.9	-	20.2
Operating margin (%)	7.3%	7.5%	(0.2)pts	7.6%
Capital employed ¹ (£m)	158.6	142.9	11.0%	147.1
Return on capital employed ¹ (%)	12.5%	13.9%	(1.4)pts	13.7%

¹ monthly average

Plastic Packaging

	H1 05/06	H1 04/05	Change H1 05/06 Vs H1 04/05	FY 04/05
Turnover (£m)	101.7	99.9	1.8%	195.9
Operating profit (£m)	2.0	6.2	(67.7)%	9.3
Operating margin (%)	2.0%	6.2%	(4.2)pts	4.7%
Capital employed ¹ (£m)	134.0	139.9	(4.2)%	140.5
Return on capital employed ¹ (%)	3.0%	8.9%	(5.9)pts	6.6%

¹ monthly average

Office Products Wholesaling

	H1 05/06	H1 04/05	Change H1 05/06 Vs H1 04/05	FY 04/05
Turnover (£m)	248.1	240.0	3.4%	499.7
Operating profit (£m)	6.9	6.9	-	21.5
Operating margin (%)	2.8%	2.9%	(0.1)pts	4.3%
Capital employed ¹ (£m)	122.9	114.0	7.8%	119.0
Return on capital employed ¹ (%)	11.2%	12.1%	(0.9)pts	18.1%

¹ monthly average

Acquisitions & Disposals

- **Acquired Timmermans NV**
 - Became part of Spicers on 1 October 2005
 - Largest office products wholesaler in Benelux region
 - 2004 sales €45m; 130 employees
- **Disposed of Office Products Manufacturing**
 - John Dickinson sold on 12 July 2005
 - 2004/05: year end capital employed – £12.6m; external sales £32.4m; operating profit – nil
 - Loss on sale £(1.9)m

Group Balance Sheet

£million	H1 05/06	H1 04/05	FY 04/05
Property, plant and equipment and investments	595.7	595.8	591.5
Intangibles	196.7	196.8	190.9
Other non-current assets	3.7	3.4	1.0
Net current assets	157.1	167.7	166.9
Deferred tax	(76.8)	(74.7)	(77.5)
Long term creditors and provisions	(11.3)	(13.1)	(11.9)
Net borrowings ¹	(270.7)	(287.8)	(260.7)
Pension scheme net deficit	(75.7)	(58.2)	(80.4)
Net assets/shareholders' funds	518.7	529.9	519.8
Gearing - %	52.2%	54.3%	50.2%

¹ including related derivative financial instruments for H1 05/06

Free Cash Flow

£million	H1 05/06	H1 04/05	FY 04/05
Operating profit	33.2	42.6	82.6
Depreciation and amortisation	33.4	34.4	68.6
EBITDA	66.6	77.0	151.2
Working capital movement	8.8	(4.2)	(6.9)
Exceptional cash costs	-	-	(2.5)
Other	(5.5)	(2.7)	(2.1)
Cash generated from operations	69.9	70.2	139.7
Capital expenditure payments	(31.8)	(24.2)	(46.9)
Taxation	(8.9)	(13.0)	(23.7)
Interest	(6.0)	(6.5)	(13.3)
Free cash flow	23.2	26.5	55.8

Net Cash Flow

£million	H1 05/06	H1 04/05	FY 04/05
Free cash flow	23.2	26.5	55.8
Dividends	(22.4)	(21.6)	(31.6)
Free cash flow before acquisitions	0.8	4.9	24.2
Acquisitions/disposals	(5.5)	(10.5)	(11.7)
Net cash flow	(4.7)	(5.6)	12.5

Borrowings Movements

£million	H1 05/06	H1 04/05	FY 04/05
Net cash flow	(4.7)	(5.6)	12.5
Share issues	0.3	0.1	2.6
Net purchase of own shares	-	(2.3)	(2.1)
Net borrowings acquired/disposed	(1.7)	-	-
Non-cash movements	(1.6)	(4.6)	1.7
Net borrowings movement	(7.7)	(12.4)	14.7
Opening net borrowings	(263.0)	(275.4)	(275.4)
Closing net borrowings	(270.7)	(287.8)	(260.7)
Interest cover - x	6.1	6.4	6.5
Net Debt/EBITDA - x	2.0	1.9	1.7

Guidance for Balance of Year

- **Main uncertainties**
 - Net effect of recent paper and box price increases
 - Energy costs over the winter
- **Energy**
 - Previously indicated year-on-year energy cost increase of c. £18m
 - Current view – likely increase in the range of £20-23m
- **Additional energy cost increase should be largely mitigated**
- **Linpac synergy benefits – at £14.5m run rate**
- **Tax rate – 31% 05/06**
- **Cash capital expenditure (at around depreciation) boosted by new Polish plant and plasterboard liner investment**
- **Pensions – estimated charge c. £19m; £14m UK cash funding**

Operations and Strategy

Tony Thorne
Group Chief Executive

First Half Variances

	H1 05/06	H1 04/05	Difference
	£m	£m	£m
UK Paper and Corrugated Packaging	14.4	19.8	(5.4)
Continental European Corrugated Packaging	9.9	9.9	-
Plastic Packaging	2.0	6.2	(4.2)
Office Products Wholesaling	6.9	6.9	-
Office Products Manufacturing	-	(0.2)	0.2
Operating profit before exceptional items	33.2	42.6	(9.4)

Key Drivers	
+	-
Synergies	Energy costs Pricing
Continental profits	RTP: polymer LP&D: prices UK gross margin

Return on Invested Capital

	Capital Employed at 31/10/05 £921m	ROACE Average 2003/04 – 2004/05	ROACE 12 months to Oct 2005
Office Products Wholesaling	135	17.5%	17.4%
Plastic Packaging	131	8.6%	3.7%
Continental European Corrugated Packaging	156	13.8%	13.1%
UK Paper and Corrugated Packaging	499	6.0%	5.0%
<p>Cost of capital = c.9% Group 9.3% Group 7.7%</p>			

Office Products Wholesaling - Spicers

Strategy

- Reinforce our leading UK business
- Build our continental European positions

H1 2005/06

- Traditional products: low growth; price pressure
- Electronic office supplies: lower margins
- Dealer sales channel retains market share
- UK: sales up; lower margin sales mix; higher costs
- Continent: good profit progress
- Timmermans acquisition adds Benelux
- Office Products Manufacturing sold

Office Products Wholesaling - Spicers

H2 priorities and action

- Leadership succession
- UK: sales focus; cost reduction
- Continent: sales growth; integrate Timmermans
- Future: re-establish profit growth

Plastic Packaging

Strategy

- Raise profits in our two focused sectors

H1 2005/06

- Liquid packaging and dispensing
 - USA: satisfactory – good product development
 - Australasia: better performance
 - Europe: substantial price erosion; costs lowered; new products
- Returnable transit packaging
 - Crates: lower sales
 - Semi-finished sheet/converted products: poor polymer cost recovery

Plastic Packaging

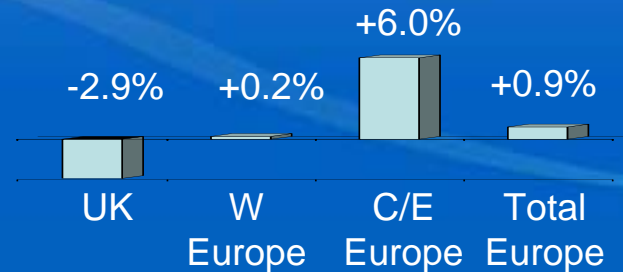
H2 priorities and action

- Build on stronger order book
- Strengthen sales and product development capability
- Strong attention to pricing to restore margins
- Resolve segment underperformance

Paper and Corrugated Packaging

External environment

- **Market growth**



Source: FEFCO Jan-Sept 2005
Volume by weight

- **Corrugated case material (CCM) capacity**

- Estimated 1.5m tonnes overcapacity
- Industry restructuring: plant closures; more expected

- **Energy costs**

- UK: further rises
- Continent: costs up – less than UK

- **Prices**

- OCC: stable but high relative to CCM
- CCM: substantial decline but November increases stick
- Boxes: continued decline; pressure growing for increases

Continental European Corrugated Packaging

Strategy

- Grow, particularly in eastern/central Europe

H1 2005/06

- Growth ahead of market
- Price decline largely offset by lower CCM costs
- Solid performances in France, Italy, Turkey
- Good advance in Poland; new factory opened
- Ukraine: further development (results reported in Associates)
- Higher CCM and energy costs going forward

H2 Priorities and action

- Offset CCM and energy cost increases
- Alert to development opportunities

UK Paper and Corrugated Packaging

Strategy

- Use strengthened position to raise returns
- Recent actions:
 - Expanded our recovered paper collection
 - Enlarged our corrugated packaging operations
 - Increased plasterboard liner in our paper mix

H1 2005/06

- Synergies £7m in first half
- Lower prices – CCM, box and sheet
- Higher energy costs

UK Paper and Corrugated Packaging

H2 priorities and action

- No reliance on external environment
- Scrutiny on CCM operations
- Good operational performance
- Drive for price increases
- Establish lower cost base for 2006/07

Summary

- **Areas for emphasis - recap**
 - Office Products Wholesaling
 - Reinforce Spicers UK
 - Continue sales development on continent
 - Plastic Packaging
 - Build on better order book and lower cost base
 - Continental European Corrugated Packaging
 - Offset impact of higher CCM costs
 - UK Paper and Corrugated Packaging
 - Price increases to offset extraordinary cost rises
 - Lower further the cost base

Outlook

“Trading conditions are expected to continue to be challenging during the second half of the year. We are achieving price increases within our packaging businesses but it is too early to be certain of the impact on our overall results. In the light of the sustained difficult market conditions, we are intensifying our efforts to reduce costs. Although energy costs remain an uncertainty, the outlook for the Group for 2005/06 as a whole remains unchanged from that stated in our October trading update.”

Appendix

Pension Accounting Effects

Profit and Loss account

£million	H1 05/06	H1 04/05 ¹	Change 05/06 Vs 04/05	FY 04/05
IAS19 / FRS 17				
Service cost	(4.8)	(6.1)	1.3	(12.8)
Other finance income/cost	0.9	0.5	0.4	1.1
Total	(3.9)	(5.6)	1.7	(11.7)
Group scheme contributions				
Cash	(7.0)	(5.0)	(2.0)	(10.0)

¹ restated for FRS 17