ANNUAL REPORT 2009

STRENGTH TODAY ACTIONS FOR TOMORROW

DS Smith Plc

DS Smith is an international packaging supplier and office products wholesaler. It has revenue of £2.1 billion and employs over 11,000 people in 18 countries.

The Group's strong market positions combined with our focus on cost competitiveness and cash generation provide a robust base from which to confront today's challenging business environment and benefit from future economic recovery.

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Front cover photographs, clockwise from top left:

- Retail-ready packaging: DS Smith is a leader in this growth sector of the market.
- High-quality printing: the Group has a strong capability to supply packaging with high visual impact.
- Continental European growth: the strong service proposition of Spicers Germany is assisting our continued development.
- Innovative market development: our bag-in-box packaging is being used by fast-food outlets to sell multiple servings of coffee.

BUSINESS REVIEW

HIGHLIGHTS

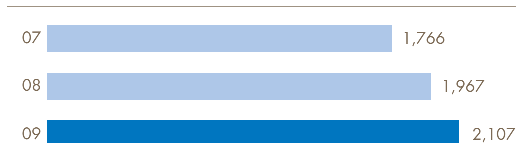
- Adjusted profits down: a robust performance given the economic conditions
- Strong cash generation
- Packaging: good results in Corrugated Packaging; profits in Paper well down
- Office Products Wholesaling: continental European profit advance offset by lower results in the UK
- Action programme implemented to secure future results
- Full-year dividend reduced: one of a range of measures to underpin financial strength

FINANCIAL SUMMARY

	2008/09	2007/08
Revenue – £m	**2,106.6**	1,967.5
Adjusted profit before tax[1] – £m	**72.5**	111.0
Profit before tax – £m	**16.8**	109.1
Adjusted earnings per share[1] – pence	**12.6**	19.9
(Loss)/earnings per share – pence	**(3.0)**	19.6
Adjusted return on average capital employed[1] – %	**9.3%**	12.9%
Free cash inflow[2] – £m	**59.9**	84.8
Net debt/adjusted EBITDA[3] – times	**1.8x**	1.4x
Total dividend per share – pence	**4.4**	8.8

1 before exceptional charge of £55.7m (2007/08: net exceptional charge of £1.9m)
2 before exceptional cash costs, dividends and net acquisitions
3 adjusted for exceptional charge of £50.6m (2007/08: £1.9m)

REVENUE
£million



2008/09 REVENUE
£million

2008/09 ADJUSTED OPERATING PROFIT
£million

PACKAGING

UK PAPER AND CORRUGATED

Revenue £786 million

A leading position in the whole UK corrugated packaging supply chain – enabling total recyclability

Waste paper – No. 1 UK collector for recycling and a provider of waste management services

Paper – No.1 UK producer; leader in recycled corrugated case material and plasterboard liner

Corrugated packaging – No.1 UK supplier; 65% to the fast-moving consumer goods sector

www.severnside.com, www.stregis.co.uk, www.dssmith-packaging.com

LOCATIONS

- Severnside Recycling's network of 16 collection depots enables it to collect waste paper from most parts of the UK.
- St Regis produces paper at 4 mills to supply DS Smith Packaging and a wide range of non-Group customers.
- DS Smith Packaging's network of 31 corrugated packaging plants enables it to service customers throughout the UK.

SAVING COSTS AND CARBON

DS Smith Packaging's innovative box for top confectionery brand Snickers, has enabled reductions in the amount of packaging used and in freight costs. The previous outer corrugated box and inner carton board pack were replaced with a strong and eye-catching single corrugated pack.

CONTINENTAL EUROPEAN CORRUGATED

Revenue £363 million

Strong positions in chosen national markets, principally in corrugated packaging; also produces speciality paper

Corrugated packaging – well-established positions in France, Italy and Poland; a leader in heavy-duty packaging, growing strongly in the fast-moving consumer goods sector

Paper – speciality grades, principally produced in France

www.dssmith-kaysersberg.com

LOCATIONS

- DS Smith Kaysersberg has manufacturing operations in France, Italy, Poland, Czech Republic, Slovakia and Turkey.
- The Group also has an associate business, Rubezhansk, in Ukraine.

POINT-OF-PURCHASE SOLUTIONS

DS Smith Kaysersberg provides packaging solutions which increase efficiency in retailers' supply chains. This integrated corrugated pallet and box saves storage and transport space and raises productivity in store by reducing product handling.

PLASTIC

Revenue £237 million

Focused on two plastic packaging markets

Returnable transit packaging (RTP) – a leading European supplier of beverage crates, reusable containers and extruded sheet

Liquid packaging and dispensing (LP&D) – No. 2 globally in bag-in-box systems and taps

DS Smith Plastics

www.dssmith-plastics.com

LOCATIONS

- RTP products are produced in: UK, Belgium, France, Spain, Poland, Czech Republic and Slovakia.
- LP&D products are produced in: UK, Germany, Bulgaria, USA, Australia and New Zealand.
- The segment's two smaller businesses have locations in Israel, USA, UK, Germany, France and Czech Republic.

INNOVATIVE FEATURES

DW Plastics solved various issues for AMP, Belgium's largest newspaper distributor, with this easily-handled crate which has a lockable lid and a document holder to keep dispatch notes safe and clearly visible.

OFFICE PRODUCTS WHOLESALING

Revenue £721 million

The leading European office products wholesaler — Spicers, supplies a comprehensive range of own-label and branded products

Established businesses – leading positions in UK, Ireland, France and Benelux

Development businesses – growing positions in Germany, Spain and Italy

SPICERS

www.spicerseurope.com

LOCATIONS

Spicers' network of distribution centres comprises:

- UK – 9
- Ireland – 1
- France – 6
- Benelux – 1
- Germany – 2
- Spain – 2
- Italy – 1

CUSTOMER SERVICE

Spicers' on-line ordering systems give improved customer service levels, speeding delivery and order turnaround times.

STRENGTH AND ACTION

The strength of DS Smith today and the actions we are taking will position the Group well for the future. Our action programme, in response to the present tough trading environment, is firmly focused on the essentials of cost reduction and cash generation. At the same time, we continue to develop the Group and find new ways of adding value for our customers and shareholders. Some examples of how the actions we are taking are strengthening our position for tomorrow are shown in the following pages.

STRENGTH TODAY

1 MARKET POSITIONS

Our strategic objective to be a significant force in the markets in which we operate is assisting us in weathering the current difficult trading conditions. The market positions we have built give us a strong base from which to compete.

2 OPERATIONAL EFFICIENCY

Our continuing focus on operational improvement has strengthened our businesses for facing today's more challenging times.

3 CASH AND FINANCING

We have an established record of close attention to cash management and maintaining a sound balance sheet. Our financing facilities were prudently renewed in the summer of 2008.

4 MANAGEMENT

The Group's executive teams have considerable experience of managing in tough trading conditions. They have demonstrated their capabilities in handling the challenges of changing circumstances and highly competitive situations.

ACTIONS FOR TOMORROW

1 DEVELOPING OUR MARKET POSITIONS

To ensure the Group's future success, we continue to invest in, and strive to grow, our market positions. We pursue opportunities to strengthen our product and service range, improve our competitive position and grow geographically.

2 COST REDUCTION

In addition to our ongoing drive to reduce costs, we have taken action to establish a substantially lower cost base to ensure the Group's future competitiveness and profitability. We have particularly focused on lowering the Group's structural costs.

3 ADDING VALUE

While focusing on the costs and efficiency of our operations, our businesses also continually strive to add value for their customers. They use their considerable expertise and resources to provide solutions that improve the efficiency and profitability of their customers' businesses.

4 CASH GENERATION

A key element of our action programme is the maintenance of good cash generation. We are focusing on the reduction of working capital and are curtailing capital expenditure to reflect the demands of the present situation.

EXPANDED SERVICES

Severnside Recycling is growing its business, using its specialist skills to add high-profile names to its customer list. It offers a developing range of waste management and recycling services which help businesses avoid escalating landfill costs.

PACKAGING DESIGN

At our Impact and Innovation Centre we demonstrate to customers and retailers how we are able to add value for them. We create packaging that will increase sales through stronger visual identity and improve supply chain efficiency in handling and transportation.

NEW PRODUCTS

Our £100+ million investment at Kemsley Mill has enabled us to add high-quality lightweight corrugated case material (CCM) to our product range. This type of CCM is in strong demand today and will be an essential element of any future CCM product range.

GEOGRAPHIC GROWTH

Spicers has expanded its business in continental Europe by over 50% in the last three years. The German and Italian businesses both made particularly strong progress in 2008/09.

CHAIRMAN'S STATEMENT

I am confident the Group will continue to manage the impact of the difficult trading environment.

In common with most manufacturing businesses, DS Smith saw its markets weaken during the course of our financial year. The pace of decline accelerated during the second half of the year, when we also faced growing pressure on prices. The demand for packaging materials for industrial customers and for plasterboard liner was especially affected. Reduced paper demand led to significant reductions in corrugated case material (CCM) prices on the continent, which in turn led to lower CCM prices in the UK.

The impact of these exceptionally difficult market conditions was mitigated by the continued implementation of the Group's strategy and management's decisive response to implement an action programme to reduce costs and conserve cash.

As set out in the Strategy section on pages 10 and 11, management has refocused the business over recent years. The Group is now a net consumer of CCM. The major markets for its corrugated boxes are for the fast-moving consumer goods sector, where it has established a leading position in the supply of retail-ready packaging. It has focused on innovation in both products and services, in particular, linked to its expertise in recycling and solving customers' packaging problems.

As a result, although adjusted operating profit of £94.0 million (2007/08: £119.6 million) and adjusted earnings per share of 12.6 pence (2007/08: 19.9 pence) were down on the previous record year, these results reflect a robust performance in such difficult market conditions.

Management reacted swiftly to the changing market. Early in the financial year they renegotiated the Group's major borrowing facilities, extending repayment terms at limited cost. In December, they announced a comprehensive programme to reduce costs and conserve cash that will result in savings of over £26 million a year. The programme to control working capital was further strengthened during the year such that, despite the capital expenditure to convert the newly acquired paper machine at Kemsley, and the cash costs arising from the action programme, the Group remained cash generative. Free cash flow, before dividends, exceptional items and net acquisitions, was £59.9 million (2007/08: £84.8 million).

As part of this series of actions designed to ensure the Group remains financially sound through this period of economic uncertainty, the Board has decided to recommend a reduced final dividend for 2008/09 of 1.8 pence per share (2007/08: 6.2 pence) which, together with the interim dividend of 2.6 pence, would give a total dividend for the year of 4.4 pence (2007/08: 8.8 pence). The Board recognises the importance of dividends to shareholders and remains committed to the payment of dividends that reflect the sustainable earnings and cash generation of the Group over the cycle.

The financial and operational performance of the Group during the year are set out fully in the following reports, together with an assessment of the risks facing the Group, its performance on environmental and other matters of corporate responsibility and reports on the Audit and Remuneration Committees. During these difficult times, the Board has maintained a strong focus on identifying and managing risks, ensuring the Group's financial position remains strong and on ensuring it is well placed, financially and operationally, to benefit from recovery in our markets, whenever that might happen. An increased focus was placed on ensuring the business strategy was clear and being implemented as well as on shorter-term financial strength. The strategies for our businesses are set out in this report. The Board continues to keep the composition of the Group under review.

The Nomination Committee reviews longer-term succession plans both for the senior Executive team and for the Board. There were no Board changes during 2008/09. However, with effect from 16 June 2009, George Adams was appointed Divisional Chief Executive of Spicers, our Office Products Wholesaling division, and as a result stood down from the DS Smith Plc Board when his appointment was confirmed on 26 May 2009. George had served as a most effective Non-Executive Director of DS Smith from 29 January 2008 and I would like to thank him for his contribution.

Jonathan Nicholls will join the Board of DS Smith Plc as a Non-Executive Director with effect from 1 December 2009. Jonathan has considerable Board level experience, including having been Group Finance Director of Hanson Plc and, most recently, Group Finance Director of Old Mutual Plc and we look forward to his contribution.

Richard Marton will retire from the Board on 31 August 2009 having served DS Smith Plc as a Non-Executive Director since 13 March 2000. Richard has made an outstanding contribution during his time in office and I thank him for his sound advice and wise counsel.

On behalf of the Board, I thank all our colleagues across the world for their ongoing efforts and commitment. The trading environment in the year ahead is likely to prove at least as challenging as was the financial year being reported on. I am confident the Group will continue to manage the impact of this difficult environment, benefiting from its strong market positions and the results of its action programme.

PETER JOHNSON
Chairman

CHIEF EXECUTIVE'S REVIEW

SUMMARY OF THE YEAR

GROUP

- Adjusted profits down: a robust performance given the economic conditions
- Strong cash flow
- Significant restructuring under way
- Full-year dividend reduced

PACKAGING

- Successful modification and start-up of our machine producing lightweight CCM at Kemsley
- Weaker demand affected all our markets
- UK Paper and Corrugated Packaging results were impacted by the fall in CCM prices
- Strong performance in continental Europe

OFFICE PRODUCTS WHOLESALING

- Slow-down in demand across Europe
- UK – reinforced position but margins under pressure
- Continental Europe – good performance, particularly in Germany and Italy

ASSOCIATE

- Exceptional charge taken to impair fully the carrying value of Rubezhansk

We have taken action aimed at underpinning the Group's future results in these challenging trading conditions.

In 2008/09, the Group's results were significantly affected by an external environment that worsened as the year progressed. Adjusted operating profit at £94.0 million was 21.4% lower than in the previous year. All our business segments felt the impact of lower demand for their products and services as a result of the general contraction in economic activity. This weakening of demand gathered pace in the second half of our financial year.

Profit before exceptional items and tax was £72.5 million (2007/08: £111.0 million). As previously advised, the Group has incurred operating profit exceptional charges in the year of £50.6 million (2007/08: £1.9 million) of which £23.6 million are non-cash impairment charges, principally related to our associate business in Ukraine and our packaging operation in Turkey. After exceptional items, the Group made a post-tax loss of £11.2 million. After exceptional cash costs the Group was cash generative, reflecting our ongoing focus on cash management.

We have taken action aimed at underpinning the Group's future results in these challenging trading conditions. In December, we announced an action programme focused on cost reduction and cash generation. This programme is now well advanced and we are on course to achieve the expected annual benefits of over £26 million per annum. The programme has an up-front cash cost of circa £27 million, giving a payback period of just over one year. The programme includes restructuring activities designed to improve performance in currently underperforming products and territories, together with actions to optimise performance in areas of strength. We remain committed to exiting non-core businesses and smaller businesses which consistently underperform.

Net capital expenditure in the year of £79.7 million (2007/08: £57.2 million) reflected the costs of the conversion of New Thames Mill, acquired in February 2008, which now forms part of our Kemsley paper manufacturing operation. This expenditure is enabling the Group to compete strongly in the growing market for lightweight packaging. In the coming year it is anticipated that net capital expenditure will be held below £50 million.

The net deficit on our defined benefits pension schemes increased by £83.5 million to £138.0 million, the principal component of which is the UK defined benefit pension scheme. We are keeping the position as regards the deficit of this scheme under review. It was closed to new members in April 2005.

The Group's adjusted return on average capital employed was lower in 2008/09 at 9.3% (2007/08: 12.9%). Our returns were affected by both the general business environment and by the inherent cyclicality of parts of our business, especially corrugated case material (CCM). Our target is to exceed the Group's estimated pre-tax weighted average cost of capital of 11.8% over the industry cycle. The actions taken to reduce costs and conserve cash, together with the ongoing development of our strong market positions are aimed at achieving our targeted returns.

CHIEF EXECUTIVE'S REVIEW CONTINUED

The Group extended its financing facilities in August 2008 with the renewal of its five-year syndicated revolving facility of £287.5 million (previously £250 million). As a consequence, the weighted average maturity of the Group's committed borrowing facilities, as at 30 April 2009, was four years and one month.

OPERATING OVERVIEW

Our two activities, Packaging and Office Products Wholesaling, are managed through a decentralised structure.

PACKAGING

Across Europe, packaging demand fell progressively throughout the year. The current level of market decline is at levels that are unprecedented in recent times. Packaging demand in the fast-moving consumer goods (FMCG) sector has held up better than in the industrial sectors and we have benefited from our actions in recent years to focus on this area of the market.

Lower box demand has caused CCM prices to fall significantly. This is putting some pressure on box prices.

The cost of our key raw material, waste paper, declined during the course of the year, however, this is now rising as a result of renewed demand for waste paper from the Far East, especially China. The current cost of waste paper is high relative to CCM prices. Energy costs followed a similar trend, declining during 2008/09 and now moving upwards.

Profits in our UK Paper and Corrugated Packaging operations declined significantly, reflecting not just lower demand but also our high exposure in the UK to movements in CCM prices. Results in our Continental European Corrugated Packaging business were very good, with its performance being assisted by its status as a net buyer of CCM and by the strength of the euro.

Profits in Plastic Packaging declined as a result of lower demand. We have a relatively large exposure to the industrial sector in this product area.

UK Paper and Corrugated Packaging

In 2008/09, the UK Paper and Corrugated Packaging segment, which accounted for 37.3% of Group revenue and 54.0% of Group average capital employed, reported a slight increase in revenue to £785.8 million (2007/08: £753.2 million). Revenue benefited from a tolling contract with the previous owner of the New Thames Mill. This revenue supported the fixed costs of the site during the period when the mill was being converted to produce lightweight CCM. Operating profit was lower at £36.5 million (2007/08: £68.5 million), primarily due to reduced sales volumes, the reduction in CCM prices and a weaker paper sales mix during the second half of the year.

Severnside Recycling, which supplies the waste paper raw material for our own recycled paper mills, experienced a small decline in profit on slightly lower sales volumes; this was due to the reduced availability of waste as a consequence of the slow-down in the economy. Sourcing of the additional raw material required for the new lightweight CCM production capacity at Kemsley went well. Severnside is continuing to expand its activities and has secured a number of new retail customers.

Our UK paper business was significantly affected by the lower demand for both CCM and plasterboard liner, the latter due to the sharp decline in the construction sector. Margins were also put under pressure by the relatively high cost of raw materials. In general, demand for paper to supply boxes to the FMCG sector has performed better than that relating to the industrial sector. We have been producing high-quality lightweight CCM at Kemsley since January 2009. This project was completed on time and with a very favourable customer reaction to the product's performance.

Our UK box business produced a good result in a market that weakened considerably in the second half of the year. Our emphasis on the FMCG sector and higher value-added products assisted our performance significantly, when compared to the UK corrugated industry as a whole.

Continental European Corrugated Packaging

Despite lower volumes, sales revenue increased to £363.4 million (2007/08: £346.0 million) reflecting the benefit of movements in exchange rates. Operating profits increased to £30.4 million (2007/08: £20.3 million), assisted by reduced CCM costs. In France, our corrugated box business increased its operating profit, thanks to efficiency improvements and our ongoing focus on higher value-added sectors of the market. Despite poor market conditions, our Italian business performed well primarily as a result of its strong position in the FMCG sector. Our Polish operation performed very strongly as a result of continued sales growth and a good product mix. Market conditions in Turkey remain particularly depressed and we have taken an impairment charge of £5.0 million against the assets of our Turkish business.

Profits at our Ukrainian associate business, Rubezhansk, were significantly affected by an exchange rate loss incurred as a result of the devaluation of the Ukrainian Hryvnia against the US dollar. Rubezhansk has a US dollar denominated loan of $87 million related to its investment project to increase its paper capacity and develop a capability to produce plasterboard liner. Currency movements on the loan resulted in an exceptional loss of £5.1 million. Reflecting the issue with the loan, an exceptional charge of £18.1 million has been taken to impair fully the carrying value of our investment in Rubezhansk. There is no recourse to the Group in relation to the loan. The cumulative net cash cost of our investment in Rubezhansk has been less than £5 million, after taking into account the acquisition investment less the dividends received. Rubezhansk continues to trade profitably and to generate cash. We are continuing to work with our partner and the lending banks to resolve the position in relation to the loan.

Plastic Packaging

Including the positive impact of foreign exchange translation, revenue in Plastic Packaging increased by 6.0% over the year to £236.9 million (2007/08: £223.4 million) and adjusted operating profit fell to £7.0 million (2007/08: £10.7 million). The returnable transit packaging (RTP) sector experienced lower profitability due to reduced demand. RTP volumes were impacted by the decline in economic activity across all our major markets: beverage crates, automotive and construction.

The liquid packaging and dispensing (LP&D) sector saw increased volumes in both taps and bags. Overall profits were ahead of the prior year but prices remained under pressure. Our US business in this sector performed well. In Europe, further restructuring has taken place, which, will reduce the cost base during the current year. The benefits of this action will augment the benefits that will be derived from the restructuring of our German bag-in-box operations, which was completed in April 2009.

OFFICE PRODUCTS WHOLESALING

Overall revenue increased by 11.7% to £720.5 million (2007/08: £644.9 million), reflecting some sales growth combined with the translation benefits of the strong euro. The trading environment became progressively more difficult as the year progressed; this resulted in de-stocking and down-trading by both our customers and end-users. We have increased sales, almost entirely in electronic office supplies (EOS), which is a growing, but lower margin, sector of the market. The decline in the non-EOS or traditional products market has continued.

In Spicers UK, turnover increased but operating profit came under significant and increasing pressure. This was due to much lower sales of traditional products, as well as the highly competitive nature of this market. A number of actions based on improving the sales mix and lowering costs are under way to reverse this downward trend.

In the continental European businesses, which account for just over 50% of Spicers' total revenue, profit was slightly ahead of the previous year, assisted by the strength of the euro. Difficult trading conditions for our more established businesses depressed both revenue and operating profit, but results were good relative to their markets. Our developing German and Italian operations continued to grow both their revenue and profit.

George Adams, who has taken up the role of Chief Executive of Spicers in June 2009, brings with him a wealth of relevant business experience both in the UK and Europe as well as a good understanding of the Spicers business.

The current year will be testing, especially in the UK, but Spicers is well placed to take advantage of improved economic circumstances, due to its strong market positions.

STRATEGY

The Group has two distinct activities, Packaging and Office Products Wholesaling. The Board regularly reviews the structure of the Group.

Each activity has a well-established strategy. The key elements of these strategies are described in detail on pages 10 and 11. We believe that progress in the implementation of these strategies has contributed to our robust performance in 2008/09. In addition, in the current difficult economic environment, we believe our strategies have established a strong base from which we can develop further when activity levels improve.

We will continue to drive for progress in the implementation of our strategies, but given the current outlook for the trading environment, the pace of development is likely to be slower.

OUR PEOPLE

The employees of DS Smith have shown themselves to be not only tough but also resilient, in the face of the most difficult trading conditions seen in a generation. I feel confident in saying that because of their dedication and resourcefulness we have performed at levels above those which might otherwise have been expected. They have my thanks.

OUTLOOK

Economic indicators continue to show a global economy in recession. The timing of any recovery remains uncertain. Although it is early in our financial year, trading is in line with our expectations. Our consistent strategy to build leadership positions is standing us in good stead in the downturn and we are confident that this, combined with the continued implementation of our action programme, will underpin our results. We expect to benefit strongly from the upturn when it arrives.

TONY THORNE
Group Chief Executive

We believe that progress in the implementation of our strategy has contributed to our robust performance in 2008/09.

GROUP STRATEGY

The Group has two distinct activities, Packaging and Office Products Wholesaling. The Board regularly reviews the structure of the Group.

Each activity has a well-established strategy. The key elements of these strategies are outlined below. We believe that progress in implementation has contributed to our robust performance in 2008/09. This progress has included the development of our recycling business, the enlargement of our corrugated box business, particularly through growth in products for the fast-moving consumer goods (FMCG) sector, and the continued development of our Office Products Wholesaling operations in continental Europe.

In addition, in the current difficult economic environment, we believe our strategies have established a strong base from which we can develop further when activity levels improve.

We will continue to drive for progress in the implementation of our strategies, but given the current outlook for the trading environment, the pace of development is likely to be slower. In the short term, we will focus on maximising returns from our existing strong market positions, cost reduction and cash conservation. Capital investment will be limited, highly selective and focused on optimising our current asset base. We will exit businesses that are non-core, or are not expected to meet our financial objectives through the industry cycle.

PACKAGING STRATEGY

Our strategy is to:

- enhance our leadership position in cost-efficient supply chain solutions across our chosen geographies, particularly in relation to retail-ready packaging, decorative promotional packaging for the retail market and heavy-duty packaging for the industrial segments;
- increase our leadership position across the supply chain in the UK and to build strong businesses in selected continental European countries, concentrating on the production and marketing of corrugated packaging;
- provide a range of innovative and cost-efficient returnable transit packaging (RTP) solutions for selected industrial and retail market segments;
- be a high specification, low-cost supplier of corrugated case material (CCM) for the packaging industry and plasterboard liner for the construction industry; and
- extend our recycling capability to ensure that we have a cost-effective supply of waste paper for our paper operations and a market-leading recycling business.

Our strategic goals are:

- to be recognised as a leader in transit packaging solutions and promotional packaging, concentrated on corrugated and plastic packaging;
- to be an overall net purchaser of CCM; in the UK, however, to be a strong net supplier of CCM; and
- to safeguard the supply and minimise the cost to our paper-making operations of their key raw material by managing a total quantity of waste paper greater than is used internally; the balance being sold to other users.

In the UK we are seeking to maintain our leadership positions in all three parts of the paper and corrugated supply chain, through both organic development and acquisition. We believe that a combination of scale and the interaction between our three businesses will allow us to meet our target cost of capital through the industry cycle.

- Severnside is the UK's leading collector and processor of waste paper.
- St Regis is the leading and most cost-competitive UK producer of CCM. The recent commissioning of a machine to make lightweight CCM completes our range of packaging papers and gives us a high specification product in a growth sector of the market. Despite the significant volumes of CCM used in our UK corrugated business, we remain a net CCM supplier in the UK. Additionally, we are a leader in the supply of top quality plasterboard liner to the European construction industry.
- DS Smith Packaging is the UK market leader in the production and marketing of corrugated packaging. We will continue to increase our capability to supply the FMCG sector of the market, which is more resilient than the industrial sector.

A significant element of our Packaging strategy continues to be the drive for growth both in the UK and in selected geographical markets in continental Europe. We will concentrate on the production and marketing of corrugated packaging, rather than CCM, since our objective is for the Group, as a whole, to be a net buyer of CCM. In light of the fluctuation in CCM prices we believe this net buyer status will provide us with a more consistent earnings profile through the industry cycle.

The Group is developing sizeable and highly profitable businesses in France, Italy and Poland. Our Polish business now acts as a hub for supply into other East European countries. We also have a market-leading associate company in Ukraine.

Our Continental European Corrugated Packaging business is a market leader in heavy-duty industrial packaging, a high value-added product which is competitively supplied to both local and export markets. Through our investment in equipment and people we are increasing the proportion of FMCG packaging products within our European portfolio. The FMCG market segment is growing and we believe it will be less impacted by overall economic factors than the industrial packaging sector in the longer term.

In our Plastic Packaging business we are focused on two sectors: liquid packaging and dispensing (LP&D); and RTP. We are number two globally in LP&D with leading market positions in Europe, the USA and Australasia. The RTP market is highly fragmented but we have built good positions in our selected market sectors. Going forward, we will seek to consolidate our existing positions and grow further in RTP.

Our financial objective in Packaging remains to generate an adjusted return on average capital employed over the business cycle in excess of the Group's pre-tax weighted average cost of capital, which we estimate to be 11.8%. Due to the prevailing market conditions we are currently well below this target. We believe that the actions we have planned, and those we have currently under way, will ensure we are well placed to meet our financial objectives when the economy improves.

OFFICE PRODUCTS WHOLESALING

Our strategy is to be a pan-European, highly efficient wholesaler of office products. Our primary aim is to support our network of dealers in growing their share of the market. We especially concentrate on developing our fulfilment service for those dealers who outsource their logistics and also on supplying products that resellers choose to sell but not to stock. We provide this support through: offering a wide range of both traditional office products and electronic office supplies; cost-effective purchasing, both on a local and pan-European basis; stocking, breaking bulk and distributing small quantities cost-efficiently; the production of catalogues and other marketing tools and giving access to highly effective e-commerce packages.

Today, approximately 50% of our sales are in the UK and Ireland, with the other half spread across the major markets of France and Benelux, where we have significant market shares, and Germany, Spain and Italy, where our businesses are in a development phase. We are prepared to consider further geographic expansion but in the short term our emphasis will be on: raising profits substantially in the UK and Ireland; strengthening further our market positions in the continental European markets in which we have an established position; and extending our businesses in our developing markets, especially Germany and Italy.

Our longer-term financial objective for Office Products Wholesaling is to generate a return on average capital employed in excess of 20%.

FINANCIAL OBJECTIVES

Our aim is to generate enhanced returns and cash flows for our investors over the longer term, while maintaining a strong balance sheet. We recognise that there is a significant degree of cyclicality in parts of our portfolio and the effects of this are particularly apparent as a result of the current downturns in both the general economic and the CCM sector cycles. Our strategy and operational actions are designed to manage the negative impacts of the volatility of the Group's results through the cycle, while ensuring that there is sufficient profit growth in the less cyclical parts of our packaging operations to achieve long-term progress.

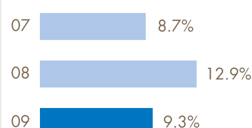
We measure the financial success of our strategy using the financial key performance indicators (KPIs) described below. Our performance in 2008/09 was significantly affected by the deterioration in trading conditions. Our action plans are designed to improve the Group's performance against these KPIs within the context of the economic and industry cycles.

OUR KEY PERFORMANCE INDICATORS

ADJUSTED RETURN ON AVERAGE CAPITAL EMPLOYED

Target: to achieve an adjusted return on average capital employed over the business cycle that is comfortably in excess of the Group's weighted average cost of capital, which we estimate to be 11.8% (before tax).

Definition: operating profit before exceptional items divided by average capital employed, expressed as a percentage.



ADJUSTED EBITDA MARGIN

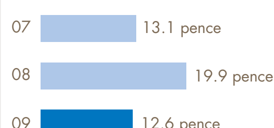
Target: to generate an adjusted EBITDA margin which enables us to grow our dividend while providing funds for development.

Definition: earnings before interest, tax, depreciation, amortisation and exceptional items divided by revenue, expressed as a percentage.

ADJUSTED EARNINGS PER SHARE

Target: to achieve an improved adjusted earnings per share between one business cycle and the next.

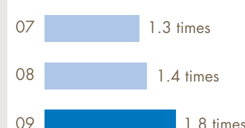
Definition: net profit attributable to shareholders before exceptional items divided by the weighted average number of shares outstanding (see note 8 on page 69).



NET DEBT/ ADJUSTED EBITDA

Target: to maintain a healthy balance sheet, sufficient to support our dividend through the business cycle.

Definition: net debt divided by earnings before interest, tax, depreciation, amortisation and exceptional items.



DS Smith – international packaging supplier and office products wholesaler

The Group's activities of Packaging and Office Products Wholesaling are managed through a decentralised structure covering four segments:

PACKAGING

UK PAPER AND CORRUGATED

A leading position in the whole UK corrugated packaging supply chain.

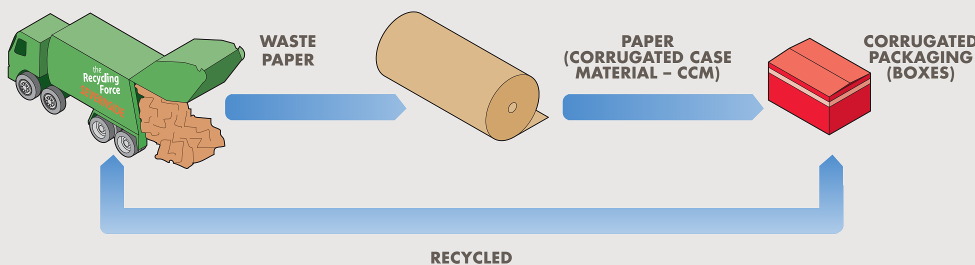
This segment comprises three businesses: Severnside Recycling, which collects waste paper and other materials for recycling; St Regis, which processes the waste paper to produce recycled paper, the majority of which is corrugated case material (CCM) used in the manufacture of corrugated packaging; and DS Smith Packaging, which converts CCM into corrugated board and boxes. These three businesses operating in the corrugated packaging supply chain are heavily interdependent, although all three maintain open-market positions to ensure competitiveness.

Severnside Recycling is the leading UK collector and merchant of waste paper, the principal raw material for producing recycled paper. In total, annually it sources 1.7 million tonnes of waste paper by means of collections through its 16 UK depots and open-market purchases from supermarkets and third-party waste merchants. In addition, Severnside's facilities management function provides general recycling and waste disposal services for customers in a number of sectors. Severnside's main sources of waste paper include large supermarket groups and other retailers, other commercial and industrial organisations and local authorities. The largest single source of waste paper accounts for 16% of the total amount sourced. Severnside particularly concentrates on sourcing used corrugated packaging, referred to as old corrugated containers (OCC), which is the most suitable form of waste paper for producing recycled CCM. Severnside supplies all of the 1.2 million tonnes of waste paper required by the St Regis paper mills and it sells 0.5 million tonnes on the open market.

St Regis' four paper mills produce approximately 1.0 million tonnes of 100% recycled paper. St Regis is the leading UK producer of CCM, which accounts for over 70% of the paper it produces, and is a leading European producer of plasterboard liner, which accounts for approximately 15% of its production; the remainder comprises other speciality paper grades. The Group's Corrugated Packaging operations account for around 55% of St Regis' CCM sales. St Regis' external sales are made to around 340 customers; no single external customer accounts for more than 5% of the Group's total UK Paper and Corrugated Packaging revenue.

DS Smith Packaging produces 1.1 billion square metres per annum of corrugated packaging at 31 factories located throughout the UK. It is the leading supplier of corrugated packaging to the UK market with a market share of around 25%. Approximately 65% of sales go into the fast-moving consumer goods (FMCG) sector, predominantly for food and beverages, with the remainder being principally for the consumer durables and industrial sectors. DS Smith Packaging supplies many of the leading FMCG companies; no individual customer accounts for more than 2% of the total UK Paper and Corrugated Packaging revenue.

THE CORRUGATED PACKAGING SUPPLY CHAIN



DS Smith – UK Annual volume ('000 tonnes)	Severnside Recycling Waste paper collected – 1,700	St Regis Paper CCM – 750 Other speciality papers – 250	DS Smith Packaging Boxes and board – 600
DS Smith – Continental Europe Annual volume ('000 tonnes)	–	DS Smith Kaysersberg – France and Turkey Solid board and speciality papers – 220	DS Smith Kaysersberg – France, Italy, Poland, Turkey, Czech Republic and Slovakia Boxes and board – 400

DS Smith operates in all parts of the corrugated packaging supply chain – waste paper, paper and boxes – but the balance between these is different in the UK and continental Europe. In total, the Group is a net buyer of CCM, its box-making operations using more CCM than the Group produces.

In the UK, we collect more waste paper than we require for our paper mills and we produce more CCM than we consume in making boxes. In continental Europe we are predominantly a box manufacturer and a large net buyer of CCM.

CONTINENTAL EUROPEAN CORRUGATED

Strong positions in chosen national markets.

In continental Europe, DS Smith Kaysersberg produces 0.5 billion square metres per annum of corrugated packaging at 13 factories located in France, Italy, Poland, Turkey, Czech Republic and Slovakia. The bulk of its CCM requirements are sourced from third parties. It has estimated market shares of 6% in France, 3% in Italy, 8% in Poland and 4% in Turkey. The business has been growing strongly in Poland and the Czech Republic. DS Smith Kaysersberg produces 0.2 million tonnes of recycled paper (principally solid board for use in the manufacture of detergent boxes) at two mills in France and one mill in Turkey. DS Smith also owns 49.6% of the leading paper and corrugated packaging business in Ukraine; the results of this business are reported under associates.

The Group's continental corrugated packaging operations are particularly strong in heavy-duty and litho-laminated packaging. Approximately 45% of sales are to the FMCG sector and the remainder is to the consumer durables, industrial and other sectors. This segment has a large and diverse range of customers, none of which accounts individually for more than 6% of Continental European Corrugated Packaging's total revenue.

PLASTIC

Focused on two plastic packaging markets.

DS Smith Plastics holds a major European position in industrial returnable transit packaging (RTP) and is a leading worldwide supplier of liquid packaging and dispensing systems (LP&D).

The Group is a leading European supplier of RTP. Its extensive product range includes reusable containers, boxes and pallet systems, injection-moulded crates and semi-finished extruded sheet. These products are supplied to the automotive, beverage, pharmaceutical and other markets from ten locations in the UK, France, Belgium, Spain, Poland, Czech Republic and Slovakia.

In LP&D, it is ranked as number two globally in bag-in-box packaging systems and injection-moulded taps and dispensers, which are supplied worldwide to the soft drinks, wine, food and other industry sectors from eight locations in the UK, Germany, Bulgaria, the USA, Australia and New Zealand.

Additionally, the segment contains two small speciality businesses: Packaging Management, which provides logistics services, particularly for pallet and plastic layer pad pools; and a development business, StePac, which specialises in modified atmosphere packaging for preserving the quality of fresh fruit and vegetables in transit.

The division purchases a wide range of polymers and plastic films, principally polypropylene, high density polyethylene and polycarbonate. This segment has a widely spread customer base and no single customer accounts for more than 5% of DS Smith Plastics' total revenue.

OFFICE PRODUCTS WHOLESALING

The leading European office products wholesaler.

Spicers is the number one European wholesaler of office products; it has leading positions in each of the UK, Ireland, France and the Benelux region, and it is building its position in continental Europe with development businesses in Germany, Spain and Italy. Its network of distribution centres comprises: UK – 9; Ireland – 1; France – 6; Benelux – 1; Germany – 2; Spain – 2; and Italy – 1.

Spicers provides a wholesaling service to its customer base of office products dealers and resellers, who principally supply small and medium-sized offices. It supplies approximately 12,500 dealers throughout Europe and no single dealer customer accounts for more than 4% of Spicers' total revenue. Spicers' product range supplied across Europe of up to 22,000 product lines comprises its own 5-Star brand and other branded products of traditional stationery items, electronic office supplies, office furniture, janitorial supplies and office catering and vending provisions. Its range is communicated to its dealers and the offices they supply through printed catalogues and electronic systems; orders are now principally submitted to Spicers on-line or by other electronic means.

Spicers offers its dealer customers a same-day or an overnight, next-day delivery service; it also provides the dealers with marketing and promotional support. The business is highly transaction-intensive with approximately 700,000 line-items being processed weekly. The maintenance of reliable and efficient systems that are capable of handling the high volume of customer orders received daily, either on-line or by telephone, is a key feature of the business. Spicers' business model is explained further on page 21.

Within the overall weaker market for boxes there is a continuing strong trend towards the greater use of lighter-weight corrugated packaging.

PACKAGING

PAPER AND CORRUGATED MARKET OVERVIEW

THE CORRUGATED PACKAGING MARKET

The European market for corrugated packaging in 2008 is estimated to have been approximately €23 billion, equivalent to circa 22 million tonnes or 40 billion square metres[1], of which the UK market is estimated to be 9%. Demand for corrugated packaging is principally influenced by overall economic activity and manufacturing output.

In the calendar year 2008, the European market for corrugated packaging, measured in square metres, declined by 2.8%[2]. Demand in western Europe fell by 3.3% and within this the UK market fell by 3.5%. Demand in eastern and central Europe continued to be relatively stronger but only grew by 0.1%. Owing to cost and environmental pressures, there is a continuing emphasis in most markets on reducing the average weight of packaging. As a result, European demand when measured by weight declined by 3.6% and the UK market, which is at the forefront of the 'lightweighting' trend, fell by 4.6%. Across Europe, demand deteriorated as the year progressed and this trend continued in the early months of 2009.

Usage of corrugated packaging (boxes) for the fast-moving consumer goods (FMCG) sector, which accounts for approximately two-thirds of the corrugated market, has been affected by the slow-down in retail demand but has remained significantly stronger than that for industrial market sectors. Demand from the FMCG sector continues to benefit from the trend towards the use of retail-ready packaging (RRP), which can be readily converted from its initial role as a protective transit pack into a box or tray that can be placed on display in the retail store. RRP benefits retailers by reducing the manual work involved in loading goods onto store shelves and reducing the amount of damage to goods in store, while enabling products to be presented more attractively. RRP requires more sophisticated packaging manufacturing capabilities for cutting, printing and gluing the corrugated board to form the more complicated box structures. The increased proportion of these higher value-added boxes, often requiring multi-passes within the production process, has contributed to capacity utilisation across the corrugated industry remaining higher than would be indicated by the overall level of demand.

Usage of corrugated packaging for the home delivery of products continues to grow in association with the growth of purchasing through the internet. In contrast, the usage of boxes in most industrial manufacturing sectors has been severely affected by the sharp downturn in industrial activity throughout Europe. Demand from the automotive, construction and chemical industries has been particularly weak.

Within the overall weaker market for boxes there is a continuing strong trend towards the greater use of lighter-weight corrugated packaging. This trend 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 lightweight recycled corrugated case material (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.

Supply of corrugated board and boxes is generally relatively local to the point of production, with a typical operational radius of approximately 150 miles, owing to customers' service requirements and the proportionately high transport costs for a low-density product. Pricing and margins in corrugated packaging are strongly influenced by developments in the price of CCM, the paper that is the principal component in corrugated packaging, and which typically accounts for around 50% of the cost of a box.

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

EXPANDING OUR RECYCLING SERVICES

STRENGTH TODAY

20 times

We collect, each year, sufficient waste paper for recycling to fill the bowl of Wembley Stadium circa 20 times.

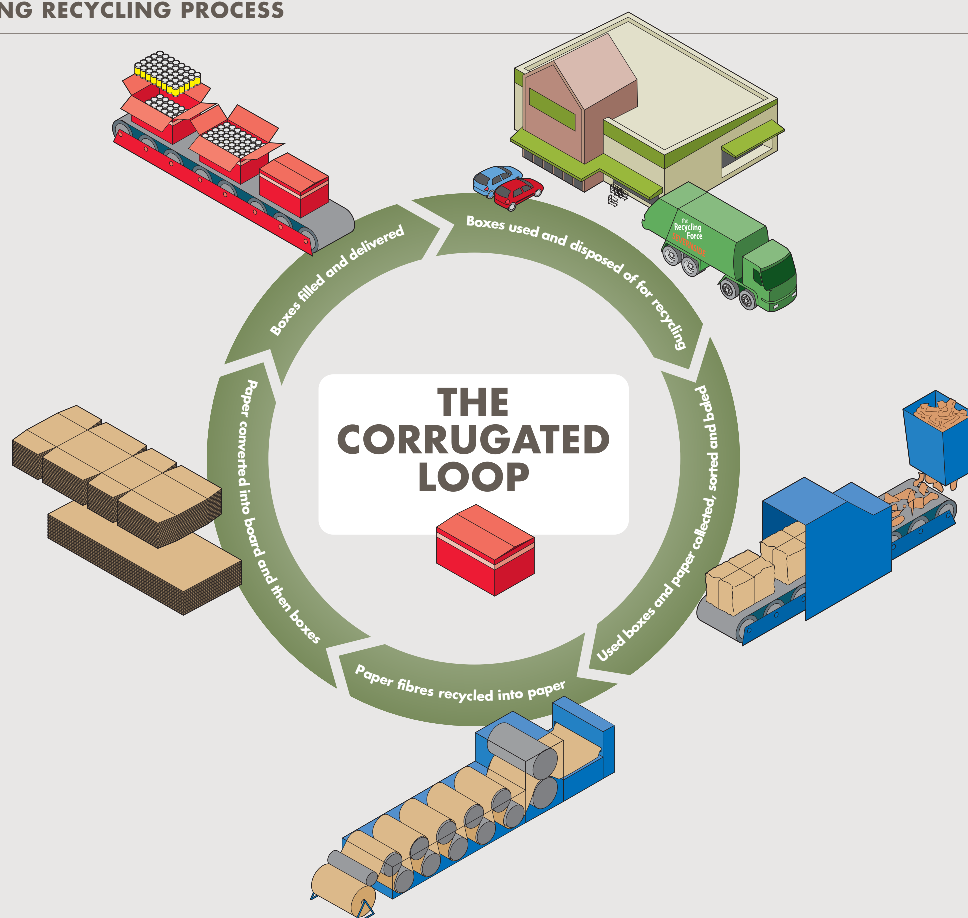
ACTIONS FOR TOMORROW

We have developed Severnside Recycling into a significant asset for the Group. In addition to being a major collector of waste paper for recycling, it is now one of the UK's largest collectors of plastic waste for recycling. From its headquarters in South Wales, it co-ordinates the collection of waste from circa 12,500 business locations and provides a range of waste management services.

THE CORRUGATED PACKAGING RECYCLING PROCESS

DS Smith's operations play a significant role in the first three stages of the corrugated packaging recycling process. The fibres in corrugated boxes can be back on the shelf in-store within 14 days of disposal; their re-use minimises waste disposal to landfill. In the UK, over 80% of corrugated packaging is recycled.

Corrugated boxes protect products, reduce product wastage, enable more efficient and lower-cost handling and transportation and are increasingly used to provide strong visual display in-store. Approximately two-thirds are used for food, beverages and other fast-moving consumer goods.



THE CORRUGATED CASE MATERIAL MARKET

Whereas boxes are generally sold locally, CCM is sold on a pan-European basis and pricing is therefore affected by pan-European supply and demand. The total demand for CCM in Europe (including eastern and central Europe but not Russia) in 2008 was circa 25 million tonnes. The market for CCM in Europe is dependent upon European demand for corrugated packaging, as the imports and exports of unfilled boxes are negligible. Approximately 80% of the CCM used in Europe is made from recycled fibre, with the balance principally comprising kraftliner, which is made from virgin wood pulp.

The lower demand for boxes has resulted in reduced demand for CCM. However, within the overall CCM market there is strong demand for high-quality, lightweight CCM to produce lighter-weight packaging. The growth in the usage of lightweight CCM continues 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. This increased demand for high-quality lightweight CCM is resulting in the addition of new CCM capacity capable of producing lightweight paper. In January 2009, the Group started production of its 'K-light' lightweight CCM product at Kemsley. Other European producers plan to commence production of lightweight CCM on new machines located in Poland, Hungary and Germany during the

CCM reels are shipped from the paper mill to a box plant for conversion into corrugated board.

Corrugated board is cut to the required size before its final conversion into a box.

second half of 2009 and in 2010. This new capacity, which is expected to be started in 2009 and 2010, will produce circa 1.5 million tonnes per annum when it is fully operational. It is anticipated that the production from the new machines will principally be targeted at satisfying the rapidly growing European demand for lightweight paper.

During 2008 and 2009, a number of closures of older recycled CCM machines, representing circa 0.8 million tonnes of capacity, have been announced and implemented across the industry. Despite these closures it is estimated that there is currently an oversupply of some three to four million tonnes of CCM in Europe as a result of the current lower demand for boxes.

CCM AND BOX PRICES

The reduced demand for corrugated packaging during 2008 resulted in an increase in European industry CCM stocks and this, coupled with the developing oversupply position, led to a progressive weakening of the price of recycled CCM. In continental Europe recycled CCM prices fell by approximately 50%[3] between December 2007 and April 2009. Recycled CCM prices in the UK, which were supported to some extent by the weakness of sterling, fell by approximately 30% over the same period. The combination of weaker demand and lower CCM prices has resulted in some reduction in box prices. This reduction has been more marked in continental Europe than in the UK.

WASTE PAPER

Waste paper, the principal raw material for recycled CCM, is a globally traded commodity. The price of old corrugated containers (OCC), the principal grade of waste paper used for producing CCM fell sharply in autumn 2008 as a result of substantially reduced demand from Asia. The price of OCC has firmed in recent months as a result of some recovery in purchasing from Asia and the lower level of availability in Europe, which is due to the lower overall level of economic activity. In the UK, the value of Packaging Recovery Notes (PRNs), which are issued as evidence that packaging has been reprocessed in compliance with the UK Packaging Waste Regulations, has remained at a low level.

3 Source: RISI, Inc.

UK PAPER AND CORRUGATED PACKAGING

Results were affected by lower demand and a sharp fall in the price of CCM.

	2008/09	2007/08
Revenue – £m	**785.8**	753.2
Adjusted operating profit – £m*	**36.5**	68.5
Adjusted EBITDA – £m*	**73.2**	100.4
Segment key performance indicators:		
Revenue growth – %	**4.3%**	9.6%
Adjusted return on sales – %*	**4.6%**	9.1%
Adjusted EBITDA margin – %*	**9.3%**	13.3%
Adjusted return on average capital employed – %*	**6.7%**	14.3%

* before exceptional items of £18.2 million (2007/08: £nil)

2008/09 PERFORMANCE

Results in the UK Paper and Corrugated Packaging segment were adversely affected by lower demand and a sharp fall in the price of CCM. Our corrugated box business performed well despite a lower demand for boxes but this was not sufficient to offset the weaker results in our paper business. Revenue advanced by 4.3% to £785.8 million; on a like-for-like basis, excluding New Thames Mill, acquired in February 2008, revenue declined by 4.4%. Adjusted operating profit was significantly lower at £36.5 million (2007/08: £68.5 million).

Our waste collection business, Severnside Recycling, performed satisfactorily despite the effects of large swings in the price of waste material during the year and lower sales volumes. The amount of waste available for collection was lower due to the reduced levels of activity at retailers and other businesses. The dislocation in the market for waste caused by the sharply reduced demand from Asia resulted in Severnside acquiring a number of significant new customers, who recognised the benefits of Severnside's expertise and infrastructure for waste collection and recycling. The Group's reprocessing capability at its paper mills and the Group's own requirement for waste paper were increased during the year by the start-up of the converted paper machine at Kemsley which produces lightweight CCM. In addition to fulfilling its primary role of securing the required quantities of fibre for our UK paper mills, Severnside developed further its value-added waste management services in response to growing demand, which is being stimulated by government action to reduce the amount of waste going to landfill. During the course of the year, Severnside and our UK box business, DS Smith Packaging, have further strengthened their marketing collaboration for our 'cradle-to-cradle' environmental capability. Customers are increasingly recognising the benefits of the Group's expertise in the design of waste-minimising packaging, the manufacture of fully recyclable boxes and waste recycling and disposal services.

St Regis, our UK paper business, was affected by significantly lower sales volume and a squeeze on its margins due to the fall in the price of CCM and continuing high input costs. These factors increasingly affected results during the second half of the year. In addition to the lower demand for CCM as a result of reduced box demand, plasterboard liner sales were severely affected by the slow-down in the construction industry. Production at the mills was adjusted in recognition of the reduced level of demand.

The new stock preparation plant was a major part of the investment to modify New Thames Mill at Kemsley.

Production of lightweight CCM at New Thames Mill began on schedule in January 2009.

In January 2009, production of lightweight CCM commenced on schedule on the recently acquired and modified paper machine at Kemsley, which has an initial capacity of 260,000 tonnes per annum. The quality of the 'K-light' product being produced is exceeding our high expectations and there is strong demand for this lightweight paper despite the generally weak demand for CCM as a whole. Although prices currently being obtained for the product are below those anticipated when the project was initiated, this investment has, we believe, materially strengthened the long-term competitiveness of our UK Paper and Corrugated Packaging business. It has established us as a leader in high-quality lighter-weight packaging and given us a significant capability as well as an increased share of this growth market segment.

As a result of the lower overall demand for CCM, we closed, with effect from 1 May 2009, the PM1 machine at Kemsley, which was the Group's oldest paper machine and had a capacity of 75,000 tonnes per annum.

DS Smith Packaging, our UK box business, achieved a good result, maintaining its share in a weaker overall market. Prices began to come under pressure during the second half of the year. We benefited from our expanded and strengthened position in the FMCG sector of the market and particularly from our focus on RRP, which continues to increase its share of the market. We are continuing to develop our innovative supply chain support service, as part of which we work with customers to produce packaging solutions that will reduce customers' transportation and handling costs. In our sheet feeding operations, which supply corrugated sheet to box converters, we have retained our market share and have had a positive response to the use of our 'K-light' material.

We have adjusted capacity levels and costs in our corrugated operations to reflect the reduced demand and changes in product mix.

As we enter 2009/10, the recent trends in both demand and pricing across the UK Paper and Corrugated Packaging segment have been adverse and energy and waste paper input costs are exerting further pressure on our margins. We have taken action to reduce costs and raise operational performance and are focused on maximising the opportunities presented by our strong market positions.

LEADING THE WAY IN LIGHTWEIGHT CCM

STRENGTH TODAY

5m miles

St Regis, the UK's leading supplier of recycled paper, produces circa 5 million miles of paper each year.

ACTIONS FOR TOMORROW

Our investment at Kemsley to produce lightweight CCM makes St Regis the first and only significant UK supplier of this type of paper. Lightweight CCM is in strong demand and Kemsley's product is acknowledged by customers as being of a very high quality. The investment project was highly cost-effective and was completed on time despite its very tight schedule.

CONTINENTAL EUROPEAN CORRUGATED PACKAGING

We achieved a strong result despite weak demand across our markets.

	2008/09	2007/08
Revenue – £m	**363.4**	346.0
Adjusted operating profit – £m*	**30.4**	20.3
Adjusted EBITDA – £m*	**45.8**	33.9
Segment key performance indicators:		
Revenue growth – %	**5.0%**	12.3%
Adjusted return on sales – %*	**8.4%**	5.9%
Adjusted EBITDA margin – %*	**12.6%**	9.8%
Adjusted return on average capital employed – %*	**15.2%**	10.9%

* before exceptional items of £24.7 million (2007/08: £nil)

DS Smith Kaysersberg has invested to increase its capabilities for supplying boxes to the FMCG sector.

Retail-ready packaging is supplied to major international food manufacturers.

2008/09 PERFORMANCE

The Continental European Corrugated Packaging segment achieved a strong result despite weak demand across its markets. Revenue increased by 5% to £363.4 million (2007/08: £346.0 million). This segment, which is a substantial net buyer of paper, benefited from our previous actions to raise prices, the fall in the price of CCM and good cost control. Together these factors enabled us to offset the effects of lower sales volumes. Operating profit increased by 50% to £30.4 million. Excluding the effects of foreign exchange translation, revenue was £40.5 million lower than 2007/08. Operating profit, excluding the effects of foreign exchange was £3.3 million higher than in the prior year.

In our established markets, the French paper business, which focuses on supplying speciality products, maintained its profits despite substantially lower sales volume. Our French corrugated packaging business made good progress, assisted by better margins and operational improvements at the main facilities. Our particularly strong market position in heavy-duty packaging for the industrial sector in France was severely affected by the sharply lower level of activity in its customers' industries. The effects of this were partly offset by the benefits of our actions and investment aimed at increasing our business in the FMCG sector. Based on its strong market positions in the FMCG sector, our Italian business performed well in a worsening trading environment.

In our developing markets, the Polish business achieved a further strong advance, gaining share in a broadly static market. We are benefiting from the investments we have made over a number of years and our focus on developing sales of higher value-added products. Our small converting businesses in the Czech Republic and Slovakia, aimed principally at the automotive industry in central Europe, experienced especially tough trading conditions. Results at our business in Turkey, which focuses on the brown and white goods and automotive sectors were also depressed by the international economic slow-down. We have extended our programme aimed at lowering costs and improving performance and we are taking an impairment charge against this business. Operating results at our Ukrainian associate business, Rubezhansk, which is reported under associates, were affected by weaker sales volume and margin pressure. Although the business remains profitable and cash generative, we have fully impaired the value of our investment in it because of its exposure to a large US dollar denominated loan.

In 2009/10, we expect margins to come under increased pressure while sales volumes remain subdued. Our priorities are to maintain good levels of profitability in our three principal markets, France, Italy and Poland. We will continue to develop the Polish business and concentrate on supplying the higher value-added product sectors in all our markets.

INVESTING FOR GROWTH

STRENGTH TODAY

250m

DS Smith Polska produces over 250 million boxes a year.

ACTIONS FOR TOMORROW

We have grown our business in Poland by circa 125% over the last five years. Our plant at Kutno is one of the most advanced in Europe and achieves very high efficiency levels. Recent investment in Poland has been heavily focused on further developing our capabilities to supply higher value-added products for the FMCG sector.

PLASTIC PACKAGING

Results were lower in both of our major sectors.

	2008/09	2007/08
Revenue – £m	**236.9**	223.4
Adjusted operating profit – £m*	**7.0**	10.7
Adjusted EBITDA – £m*	**19.2**	21.2
Segment key performance indicators:		
Revenue growth – %	**6.0%**	10.7%
Adjusted return on sales – %*	**3.0%**	4.8%
Adjusted EBITDA margin – %*	**8.1%**	9.5%
Adjusted return on average capital employed – %*	**5.3%**	8.4%

* before an exceptional charge of £4.0 million (2007/08: £1.9 million)

MARKET OVERVIEW

Returnable transit packaging (RTP) products are mostly used within the retail, automotive, electronics and beverage sectors. Demand is heavily influenced by industry sector activity levels. RTP is often a capital purchase for our customers, being driven by particular projects, hence annual demand can be uneven. The European market for RTP, which is estimated to be approximately €1 billion, is fragmented into many product sub-sectors and has a large number of suppliers. In western Europe, the markets we serve are estimated to have declined in 2008 by 15% as a result of the slow-down in industrial and retail activity. The previous trend towards the use of multi-trip, reusable packaging on cost and environmental grounds has reduced in recent years, although there remain many market sectors that are well suited to returnable systems. This slow-down in demand has been partly a result of the fluctuations in polymer costs and partly a result of the general decline in economic activity.

The global market for liquid packaging and dispensing (LP&D) products is estimated to be approximately £400 million. The principal uses of bag-in-box packaging are for wine, agricultural produce (such as fruit juice and dairy products) and food service applications such as carbonated soft-drink concentrate (for the hotel and restaurant industries). The market for dispensing products (principally taps), other than for bag-in-box systems, is fragmented across a wide range of applications. DS Smith Plastics is a major supplier to the wine and liquid detergent sector; the latter has grown strongly in recent years in the USA and has more recently started to grow in Europe.

The recent volatility of polymer prices has contributed additional uncertainty into our markets over the last year. During the first half of calendar year 2008, polymer prices rose substantially as a result of the high oil price, reaching a peak in August 2008. They then fell sharply during the autumn and early winter months before firming again during the first half of 2009. This volatility contributed to the uncertainty of demand during this period as it exacerbated the tendency of customers to defer ordering products, particularly in the RTP sector.

2008/09 PERFORMANCE

DS Smith Plastics' revenue increased by 6% to £236.9 million, including the positive effect of foreign exchange translation. Results were lower in both of our major sectors and consequently overall adjusted operating profit fell by 34.6% to £7.0 million. The effects of foreign exchange translation improved revenue and operating profit by £33.9 million and £3.1 million respectively compared with 2007/08.

Revenue in RTP, which accounted for 43% of the segment revenue, was 6.0% lower due to weak and variable demand from almost all its main customer sectors. Sales to the construction and automotive sectors fell sharply and our beverage crate business was significantly affected by the deferral by our customers of anticipated crate replacement programmes.

In LP&D, revenue, which accounted for 45% of the segment, grew by 16.2%. Our USA operations maintained their good performance, partly due to the development of new market sectors for bag-in-box packaging. Our European operations continued to be affected by competitive pressures, particularly in the wine sector. The restructuring of our operations in Germany was completed in April 2009 and further restructuring of our tap and bag operations in the UK is being implemented.

We are seeking to mitigate the effects of the ongoing weak demand, especially in RTP, through our restructuring actions and productivity improvements.

Returnable transit packaging is designed to meet the needs of customers' logistics systems.

Bag-in-box packaging is being used for an expanding range of products, including fruit juices.

OFFICE PRODUCTS WHOLESALING

Profit was flat, assisted by a good performance in continental Europe.

	2008/09	2007/08
Revenue – £m	**720.5**	644.9
Adjusted operating profit – £m*	**20.1**	20.1
Adjusted EBITDA – £m*	**25.7**	26.1
Key performance indicators:		
Revenue growth – %	**11.7%**	13.3%
Adjusted return on sales – %*	**2.8%**	3.1%
Adjusted EBITDA margin – %*	**3.6%**	4.0%
Adjusted return on average capital employed – %*	**15.2%**	15.1%

* before an exceptional charge of £3.7 million (2007/08: £nil)

MARKET OVERVIEW

The office products markets of the UK, France and Germany, in which Spicers currently has approximately 85% of its sales, are estimated to be worth approximately £5 billion, €6 billion and €7 billion respectively, at manufacturers' selling prices. The demand for office products is principally influenced by the level of economic activity. The value of the markets in which Spicers operates fell in 2008, with the traditional stationery sector declining significantly although the electronic office supplies (EOS) sector continued to show modest growth[4]. The value of the market is being held back by price deflation caused by intense competition between suppliers and the trend for consumers to buy lower specification or own-branded products. EOS, which is a growing sector of the market, accounts for approximately 50% of the total office products market. It is especially price-competitive on the high-volume EOS products.

The relative shares of the various supply channels to the end-user market differ by country. Spicers principally supplies office products dealers and resellers. In the countries in which Spicers operates, this channel accounts, on average, for approximately 35% of the total office products market. The share of the market held by dealers has been relatively stable in recent years. Office products dealers primarily sell to small and medium-sized organisations, generally offer a high standard of service to their customers and source most of their products either from wholesalers or direct from manufacturers.

2008/09 PERFORMANCE

Office Products Wholesaling – Spicers – showed an overall sales growth, which was magnified by the translation benefits of the strong euro. Despite the adverse impact of the economic environment on the demand for office products, revenue increased by 11.7% to £720.5 million (2007/08: £644.9 million). Adjusted operating profit was flat at £20.1 million, due to a fall in profit in the UK and Ireland while profits in continental Europe as a whole increased slightly, assisted by the strength of the euro. The effects of foreign exchange translation improved revenue by £57.9 million and operating profit by £3.1 million compared with 2007/08.

In the UK, which accounts for approximately half of our office products wholesaling revenue, we grew sales. However, this growth masks a significant decline in traditional office products, offset by a large growth in lower margin EOS. Despite our actions to reduce the cost to sales ratio, the fall-off in traditional product sales, combined with the effects of a highly competitive market situation, put substantial pressure on profits. Action has been taken to improve the sales mix and to raise efficiency levels further, with the aim of reversing this downward profit trend.

In continental Europe, our well-established businesses in France and the Benelux region performed solidly despite their revenue being affected by the decline in the overall market; our Benelux operations were additionally impacted by a change in government policy in Flanders regarding the supply of stationery to younger school children. Spicers Germany continued its development, reporting good revenue growth, assisted by further improvement in its service levels. Our Italian operation once again showed good overall growth, consolidating its position as a significant supplier in this market and reporting its first full year of profit. Spicers Spain produced a creditable result in light of the severity of the national economic slow-down in this country, which affected its overall revenue despite growing its EOS sales.

George Adams, who was appointed to the role of Chief Executive of Spicers in June 2009, brings with him a wealth of relevant business experience both in the UK and continental Europe as well as a good understanding of the Spicers business.

We expect the current year to be testing, especially in the UK market. Throughout 2009/10, our priorities at Spicers are to maintain our good overall performance in continental Europe while re-establishing profit improvement in the UK. We will focus on improving our overall sales levels, primarily in traditional office products, and on tight cost control. We believe that Spicers is well placed to take advantage of improved economic conditions when they arrive, due to its strong market positions and its thorough understanding of supply chain management.

Customers' orders are picked and despatched for same-day or for next-day overnight delivery.

Spicers' distribution centres process orders for circa 700,000 line-items per week.

4 Source: DS Smith estimates based on national data

SPICERS' BUSINESS MODEL

SPICERS

Supplies trade customers – dealers and resellers – with:

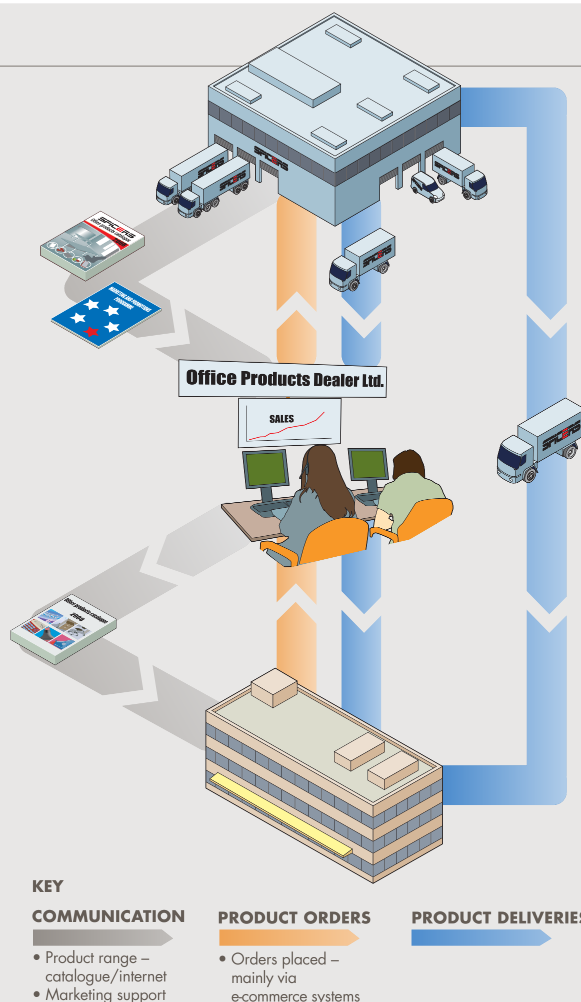
- Everything for the office, except computers – up to 22,000 product lines across Europe, branded and own-label
- Marketing support – catalogues/promotions
- Business development support
- E-commerce systems
- Fast service – same/next-day delivery
- Fulfilment service – orders delivered to dealers or direct to end-users

DEALERS & RESELLERS

- Sell to end-users
- Some hold stock
- Some are stockless and use Spicers as their fulfilment provider
- Source products from Spicers; may also buy from manufacturers

OFFICE END-USERS

- Offices of all sizes – from one person to large businesses – buy their office products from dealers
- Dealers also sell to other organisations such as schools and sometimes sell directly to consumers
- End-users can buy from the dealer customers of Spicers not only traditional stationery and electronic office supplies but also office furniture, janitorial supplies and office catering and vending provisions



KEY

COMMUNICATION
- Product range – catalogue/internet
- Marketing support

PRODUCT ORDERS
- Orders placed – mainly via e-commerce systems

PRODUCT DELIVERIES

ADDING VALUE FOR OUR DEALERS

STRENGTH TODAY

22,000

Spicers supplies up to 22,000 office product lines to some 12,500 dealers across Europe.

ACTIONS FOR TOMORROW

Spicers continually develops new ways to support its customers. It provides its dealers with marketing material such as promotional catalogues and brochures. Its innovative e-commerce systems enable ever faster and more efficient communication between Spicers, its customers and the end-users. Increasingly, Spicers provides a complete fulfilment service, delivering direct to end-users.

FINANCIAL REVIEW

Our ongoing focus on cash management resulted in strong cash generation.

OVERVIEW

The Group has achieved a robust financial performance in challenging trading conditions. The cash flow performance in the year demonstrates the Group's ability to generate cash despite significant capital investment and restructuring programmes. In August 2008, we successfully refinanced a syndicated loan facility at market-competitive rates.

TRADING RESULTS

The Group's trading results for the year to 30 April 2009 are summarised in Table 1.

The major drivers of the 2008/09 results were: lower volumes across the Packaging activity as a whole due to the weak economic environment; decreases in CCM selling prices in the UK Paper and Corrugated Packaging segment; and continuing strong competition combined with lower demand in the UK business of the Office Products Wholesaling segment. The improvement in margins in our continental European packaging operations together with the effects of the depreciation of sterling against both the euro and US dollar offset some of the decline.

Revenue for the financial year ended 30 April 2009 increased by 7.1% over the prior year; it was 17.0% higher in the first half of the year and 2.0% lower in the second half. Excluding the effects of the acquisition, in February 2008, of New Thames Mill within UK Paper and Corrugated Packaging, revenue was up 3.5%. If, in addition, the effect of movements in foreign exchange rates is excluded, revenue was down 4.5% on 2007/08.

Adjusted Group operating profit (excluding exceptional items) in 2008/09 was £94.0 million (2007/08: £119.6 million). The decrease in adjusted Group operating profit resulted from declines in UK Paper and Corrugated Packaging and Plastic Packaging of £32.0 million and £3.7 million respectively, which were partially offset by an increase in Continental European Corrugated Packaging of £10.1 million. Adjusted operating profit in Office Products Wholesaling was flat. Group adjusted operating profit in the first half of the year was £54.4 million (2007/08 H1: £60.4 million) and in the second half was £39.6 million (2007/08 H2: £59.2 million). The Group's adjusted return on sales was 4.5% (2007/08: 6.1%).

The Group's adjusted return on capital employed (which is defined as the adjusted operating profit divided by the average capital employed) decreased from 12.9% in 2007/08 to 9.3% in 2008/09, below the Group's estimated pre-tax cost of capital of 11.8%. The decline in the Group's return on capital employed reflected lower returns in 2008/09 across UK Paper and Corrugated Packaging, Plastic Packaging and Office Products Wholesaling, which were partially offset by a better return in Continental European Corrugated Packaging.

EXCEPTIONAL ITEMS

The Group recorded net exceptional charges before tax of £55.7 million during the year (2007/08: £1.9 million). A total of £50.6 million was recorded against operating profits which included £18.1 million in respect of the impairment of the carrying value of the Group's Ukrainian associate and £5.0 million in respect of our Turkish business, as well as £0.5 million against an investment in Italy. The balance of £27.0 million related to the restructuring costs and provisions as part of the Group's previously announced action programme. Restructuring costs of £18.2 million were incurred in UK Paper and Corrugated Packaging, £1.6 million in Continental European Corrugated Packaging, £3.5 million in Plastic Packaging and £3.7 million in Office Products Wholesaling. The restructuring costs comprise redundancy and other cash costs of £25.1 million and a balance of £1.9 million of non-cash items, principally impairments of tangible fixed assets. The cash return on this expenditure is expected to be £26.0 million in 2009/10 (2008/09: £nil) and this will help to underpin the Group's performance in the current year. Operating profit after exceptional items was £43.4 million (2007/08: £117.7 million).

TABLE 1 – TRADING RESULTS SUMMARY

	First half		Second half		Full-year	
	2008/09	2007/08	**2008/09**	2007/08	**2008/09**	2007/08
Revenue – £m	**1,102.8**	942.7	**1,003.8**	1,024.8	**2,106.6**	1,967.5
Adjusted operating profit – £m*	**54.4**	60.4	**39.6**	59.2	**94.0**	119.6
Adjusted return on sales – %*	**4.9%**	6.4%	**3.9%**	5.8%	**4.5%**	6.1%
Adjusted return on average capital employed – %*	**10.8%**	13.6%	**7.7%**	12.3%	**9.3%**	12.9%

* before exceptional items

INTEREST, TAX AND EARNINGS PER SHARE

Net interest expense increased from £20.8 million in 2007/08 to £23.6 million in 2008/09, mainly reflecting higher interest rates following the refinancing completed in August and increased average net debt. Employment benefit net finance income, which is a non-cash item, was £1.5 million (2007/08: £8.8 million), reflecting a higher opening deficit on the defined benefit schemes. For 2009/10, given the higher discount rates used, higher opening deficit and reduced return on assets, it is anticipated that there will be an increase in the employment benefit finance charge to circa £11 million.

The Group's adjusted share of the non-exceptional after-tax profits of Rubezhansk, the Group's associate paper and packaging company in Ukraine was £0.6 million, down from £3.4 million in 2007/08. The Group has reported an exceptional loss of £5.1 million as the Group's share of the after-tax net loss at Rubezhansk incurred in the second half of 2008/09, principally as a result of foreign exchange losses incurred on Rubezhansk's US$87 million loan, following the significant decline in the Ukrainian Hryvnia against the US dollar. Exchange rate movements have resulted in Rubezhansk breaching its banking covenants. Consequently, due to the uncertainty of the financial position of Rubezhansk, the Group has fully impaired the carrying value of its investment in Rubezhansk. This impairment of £18.1 million has been charged to operating profit as an exceptional charge. The net cash cost of this investment has been less than £5 million. Having reduced the carrying value of the investment to zero the Group has no further exposure to potential future losses at Rubezhansk. There is no recourse to the Group for the loan held by Rubezhansk.

Adjusted profit before tax was £72.5 million (2007/08: £111.0 million). Profit before tax after exceptional items was £16.8 million (2007/08: £109.1 million).

The Group's effective tax rate, excluding exceptional items and associates, at 31.4%, was higher than last year's rate of 29.4% as a result of a shift in the mix of profits towards the higher tax rate jurisdictions in continental Europe. The tax charge on exceptional items of £5.4 million comprises an exceptional charge of £13.3 million in respect of UK taxation following the announcement of the cessation of industrial building allowances, partially offset by tax allowances of £7.9 million for restructuring costs.

Adjusted basic earnings per share were 12.6 pence (2007/08: 19.9 pence). Basic losses per share were 3.0 pence (2007/08: earnings 19.6 pence).

DIVIDEND

The proposed final dividend is 1.8 pence (2007/08: 6.2 pence), giving a total dividend for the year of 4.4 pence (2007/08: 8.8 pence). Dividend cover before exceptional items was 2.9 times in 2008/09 (2007/08: 2.3 times). After exceptional items the dividend was not covered (2007/08: cover 2.2 times).

TABLE 2 – CASH FLOW

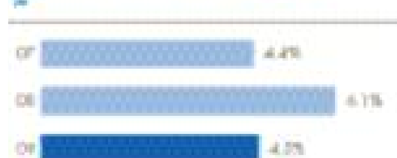
	2008/09 £m	2007/08 £m
Operating profit before exceptional items	**94.0**	119.6
Depreciation and amortisation	**69.9**	62.0
Adjusted EBITDA	**163.9**	181.6
Working capital movement	**30.8**	13.2
Other	**(11.1)**	(9.2)
Cash generated from operations[1]	**183.6**	185.6
Capital expenditure payments	**(87.4)**	(66.5)
Sales of assets	**7.7**	9.3
Tax paid	**(21.0)**	(27.8)
Net interest paid	**(23.0)**	(16.8)
Dividends	**–**	1.0
Free cash flow	**59.9**	84.8
Exceptional cash costs	**(17.2)**	(5.8)
Dividends	**(34.4)**	(33.7)
Dividends paid to minority shareholders	**(1.9)**	–
Net acquisitions	**(1.2)**	(87.2)
Net cash flow	**5.2**	(41.9)
Shares issued	**–**	0.2
Purchase of own shares	**(0.2)**	(2.0)
Net debt acquired	**(0.2)**	(1.3)
Non-cash movements	**(44.5)**	(25.6)
Net debt movement	**(39.7)**	(70.6)

1 before exceptional cash items

CASH FLOW

The Group generated free cash flow of £59.9 million (2007/08: £84.8 million). Adjusted EBITDA fell by £17.7 million to £163.9 million, however, a strong focus on working capital resulted in a cash inflow of £30.8 million (2007/08: £13.2 million). Cash generated from operations (before exceptional items) was £2.0 million below the prior year at £183.6 million.

Net capital expenditure payments after disposals were £79.7 million (2007/08: £57.2 million), the most significant expenditure being the investment to convert the paper machine at New Thames Mill. The interest paid increased in line with the income statement charge after excluding last year's non-cash charge relating to an increase in the fair value of put options held by minority, non-continuing shareholders in a subsidiary of the Group.



* before exceptional items

Tax payments were £21.0 million (2007/08: £27.8 million) and were reduced by the lower adjusted trading profit described above. Cash dividend cover, defined as free cash flow divided by dividends paid/declared for the year, was 1.7 times, down from 2.5 times in 2007/08.

The cash outflow in respect of exceptional restructuring costs was £17.2 million (including cash outflows related to exceptional charges made in 2007/08), compared with a cash outflow from restructuring costs of £5.8 million in 2007/08.

The net cash outflow on acquisitions and disposals was £1.2 million (2007/08: £87.2 million) principally accounted for by the acquisition of a small recycling business in north west England.

In respect of pension payments, the agreed annual contributions into the UK Group Pension Scheme were £15.6 million in 2008/09 (2007/08: £14.6 million).

Overall, the Group generated cash of £5.2 million after funding additional capital expenditure and restructuring costs.

FINANCIAL POSITION

Shareholders' funds totalled £458.0 million at 30 April 2009, down from £601.7 million at 30 April 2008, principally due to the increase in the net liability to the Group Pension Scheme and the impairment of the carrying value of the Group's associate in Ukraine. Net assets per share were 116.7 pence (30 April 2008: 153.9 pence). The loss attributable to the shareholders of DS Smith Plc was £11.8 million and dividends of £34.4 million were paid during the year. In addition, after-tax actuarial losses of £88.5 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 £0.7 million and movements in cash flow hedges of £10.3 million.

The Group has committed facilities to 2012 of £535 million. The closing net debt was £291.5 million, £39.7 million higher than at the start of the year, reflecting the net cash inflow during the year of £5.2 million and non-cash movements, principally exchange differences and related fair-value movements, of £44.5 million.

Gearing, defined as net debt as a percentage of net assets, was 63.9% (30 April 2008: 41.8%); the movement reflected the increase in borrowing from the net cash outflow for the year which was proportionally greater than the increase in shareholders' funds. Adjusted Interest Cover (as defined in the loan agreements) was 4.5 times, compared with 7.6 times last year, the lower cover reflected the lower adjusted operating profit combined with the increased interest charge. The ratio of net debt to EBITDA (before exceptional items) was 1.8 times (2007/08: 1.4 times).

The Group's banking covenants for the syndicated loan and the private placements specify an Adjusted Interest Cover not less than 3.0 times, a maximum ratio of net debt to EBITDA of 3.25 times and net assets to be in excess of £360 million. The covenant calculations exclude from the income statement exceptional items and the net interest income/charge arising from the defined benefit pension schemes. The calculation of net assets excludes the net asset or liability arising from the defined benefit pension schemes. As at 30 April 2009, the most important covenant is the Adjusted Interest Cover and this had an Adjusted Profit headroom of £34.6 million (2007/08: £78.9 million).

ENERGY COSTS

The high level of energy costs continued to be a significant factor for the Group in 2008/09. The Group's total costs for gas, electricity and diesel fuel increased from circa £91 million in 2007/08 to circa £114 million in 2008/09. After adjusting for the effect of the acquisition of New Thames Mill in February 2008 this represents an underlying increase of circa £5 million. The Group continued with its strategy of hedging the energy costs with suppliers and financial institutions, the purpose of which is to reduce the volatility of energy costs and provide the Group with a degree of certainty over energy costs.

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

CAPITAL STRUCTURE AND TREASURY MANAGEMENT

The Group funds its operations from the following sources of cash: operating cash flow, borrowing, shareholders' equity and disposals of peripheral businesses, where appropriate. The Group's objective is to achieve a capital structure that results in an appropriate cost of capital whilst providing flexibility in immediate and medium-term funding so as to accommodate material investments or acquisitions. The Group also aims to maintain a strong balance sheet and to provide continuity of financing by having a range of maturities and borrowing from a variety of sources.

The Group's overall treasury objectives are to ensure sufficient funds are available for the Group to carry out its strategy and to manage financial risks. The Group's treasury strategy is controlled through the Treasury Committee, which meets regularly and includes the Group Chief Executive, the Group Finance Director, Group Financial Controller and the Group Treasurer. The Group Treasury function operates in accordance with policies and procedures approved by the Board and controlled by the Group Treasurer. The function arranges funding for the Group, provides a service to operations and implements strategies for interest rate, foreign exchange and energy exposure management.

The Group's main borrowing facilities comprise: private placements, of US$105.0 million due in 2012 and £25.0 million also due 2012; a private placement of US$105 million due 2014 and US$95 million due 2016. Additionally, the Group has a syndicated revolving credit facility of £287.5 million, which expires in 2013 and a bilateral facility of £50.0 million expiring in 2010. At 30 April 2009, the Group's committed borrowing facilities were £625.9 million. The total gross borrowing drawn under all these facilities at the year-end were £346.1 million. At 30 April 2009, the Group's borrowing facilities had a weighted-average maturity of four years and one month.

The major treasury risks to which the Group is exposed relate to movements in interest and foreign exchange rates and market prices for energy. The overall objective of the Treasury function is to control these exposures whilst striking an appropriate balance between mitigating risks and controlling costs. Financial instruments, including derivatives, may be used in implementing hedging strategies but the speculative use of financial instruments, including derivatives, is not permitted.

The Group manages the risks associated with its purchases of energy in the UK through its Energy Procurement Group, which operates under the oversight of the Treasury Committee. UK purchases of energy represent the significant majority of the Group's overall energy costs.

The Treasury Committee regularly reviews the Group's exposure to interest rates and considers whether to borrow on fixed or floating terms. The Group has a current policy of mainly borrowing at floating rates, which the Treasury Committee believes provides better value over the medium term. Fixed-rate borrowing, taking into account the effect of related swaps, comprised 35% of total borrowing at 30 April 2009 (30 April 2008: 16%).

The Group has a net investment in major overseas subsidiary companies' foreign currency assets and liabilities, in particular those whose functional currency is the euro or the United States dollar. The Group's policy is to hedge a large part of the resulting exposure to movements in foreign currency rates, by means of debt in the same currency, to a level determined by the Treasury Committee. The overseas net assets hedged through euro borrowing increased from 85% at 30 April 2008 to 89% at 30 April 2009 as a proportion of the Group's euro net investment.

The Group's foreign currency debt may be put in place either in the currency itself or through the use of cross-currency swaps on differently denominated borrowing. The Group applies hedge accounting under IAS 39 to its hedges of its net investment of foreign currency subsidiaries and records exchange differences arising on the net investments and the related foreign currency borrowing directly in equity. In addition, the Group's operations make product sales and purchases of raw materials in foreign currencies; here, cash flow hedges are taken out to reduce the risk associated with these transactions.

IMPAIRMENT

When applying IAS 36, 'Impairment of Assets', the Group compares the carrying amounts of goodwill and intangible assets with the higher of their net realisable value and their value-in-use to determine whether an impairment exists. The value-in-use is calculated by discounting the future cash flows expected to be generated by the assets or group of assets being tested for impairment. At the year-end, a series of tests were undertaken to determine whether there had been any impairment to the balance sheet carrying values of goodwill and other intangible assets. The key assumptions behind the calculations can be found in note 10 to the financial statements.

In summary, the test indicated that, despite the weak markets currently being experienced, the value of discounted future cash flow meant it remained appropriate not to write off any of the goodwill previously acquired by the Group. The tests for impairments did indicate that due to the uncertain state of the corrugated box market in Turkey it was appropriate to make an impairment of £5.0 million against the plant and equipment of Çopikas, the Group's subsidiary in Turkey.

Approximately 73% of the carrying value of the Group's goodwill is allocated to UK Paper and Corrugated Packaging.

Whilst the Board considers that its assumptions are realistic, it is possible impairment would be identified if any of the key assumptions were changed significantly. The net book value of goodwill and other intangibles at 30 April 2009 were £222.0 million (30 April 2008: £215.2 million).

As noted above, the Board has reviewed the carrying value of the Group's Ukrainian associate, Rubezhansk, and has determined that due to the financial position of Rubezhansk it is prudent to impair fully the carrying value of this investment.

Note 10 to the financial statements sets out additional information regarding the Group's annual impairment exercise including the details of the carrying value headroom for the key cash-generating units that hold goodwill.

PENSIONS

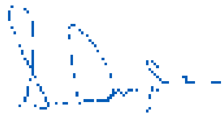
IAS 19, 'Employee Benefits', requires the Group to make assumptions including, but not limited to, future asset returns, rates of inflation, discount rates and current and future life expectancies. The use of different assumptions could have a material effect on the accounting values of the relevant assets and liabilities, which in turn could result in a change to the cost of such liabilities as recognised in the income statement over time. The assumptions involved are subject to periodic review.

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 2009 were £555.3 million and the gross liabilities at

30 April 2009, calculated under IAS 19, were £746.6 million, resulting in the recognition of a gross balance sheet deficit of £191.3 million (30 April 2008: £75.9 million), a net deficit of £138.0 million (30 April 2008: £54.5 million) after the establishment of a deferred tax asset of £53.3 million (30 April 2008: £21.4 million). The increase in the gross balance sheet deficit of £115.4 million was principally due to a reduction in asset values of £166.5 million resulting from the decline in global equity prices during the year.

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 current service cost in 2008/09, amounted to £9.7 million compared with £8.3 million in 2007/08. The Group's agreed annual cash contributions to the main UK scheme were £15.6 million (2007/08: £14.6 million). A triennial valuation of the scheme was carried out as at 30 April 2007.

Note 24 to the financial statements sets out additional information regarding the Group's pension and other post-retirement benefits.



STEVE DRYDEN
Group Finance Director

RISK MANAGEMENT

The Group has a rigorous procedure for understanding and managing its significant risks.

The Group faces various risks, both internal and external, which could have a material effect on its performance. The Group's exposure to individual risks is limited and diversified by the fact that it has several distinct types of activity, with 30 business sectors operating from over 100 sites in 18 different countries, and it sells to a broad range of customers. Details of the limited dependence of each of our segments on any one customer are provided in the Description of the Group on pages 12 and 13. The main commercial and other risks that are specific to a business segment are described within the narrative on that segment. The principal Group-wide key risks and uncertainties, as perceived in the light of present knowledge, and the way they are managed, are described below. There are further references to the risks faced by the Group in the Financial Review on pages 22 to 26, in the Corporate Governance section on pages 38 to 40 and in the Notes to the Accounts on pages 58 to 100. The Group seeks to mitigate its insurable risks through an insurance programme that covers property and liability risks where it is relevant and cost-effective to do so.

CHANGES IN THE DEMAND FOR, OR PRICING OF, THE GROUP'S PRODUCTS AND SERVICES AS A RESULT OF GENERAL ECONOMIC CONDITIONS OR MARKET-SPECIFIC FACTORS

The profitability of the Group's businesses is sensitive to the volume and mix of sales and to product pricing. Demand across the Group's markets has weakened and become less predictable as a result of the global economic downturn. This has, in turn, contributed to a fall in prices in some of the Group's markets. In the present circumstances, management has reduced visibility for forecasting the Group's levels of activity and margins. Trading conditions may prove to be very different from those that are currently expected. In these circumstances the Group's businesses are monitoring sales and pricing trends in their markets especially closely. The businesses all have programmes in place aimed at maximising sales and managing margins in the context of the evolving situation in their specific markets.

For our paper-based packaging products, a 5% reduction in the current level of overall demand across Europe could have the potential to reduce future operating profits by approximately £14 million. However, the actual impact would depend upon the specific impact of the reduction on individual products and markets and upon the outcome of the actions that management would take to mitigate the effects of such a change in demand.

With specific regard to our UK Paper business, based on an annual production of approximately 1 million tonnes, if the selling price of paper moved by £10 per tonne, the Group's operating profit would be impacted by circa £10 million, all other factors being equal. The actual impact would initially be partially mitigated by a corresponding reduction in the paper costs within our corrugated packaging operations.

In respect of our Office Products Wholesaling business, a 1% reduction in the overall margin achieved for office products would reduce Group operating profits by circa £7 million.

Further information on the changes and trends in demand and pricing relevant to our business segments is provided within the market commentaries in the Operating Review on pages 14 to 21.

VOLATILITY OF PRICING AND AVAILABILITY OF GLOBALLY TRADED RAW MATERIALS

In 2008/09, the Group purchased approximately £93 million of waste paper and approximately £110 million of polymers and films as the principal raw materials in its Paper and Plastic Packaging businesses, respectively. These products are globally traded and subject to variations in supply and demand which result in volatility in their pricing. The Group endeavours to recover any raw material cost increases through good material usage programmes and through price rises. Approximately one-third of the Group's corrugated and plastic packaging customer contracts include arrangements to link selling prices to an index of raw material prices. The achievement of price increases for the majority of our Packaging business is substantially determined by the state of supply and demand in the relevant market at any time. Due to the variety of contractual arrangements with customers, margins may be squeezed for a period of time until price increases are achieved to recover input cost increases. In the present trading environment it is likely to prove more difficult to recover input cost increases through price rises.

The Group's Severnside Recycling business collects and trades waste paper to ensure a continuous cost-competitive supply to the Group's paper mills. It achieves this through long-term contracts with major suppliers of waste paper and the collection of waste from smaller suppliers through its network of collection depots. Based on the Group's purchases of waste paper of approximately £93 million, a £10 per tonne increase in waste paper prices would reduce Group operating profits by £8 million. However, as noted above, the actual impact on future profitability would depend upon the extent to which finished goods prices are linked to input prices.

Of the Group's total polymer and film purchases, polycarbonate, polypropylene and high density polyethylene are the principal polymers used, with the remainder comprising a large number of different polymers and films. The Group has developed a good level of expertise in polymer purchasing and uses a number of suppliers to ensure it is purchasing at competitive prices.

VOLATILE AND INCREASING ENERGY PRICES

The Group's exposure to energy costs is described on page 24 and is being managed in a number of ways. The Group is looking to maximise in-house energy generation from its combined heat and power (CHP) plants in the UK and France, thereby taking advantage of the greater efficiency of the CHP process. It is also investigating the potential for the use of renewable or low-carbon energy sources, including refuse-derived fuel. The Group continues to undertake a wide range of energy-saving projects aimed at increasing its energy efficiency and reducing its energy usage. In 2008/09, the Group reduced its energy usage by 10% compared with 2007/08, principally due to lower activity levels across the Group.

The regulatory developments in the energy market are monitored and the Group collaborates, when appropriate, with other higher energy users in the paper and other industry sectors to influence government on energy policy and the operation of energy markets. The Group maintains a centralised energy-purchasing approach in the UK and France, which enables it to obtain economies of scale in buying and to apply specialist expertise. Given the sensitivity of the Group's financial results to energy prices, the impact of energy costs are managed through the use of long-term supply contracts (which reduce the volatility of price movements) and the application of hedging techniques. The Group transacts hedging instruments with a number of counterparties and monitors its overall reliance and exposure against each counterparty.

RISK MANAGEMENT CONTINUED

A US$10 per barrel increase in global oil prices would reduce Group operating profits by circa £3 million and a 10 pence per therm increase in UK gas prices would reduce Group operating profits by circa £3 million.

MOVEMENTS IN FOREIGN EXCHANGE RATES AND INTEREST RATES

These risks and the way in which they are managed through the Group's Treasury Committee and its subsidiary committees or groups are described on pages 24 and 25.

In terms of the effects of currency translation, the principal conversion rates which affect the Group's reported financial performance are sterling to the euro and sterling to the US dollar. An increase in sterling's value against the euro by 10 cents would decrease operating profits by around £3 million, principally due to the impact on the translation of profits in the Group's euro denominated operations. This impact would be partially offset at a profit before tax level by a reduction in interest costs of circa £1 million due to translation of interest costs on the Group's euro debt. Similarly, a 10 cents increase in the value of sterling against the US dollar would reduce reported operating profits by around £0.3 million and reduce interest costs by circa £0.1 million.

An overall one percentage increase in interest rates across the debt held by the Group would increase interest costs by £1.8 million. However, as noted on page 25, we currently have 35% of our debt placed at fixed interest rates.

THE FUNDING POSITION OF THE GROUP'S UK DEFINED BENEFIT PENSION SCHEME

The funding of the Group's UK defined benefit scheme is sensitive to a number of key factors: the value of the assets, of which 63% is invested in equities and 37% in bonds, gilts and cash; the discount rate, based on the yield on high quality corporate bonds, which is used to calculate the scheme's liabilities; and the expected mortality rate of the scheme's members. The funding position of the scheme has deteriorated during 2008/09 as described on page 26. The Group faces the risk that this funding position may deteriorate further over time. The Group and the scheme's trustee have sought to mitigate this risk through the scheme's investment strategy and through having increased the contributions made to the scheme by both the members and the Group. The regulatory environment for pension schemes and their trustees has changed in recent years, in particular with the Pensions Act 2004: the presence of a deficit in a scheme may now oblige the trustee or possibly the Pensions Regulator to seek some further funding of the scheme in the event of a significant corporate action or perceived decline in the Group's financial covenant. The sensitivity of the funding position to the key assumptions is detailed in note 24.

THE CONTINUING AVAILABILITY OF BORROWING FACILITIES, INCLUDING COMPLIANCE WITH BORROWING COVENANTS

The Group's borrowing facilities and their management through the Treasury Committee are described on pages 24 and 25. The Group has committed facilities of £625.9 million (2007/08: £506.0 million) and, as at 30 April 2009, £346.1 million was drawn against these facilities. The facilities are provided by a range of banks that typically have a credit rating of BBB+ or greater. The Group is required as a condition of its borrowing facilities to remain within certain covenants. These are detailed in the Financial Review on pages 24 and 25. In the event that a breach of covenant occurs, borrowing under the facility becomes repayable on demand.

The Group has cash deposit, borrowing and transactional relationships with a range of institutions. The counterparty risk is carefully monitored to ensure that the risk of an individual counterparty failure would not curtail the Group's ability to manage foreign exchange, energy or impinge significantly on its borrowing facilities. Cash deposits are held with institutions of credit rating AA or greater.

CUSTOMER CREDIT RISK

Although the Group has a broad base of customers, the financial failure of one or more of the Group's key customers may have a material impact on the results in a particular segment and result in a significant loss of future business. Given the current environment we are closely monitoring credit risk across our customer base. The potential effect of the failure of any particular Group customer is limited as no single customer represents more than 2% of the Group's revenue.

THE EFFECTIVENESS OF THE GROUP'S ACTION PROGRAMME FOCUSED ON COST REDUCTION AND CASH GENERATION

In the light of the challenging trading conditions, the Group has implemented an action programme which is described in more detail in the Chief Executive's Review on pages 7 to 9. If trading conditions were to worsen significantly from the currently expected level, this programme may prove not to be sufficient and it may be necessary to reduce the Group's cost base further, thus incurring additional restructuring costs. In these circumstances the Group's results could be adversely affected.

SERIOUS BREACHES OF THE LAW OR OTHER REGULATIONS

The Group's Key Corporate Values, which are described in more detail in the Corporate Responsibility Review on page 30 and are available in full at www.dssmith.uk.com/pages/Policies.asp on the Group's website, require all employees to comply with all relevant laws and regulations in the countries in which they operate. The Group recognises the risk that substantial fines, or other penalties, may be imposed for non-compliance with laws and regulations relating to competition, environmental, health and safety or other matters, and has control mechanisms, ongoing programmes and systems, and special initiatives in place for monitoring compliance. It also carries out training programmes for employees and has systems in place to share expertise and best practice on these matters. The Group has a Workplace Malpractice Policy, and a process for employees to report any suspected wrongdoing in confidence, that is in place across its international operations where such reporting is permitted by law.

INCREASING COSTS IN THE MEDIUM TERM RELATED TO CLIMATE CHANGE AND CARBON DIOXIDE (CO_2) EMISSIONS

As a result of its substantial energy usage, the Group is likely, in the medium term, to be increasingly subject to regulation and taxation of its CO_2 emissions. The details of this and the actions being taken to reduce the Group's future energy usage and CO_2 emissions are described in the Corporate Responsibility Review on page 35 and in the statement of the Group's strategy for managing its energy costs on page 24.

PRODUCT LIABILITY

The Group's packaging products, many of which are supplied into the food and beverage industries, may give rise to potentially substantial product liability claims in the event of a failure of the packaging to perform its function when in use or from contamination of the product by its packaging. The potential for such claims is reduced by the fact that the majority of the Group's packaging is used as secondary, or transit, packaging and does not come into direct contact with the products it ultimately protects. The Group takes all reasonable steps to ensure the safety and adequate performance levels of its packaging through design, manufacturing control processes, technical testing and other means while having appropriate product liability insurances in place. It also looks to minimise its product liability risk through its relevant terms and conditions of trading.

OTHER SOCIAL AND ENVIRONMENTAL MATTERS

The Group's management of other social and environmental risks is described in the Corporate Responsibility Review on pages 30 to 35.

DS Smith is committed to maintaining high standards in the way we conduct our business. The safety of our employees is our principal concern.

OUR CORPORATE RESPONSIBILITY APPROACH

	AIMS	2008/09 ACTIONS AND PROGRESS
HEALTH AND SAFETY	• Ensure the safety of our staff and others affected by our operations – our top priority • Reduce the number of accidents	• Group-wide 'think safe... be safe!' campaign continued, focused on particular safety topics • Local initiatives targeted at key safety issues for each business • Lost time accidents down 14% • Accident frequency rate down 16% • Accident severity rate down 4% • Businesses use audits and benchmarking processes to measure performance and highlight areas for improvement • Extensive training programmes undertaken aimed at analysing and reducing risks and changing attitudes and behaviour
ENVIRONMENT	• Reduce the impact of our operations on the environment • Contribute to optimising resource usage and waste throughout our supply chains	• Developed further our services to provide the optimum packaging solutions for the end-use • Expanded further our major recycling capabilities • Invested to produce high-quality lightweight paper • Reduced environmental impact, partly due to lower activity and partly due to improved performance • Energy usage down 10% • CO_2 emissions down 8% • Water usage down 8% • Total waste generated down 6%
EMPLOYEES	• Attract, retain and motivate good people • Enable our employees to fulfil their potential	• Training and initiatives carried out to reinforce implementation of employee-related Key Corporate Values • Increased level of communication to ensure awareness of business plans and objectives • Employee surveys in parts of the Group • Training and development programmes to meet our businesses' and employees' specific needs
COMMUNITY INVOLVEMENT	• Develop and maintain good relations with our local communities	• Businesses work closely with local schools and colleges • Involvement in a range of community activities • Participate in liaison groups and hold open days • Support good causes in local communities

OUR PRINCIPLES AND APPROACH TO CORPORATE RESPONSIBILITY

DS Smith is committed to providing good sustainable returns for its investors while maintaining high standards in the way we conduct our business. The safety of our 11,000 employees, working at over 100 locations worldwide, is our principal concern. We also pay close attention to the fulfilment of our responsibilities towards the environment and to how we interact with our employees and local communities. This review presents information on these high priority aspects of corporate responsibility (CR) for the Group.

The Board considers risks to the Group's short- and long-term value arising from CR matters as part of its regular review of the key risks to the Group's operations. It ensures that the Group has in place effective policies and systems for managing any significant CR risks and it receives regular reports on performance. The Group Chief Executive is the Director responsible for CR matters and he reports to the Board on these. It is the responsibility of the Divisional Chief Executives and General Managers of the individual businesses to communicate and to apply the policies, to ensure compliance and to review procedures, taking account of local legislation and potential risks. Divisional Chief Executives are required annually to attest that the companies for which they are responsible have complied with relevant Group and divisional policies.

The Group's Key Corporate Values define the way in which we require our people and businesses to operate. In summary, all employees are expected at all times to act ethically and with integrity, to treat their colleagues fairly, equitably and with respect, to work safely and to protect the environment. Our Key Corporate Values statement is reinforced by more detailed policies on health and safety, the environment and other relevant topics; these documents may be viewed on the Group's website at: www.dssmith.uk.com/pages/Policies.asp. The Group has a Workplace Malpractice Policy, under which employees may report in confidence any perceived wrongdoing within the Group on matters relating to safety, the environment, unethical business conduct or breaches of Group policies, the law or other regulations. This policy is reinforced by a confidential Employee Concern Helpline and e-mail facility which we aim to make available to our employees worldwide as local legal and regulatory issues are resolved; to date it has been extended to over 70% of our employees, located in nine countries. Any concerns reported are appropriately investigated.

DS Smith continues to be selected as a constituent of the FTSE4Good UK Index of companies deemed to meet globally recognised corporate responsibility standards. DS Smith is also a constituent of the Kempen/SNS Smaller Europe SRI Index for smaller companies deemed to have high social responsibility standards and practice.

HEALTH AND SAFETY

DS Smith is committed to ensuring that throughout the Group the safety of our staff and others affected by our operations receives the highest priority. Accordingly, safety at work is the first fixed agenda item at all main Board, executive committee and divisional review meetings. Providing a safe workplace and ensuring safe working practices are not only legal and ethical responsibilities for the Group but are also essential elements for achieving our aims of attracting and retaining a high-quality and well motivated workforce and in carrying out our operations productively and cost-effectively. Responsibility for the safety of our people is regarded as a key aspect of the role of management at all levels. Managers are provided with training to assist them in fulfilling this responsibility.

We give particular attention to communicating with our people about the importance of safety at work and involving them closely in initiatives aimed at finding ways to improve safety on our sites. Our campaign, launched in autumn 2006 under the slogan 'think safe… be safe!', continues to be a key feature of our drive to raise further employees' awareness of their individual responsibilities for preventing accidents. Supplementary Group-wide initiatives, focusing on particular safety topics, have been implemented to reinforce the central theme. Our businesses use the core campaign material as a basis for introducing programmes which concentrate on the safety issues which are most relevant to each business. Many of our businesses have recently focused particular attention on reducing accidents caused by manual handling activities and by slips and trips. In the last year, Severnside Recycling and St Regis, which both operate sizeable transport fleets, have taken various initiatives aimed at reducing road traffic accidents.

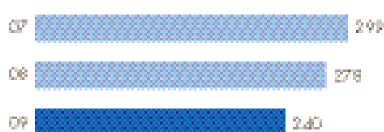
Information on safety performance, including statistics related to our performance indicators, is reported to the Board quarterly. Our divisions set improvement targets against the indicators, which reflect the nature of their business and their previous performance. In 2008/09, our continuing emphasis on safety was reflected in a 14% reduction in the number of accidents that resulted in one shift or more of working time being lost and a 16% reduction in the accident frequency rate, which measures lost time accidents in proportion to the number of hours worked. There was a 4% improvement in the accident severity rate, which measures the hours lost as a result of all accidents as a percentage of the total hours worked. We continue to focus on addressing the underlying reasons for the lower level of improvement in the latter indicator, which particularly reflects the number of relatively minor accidents after which employees take a longer time to return to work.

Our businesses benchmark their performance on safety against other Group businesses and through the use of external data. This process enables them to identify areas for increased attention. Site health and safety audits by internal specialists and external consultants are also used to measure

SAFETY PERFORMANCE INDICATORS

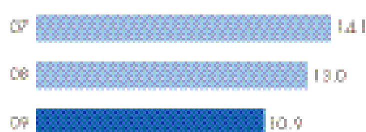
LOST TIME ACCIDENTS

Number of accidents resulting in lost time of one shift or more



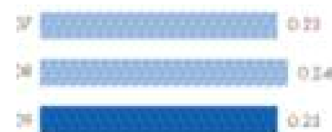
ACCIDENT FREQUENCY RATE

Number of lost time accidents per million hours worked



ACCIDENT SEVERITY RATE

Working hours lost as a result of accidents as a percentage of hours worked



BUSINESS REVIEW GOVERNANCE FINANCIAL STATEMENTS NOTICE OF MEETING

Our 'think safe... be safe!' campaign has raised awareness of safety across the Group.

Severnside Recycling collects used paper packaging from industrial and commercial sources.

performance and highlight areas for improvement. Investigations are carried out of all accidents and situations that might have resulted in accidents to ensure that we learn from these incidents and prevent recurrence. Our businesses undertake extensive programmes of training on safety matters. In addition to focusing on the most significant specific risks for their operations, and the techniques of risk assessment and root cause analysis, these programmes also aim more broadly to change unsafe attitudes and behaviour.

ENVIRONMENT

Protecting the environment is an important feature of DS Smith's business. We continually seek to reduce the impact of our own operations on the environment and to contribute to reducing energy usage, greenhouse gas emissions and waste throughout our supply chains. The Group's leading UK position in recycling of paper and packaging makes a major contribution to conserving resources and reducing landfill waste. Our Packaging products are made from recycled raw materials wherever it is practicable and our Packaging businesses use their expertise in packaging design to assist customers and retailers in optimising the use of resources and reducing waste in their supply chains. In corrugated packaging, which is fully recyclable, we are at the forefront of the trend to use lightweight paper to lower the weight of packaging used. Spicers offers its customers an increasingly large selection of products which are made from recycled materials, are recyclable or have other environmentally beneficial features. We continue to carry out work to evaluate not only the carbon footprint of our own packaging products but to understand better the role of our packaging in the total life cycle of the product for which it is used.

Recycling

The Group's operations make a major contribution to the corrugated packaging recycling process. In the UK, Severnside Recycling is the largest collector of waste paper and an increasingly significant collector of plastic and other materials for recycling. It sources waste paper and other recoverable materials from major supermarkets, other retailers and industrial operations and is providing the waste collection services for Tesco plc's front-of-store automated recycling centres which are being located at an increasing number of its stores. Severnside's growth into the integrated recycling and waste management market has been further underlined by a contract with Marks & Spencer plc, in line with its Plan A principles, to deliver waste and recycling services across their retail and distribution network.

All of the paper produced by the Group is made from recycled waste paper. St Regis is the UK's leading recycler of packaging waste and largest producer of recycled paper, while DS Smith Kaysersberg is a significant recycler of waste paper in France; in total the Group recycled 1.4 million tonnes of paper in 2008/09. 77% of the paper used by the Group's corrugated packaging operations in 2008/09 was 100% recycled paper. The remainder was made from virgin wood pulp, sourced from producers who obtain their wood pulp from sustainable forestry sources, and is required by certain customers for its particular strength and appearance characteristics.

A key benefit of paper recycling is that there are carbon savings from diverting waste paper from landfill. A recent study by the UK's Waste & Resources Action Programme (WRAP) concluded that recycling one tonne of paper rather than sending it to landfill avoids the equivalent of 1.4 tonnes of carbon dioxide emissions.

The Group's paper collection and recycling operations play an important role in meeting the EU and UK government objectives for the recycling of packaging waste, as prescribed in the EU Packaging and Packaging Waste Directive and the UK Packaging Waste Regulations. Under the Directive, the UK is required to recycle at least 60% of all paper packaging; it is well ahead of this target, with 80% of paper packaging being recycled in 2008, and DS Smith is the largest contributor to this reprocessing.

Packaging and the environment

The conservation of resources and the lowering of the amount of waste being disposed of in landfill are important aspects of caring for our environment. As a result of this, there is increasing pressure from society and government to reduce the overall quantity of packaging in use and to increase the proportion of packaging that is recycled. The Group recognises its responsibility to contribute to the conservation of resources and we are fulfilling this responsibility through both the provision of packaging products which enable our customers to meet their environmental objectives and the development of our recycling services.

Although packaging receives a lot of attention in the media, it plays an important part in making modern lifestyles possible and its significance should be seen in perspective. Packaging is just one, often relatively minor, aspect of the total environmental impact of a product; ten times more energy goes into the production of the food and goods that it contains than into the packaging itself. In the UK, packaging of all types accounts for less than 5% of total landfill waste and approximately 20% of household dustbin waste[1]; approximately 60% of the packaging of all types used in the UK is recycled[2].

Our packaging businesses work with their customers to develop packaging of the optimum specification for the required end-use. Most packaging performs the valuable functions of protecting products, reducing product wastage, enabling more efficient and lower-cost handling and transportation and, in many cases, contributes to lowering the environmental impact of the supply of goods. The choice of the most appropriate packaging material and pack design for a particular product depends upon a wide range of factors including the nature of the product itself, how the total supply chain for the product operates and the requirements of retailers and consumers.

Corrugated packaging, the Group's principal packaging product, is 100% recyclable and in the UK over 80% of all corrugated packaging is recycled[3]. Although corrugated packaging is not generally reused, it is a fully recyclable packaging material that is produced predominantly from recycled paper in what is essentially a loop system, which is described in more detail on page 15. Used corrugated boxes are recycled into paper; this paper is converted into boxes which are packed with goods; retailers or consumers discard the used boxes which are then collected for recycling and delivered to the paper mill to be turned into paper once again. Corrugated products are playing an increasingly important role in the pursuit of sustainable, environmentally-friendly packaging. The Group has been at the forefront of the trend to lower the weight of corrugated packaging used through the use of lightweight paper and improved box

1 Source: Industry Council for Packaging and the Environment (INCPEN)
2 Source: Department for Environment, Food and Rural Affairs (DEFRA)
3 Source: Confederation of Paper Industries (CPI)

design. DS Smith Packaging's suite of PackRight tools enables the analysis of all the factors relating to a particular pack to ensure that it is fit for purpose, makes the supply chain efficient and reduces environmental impact. In many instances our design and technical expertise enables the customer to reduce the weight of raw materials used in a pack as well as to pack the goods more efficiently; this reduces transport costs and thereby the carbon emissions per unit.

In circumstances where packaging is designed to be reused many times, plastic returnable transit packaging may be required by customers if the packaging can be readily recovered, transported and cleaned for reuse. Plastic bag-in-box packaging is increasingly being used to contain liquids in bulk as well as for consumer use. It has significant benefits for storing and transporting beverages and other liquids hygienically and securely, and can substantially extend the storage life of products, thus reducing product wastage. Bag-in-box packs are, in many instances, environmentally superior to alternative packaging formats; they use space efficiently and are relatively lightweight compared with bottles or drums so they may reduce the overall energy usage in the supply chain because they can be transported and stored more efficiently.

Our Packaging businesses continue to carry out work to evaluate the carbon footprint of their products. This work is enabling us to collaborate with other companies in our supply chain on analyses of the total environmental impact of products that use our packaging. DS Smith Packaging and Severnside Recycling are working together to help large supermarket chains and other businesses to reduce the amount of waste they send to landfill and improve their environmental performance with regard to packaging.

Environmental management and regulation

The environmental performance and activities of the divisions are reviewed at the Group Environment Committee, which meets three times a year and is chaired by the Group Chief Executive. Under the terms of the Group's Environment Policy, which may be viewed on the Group's website, each of our sites is required to implement an environmental management system (EMS) which is appropriate to its activity. Of our total operations, 37 have been identified as having higher potential environmental impact, due to their size or type of activity; 36 of these are accredited under the internationally recognised ISO 14001 EMS standard and the one remaining operation is in the process of working towards this standard. The Group's other 46 operations, which are required to have in place a simplified EMS, appropriate to their lower level of potential environmental impact, review and improve these systems regularly, often with the assistance of external auditors. As part of their EMS, many Group businesses have procedures in place for assessing their suppliers' environmental policies and management systems, as appropriate.

Bales of waste paper are taken into the new stock preparation plant at Kemsley Mill.

Severnside is also a major collector of plastic waste for recycling.

The Group had a number of minor environmental incidents during the year, following which prompt corrective action and steps to prevent any recurrence were taken and, where necessary, the appropriate agencies were informed. The Environment Agency has brought a case against St Regis Paper Company Ltd in relation to alleged breaches of Higher Kings Mill's Pollution Prevention and Control (PPC) permit that occurred between December 2005 and March 2008. The charges primarily relate to the training of staff, record keeping and the operation of the plant; an independent investigation has indicated that these breaches did not result in any significant environmental impact. The circumstances surrounding all environmental incidents are investigated immediately and, when appropriate, the findings and lessons learnt are communicated throughout the Group as part of our drive to reduce such incidents.

The Group's paper manufacturing operations account for over 80% of the Group's environmental impact, particularly because their manufacturing process uses large quantities of energy and water. The UK paper mills are regulated through PPC permits under which they each have specific improvement programmes and targets. St Regis' overall compliance with its environmental permits fell to 94% in 2008/09 (2007/08: 98%) principally due to lower performance of the effluent treatment plant at Higher Kings Mill. Management actions taken have already improved compliance significantly at the site with further improvements expected in 2009/10. St Regis is a key participant in the UK paper sector Climate Change Levy (CCL) Agreement with the Department of Environment, Food and Rural Affairs under which the industry has undertaken to achieve energy consumption reduction targets. St Regis met its target for the year to September 2008 and is on course to meet its next target for the year to September 2009.

The Group's UK and French paper operations are subject to the terms of their respective national schemes for implementing the EU Emissions Trading Directive. We expect the Group's emissions to be slightly below our emissions allocations during EU ETS Phase 2. The effects of subsequent phases from 2013 onwards are likely to be more onerous, being dependent upon the details of the emissions allocations and the market price of carbon under future phases of the scheme.

St Regis' Kemsley and Wansbrough Mills have obtained certification under the Forest Stewardship Council's chain of custody standard. Although initially set up to provide assurance that forestry products use material that comes from responsibly managed sources, this standard has been extended to include products such as recycled paper which are made from recovered raw materials.

Environmental performance

Our businesses continue to take action and invest in order to reduce their environmental impact. During the year, we employed independent consultants, Bureau Veritas, to review our environmental data collection and reporting process in order to ensure the robustness and accuracy of the Group's environmental performance indicators. This review concluded that overall there was a good level of process control and reporting at the sites but identified some areas for improvement, particularly in relation to the conversion factors being used for converting energy usage into carbon emissions. The recommendations of Bureau Veritas have been implemented. As a consequence of this, and the inclusion of data for New Thames Mill, acquired in February 2008, some of the data reported for 2007/08 has been restated so that it is comparable with the data for 2008/09. The Group's overall environmental performance in 2008/09 is shown in the table on page 34. A fuller report on our environmental performance is available in the Corporate Responsibility section of our website.

CORPORATE RESPONSIBILITY REVIEW CONTINUED

ENVIRONMENTAL PERFORMANCE INDICATORS[1]

	2008/09	2007/08
Energy consumption[2]		
Gigawatt hours	**3,247**	3,606
Megawatt hours/£'000 revenue	**1.54**	1.73
Carbon dioxide (CO_2) emissions[3]		
Scope 1 (direct) emissions – '000 tonnes	**274**	318
Scope 2 (indirect) emissions – '000 tonnes	**653**	689
Total Scopes 1 and 2 emissions – '000 tonnes	**927**	1,007
Kilograms/£'000 revenue	**440**	484
Water usage		
Million cubic metres	**11.4**	12.3
'000 cubic metres/£'000 revenue	**5.4**	5.9
Waste management[4]		
Waste recycled – '000 tonnes	**135**	167
Waste sent to landspread – '000 tonnes	**130**	117
Waste-to-energy – '000 tonnes	**102**	119
Waste sent to landfill – '000 tonnes	**71**	63
Total waste generated – '000 tonnes	**438**	466
Kilograms/£'000 revenue	**208**	224
% of total waste sent to landfill	**16%**	13%

Methodology: The Group aims to collect and report its environmental data in accordance with the guidelines specified by the Global Reporting Initiative and the Greenhouse Gas Protocol (GHGP), to the extent that this is currently practicable. The figures reported above include data from all of the Group's wholly-owned or majority-owned operations and sites worldwide. The methodology used is consistent for 2007/08 and 2008/09.

1 The Group's data for 2007/08 has been restated from that reported in the 2008 Annual Report. The restatement is due to: a) the inclusion of data for New Thames Mill which was acquired in February 2008 and was not included in the previously published 2007/08 data but has now been included for the full year 2007/08, b) recalculated figures for CO_2 emissions using the latest available national factors for converting electricity usage to CO_2 emissions, and c) the provision of additional detail in the waste data.

2 The energy figures relate to the usage of gas, electricity, coal, fuel oil, LPG and steam used on the Group's sites, and diesel fuel for freight transport used in the Group's own vehicles.

3 The CO_2 emissions have been calculated using the energy data, as defined above. The energy data has been converted into CO_2 emissions using the same conversion factors for both 2007/08 and 2008/09. The factors used for converting gas, coal, fuel oil and diesel usage into CO_2 emissions are as published by the UK Department for the Environment, Food and Rural Affairs (DEFRA) in the 2008 Guidelines to DEFRA's GHG Conversion Factors. The factors used for converting electricity usage are the national figures for each country in which the Group operates sourced from the International Energy Agency Data Services via the UK Carbon Trust; these factors therefore reflect the mix of fuels used for electricity generation in each country. As required by the GHGP, Scope 1 and Scope 2 CO_2 emissions are reported separately. Scope 1 (direct) emissions are those arising from combustion of fuel in installations or vehicles owned by the Group; Scope 2 (indirect) emissions are those arising from bought-in energy (i.e. electricity or steam) where the combustion has been carried out by another company. The 2008/09 Scope 1 emissions included 60,000 tonnes (2007/08: 69,000 tonnes) of CO_2 which were associated with the production of electricity which was sold to the grid from one of our CHP plants. Scope 3 emissions from sources external to DS Smith but involved in the supply chains for the Group's products and services are not included.

4 The waste figures relate to waste generated by our operations; they do not include waste that is collected from external sources for recycling within our paper and plastic packaging operations. The data on waste identifies separately: a) the amount of waste that is conventionally recycled in the manufacture of other products, b) the quantity of waste cellulose fibre, generated in the paper-making operations, which is recycled through agricultural use as landspread, c) the quantity of waste that is used for energy recovery at our waste-to-energy plant, and d) the waste that goes to landfill.

VERIFICATION STATEMENT FROM BUREAU VERITAS UK LTD

We have worked with DS Smith Plc to provide an independent opinion on the Environmental Performance Indicators presented on this page of DS Smith's 2009 Annual Report. Having completed a process incorporating site visits, document review and interrogation of associated management and reporting systems, it is our opinion that the presented performance indicators provide a fair and accurate representation of DS Smith Plc's performance.

DS Smith Plc should be commended on their approach to performance indicator data collection, which is consistent across the divisions with a clear understanding of the processes demonstrated by both divisional and site managers. It is clear that DS Smith Plc is constantly looking to improve these processes; both via internal mechanisms, and as demonstrated in the proactive manner in which the Company engaged Bureau Veritas on this project.

Bureau Veritas encourages DS Smith Plc to continue to improve performance indicator data collection by extending the capture of environmental data at all of its operations and to utilise the available information to determine a set of targets to drive environmental improvement at a Group level.

A full verification statement including our methodology, basis for our opinion, additional recommendations, limitations and a statement of Bureau Veritas independence can be found on the DS Smith Plc website (www.dssmith.uk.com/pages/CorporateResponsibility.asp).

June 2009
Bureau Veritas UK Ltd
London

The Group consumed 10% less energy in 2008/09 compared with the previous year. This reduction was principally due to lower activity levels across the Group but also reflected improved energy efficiency at some of our businesses. The Group's lower energy usage in 2008/09 resulted in an 8% reduction in total emissions of CO_2. The Group's total water usage was 8% lower than in 2007/08. Although we reduced the total amount of waste generated by our businesses by 6%, the proportion sent to landfill increased slightly to 16%; this was principally due to higher levels of waste being produced at Kemsley Mill, partly associated with the start-up of the converted paper machine at New Thames Mill, which could not be processed in the waste-to-energy plant.

Energy efficiency

Our two largest paper mills, at Kemsley in the UK and Kaysersberg in France, which account for approximately 65% of the Group's energy usage, have on-site combined heat and power (CHP) plants. These CHP facilities provide energy more efficiently, with lower CO_2 emissions and at significantly lower cost than if it were to be sourced from the external grid. In addition, Kemsley Mill recycles, in the form of energy recovery, a substantial proportion of the reject material, such as plastic and polystyrene, which enters its process mixed in with the waste paper and is separated out during paper manufacture; the mill's own waste-to-energy plant efficiently recovers the energy to produce steam for use in the mill's operations. We are investigating the potential for installing a sustainable energy plant at Kemsley Mill to reduce the mill's reliance on fossil fuels. The proposed fuel for this plant is hard-to-recycle materials, sourced and pre-treated offsite, which might otherwise go to landfill.

DS Smith Packaging, which in 2008 became the first UK corrugated packaging producer to be accredited under the UK's Energy Efficiency Accreditation Scheme, lowered its energy usage per square metre sold by 2% in 2008/09 through its division-wide energy management system and a wide range of energy reduction projects. Both DS Smith Packaging and DS Smith Kaysersberg have achieved substantial improvements in their energy efficiency through programmes of process improvements on their corrugator machines.

EMPLOYEES

We aim to create a working environment which will attract, retain and motivate good people, and enable them to fulfil their potential. The Group ensures that the divisions have in place appropriate structures, procedures and resources to implement the employee-related aspects of the Group's Key Corporate Values, which include: providing fair opportunities for employment to all; treating everyone with dignity and respect; not tolerating any form of harassment or discrimination; ensuring advancement is based on merit; and providing appropriate training and development opportunities. Our businesses carry out training and implement various initiatives aimed at reinforcing our values and policies in this area.

Box design can contribute to reducing environmental impact by minimising waste and increasing the efficiency of transportation.

Spicers' range includes many environmentally beneficial products which are promoted in 'Green' catalogues.

The Group is committed to applying equal opportunities in all recruitment and employment practices. It is also committed, as a minimum, to meeting the labour rights and legislation requirements in each of the countries in which it operates; in practice the Group often exceeds the local and international requirements. As DS Smith's operations are almost entirely located in member countries of the OECD, human rights matters are not perceived as a significant Group risk.

The annual turnover rate in the Group's workforce worldwide of circa 10% compares favourably with the UK national average of circa 17%[4]. Recruitment and retention of employees is not a significant issue for most of the Group's operations but the situation varies depending upon the alternative employment opportunities in any particular location and the skills required.

Our divisions and businesses communicate with, and consult, their people through newsletters, intranets, briefing meetings, local works councils, national employee forums and a European Works Council. Many of our businesses have increased the level of internal communications in light of the present difficult economic environment to ensure that employees are aware of the business's plans and objectives. Employee surveys have been carried out in a number of parts of the Group. Generally the results of these have been positive; action has been taken to address any particular issues that have been highlighted.

Training and development programmes are carried out by the Group's businesses to meet their specific needs for raising operational performance and career development. The individual training and development needs of employees are met through a variety of schemes including: management development programmes, which in some cases involve external accreditation; support for study for external vocational and professional qualifications; and schemes for coaching and mentoring managers, using external and internal resources.

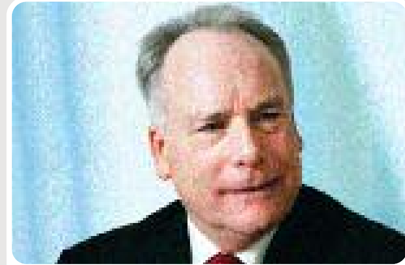
COMMUNITY INVOLVEMENT

We seek to develop and maintain good relations in the local communities in which we operate; this is particularly important as in many of the locations where we operate we are one of the largest employers. As well as providing significant employment opportunities, we aim to make positive contributions to our communities and build a reputation as a good neighbour and employer. Our businesses work closely with local schools and colleges providing training, mentoring, work experience placements and other opportunities for pupils to learn about industry and business. The Group is involved in a wide range of other local community activities including sponsorship of community projects or sports teams and provision of adult skills training. Our businesses participate in liaison groups with local residents, particularly at locations where there is a need to review ways in which we can reduce any inconvenience to neighbours from our operations as a result of traffic movements, odour or noise. Some sites hold open days to foster relationships with their local communities. The Group supports charitable fund-raising activities through cash contributions and in the form of products and services or staff time. The majority of the modest amount of money donated by the Group is given by individual operating units, principally to good causes in their local communities. Donations by the Group headquarters are principally focused on helping young disadvantaged people become involved in business and working life.

4 Source: Chartered Institute of Personnel and Development

DIRECTORS AND COMPANY SECRETARY

PETER JOHNSON[+]
Chairman
Appointed to the Board on 8 December 1999 as a Non-Executive Director. He became Chairman of the Board on 1 January 2007 and is Chairman of the Nomination Committee. He is a Member of the Supervisory Board of Wienerberger AG and was appointed as a Non-Executive Director of SSL International plc with effect from 1 October 2008. He was previously Chief Executive of George Wimpey Plc and prior to that Chief Executive of The Rugby Group PLC. Age 61.



TONY THORNE[§+]
Group Chief Executive
Appointed to the Board on 1 January 2001 as Chief Operating Officer and became Group Chief Executive on 5 December 2001. He was previously President of SCA Packaging's Corrugated Business Division and prior to that held senior management positions in Shell. Age 58.

STEVE DRYDEN[§]
Group Finance Director
Appointed to the Board on 1 April 2008 as Group Finance Director. He was appointed a Non-Executive Director of Fiberweb plc with effect from 1 June 2009. He previously held the position of Finance Director of Filtrona plc following its demerger from Bunzl plc in 2005. Prior to that he was divisional Finance Director of the Filtrona businesses and held other senior finance positions within Bunzl plc. He began his career at Price Waterhouse and has also held various finance roles within Rolls-Royce plc. Age 41.

BOB BEESTON[†+*#]
Appointed to the Board on 5 December 2000 as a Non-Executive Director. He is Chairman of the Remuneration Committee and is the Senior Independent Director. He is also Chairman of Cookson Group plc and Elementis plc and was previously Chief Executive of FKI plc. Age 67.

CHRISTOPHER BUNKER†+*#
Appointed to the Board on 9 December 2003 as a Non-Executive Director and is Chairman of the Audit Committee. He was previously Group Finance Director of Thames Water Plc, Tarmac Plc and Westland Group Plc. He is a Non-Executive Director of Travis Perkins plc and was a Non-Executive Director of Mowlem Plc, Baltimore Technologies plc and Xansa plc. Age 62.

RICHARD MARTON†+*#
Appointed to the Board on 13 March 2000 as a Non-Executive Director. He was previously Chief Executive and then a Non-Executive Director of Britax International plc. Age 68.

PHILIPPE MELLIER†*
Appointed to the Board on 7 September 2006 as a Non-Executive Director. He is currently President of Alstom Transport and an Executive Vice-President of Alstom Group. Previously, he was Chairman and CEO of Renault Trucks and a Member of the Executive Committee of AB Volvo, and prior to that held senior management positions with Renault S.A. and Ford Motor Company. Age 53.

CAROLYN CATTERMOLE
Appointed Company Secretary on 20 November 2000. She was previously Company Secretary of Courtaulds Textiles plc and prior to that was a senior legal adviser with Courtaulds plc, having qualified as a solicitor with Norton Rose. Age 48.

† Non-Executive Director
§ Member of General Purposes Committee
+ Member of Nomination Committee
* Member of Remuneration Committee
# Member of Audit Committee

CORPORATE GOVERNANCE

The Company is committed to the principle and application of sound corporate governance.

The Company has complied throughout the financial year with all the provisions of the Code of Best Practice set out in Section 1 of the FRC Combined Code on Corporate Governance issued in June 2006. The Board has an ongoing review of its corporate governance policy. Further explanation of how the principles and supporting principles have been applied is set out below and in the Directors' Remuneration Report. The Company's Auditors have reviewed the compliance with those provisions of the Combined Code specified for their review.

BOARD AND BOARD COMMITTEES

The role of the Board

The Board is collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. The Board's role is to provide leadership of the Company within a framework of prudent and effective controls which enable risk to be assessed and managed.

The Board sets the Company's strategic aims, ensures that the necessary financial and human resources are in place for the Company to meet its objectives, and reviews management performance.

In addition, the Board sets the Company's values and standards and ensures that its obligations to its shareholders and others are understood and met.

The Board currently comprises the Chairman, two Executive and four Non-Executive Directors. The offices of Chairman and Group Chief Executive are held separately. Mr R G Beeston is the Senior Independent Director. As referred to in the Chairman's Statement on page 6, Mr G M B Adams became Chief Executive of Spicers, the Group's Office Products Wholesaling division, with effect from 16 June 2009. As a result of this appointment he resigned as a Non-Executive Director on 26 May 2009. As previously announced, Mr J C Nicholls will join the Board with effect from 1 December 2009 and Mr R E C Marton will retire from the Board on 31 August 2009, having served nine years as a Non-Executive Director. During the year, each of the Non-Executive Directors has at all times acted independently of management and has no relationships which would materially interfere with the exercise of their independent judgement and decision making.

The Board meets a minimum of eight times per year. During the year under review it met eight times. All Board members attend all Board and relevant Committee meetings unless exceptional circumstances prevent them from attending. During the year, Mr Marton did not attend the Board meeting or the Remuneration Committee meeting held in May 2008. There were no other absences from any Board or Committee meetings by any Director. In addition to formal Board meetings, the Chairman and Group Chief Executive maintain regular contact with all Directors and hold informal meetings with Non-Executive Directors to discuss issues affecting the Company. Once a year the Board visits a business unit and receives a presentation from local management. Individual Directors are encouraged to make additional site visits during the year. The Board continually reviews the performance of all of the divisions and undertakes a strategic review on an annual basis. There is a formal schedule of matters reserved for consideration and approval for the Board. These include the annual Plan, substantial acquisitions and disposals, the approval of the full-year and half-year results and a review of the overall system of internal control and risk management.

The Board and its Committees, as detailed below, receive timely information of a quality that enables them to carry out their roles effectively. All Directors have access to the advice and services of the Company Secretary. A procedure is in place for any Director to take independent professional advice in the furtherance of his duties at the Company's expense. No such advice was sought by any Director during the year. The Directors are provided with opportunities for training to ensure that they are kept up-to-date on relevant new legislation and changing commercial risks. On appointment, new Directors are given appropriate induction training, including site visits to major business units.

During the year, the Board carried out a comprehensive appraisal which was led by the Chairman and the Senior Independent Director with the assistance of an independent third party. The Board used external support for the review process to give a degree of independence to the process. The Board concluded that the review process showed that the Board and its Committees operated effectively. The review resulted in an action plan aimed at further enhancing the effectiveness of the Board. The review comprised feedback from a questionnaire and individual discussions. All Directors and the Company Secretary participated in the exercise. The appraisal included the performance of Board Committees, although a separate and more detailed appraisal of the Audit Committee was also carried out during the year. In addition, the Senior Independent Director conducted a review of the performance of the Chairman which concluded that the Chairman had led the Board effectively. The Non-Executive Directors met separately in April to give them the opportunity to discuss any matters they wished to raise in the absence of the Chairman.

Board Committees

The principal Committees of the Board are the Audit, Remuneration and Nomination Committees. The Audit and Remuneration Committees comprise independent Non-Executive Directors. The Nomination Committee comprises a majority of independent Non-Executive Directors. All Board Committees have written terms of reference agreed by the Board. These are available on the Company's website at www.dssmith.uk.com/pages/CorporateGovernance.asp or are available on request to the Company Secretary. The Audit Committee is chaired by Mr C J Bunker, the Remuneration Committee is chaired by Mr Beeston and the Nomination Committee is chaired by Mr P M Johnson. The membership of each Committee and the experience of its members can be seen on pages 36 and 37. The Board has used the criteria proposed by the National Association of Pension Funds for determining whether a Non-Executive Director is independent.

Audit Committee

In addition to the Committee members listed on pages 36 and 37, the Chairman, the Group Chief Executive, the Group Finance Director, the Head of Operational Audit and the Group Financial Controller attended parts of each meeting by invitation. Mr Adams ceased to be a member of the Committee when he resigned from the Board on 26 May 2009. The Board is satisfied that Mr Bunker has both current and relevant financial experience.

The terms of reference of the Audit Committee, which meets at least three times a year, include all the matters indicated by the Combined Code except the oversight of business risks which is the direct responsibility of the Board. The primary objective of the Audit Committee is to assist the Board in fulfilling its responsibilities relating to:

- the accounting principles, policies and practices adopted in the Group's accounts;
- external financial reporting and associated announcements;
- the appointment, independence, effectiveness and remuneration of the Group's Auditors;
- the resourcing, plans and effectiveness of the Group Operational Audit department;
- the adequacy and effectiveness of the financial control environment; and

- the Group's compliance with the Combined Code on Corporate Governance.

The Committee receives and reviews regular reports from the external Auditors, the Head of Operational Audit and the Group Finance Director.

The Committee meets with the external Auditors to determine annually their qualifications, expertise, resources, independence, objectivity, and effectiveness. The Audit Committee receives written confirmation from the external Auditors as to any relationships that might have a bearing on their independence, whether they consider themselves independent within the meaning of the UK regulatory and professional requirements, their quality control processes and ethical standards.

The Committee monitors compliance with the Board's policy in respect of services provided by, and fees paid to, auditors. Audit fees are negotiated with the Group Finance Director and approved by the Audit Committee. The policy on the supply of non-audit services by external auditors is as follows. The Group should not employ the Auditors to provide non-audit services where either the nature of the work or the extent of such services might impair the Auditors' independence or objectivity. The external Auditors are permitted to undertake some non-audit services, providing they have the skill, competence and integrity to carry out the work in the best interests of the Group, on, for example, advisory services and due diligence activities associated with potential acquisitions and disposals and major changes in accounting regulations. Non-audit services and fees are reported to the Audit Committee twice a year. For guidance, annual non-audit fees payable to the external Auditors should not exceed 75% of the annual Group audit fee without prior formal approval of the Committee: during 2008/09, non-audit fees were 10% of the annual Group audit fee. Approval for permitted non-audit services is sought as required by this Group policy which specifies that individual projects which would cost over £100,000 must be referred to the Chairman of the Committee for prior approval.

Deloitte LLP, a leading international audit partnership, was first appointed as Auditor to the Group companies in 2006 and its fees are regularly compared with peer companies by the Committee. There are no contractual restrictions on the Group with regard to its appointment. In accordance with professional standards, the partner responsible for the audit is changed every five years.

During the year, the Committee met on three occasions and there were no absences. On each of these occasions the Committee also met privately with both the external Auditors and the Head of Operational Audit. The Chairman of the Audit Committee also held separate private meetings during the year with the external Auditors, the Head of Operational Audit and the Group Finance Director.

At its meeting in June, the Committee reviewed the annual financial statements of the Company and received reports from Group Operational Audit on internal control matters and from the external Auditors on the conduct of their audit, their review of accounting policies, areas of judgement and the financial statements and their comments on statements concerning risk and internal control. A similar review was undertaken in December when the half-year results were considered. At these meetings and the meeting in April, the Committee dealt with the following particular matters:

- it reviewed the terms of reference of the Audit Committee and Group Operational Audit;
- at each meeting it received a report from the Head of Operational Audit covering, amongst other things, the work undertaken by the Group Operational Audit function and management responses to proposals made in the audit reports issued by the function during the year;
- it considered the effectiveness of systems for monitoring and reporting on risks faced by the Group;
- it carried out an appraisal of the effectiveness of the Audit Committee (as part of the Board evaluation process referred to on page 38), the external Auditors and Group Operational Audit, the results of which were reported to the Board. The Committee concluded that each area operated satisfactorily during the year; and
- it oversaw the continuing development and the operation of the Group's Workplace Malpractice Policy.

Nomination Committee

Mr Bunker became a member of the Committee in December 2008. The Nomination Committee considers the appointment of Directors, reviews succession planning at Board level and makes recommendations to the Board as a whole. A rigorous process is in place for the appointment of new Directors, involving the use of external recruitment consultants followed by meetings both with the Committee and then with the Board. The Committee met four times during the year and there were no absences.

Remuneration Committee

The Chairman and the Group Chief Executive attend these meetings by invitation, except when their remuneration is being discussed. The Remuneration Committee is responsible for determining the remuneration of the Executive Directors, the Chairman and the Company Secretary and for advising on the remuneration of senior management. The Remuneration Report is set out on pages 41 to 48. During the year, the Committee met four times. Mr Marton did not attend the meeting in May 2008, but otherwise there were no absences.

Other Board Committees

The Board has delegated certain powers, mainly of a routine nature, to the General Purposes Committee, which comprises the Group Chief Executive and the Group Finance Director under the chairmanship of the Group Chief Executive.

Conflicts of interest

At the Company's Annual General Meeting in 2008, the Company's Articles of Association were amended following implementation of the relevant provisions of the Companies Act 2006 to permit the Board of Directors to authorise a conflict of interest or potential conflict of interest notified by a Director provided that the Board considers this to be in the best interests of the Company.

Each of the Directors reviewed their individual positions prior to the implementation date for the new legislation of 1 October 2008. The Company has put procedures in place via the Company Secretary whereby the Directors can notify any future conflicts or potential conflicts of interest that may arise so that the Board can consider whether authorisation is appropriate.

RELATIONS WITH SHAREHOLDERS

The Company has a programme of regular meetings (which sometimes includes the Chairman and the Senior Independent Director), site visits and results briefings with its major institutional shareholders, which provides opportunities to discuss the progress of the business. The Board also receives feedback from major shareholders in the form of independently prepared reports. The Annual General Meeting is used as an opportunity to communicate with private shareholders, including a short presentation on the business and current trading position as well as an opportunity for questions from investors to the Chairman of the Board and the chairmen of the Audit and Remuneration Committees. Regular communication with shareholders also takes place through the full-year and half-year reports and via the Company's website www.dssmith.uk.com.

INTERNAL CONTROL

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. Such a system, however, can only be designed to manage rather than to eliminate risk and can therefore provide only reasonable and not absolute assurance against material misstatement or loss. In accordance with the Turnbull Committee guidance, the Company established the procedures necessary to ensure that there is an ongoing process for identifying, evaluating and managing the significant risks to the Group. These procedures have been in place for the whole of the financial year ended 30 April 2009 and up to the date of the approval of these financial statements and they are reviewed regularly. In April 2008 a Group Risks Committee was established, comprised of the Group Chief Executive, the Group Finance Director, the Group Human Resources Director, the Company Secretary, the Divisional Chief Executives and the Head of Operational Audit. This Committee meets at least four times a year to review the risks faced by the Group and the adequacy and suitability of the mitigation arrangements in place to manage those risks.

The Board determines the objectives and broad policies of the Group. It meets regularly and there is a schedule of matters which are required to be brought to it for decision. The Board has delegated to management the responsibility for establishing a system of internal control appropriate to the business environments in which the Group operates. Key elements of this system include:

- a set of Key Corporate Values which have been communicated to all employees;
- a clearly defined divisionalised organisation structure for monitoring the conduct and operations of individual business units;
- clear delegation of authority throughout the Group, starting with the matters reserved for the Board;
- a formal process for ensuring that key risks affecting all the Group's operations are identified and assessed on a regular basis, together with the controls in place to mitigate these risks. Risk consideration is embedded in decision-making processes. The most significant risks are periodically reported to the Board and considered by it;
- the preparation and review of comprehensive annual divisional and Group budgets and an annual review and approval by the Board of the corporate strategy;
- the monthly reporting of actual results and their review against budget, forecasts (including bank covenant headroom) and the previous year, with explanations obtained for all significant variances;
- clearly defined policies for capital expenditure and investment, including appropriate authorisation levels, with larger capital projects, acquisitions and disposals requiring Board approval;
- procedures manuals laying down common control procedures and policies to apply throughout the Group; and
- formal monthly meetings between the Group Chief Executive, the Group Finance Director and divisional management to discuss strategic, operational and financial issues.

The Group's Operational Audit function undertakes regular reviews of the Group's operations and their systems of internal control and internal financial control. The work of the function is overseen by the Audit Committee, which regularly reviews its plans and activities. The Directors can confirm that they have reviewed the effectiveness of the Group's system of internal control. This included a process of self-certification by senior divisional management in which they are asked to confirm that their divisions have complied with Group policies and procedures and to report any significant control weaknesses identified during the past year. It also involved reviewing the results of the work of the Group's Operational Audit function and the risk identification and management processes identified above.

GOING CONCERN

A review of the Group's business activities, together with the factors likely to affect its future development, performance and position are set out in pages 7 to 9 of the Chief Executive's review of the year. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are shown in the balance sheet, cash flow, the accompanying notes to the financial statements on pages 54 to 106 and in the Financial Review on pages 22 to 26. Further information concerning the Group's objectives, policies and process for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk can be found in the section covering risk management on pages 27 to 29.

Management's review of liquidity and the adherence to banking covenants takes into account the Group's budget and forecasts for the next two financial years. Furthermore, the forecasts have been subjected to a number of 'downside' and mitigation scenarios in order to evaluate the impact on liquidity and adherence to banking covenants if the Group's plans are not achieved. A summary of the outcome of this evaluation by management has been provided to, and discussed with, the Board of Directors.

In arriving at their opinion, the Directors have taken into account the risks and uncertainties which arise as a result of the current economic environment. These risks are described in the section covering risk management (pages 27 to 29). The planning assumptions and sensitivities of these risks are covered on pages 27 to 29. The principal risks and uncertainties which would have a direct impact on liquidity and banking covenants are summarised below:

– changes in the demand for, or pricing of, the Group's products and services as a result of general economic conditions or market-specific factors;
– volatility of pricing and availability of globally-traded raw materials;
– volatile and increasing energy prices;
– movements in foreign exchange rates and interest rates;
– the funding position of the Group's UK defined benefit pension scheme;
– the continuing availability of banking facilities, including compliance with borrowing covenants; and
– customer credit risk.

The Directors consider that the Group has the flexibility to react to changing market conditions. The action programme announced in December 2008 is described on pages 7 to 9, and management will take further actions, including additional restructuring, as may be appropriate to the changing circumstances.

The Board has considered the risks and uncertainties as summarised above and after making enquiries, including a review of recent performance, the Directors have formed a judgement at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

REMUNERATION REPORT

In accordance with section 439 of the Companies Act 2006, shareholders' approval of the Remuneration Report will be sought at the forthcoming Annual General Meeting ('AGM'). The Remuneration Report has been approved by the Board of Directors.

(A) COMPOSITION AND ROLE OF THE REMUNERATION COMMITTEE ('THE COMMITTEE')

The Committee consists entirely of independent Non-Executive Directors. The members of the Committee are Mr R G Beeston (Chairman), Mr C J Bunker, Mr R E C Marton and Mr P J-C Mellier. As mentioned in the Chairman's Statement on page 6, Mr Marton will be retiring from the Board on 31 August 2009. The members of the Committee have no personal financial interest, other than as shareholders of the Company, in the matters to be decided by the Committee, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in running the business.

The Committee operates under written terms of reference agreed by the Board which are available on the Company's website, www.dssmith.uk.com/downloads/RemunerationCommittee.pdf. The Committee is responsible for determining the remuneration of Executive Directors, the Chairman of the Company and the Company Secretary. It also considers the remuneration of senior executives reporting to the Group Chief Executive (taking into account recommendations from him).

(B) COMPLIANCE

The Board, in conjunction with the Committee, has taken the necessary steps to ensure that the Company complies with the provisions of the Combined Code, which relate to Directors' remuneration. Certain disclosures in this Report fall within the scope of matters for review by the Auditors.

(C) ADVISERS TO THE COMMITTEE

Hewitt New Bridge Street has been appointed by the Committee to provide advice on the remuneration of Executive Directors and other senior executives. Hewitt New Bridge Street also provides advice to the Company in connection with the operation of the Company's share-based incentive schemes. The Committee consults with the Chairman of the Company and with the Group Chief Executive, who may attend meetings of the Committee, although they are not involved in deciding their own remuneration. The Committee is assisted by the Company Secretary and the Group Human Resources Director, and also receives advice from Mercer Limited, the Actuary to the Company's pension scheme, in relation to Executive Directors' pensions. Hewitt New Bridge Street provided no other services to the Company during the year.

(D) GENERAL POLICY ON REMUNERATION

The Committee's overall policy is to ensure that the remuneration packages enable the Company to attract, retain and motivate Executive Directors and other senior managers of sufficient calibre to meet the Company's needs. In addition, the remuneration packages are designed to align the interests of executives and shareholders and to link a significant proportion of executives' remuneration to performance. To achieve this, the Company operates cash and share-based incentive schemes which are linked to the achievement of short-term and long-term performance targets. As in previous years, the main elements of the remuneration policy in 2009/10 will be as follows:

- basic salary;
- pension provision;
- annual bonus scheme; and
- long-term incentives, comprising the Performance Share Plan.

Basic salaries and pension provision are not linked to performance (except when basic salaries are reviewed), whilst payments under the annual bonus scheme and any long-term incentive scheme operated by the Company are wholly dependent upon performance against agreed targets. Only basic salary is pensionable.

The Committee considered the operation of the annual bonus plan and the terms of the Performance Share Plan during 2008/09. After weighing the various factors (i.e. the outlook for the business over 2009/10, the reduction in the Company's share price over the last year and the need to ensure that the Executive Directors and other senior executives are appropriately incentivised to drive the business forward in these difficult times), and after discussing the matter with the ABI, RiskMetrics and some major investors, the Committee decided to make some changes to the annual bonus for 2009/10 and the Performance Share Plan award to be granted in 2009. The remuneration policy (including the changes referred to above) is described more fully in the remainder of this Report.

Variable performance-related remuneration for Executive Directors for 2009/10 will account for approximately 46% of total target remuneration (excluding pensions and benefits).

(E) BASIC SALARIES

The basic salaries of Executive Directors are reviewed annually on 1 August, in conjunction with other aspects of remuneration. The basic salary for each Executive Director is targeted at the rates of salary for similar roles within a selected group of UK businesses of similar size with substantial overseas operations. When determining the level of salary, the Committee takes into account market salary levels, the relative performance of the Group and of the individual Director, together with his experience in the particular job. The Committee also considers relevant information on the remuneration of other senior executives and the pay of employees elsewhere in the Group and, where appropriate, communicates its views on the levels of such remuneration to the Group Chief Executive. During its deliberations, the Committee has regard to salary levels in other countries where this is relevant for any non-UK based senior executive. The table of emoluments of the Directors is given on page 44. The current basic salaries of Mr A D Thorne and Mr S W Dryden are £551,200 and £330,000 respectively. These were fixed on 1 August 2008 and 1 April 2008 respectively.

The Remuneration Committee has decided that, in light of the current economic environment, the basic salaries for Executive Directors will not be increased in 2009. The same applies to the majority of other senior executives.

(F) ANNUAL BONUS

The Executive Directors participate in an annual bonus scheme which has been approved by the Committee. For the financial year 2008/09, the maximum bonus payable was 100% of basic salary for Mr Thorne and Mr Dryden. Under the scheme, the first 25% of salary worth of bonus is payable in cash, with the excess split equally between cash and deferred shares. The deferred shares vest three years after they are awarded and are held pursuant to the Deferred Share Bonus Plan. At that point, the Director receives the shares and a payment equal to the value of dividends payable on the vested shares during the deferral period.

If the Director ceases employment with the Group during the deferral period, he will lose his right to the shares unless he is a defined 'good leaver' or the Committee considers that vesting is appropriate in the circumstances. The shares will vest in the event of a change of control or voluntary winding-up.

The annual bonus payable to Mr Thorne and Mr Dryden for the financial year 2008/09 was 50% based on a profit before tax target with the other 50% based on a return on capital employed target both as determined by the Committee. The outcome of the results for the financial year 2008/09 means that no bonus is payable.

The Committee has considered the design of the annual bonus plan for 2009/10 and, taking account of the expected reduction in profits, the Committee decided that for 2009/10, the maximum bonus potential for Executive Directors will decrease from 100% to 75% of basic annual salary. The bonus will continue to be based on profit before tax and return on capital employed. As has been the practice in previous years, there will be a sliding scale around the target for the year. The target is considered demanding in the circumstances facing the Company and, recognising the expected fall in profits, the payment schedule will be much more demanding. In particular, there will be a significantly greater stretch above the target for full payment and a lower proportion of bonus potential will be paid at target and threshold.

In 2010, the Committee will review the maximum bonus potential for 2010/11 in light of the prevailing circumstances and, if considered appropriate, the maximum bonus potential will return to 100% of basic salary.

The annual bonus for the other most senior executives for 2008/09 was based on an appropriate combination of Group profit before tax and personal performance for centre-based senior executives. In the case of senior divisional executives, their bonus schemes are based on divisional profit and cash flow relating to the operating performance of the division in which they are employed. For 2009/10, the bonus maximum will not exceed 70% of basic salary and the bonus metrics will be similar.

The annual bonus schemes are not contractual and bonuses under the schemes are not eligible for inclusion in the calculation of the participating executives' pension scheme benefits.

(G) SHARE AWARDS

The Company operates a Performance Share Plan ('PSP') which was approved by shareholders in 2008. The individual grant limit under this Plan is 150% of basic salary per annum. In exceptional circumstances this may be increased to 200% of basic salary. During the financial year 2008/09, the Executive Directors received an award under the PSP of 150% of salary. The other most senior executives generally received a PSP award of 100% of basic salary.

For 2008 awards, the vesting criteria were as follows:

- The vesting of each award was split into thirds, based on the Company's Total Shareholder Return ('TSR') compared to the constituents of the FTSE 250 Industrial Goods and Services Supersector, average adjusted Earnings Per Share ('EPS') and average adjusted Return on Average Capital Employed ('ROACE').
- For those senior executives working in one of the four Business Segments, the three measures were TSR, average adjusted operating profit and average adjusted ROACE for the relevant segment.
- 25% of the TSR part vests if the Company is ranked median, rising so that 100% vests if the Company is ranked in the upper quartile. The threshold and upper targets for EPS were 16.5 pence and 19.0 pence and for ROACE were 11.5% and 12.5%.

Under the PSP, the Committee has the power to vary the metrics used each year and their relative weightings. It also has the power to review the specific targets for each award to ensure that they remain appropriate, but the new targets must be at least as challenging in the circumstances as the original targets were when they were set.

The Committee has given consideration to the terms of the 2009 PSP awards. The Committee is aware of the fall in the Company's share price so, recognising that management should be aligned with shareholders, proposes to reduce the 2009 award for Executive Directors to 100% of basic salary. Award levels will also be reduced in similar proportions for other senior managers.

Recognising that it is currently much more difficult to set three-year financial targets than a year ago, it proposes to alter the weighting of the measures. Accordingly, for 2009 awards, 80% of each award will be based on TSR relative to the constituents of the FTSE 250 Industrial Goods and Services Supersector, with 20% based on average adjusted ROACE. The Committee has set the ROACE targets taking into account the business outlook over the next three years. EPS will not be used this year because the lack of visibility made it impracticable to establish an appropriate set of targets. The targets will be as follows:

Percentage vesting as a proportion of that element of the award	Relative TSR[1] (80% of award)	Average adjusted ROACE[2] (20% of award)
100%	Upper quartile	11.5%
Between 25% and 100%	Between median and upper quartile	Between 10.3% and 11.5%
25%	Median	10.3%

1 The Industrial Goods and Services Supersector within the FTSE 250 currently contains over 50 companies and is considered to provide a better basis for comparison than the FTSE 250 as a whole. The Committee considers there are too few publicly quoted competitors to DS Smith to form a more bespoke group.

2 Average adjusted Group operating profit divided by the monthly average of capital employed in each year. The ROACE calculation will be based on the average ROACE for the forthcoming three financial years, commencing with the financial year starting immediately prior to the award.

For those senior executives working in one of the four Business Segments, the Committee considers that the performance conditions should reflect the relevant segment's performance. Therefore, for these senior executives the measures will be TSR and average adjusted ROACE for the relevant segment. The results for each segment are reported in the Annual Report.

The Committee considers that these targets are demanding in the circumstances and no less challenging in the circumstances than the targets set last year.

As was disclosed in last year's report, to facilitate his recruitment in 2008, Mr Dryden was granted a conditional share award over 143,404 shares as compensation for lost entitlements to deferred share bonus awards relating to his previous employer. This award was made under the Replacement Deferred Share Bonus Plan which was formed specifically for this purpose and was granted under Listing Rule 9.4.2R(2). Full details of this Plan, including details of the first vesting, are set out in section (R) below.

Senior executives are expected to retain in shares half of the after-tax gains on the vesting of long-term incentive plan awards (including share options) until they have built up a shareholding equal to 100% of basic salary in the case of Executive Directors and 50% of basic salary in the case of other senior executives.

The interests of the Directors in the share capital of the Company and awards made under the PSP (last award 2008), Long-Term Incentive Plan (last award 2007), Deferred Share Bonus Plan (last award 2008) and Replacement Deferred Share Bonus Plan (last award 2008) and details of options granted to date under the Executive Share Option Scheme (last grant 2007) are shown on pages 45 to 47.

(H) BENEFITS IN KIND

Mr Thorne has the provision of a company car, a driver and free fuel and receives supplementary life cover. Mr Dryden has the provision of a company car and free fuel. Mr Thorne and Mr Dryden both receive permanent health insurance and private medical cover. Mr Marton received £241 in excess of the statutory HMRC authorised mileage allowance payment.

(I) PENSIONS

Mr Thorne participates in a funded contributory defined benefit pension scheme with death in service cover. He has a normal pension age of 60 and his pension is based on an accrual rate of one-thirtieth with reference to basic salary less a deduction equal to the basic State pension. This is subject to a maximum pension of two-thirds of final pensionable pay.

Mr Thorne's benefits from the Registered Group Pension Scheme are subject to a Scheme-specific earnings cap (the 'Cap') (which was introduced on 6 April 2006 when the Government's simplification regulations came in and replaced the statutory earnings cap that had previously applied). The Company has given a promise to provide the balance of Mr Thorne's pension entitlement through a non-Registered unfunded arrangement. A charge over certain assets of the Company has been made as security against future pension payments pursuant to this pension arrangement on behalf of Mr Thorne. The total accumulated unfunded provision at 30 April 2009 is £5.8 million (2007/08: £5.9 million), £2.1 million of which relates to Mr Thorne.

Life cover of four times the Cap is provided under the Registered Group Pension Scheme on death in service in addition to a spouse's pension of two-thirds of the member's prospective pension plus dependants' benefits. Additional life cover of four times the excess of the Cap over basic salary is provided. The spouse's pension on death after retirement is two-thirds of the member's pension, before any reduction for early retirement or commutation of pension for cash.

Pensions in payment from the Registered Group Pension Scheme are increased annually in line with the increase in the UK Retail Prices Index, subject to a maximum guaranteed increase of 5% each year for pensionable service to May 2005, and 2.5% each year for service after May 2005, with the possibility of further discretionary increases. There is no allowance in the transfer value calculation basis for such discretionary increases or other discretionary benefits.

Mr Thorne contributes to the Registered Group Pension Scheme at the rate of 15% of the Cap.

Following the introduction of the UK Government's simplification regulations, the Principal Employer has agreed with the Trustee the changes to the Registered Group Pension Scheme rules in response to the legislation. Prior to the change in legislation, members of the Registered Group Pension Scheme had the option of paying Additional Voluntary Contributions (AVCs). Neither the contributions nor the resulting benefits are included in the table on page 48. As there is no longer a requirement for pension schemes to provide an AVC facility, the Scheme closed this facility to new AVC contributors on or after 1 June 2006. New AVCs can be facilitated via the Group's Saver Plus arrangement.

Mr Dryden participates in the Company's Registered Defined Contribution Scheme with death in service cover equal to four times basic salary. Members of this scheme are required to contribute a minimum of 3% of their basic salary to qualify for matching Company contributions, with higher levels of Company contributions payable (up to a maximum of 6%) if the members pay a higher contribution. Mr Dryden has elected to pay contributions at a level that qualifies for the maximum Company contribution. Mr Dryden also receives a cash supplement of £65,000 per annum. This payment is not pensionable and is not considered to be salary for the purpose of calculating any bonus payment.

(J) SERVICE CONTRACTS AND COMPENSATION

The Committee's general policy is that the notice periods for Executive Directors appointed in future will not exceed one year, although on appointment it may be necessary in exceptional cases to offer a longer initial period which reduces to one year or less after a specific date.

The service contract for Mr Thorne is dated 28 February 2001. It may be terminated by 12 months' notice by the Company, and by Mr Thorne. The Company may terminate the contract with immediate effect, in which case it must make a payment equating to 12 months' basic salary, plus an equal payment in respect of the loss of his contractual benefits.

The service contract for Mr Dryden is dated 1 April 2008. It may be terminated by 12 months' notice by the Company, and by Mr Dryden. The Company may terminate the contract with immediate effect by making a payment equal to 12 months' basic salary. Alternatively, the Company may make such payment in monthly instalments. These monthly payments will be reduced to take account of alternative employment or consultancy income during the 12-month period.

(K) POLICY ON EXTERNAL APPOINTMENTS

Executive Directors are allowed to accept external appointments as a Non-Executive Director of up to two other companies provided that these are not with competing companies and are not likely to lead to conflicts of interest. In normal circumstances, the Group Chief Executive may not accept more than one external appointment. Executive Directors are normally allowed to retain the fees paid from these appointments.

Mr Thorne has no external appointments. Mr Dryden was appointed as a Non-Executive Director of Fiberweb plc on 1 June 2009.

(L) FEES FOR NON-EXECUTIVE DIRECTORS AND THE CHAIRMAN

The remuneration for Non-Executive Directors consists of annual fees for their services as members of the Board and, where relevant, for their work on selected Committees. Non-Executive Directors have letters of appointment for a term of three years whereupon they are normally renewed but for no more than three terms in aggregate. Their respective dates of appointment are shown on pages 36 and 37.

The Chairman's remuneration consists of an annual fee for his service as Chairman of the Board and his letter of appointment is for a term of three years. His appointment may be terminated by three months' notice by the Company, and by the Chairman.

The current rates for the Chairman's and Non-Executive Directors' fees are as follows:

Chairman's and Non-Executive Directors' fees	Base fee £	Senior Independent Non-Executive Director fee £	Chairman of Audit Committee fee £	Chairman of Remuneration Committee fee £	Total £
P M Johnson	168,000	–	–	–	168,000
R G Beeston	45,000	2,500	–	7,500	55,000
C J Bunker	45,000	–	8,500	–	53,500
R E C Marton	44,700	–	–	–	44,700
P J-C Mellier	49,200	–	–	–	49,200

In line with the decision not to raise the salaries of the Executive Directors and other senior executives, it has also been decided that there will be no increase to the fees for the Non-Executive Directors or the Chairman in 2009.

Neither the Non-Executive Directors nor the Chairman is eligible for pension scheme membership and they do not participate in any of the Group's annual bonus, share option or other incentive arrangements.

(M) DIRECTORS' EMOLUMENTS (AUDITABLE)

	Salary/ fees £'000	Annual bonus £'000	Benefits £'000	Pension supplement £'000	**2009 total £'000**	2008 total £'000
Chairman P M Johnson	166	–	23	–	**189**	180
Group Chief Executive A D Thorne	546	Nil	19	–	**565**	1,023
Group Finance Director S W Dryden	330	Nil	27	65	**422**	62
Non-Executives						
G M B Adams	44	–	–	–	**44**	11
R G Beeston	54	–	–	–	**54**	52
C J Bunker	53	–	–	–	**53**	50
R E C Marton	44	–	–	–	**44**	42
P J-C Mellier	49	–	–	–	**49**	46
	1,286	–	69	65	**1,420**	1,466

Mr Dryden received an additional non-pensionable pension supplement payment during the year. The total emoluments of Mr Thorne for 2008/09 were £565,000 (2007/08: £847,000 excluding the deferred element of his bonus which is disclosed separately in (Q)). The total emoluments of Mr Dryden were £422,000 (2007/08: £62,000).

(N) DIRECTORS' INTERESTS UNDER THE PERFORMANCE SHARE PLAN (AUDITABLE)

Details of the Directors' interests in the Plan, which is described in more detail on page 42, are as follows:

Executive Directors	Interests under the Plan at 30 April 2008	Awards granted/ commitments made during year	Awards lapsed/ crystallised in year	Date of award	Market price on date of award (p)	Market price on date of vesting (p)	**Interests under the Plan at 30 April 2009**	Vesting date if performance conditions met
A D Thorne	–	619,325	–	17 Sep 08	133.5	–	**619,325**	17 Sep 11
S W Dryden	–	370,786	–	17 Sep 08	133.5	–	**370,786**	17 Sep 11

The vesting of each award granted in 2008 is split into equal thirds, based on the Company's TSR compared to the constituents of the FTSE 250 Industrial Goods and Services Supersector, average adjusted EPS and average ROACE. 25% of the TSR part vests if the Company is ranked median, rising until 100% vests if the Company is ranked in the upper quartile. The threshold (at which 25% vests) and maximum targets are 16.5p and 19.0p for EPS and 11.5% and 12.5% for ROACE.

(O) DIRECTORS' INTERESTS IN SHARE OPTIONS (AUDITABLE)

Following shareholder approval of the PSP in September 2008, the Executive Share Option Scheme ceased to be operated, the last award having been made in 2007. Directors' interests in share options over ordinary shares are as follows:

Name of Director	Options held at 30 April 2008	Options granted during the year	Options exercised during the year	Options lapsed during the year	**Options held at 30 April 2009**	Exercise price (p)	Dates from which exercisable	Expiry date
A D Thorne	243,979	–	–	–	**243,979**	135.23	26 Jul 05	25 Jul 12
	241,245	–	–	–	**241,245**	149.22	31 Jul 06	30 Jul 13
	207,500	–	–	–	**207,500**	159.00	2 Aug 08	1 Aug 15
	239,050	–	–	–	**239,050**	149.00	1 Aug 09	31 Jul 16
	155,600	–	–	–	**155,600**	240.00	31 Jul 10	30 Jul 17

All of the above options were granted for nil consideration. The market price of the ordinary shares at 30 April 2009 was 77.7p and the range during the year was 49.0p to 148.5p. Aggregate gains made by Directors on exercise of share options in the year were £nil (2007/08: £nil). All options will be exercisable from the dates stated above, subject to them satisfying the performance target. There is no retest facility for options granted since 2004. For these share options to become exercisable, the growth in the Company's normalised EPS must match or exceed the growth in the UK Retail Prices Index plus an average of 3% per annum over three years. During the transition to IFRS, the Committee has ensured that a consistent basis was used to measure earnings per share performance. Options granted in 2002, 2003 and 2005 became exercisable when they passed their respective performance conditions in 2008. Based on EPS performance to 30 April 2009, the options granted in 2006 will also become exercisable.

For this purpose, the EPS growth is based on adjusted EPS as disclosed in the Annual Report, except that the Committee may adjust this figure in exceptional circumstances where this is appropriate. The verification of the calculation of EPS growth has been performed by Hewitt New Bridge Street, in their capacity as advisers to the Committee.

(P) DIRECTORS' INTERESTS UNDER THE LONG-TERM INCENTIVE PLAN (AUDITABLE)

Following shareholder approval of the PSP in September 2008, the Long-Term Incentive Plan ('LTIP') ceased to be operated, the last award having been made in 2007. Details of the Directors' interests in the LTIP are as follows:

Executive Director	Interests under the Plan at 30 April 2008	Awards granted/ commitments made during year	Awards lapsed/ crystallised in year	Date of award	Market price on date of award (p)	Market price on date of vesting (p)	**Interests under the Plan at 30 April 2009**	Vesting date if performance conditions met
A D Thorne	210,191	–	210,191	28 Jul 05	157.0	–	**–**	28 Jul 08
	237,500	–	–	27 Jul 06	150.0	–	**237,500**	27 Jul 09
	156,768	–	–	26 Jul 07	238.2	–	**156,768**	26 Jul 10

The awards made under the LTIP will vest based on the Company's TSR (being the increase in the share price and the value of reinvested dividends) compared to the TSR of the constituents of the FTSE 250 Index (excluding investment trusts). If the Company's TSR is ranked at the upper quartile of the group or higher, the full award will vest reducing on a straight-line basis to 30% of the award vesting for median performance. None of the award vests for below median performance. TSR performance is measured over a single period of three financial years starting with the year in which the award is made.

In addition to the TSR condition, no awards will vest, irrespective of TSR performance, unless the Company's EPS growth matches or exceeds the growth in the Retail Prices Index over the three-year period. For this purpose, following the introduction of IFRS, the EPS growth will be based on adjusted EPS as disclosed in the Annual Report, except that the Committee may adjust this figure in exceptional circumstances where this is appropriate.

The calculation of TSR performance is performed by Hewitt New Bridge Street, in their capacity as advisers to the Committee.

The awards made under the LTIP in 2005 lapsed during the year as the performance conditions were not met. Based on TSR performance to 30 April 2009, the awards made under the LTIP in 2006 will also lapse.

(Q) DIRECTORS' INTERESTS UNDER THE DEFERRED SHARE BONUS PLAN (AUDITABLE)

Details of the Directors' interests in the Plan are as follows:

Executive Director	Interests under the Plan at 30 April 2008	Awards granted/ commitments made during year	Awards lapsed/ crystallised in year	Date of award	Market price on date of award (p)	Market price on date of vesting (p)	**Interests under the Plan at 30 April 2009**	Vesting date if performance conditions met
A D Thorne	69,473	–	–	26 Jul 07	238.7	–	**69,473**	26 Jul 10
	–	153,122	–	23 Jul 08	115.3	–	**153,122**	23 Jul 11

(R) DIRECTORS' INTERESTS UNDER THE REPLACEMENT DEFERRED SHARE BONUS PLAN (AUDITABLE)

Executive Director	Interests under the Plan at 30 April 2008	Awards granted/ commitments made during year	Awards lapsed/ crystallised in year	Date of award	Market price on date of award (p)	Market price on date of vesting (p)	**Interests under the Plan at 30 April 2009**	Vesting date if performance conditions met
S W Dryden	30,226	–	30,226	1 Apr 08	156.5	70.0	**–**	1 Mar 09
	38,504	–	–	1 Apr 08	156.5	–	**38,504**	1 Mar 10
	74,674	–	–	1 Apr 08	156.5	–	**74,674**	1 Mar 11

In recognition of the loss of his entitlement to deferred share bonus awards relating to his previous employment, Mr Dryden was made an award of 143,404 shares (which is neither pensionable nor transferable) on 1 April 2008, the date on which he joined DS Smith Plc. The Committee made this award, in exceptional circumstances, to facilitate the recruitment of Mr Dryden as the new Group Finance Director. The number of shares awarded was determined by reference to the value of the entitlement to shares he forfeited under his previous arrangements.

The first tranche vested on 1 March 2009 and were transferred to Mr Dryden on 2 March 2009 (being the first working day after vesting). At the same time, Mr Dryden sold 12,429 of the acquired shares at a price of 70.0p per share in order to pay the income tax, NIC and dealing expenses due following the vesting. In normal circumstances, the remaining shares will vest in two tranches, as shown in the table above, subject only to Mr Dryden's continued employment with the Company. These dates correspond to the dates when Mr Dryden's arrangements in his previous employment would have vested.

(S) DIRECTORS' INTERESTS IN SHARES

The beneficial interests of the Directors and their families in the ordinary shares of the Company were as shown below.

	30 April 2008		**30 April 2009**	
Name of Director	Beneficial	Non-beneficial	**Beneficial**	**Non-beneficial**
P M Johnson	230,000	–	**255,000**	**–**
A D Thorne	301,862	–	**331,862**	**–**
S W Dryden	–	–	**32,797**	**–**
G M B Adams	2,000	–	**2,000**	**–**
R G Beeston	50,000	–	**50,000**	**–**
C J Bunker	10,000	–	**10,000**	**–**
R E C Marton	100,000	–	**100,000**	**–**
P J-C Mellier	10,000	–	**10,000**	**–**

There have been no changes to the shareholdings set out above between the financial year-end and the date of the Report. It is currently intended that any ordinary shares required to fulfil entitlements under the Long-Term Incentive Plan, the Deferred Share Bonus Plan, the Replacement Deferred Share Bonus Plan and the Performance Share Plan will be provided by the David S Smith Group General Employee Benefit Trust (the 'Trust'), which buys shares on the market to do so. The Trust will also be used to fulfil certain entitlements under the Executive Share Option Scheme (along with new issue shares for other entitlements).

(T) DIRECTORS' PENSION ENTITLEMENTS (AUDITABLE)

Mr Thorne was a member of the defined benefit scheme provided by the Group during the year, with death in service cover. His pension entitlement and corresponding transfer values increased as follows:

Name of Director	Gross increase in accrued pension (1) £	Increase in accrued pension net of inflation (2) £	Total accrued pension at 30 April 2009 (3) £	Transfer value of net increase in accrual over period (net of Director's contribution) (4) £	Transfer value of accrued pension at 30 April 2009 (5) £	Transfer value of accrued pension at 30 April 2008 (6) £	Total change in value during period (net of Director's contribution) (7) £
A D Thorne	23,430	17,349	145,048	359,003	3,148,759	2,301,681	829,438

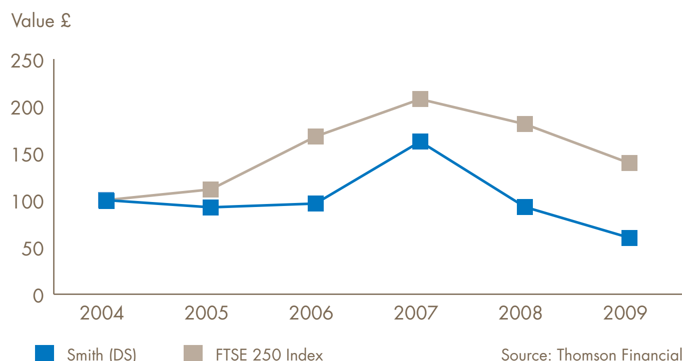
Pension accruals shown are the amounts which would be paid annually on retirement, based on service to the end of the year. Transfer values have been calculated in accordance with the Group Pension Scheme Trustee's method and assumptions for the calculation of Cash Equivalent Transfer Values and version 9.2 of guidance note GN11 issued by the actuarial profession. The value of net increase (4) represents the incremental value to the Director of his service during the year, calculated on the assumption that service terminated at the year-end. It is based on the accrued pension increase (2) after deducting the Director's contribution. The change in transfer value (7) includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and Directors, such as stock market movements. It is calculated after deducting the Director's contribution.

(U) TOTAL SHAREHOLDER RETURN PERFORMANCE

The following graph illustrates the Company's total shareholder return performance since 1 May 2004, in accordance with paragraph 4 of the Directors' Remuneration Report Regulations 2002, relative to the FTSE 250 Index.

The Company is a member of the FTSE 250 Index and, accordingly, this index is considered to be the most appropriate comparator group for this purpose.

TOTAL SHAREHOLDER RETURN



This graph looks at the value, by 30 April 2009, of £100 invested in Smith (DS) over the last five financial years compared with that of £100 invested in the FTSE Mid 250 Index. The other points plotted are the values at intervening financial year-ends.

On behalf of the Board

BOB BEESTON
Chairman of the Remuneration Committee
24 June 2009

DIRECTORS' REPORT

The Directors submit their Annual Report and the audited financial statements for the financial year ended 30 April 2009. The Directors' statement as to disclosure of information to auditors, as required by Section 418(2) of the Companies Act 2006, is on page 51.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as the holding company of a group, which, during 2008/09, was engaged in the supply of corrugated and plastic packaging and of paper, from recycled waste, and the wholesaling of office products. A full review of the activities during the financial year ended 30 April 2009 is set out on pages 1 to 35. The principal risks and uncertainties facing the Group are discussed on pages 27 to 29. A discussion of future developments and key performance indicators that management use is set out in the Business Review on page 11. The principal subsidiary undertakings are listed in note 32 on page 100.

The information that fulfils the requirements of the Business Review can be found in the Business Review on pages 1 to 35, which are incorporated in this report by reference.

CAUTIONARY STATEMENT

The purpose of the Annual Report is to provide information to the members of the Company and no-one else. The Annual Report contains certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.

RESULTS FOR THE YEAR

The financial results are shown on pages 54 to 106.

DIVIDENDS

An interim dividend of 2.6p net per ordinary share was paid on 3 March 2009 and the Directors recommend a final dividend of 1.8p net per ordinary share, making a total dividend to be paid for the year of 4.4p (2007/08: 8.8p) net per ordinary share. Subject to approval of shareholders at the Annual General Meeting to be held on 8 September 2009, the final dividend will be paid on 15 September 2009 to shareholders on the register at the close of business on 14 August 2009. The dividends per ordinary share stated above are those actually paid or to be paid.

SHARE CAPITAL

Details of the authorised and issued share capital and the rights and restrictions attached to the shares, together with details of movements in the Company's issued share capital during the year are shown in note 23. No shares pursuant to the Company's executive share option schemes were issued between 30 April 2009 and 24 June 2009 inclusive. The Company has not utilised its authority to make market purchases of shares granted to it at the 2008 Annual General Meeting but will be seeking to renew such authority at this year's Meeting.

SUBSTANTIAL SHAREHOLDERS

At 24 June 2009, the Company has been informed of the following notifiable interests in its issued ordinary share capital in accordance with the Disclosure and Transparency Rules of the Financial Services Authority:

	Ordinary shares held	%
Schroder Investment Management Ltd	73,138,604	18.59%
Standard Life Investments Ltd	24,771,975	6.30%
Sparinvest Holdings A/S	19,992,238	5.08%
AXA S.A.	16,561,204	4.21%
Legal & General Group plc	15,711,163	3.99%

ACQUISITIONS AND DISPOSALS

On 2 September 2008 the Group acquired the assets of Vale Paper Limited, a waste paper collection business in the UK for a consideration of £1.2 million. Further deferred consideration of £0.5 million is due 18 months after the acquisition subject to certain performance measures being achieved.

RESEARCH AND DEVELOPMENT

The Group recognises the importance of continuing to invest in research and development. It is Group policy to develop new product specifications commensurate with environmental needs and packaging solutions required by customers. Research is also conducted into ways to improve product quality and to find more cost-efficient methods of production and distribution. Research and development is conducted within divisional operations and expenditure is not significant.

DIRECTORS

The biographies of the present Directors are on pages 36 and 37. All the Directors served throughout the year. Mr G M B Adams became Chief Executive of Spicers, the Group's Office Products Wholesaling division, on 16 June 2009. As a result of this appointment he resigned as a Non-Executive Director on 26 May 2009. As previously announced, Mr J C Nicholls will join the Board with effect from 1 December 2009 and Mr R E C Marton will retire from the Board on 31 August 2009. Other than as previously disclosed in this Report and in respect of existing service agreements, no Director, either during or at the end of the financial year, has been materially interested in any significant contract or arrangement in relation to the Group's business.

In accordance with Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 the Directors disclose that the rules regarding the appointment and replacement of Directors are contained in the Company's Articles of Association ('Articles'), which may only be amended with shareholder approval in accordance with relevant legislation. The powers of the Directors are contained in the Company's Memorandum of Association and Articles. The Articles give the Directors powers, subject to relevant legislation, to authorise the issue and buy-back of the Company's shares by the Company, subject to authority being given to the Directors by shareholders in general meeting. The Company annually seeks the authority of shareholders to authorise the exercise by Directors of these powers.

RE-ELECTION OF DIRECTORS

The Articles require that all Directors who have either been appointed by the Board since the last Annual General Meeting, or for whom the forthcoming Annual General Meeting is the third Annual General Meeting since they were appointed or last re-appointed by the Company in general meeting, retire from office but they are eligible to submit themselves for re-election by the shareholders. The Director retiring by rotation at the Annual General Meeting on 8 September 2009 is Mr P M Johnson but being eligible, offers himself for re-election. Formal performance evaluation has confirmed that the individual performance of the Director offering himself for re-election has been effective and he has demonstrated commitment to the role.

DIRECTORS' INTERESTS IN SHARES

The interests of the Directors and their immediate families in the ordinary shares of 10p each of the Company, including options granted but not yet exercised under the Performance Share Plan, Long-Term Incentive Plan, Executive Share Option Scheme, Deferred Share Bonus Plan and Replacement Deferred Share Bonus Plan, were as shown in the tables on pages 45 to 47.

DIRECTORS' INDEMNITIES

The Company has entered into qualifying third-party indemnity arrangements for the benefit of its Directors in a form and scope which comply with the requirements of the Companies Act 2006.

EMPLOYEE INVOLVEMENT AND COMMUNICATIONS

The Group is committed to frequent and effective employee communications to promote the understanding and involvement of all its employees in the Group's business objectives and performance. Communications and personnel policies have been developed to reflect the philosophy of operating management. Information is regularly communicated by briefings and newsletters. The Group operates a European Works Council, with representatives drawn from across the entire workforce in the EU countries in which the Group operates. Meetings are held to provide an exchange of transnational information and consultation with employees. At each meeting, presentations are made on the Group's business strategy, financial results, health and safety and environmental performance. The Group also has a number of divisional national Consultation Forums which promote information exchange, consultation and representation between the Group and its workforce. Business decisions concerning capital investment, employment and training take into account the Group's public and local responsibilities. The Group supports the involvement of its operations in local community activities.

EQUAL OPPORTUNITIES

The Group is firmly committed to both the principle and realisation of equal opportunities in employment and its policies are designed to provide such equality irrespective of sex, creed, ethnic origin, nationality, sexual orientation, age or disability. Every possible step is taken to ensure that individuals are treated equally and fairly. The Group applies the same criteria to people with disabilities as it does to other employees. Where appropriate, facilities are adapted and retraining is offered to any employee who develops a disability during their employment.

PENSION FUND

The Group had, in the year under review, four UK pension arrangements: one defined benefit scheme (which is closed to new employees), one defined contribution scheme, one Group personal pension plan and a statutory Stakeholder arrangement. The defined contribution scheme was introduced for UK employees joining the Group on or after 1 May 2005. The investments of the assets of the defined benefit scheme are managed on a discretionary basis by AllianceBernstein Institutional Investment Management Limited, Legal & General Investment Management Limited, Majedie Asset Management Limited, Pacific Investment Management Company and Barclays Global Investors Limited. The defined contribution scheme is a trust-based arrangement offering members a range of investments with AXA Sun Life plc and other external investment fund managers as selected by the Scheme's trustees. The Group personal pension plan is a contract-based arrangement offering members a range of investments with Norwich Union Life and other external investment fund managers, and the Stakeholder arrangement is provided through Investment Solutions Limited. All such assets are held independently from the Group. The trustees of the defined benefit scheme and the defined contribution scheme send an Annual Report to all members of the respective schemes. The Trustee Company of the defined benefit scheme has an Investment Sub-Committee, established in line with the recommended guidelines of the Myners Report. Peter Murray of Allenbridge Investment Consultants is appointed as an independent adviser to the Investment Sub-Committee of the DS Smith Group Pension Scheme.

HEALTH AND SAFETY

The Group recognises its responsibilities and continues to promote all aspects of health and safety in the interests of its employees and members of the public. A Health and Safety Policy Statement has been approved by the Board.

SIGNIFICANT AGREEMENTS

The Company is required to disclose any significant agreements that take effect, alter or terminate on a change of control of the Company. The Company has a number of borrowing and related derivative facilities provided by various lenders. These facilities agreements generally include change of control provisions which, in the event of a change of ownership of the Company, could result in renegotiation or withdrawal of these facilities.

The significant agreements are as set out in note 19. On 3 March 2005, the Company, St Regis Paper Company Limited and BPB United Kingdom Limited (now part of the Saint-Gobain Group) ('Saint-Gobain') entered into a supply agreement for the manufacture and supply of plasterboard liner paper to Saint-Gobain. Saint-Gobain may terminate the agreement if there is a change of control in the Company.

There are a number of other agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid, such as commercial contracts and joint venture agreements. None is considered to be significant in terms of their potential impact on the business of the Group as a whole.

PAYMENT TO SUPPLIERS

Although the Company does not follow any formal code or standard on payment practice, the Company agrees terms and conditions in the UK with each supplier, which include terms of payment. The Company pays each supplier accordingly, subject to all the terms and conditions of the order being satisfied by such supplier. As DS Smith Plc is a holding company, whose principal business is to hold shares in Group companies, it has no trade creditors.

CHARITABLE AND POLITICAL DONATIONS

The Group contributed £78,000 (2007/08: £72,000) to charities in the UK. No payments were made to political parties. Donations were made by operating divisions to support their local communities. The Group also supported a number of other charities across a range of causes.

REGISTERED OFFICE

From the end of August 2009 the registered office of the Company will change from 4-16 Artillery Row, London SW1P 1RZ to Beech House, Whitebrook Park, 68 Lower Cookham Road, Maidenhead, Berkshire SL6 8XY.

ANNUAL GENERAL MEETING

The notice of the Annual General Meeting of the Company to be held on 8 September 2009, together with explanations of the Resolutions to be proposed, appears at the back of this Annual Report.

AUDITORS

Each Director confirms that:

(a) so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(b) he has taken all the steps he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Resolutions to re-appoint Deloitte LLP as auditors of the Company and to authorise the Directors to determine their remuneration will be put to the Annual General Meeting.

By Order of the Board

CAROLYN CATTERMOLE
Company Secretary
24 June 2009

DIRECTORS' RESPONSIBILITIES STATEMENT IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report, Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. The Directors are required by the IAS Regulation to prepare the Group financial statements under International Financial Reporting Standards (IFRSs) as adopted by the European Union. The Group financial statements are also required by law to be properly prepared in accordance with the Companies Act 2006 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors have elected to prepare the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the parent Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

(a) the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

(b) the management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

TONY THORNE
Group Chief Executive

STEVE DRYDEN
Group Finance Director

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DS SMITH PLC

We have audited the financial statements of DS Smith Plc for the year ended 30 April 2009 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related notes 1 to 33. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with sections 495, 496 and 497 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 April 2009 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Group, or returns adequate for our audit have not been received from branches not visited by us; or
- the Group financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement contained within Corporate Governance in relation to going concern; and
- the part of the Corporate Governance statement relating to the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review.

COLIN HUDSON B COM, FCA.
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
24 June 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 30 April 2009

	Note	**Before exceptional items 2009 £m**	**Exceptional items (note 4) 2009 £m**	**After exceptional items 2009 £m**	Before exceptional items 2008 £m	Exceptional items (note 4) 2008 £m	After exceptional items 2008 £m
Revenue	2	**2,106.6**	**–**	**2,106.6**	1,967.5	–	1,967.5
Cost of sales		**(1,604.4)**	**–**	**(1,604.4)**	(1,468.7)	–	(1,468.7)
Gross profit		**502.2**	**–**	**502.2**	498.8	–	498.8
Operating expenses	3	**(408.2)**	**(50.6)**	**(458.8)**	(379.2)	(1.9)	(381.1)
Operating profit	2,3	**94.0**	**(50.6)**	**43.4**	119.6	(1.9)	117.7
Finance income	5	**2.5**	**–**	**2.5**	3.3	–	3.3
Finance costs	5	**(26.1)**	**–**	**(26.1)**	(24.1)	–	(24.1)
Employment benefit net finance income	24	**1.5**	**–**	**1.5**	8.8	–	8.8
Net financing costs		**(22.1)**	**–**	**(22.1)**	(12.0)	–	(12.0)
Profit after financing costs		**71.9**	**(50.6)**	**21.3**	107.6	(1.9)	105.7
Share of profit/(loss) of associates	12	**0.6**	**(5.1)**	**(4.5)**	3.4	–	3.4
Profit before income tax		**72.5**	**(55.7)**	**16.8**	111.0	(1.9)	109.1
Income tax (expense)/credit	7	**(22.6)**	**(5.4)**	**(28.0)**	(31.6)	0.7	(30.9)
(Loss)/profit for the financial year	23	**49.9**	**(61.1)**	**(11.2)**	79.4	(1.2)	78.2
(Loss)/profit for the financial year attributable to:							
DS Smith Plc equity shareholders	23	**49.3**	**(61.1)**	**(11.8)**	77.8	(1.2)	76.6
Minority interest	23	**0.6**	**–**	**0.6**	1.6	–	1.6
Basic earnings per share (pence)	8	**12.6p**	**(15.6)**	**(3.0)p**	19.9p	(0.3)	19.6p
Diluted earnings per share (pence)	8	**12.6p**	**(15.6)**	**(3.0)p**	19.8p	(0.4)	19.4p
Dividend per share							
– interim, paid (pence)	9			**2.6p**			2.6p
– final, proposed (pence)	9			**1.8p**			6.2p

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the year ended 30 April 2009

	Note	2009 £m	2008 £m
Actuarial losses on defined benefit pension schemes	24	**(123.4)**	(73.0)
Movements on deferred tax relating to actuarial losses		**34.9**	21.4
Currency translation gains, including tax of £14.5m (2008: tax of £11.0m)		**0.7**	25.0
Cash flow hedges (losses)/gains, including tax of £3.9m (2008: tax of £(5.7)m)		**(10.3)**	14.5
Net expense recognised directly in equity		**(98.1)**	(12.1)
(Loss)/profit for the financial year	23	**(11.2)**	78.2
Total recognised income and expense attributable to equity shareholders and minority interest relating to the financial year		**(109.3)**	66.1
Total recognised income and expense relating to the financial year attributable to:			
DS Smith Plc equity shareholders		**(110.3)**	63.8
Minority interest		**1.0**	2.3

CONSOLIDATED BALANCE SHEET

As at 30 April 2009

	Note	2009 £m	2008 £m
Assets			
Non-current assets			
Intangible assets	10	**222.0**	215.2
Property, plant and equipment	11	**637.1**	607.1
Investments in associates	12	**0.3**	30.0
Other investments	13	**0.8**	1.5
Deferred tax assets	21	**73.2**	31.4
Other receivables	15	**0.9**	0.8
Derivative financial instruments	20	**13.7**	10.2
Total non-current assets		**948.0**	896.2
Current assets			
Inventories	14	**170.2**	187.7
Other investments	13	**0.5**	0.1
Income tax receivable		**1.3**	1.6
Trade and other receivables	15	**356.1**	406.9
Cash and cash equivalents	18	**62.9**	69.7
Derivative financial instruments	20	**11.7**	7.3
Total current assets		**602.7**	673.3
Total assets		**1,550.7**	1,569.5
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	19	**(331.5)**	(260.7)
Post-retirement benefits	24	**(191.3)**	(75.9)
Other payables	16	**(3.8)**	(4.0)
Provisions	22	**(14.0)**	(15.7)
Deferred tax liabilities	21	**(70.5)**	(71.2)
Derivative financial instruments	20	**(23.7)**	(41.2)
Total non-current liabilities		**(634.8)**	(468.7)
Current liabilities			
Bank overdrafts	18	**(8.8)**	(13.7)
Interest-bearing loans and borrowings	19	**(5.8)**	(6.4)
Trade and other payables	16	**(412.1)**	(455.0)
Income tax liabilities		**(10.0)**	(9.7)
Provisions	22	**(22.1)**	(13.3)
Derivative financial instruments	20	**(0.7)**	(0.8)
Total current liabilities		**(459.5)**	(498.9)
Total liabilities		**(1,094.3)**	(967.6)
Net assets		**456.4**	601.9
Equity			
Issued capital	23	**39.3**	39.3
Share premium	23	**263.1**	263.1
Reserves	23	**155.6**	299.3
DS Smith Plc shareholders' equity		**458.0**	601.7
Minority interest	23	**(1.6)**	0.2
Total equity		**456.4**	601.9

Approved by the Board on 24 June 2009 and signed on its behalf by
A D Thorne, Director
S W Dryden, Director
The notes on pages 58 to 100 form part of these accounts.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 April 2009

	Note	2009 £m	2008 £m
Operating activities			
Cash generated from operations	26	**166.4**	179.8
Interest received		**1.1**	2.6
Interest paid		**(24.1)**	(19.4)
Dividends received from associate		**–**	1.0
Tax paid		**(21.0)**	(27.8)
Cash flows from operating activities		**122.4**	136.2
Investing activities			
Acquisition of subsidiary businesses and joint ventures, net of cash and cash equivalents acquired		**(1.2)**	(89.2)
Disposal of subsidiary businesses, net of cash and cash equivalents disposed of		**–**	2.0
Capital expenditure payments		**(87.4)**	(66.5)
Proceeds from the sale of property, plant and equipment and intangible assets		**7.7**	8.2
(Purchases)/proceeds from the sale of investments in associates and other investments, net of additions of £0.4m (2008: £1.0m)		**(0.1)**	1.1
Cash flows used in investing activities		**(81.0)**	(144.4)
Financing activities			
Proceeds from the issue of share capital		**–**	0.2
Purchase of own shares		**(0.2)**	(2.0)
New/(repayment of) borrowings		**(12.8)**	10.6
Repayment of finance lease obligations		**(1.0)**	(0.4)
Dividends paid to Group shareholders	9	**(34.4)**	(33.7)
Dividends paid to minorities in Group subsidiaries		**(1.9)**	–
Cash flows used in financing activities		**(50.3)**	(25.3)
Decrease in cash and cash equivalents		**(8.9)**	(33.5)
Net cash and cash equivalents at 1 May		**56.0**	81.6
Exchange gains on cash and cash equivalents		**7.0**	7.9
Net cash and cash equivalents at 30 April	18	**54.1**	56.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('adopted IFRSs'). The Company has elected to prepare its parent Company financial statements in accordance with UK GAAP; these are presented on pages 101 to 106.

The consolidated financial statements are presented in sterling in millions, rounded to one decimal place, unless otherwise indicated. They are prepared on the historical cost basis except that assets and liabilities of certain financial instruments, defined benefit pension plans and share-based payments are stated at their fair value.

The consolidated financial statements have been prepared on a going concern basis as set out on page 40 of the Corporate Governance section.

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect whether and how policies are applied and affect the reported amounts of assets and liabilities, income and expenses. Judgements made by management in the application of adopted IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in accounting policy (u).

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The accounting policies have been applied consistently by all Group entities.

(b) Basis of consolidation

(i) Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(ii) Associates

The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

(iii) Joint ventures

The consolidated financial statements include the Group's proportionate share of its joint ventures' assets, liabilities, revenue and expenses with items of a similar nature on a line-by-line basis, from the date that joint control commences until the date that joint control ceases.

(iv) Minority interests

The share of profit attributable to minority interests is shown as a component of profit for the period in the income statement and minority interests are shown as a component of equity in the balance sheet net of the value of options over interests held by minorities in the Group's subsidiaries.

(c) Revenue

Revenue comprises the fair value of the sale of goods and services, net of value added tax, rebates and discounts and after eliminating sales within the Group. Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

(d) Government grants

(i) Emission quotas

The Group participates in Phase II of the EU Emissions Trading Scheme. Emission quotas received in a period are initially recognised at a nominal value of nil. As a result, no asset or liability is recognised on the balance sheet at initial recognition. A provision is recognised if there is any anticipated shortfall in the level of quotas received or purchased when compared with actual emissions in any given period, measured at the market price of such quotas at the balance sheet date. Excess emission quotas acquired as part of a business combination are recognised as an intangible asset at their fair value on the date of acquisition.

(ii) Other

Other government grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are offset against the expenses in the same periods in which the expenses are incurred.

(e) Dividends

Dividends attributable to the equity holders of the Company declared during the year are recognised directly in equity.

(f) Foreign currency translation

Transactions in foreign currencies are translated into sterling at the foreign exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation of monetary assets and liabilities are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the transactions.

The assets and liabilities of all the Group entities that have a functional currency other than sterling are translated at the closing exchange rate at the date of the balance sheet. Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transactions). On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings, and other financial instruments designated as hedges of such investments, are recognised in the translation reserve. On the disposal of foreign currency entities, the cumulative exchange difference recorded in the translation reserve is taken to the income statement as part of the gain or loss on disposal.

(g) Intangible assets

(i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill (positive and negative) arising on the acquisition of subsidiaries, associates and joint ventures, represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less accumulated impairment losses (refer to accounting policy (i)). The useful life of goodwill is considered to be indefinite. Goodwill is allocated to cash-generating units and is tested annually for impairment. Negative goodwill arising on an acquisition is recognised immediately in the income statement.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses (refer to accounting policy (i)).

(iii) Computer software

Computer software that is integral to a related item of hardware is included within tangible fixed assets. All other computer software is treated as an intangible asset.

(iv) Intellectual property

Intellectual property is stated at cost less accumulated amortisation (see below) and impairment losses (refer to accounting policy (i)).

(v) Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses (refer to accounting policy (i)).

(vi) Amortisation

Amortisation of intangible assets (excluding goodwill) is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets (other than goodwill) are amortised from the date they are available for use. The estimated useful lives are as follows:

Intellectual property	Up to 20 years
Computer software	3 – 5 years

Goodwill is systematically tested for impairment at each balance sheet date, and when there is an indication for impairment.

(h) Property, plant and equipment and other investments

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (refer to accounting policy (i)). The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each item of property, plant and equipment, and major components that are accounted for separately (or in the case of leased assets, the lease period, if shorter). Land is not depreciated.

The estimated useful lives are as follows:

Freehold and long leasehold properties	10 – 50 years
Plant, machinery, fixtures and fittings (including IT hardware)	3 – 20 years
Motor vehicles	3 – 5 years

Other investments consist of available for sale investments in unquoted equity and debt securities and are carried at cost, less any impairment.

(i) Impairment

The carrying amounts of the Group's assets, including tangible and intangible non-current assets, other than inventories (refer to accounting policy (l)) and deferred tax assets (refer to accounting policy (t)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of the Group's assets is calculated as the value-in-use, being the present value of expected future cash flows, using a pre-tax discount rate that reflects the current assessment of the time value of money, or the net selling price, if greater. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

Impairment losses in respect of goodwill are not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Derivative financial instruments

The Group uses derivative financial instruments, primarily interest rate, currency and commodity swaps, to manage interest rate, currency and commodity risks associated with the Group's underlying business activities and the financing of these activities. The Group has a policy not to, and does not, undertake any speculative activity in these instruments.

Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivative financial instruments are accounted for as hedges when designated as hedges at the inception of the contract and when the financial instruments provide an effective hedge of the underlying risk. Any gains or losses arising from the hedging instruments are offset against the hedged items.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability;
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with either a balance sheet item or a highly probable forecast transaction; or
- hedges of the net investment in a foreign entity.

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(j) Derivative financial instruments continued

Any gains or losses arising from changes in the fair value of all other derivatives are taken to the income statement. These may arise from derivatives for which hedge accounting is not applied because they are not effective as hedging instruments.

The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship as follows:

Fair value hedges: the carrying amount of the hedged item is adjusted for gains or losses attributable to the risk being hedged; the derivative is remeasured at fair value and gains and losses from both are taken to the income statement. The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

Cash flow hedges: the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the income statement. Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, the hedged transaction ceases to be highly probable, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs and are transferred to the income statement or to the initial carrying amount of a non-financial asset liability as above. If a forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement.

Hedges of net investment in a foreign entity: the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the income statement. Amounts taken to equity are transferred to the income statement when the foreign entity is sold.

The net present value of the expected future payments under options over interests held by minorities in the Group's subsidiaries are shown as a financial liability. At the end of each period, the valuation of the liability is reassessed with any changes recognised in the profit or loss for the period.

(k) Trade and other receivables

Trade and other receivables are stated at their cost less impairment provisions (refer to accounting policy (i)).

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(n) Treasury shares

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

(o) Borrowings

Borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with borrowing costs being accounted for on an accruals basis in the income statement using the effective interest method. At the balance sheet date, accrued interest is recorded separately from the associated borrowings within current liabilities.

(p) Employee benefits

(i) Defined contribution schemes

Contributions to defined contribution pension schemes are recognised as an expense in the income statement as personnel expense, as incurred.

(ii) Defined benefit schemes

The Group's net obligation in respect of defined benefit pension schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to its present value amount and recognised in the income statement as personnel expense; a corresponding liability for all future benefits is established on the balance sheet and the fair value of any schemes' assets is deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the duration of the schemes' obligations. The calculation is performed by a qualified actuary using the projected unit method.

Actuarial gains and losses are recognised immediately in the statement of recognised income and expense.

(iii) Long-term service benefits

The Group's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

(iv) Share-based payment transactions

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The fair value of the options granted is measured using a stochastic model, taking into account the terms and conditions upon which the options were granted. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(q) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and are discounted to present value where the effect is material.

(r) Trade and other payables
Trade and other payables are stated at their cost.

(s) Leases
Property, plant and equipment acquired under a lease that transfers substantially all of the risks and rewards of ownership to the Group are capitalised as tangible fixed assets. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

(t) Taxation
Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided for using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future and the Group is able to control the reversal of such temporary differences. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(u) Critical accounting policies
The application of the Group's accounting policies requires the management of DS Smith Plc to make estimates and assumptions; these estimates and assumptions affect the reported assets and liabilities and financial results of the Group. Actual outcomes could differ from the estimates and assumptions used.

The Group's accounting policies that are most critical to an understanding of the results and position of the Group, and the judgements involved in their application, are as follows:

(i) Impairments
When applying IAS 36, 'Impairment of Assets', the Group compares the carrying value of goodwill and intangible assets with the higher of their net realisable value and value-in-use to determine whether an impairment exists.

Value-in-use is calculated by discounting the cash flows expected to be generated by the asset/group of assets being tested for evidence of impairment. The use of different estimates, assumptions and judgements, in particular those involved in (a) determining a value based on our current expectations of future conditions and the associated cash flows from the Group's operations, (b) our determination of the level at which groups of assets can be reasonably tested for impairment separately from other parts of the business and (c) our treatment of centrally held assets, could each result in materially different carrying values of assets and assessments of impairment. See note 10 of the Notes to the financial statements for additional information regarding the Group's annual impairment exercise.

(ii) Pensions and other post-retirement benefits
IAS 19, 'Employee Benefits', requires the Group to make assumptions including, but not limited to, future asset returns, rates of inflation, discount rates and life expectancies. The use of different assumptions, in any of the above calculations, could have a material effect on the accounting values of the relevant balance sheet assets and liabilities which could also result in a change to the cost of such liabilities as recognised in the income statement over time. These assumptions are subject to periodic review. See note 24 of the Notes to the financial statements for additional information regarding the Group's pension and other post-retirement benefits.

(iii) Accounting for carbon dioxide (CO_2) emissions
There are currently no accounting standards that specifically address accounting for emission allowances. The Group, with the agreement of its auditors, has applied a 'net liability' approach. Under a 'net liability' approach, no assets or government grants are recognised when allowances are initially received. This is because they are ascribed a nominal value of nil. As allowances granted to the Group are used to offset the liability from CO_2 emissions, no accounting entries are required so long as the related emissions generated are within the allowance received from the government. If such emissions are in excess of the allowance received (known as a shortfall position) a provision is made at the current market price for carbon credits. In the case where emission quotas are acquired through an acquisition, any surplus emission quotas are fair valued in accordance with IFRS 3 'Business Combinations'.

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(v) IFRS standards and interpretations in issue but not yet effective

The IASB and IFRIC have issued new standards and interpretations with an effective date after the date of these financial statements. The Group does not anticipate that the adoption of those standards and interpretations that are effective for the financial year ending 30 April 2009 will have a material effect on its financial statements on initial adoption; the Group is evaluating the effect of those standards and interpretations that are effective subsequently. The standards and interpretation to be adopted include:

		Effective date – financial years ending
International Financial Reporting Standards (IFRS/IAS)		
IFRS 8	Operating Segments	30 April 2010
Revised IAS 23	Borrowing Costs	30 April 2010
Revised IAS 1	Presentation of Financial Statements	30 April 2010
Revised IAS 27	Consolidated and Separate Financial Statements	30 April 2010
IFRS 2	Amendment to IFRS 2 – Share-based payment – Vesting Conditions and Cancellations	30 April 2010
IAS 32	Amendment to IAS 32 – Financial Instruments: Presentation	30 April 2010
Revised IFRS 3	Business Combinations	30 April 2011
IAS 39	Amendment to IAS 39 – Intangible Assets – Eligible Hedged Items	30 April 2010
IAS 32 and IAS 1	Puttable Financial Instruments and Obligations Arising on Liquidation	30 April 2010
IFRS 1 and IAS 27	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	30 April 2010
IAS 39 and IFRS 7	Reclassification of Financial Assets	30 April 2010
Improvements to IFRSs made in May 2008.		30 April 2010
International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 12	Service Concession Arrangements	30 April 2010
IFRIC 13	Customer Loyalty Programmes	30 April 2010
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction	30 April 2010
IFRIC 15	Agreements for the Construction of Real Estate	30 April 2010
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	30 April 2010

2. SEGMENT REPORTING

Primary reporting format – business segments

For the year ended 30 April 2009	Packaging				Office Products Wholesaling £m	Total Group £m
	UK Paper and Corrugated £m	Continental European Corrugated £m	Plastic £m	Sub-total £m		
External revenue (sales of goods)	**785.8**	**363.4**	**236.9**	**1,386.1**	**720.5**	**2,106.6**
Adjusted operating profit[1]	**36.5**	**30.4**	**7.0**	**73.9**	**20.1**	**94.0**
Exceptional items (note 4)	(18.2)	(24.7)	(4.0)	(46.9)	(3.7)	(50.6)
Segment result	**18.3**	**5.7**	**3.0**	**27.0**	**16.4**	**43.4**
Net financing costs						(22.1)
Share of loss of associates						(4.5)
Profit before income tax						**16.8**
Income tax expense						(28.0)
Loss for the financial year attributable to:						**(11.2)**
DS Smith Plc equity shareholders						(11.8)
Minority interest						0.6
Balance sheet						
Segment assets	687.7	265.4	172.4	1,125.5	259.8	1,385.3
Unallocated items						
Investments in associates						2.6
Other non-current assets						–
Derivative financial instruments						25.4
Cash and cash equivalents						62.9
Tax balances						74.5
Total assets						1,550.7
Segment liabilities	(183.5)	(71.7)	(49.4)	(304.6)	(138.2)	(442.8)
Unallocated items						
Borrowings and accrued interest						(355.3)
Derivative financial instruments						(24.4)
Tax balances						(80.5)
Post-retirement benefits						(191.3)
Total liabilities						(1,094.3)
Other segment items:						
Adjusted return on sales – %[1]	4.6%	8.4%	3.0%	5.3%	2.8%	4.5%
Adjusted EBITDA – £m[1]	73.2	45.8	19.2	138.2	25.7	163.9
Adjusted EBITDA margin – %[1]	9.3%	12.6%	8.1%	10.0%	3.6%	7.8%
Year-end capital employed – £m	504.2	193.7	123.0	820.9	121.6	942.5
Average capital employed – £m[2]	545.2	199.6	132.8	877.6	131.9	1,009.5
Adjusted return on average capital employed – %[1, 2]	6.7%	15.2%	5.3%	8.4%	15.2%	9.3%
Capital expenditure – £m[3]	55.2	18.9	7.1	81.2	2.0	83.2
Depreciation and amortisation – £m	36.7	15.4	12.2	64.3	5.6	69.9

1 before exceptional items
2 average capital employed is defined on page 65
3 capital expenditure represents additions to intangible assets and property, plant and equipment

2. SEGMENT REPORTING CONTINUED

Primary reporting format – business segments continued

For the year ended 30 April 2008	Packaging UK Paper and Corrugated £m	Packaging Continental European Corrugated £m	Packaging Plastic £m	Packaging Sub-total £m	Office Products Wholesaling £m	Total Group £m
External revenue (sales of goods)	753.2	346.0	223.4	1,322.6	644.9	1,967.5
Adjusted operating profit[1]	68.5	20.3	10.7	99.5	20.1	119.6
Exceptional items (note 4)	–	–	(1.9)	(1.9)	–	(1.9)
Segment result	68.5	20.3	8.8	97.6	20.1	117.7
Net financing costs						(12.0)
Share of profit of associates						3.4
Profit before income tax						109.1
Income tax expense						(30.9)
Profit for the financial year attributable to:						78.2
DS Smith Plc equity shareholders						76.6
Minority interest						1.6
Balance sheet						
Segment assets	713.9	273.8	178.2	1,165.9	251.1	1,417.0
Unallocated items						
Investments in associates						30.0
Other non-current assets						2.3
Derivative financial instruments						17.5
Cash and cash equivalents						69.7
Tax balances						33.0
Total assets						1,569.5
Segment liabilities	(210.1)	(83.8)	(58.8)	(352.7)	(127.5)	(480.2)
Unallocated items						
Borrowings and accrued interest						(288.6)
Derivative financial instruments						(42.0)
Tax balances						(80.9)
Post-retirement benefits						(75.9)
Total liabilities						(967.6)
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%
Capital expenditure – £m[3]	36.6	16.9	11.0	64.5	4.1	68.6
Depreciation and amortisation – £m	31.9	13.6	10.5	56.0	6.0	62.0

1 before exceptional items
2 average capital employed is defined on page 65
3 capital expenditure represents additions to intangible assets and property, plant and equipment

2. SEGMENT REPORTING CONTINUED

The Group's primary format for segment reporting is business segments based on the Group's management and internal reporting structure. The secondary format is geographical segments showing the geographical origin of the Group's activity and net assets. Further details on these business segments are given in the Business Review on pages 1 to 35. The Group operates in two principal geographical areas: the UK and Western Continental Europe. Two further segments are identified: Eastern Continental Europe and the Rest of the World. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Central administration costs are allocated to the individual segments on a consistent basis year-on-year. Assets and liabilities have been analysed by segment at a capital employed level. Capital employed excludes items of a financing nature, taxation balances, post-retirement benefit liabilities and non-current asset investments; segmental capital employed comprises identifiable segment assets less segmental liabilities. Average capital employed is the average monthly capital employed. The adjusted return on average capital employed is defined as operating profit before exceptional items divided by average capital employed.

Secondary reporting format – geographical segments

	Revenue		Segment assets		Capital expenditure	
Year ending 30 April	**2009 £m**	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
UK	**1,147.6**	1,097.1	**833.1**	860.9	**57.2**	41.4
Western Continental Europe	**779.2**	708.1	**438.7**	422.3	**17.8**	18.1
Eastern Continental Europe	**113.0**	104.4	**73.6**	85.7	**5.5**	6.3
Rest of the World	**66.8**	57.9	**39.9**	48.1	**2.7**	2.8
	2,106.6	1,967.5	**1,385.3**	1,417.0	**83.2**	68.6

3. OPERATING PROFIT

	2009 £m	2008 £m
Operating expenses		
Distribution expenses	**220.0**	207.5
Administrative expenses	**238.8**	173.6
	458.8	381.1

Details of exceptional items recorded within operating profit are set out in note 4.

Operating profit is stated after charging/(crediting) the following:

	2009 £m	2008 £m
Depreciation – owned assets	**65.5**	57.9
– leased assets	**0.9**	0.6
Amortisation of intangible assets	**3.5**	3.5
Hire of plant and machinery	**12.3**	12.5
Other operating lease rentals	**11.9**	12.8
Research and development	**1.2**	1.1
Gains on the sale of land and buildings	**(1.2)**	(1.1)
Amounts paid to Deloitte LLP	**1.3**	1.1

3. OPERATING PROFIT CONTINUED

Auditors' remuneration	2009 UK £m	2009 Overseas £m	2009 Total £m	2008 UK £m	2008 Overseas £m	2008 Total £m
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**0.2**	**–**	**0.2**	0.2	–	0.2
Fees payable to the Company's auditors and their associates for other services:						
The audit of the Company's subsidiaries, pursuant to legislation	**0.4**	**0.6**	**1.0**	0.4	0.5	0.9
Tax and other services	**0.1**	**–**	**0.1**	–	–	–
	0.7	**0.6**	**1.3**	0.6	0.5	1.1

Total non-audit fees relating to tax and other services are £0.1m.

4. EXCEPTIONAL ITEMS

Items are presented as 'exceptional' in the financial statements 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.

	2009 £m	2008 £m
Restructuring costs		
UK Paper and Corrugated Packaging	**(18.2)**	–
Continental European Corrugated Packaging	**(1.6)**	–
Plastic Packaging	**(3.5)**	(1.9)
Office Products Wholesaling	**(3.7)**	–
Total restructuring costs	**(27.0)**	(1.9)
Impairment of associate	**(18.1)**	–
Other impairments	**(5.5)**	–
Total exceptional items recognised in operating (loss)/profit	**(50.6)**	(1.9)
Group's share of exceptional losses on associate	**(5.1)**	–
Total pre-tax exceptional items	**(55.7)**	(1.9)
Deferred tax charge following amendment to UK Industrial Building Allowance regime	**(13.3)**	–
Income tax credit on exceptional items	**7.9**	0.7
Total exceptional tax items	**(5.4)**	0.7
Total post-tax exceptional items	**(61.1)**	(1.2)

2008/09

The UK Paper and Corrugated Packaging restructuring of £18.2m relates to the costs of restructuring the Group's paper-making and corrugated packaging facilities across the UK. This includes the cost of restructuring following the conversion of the New Thames Mill.

The Continental European Corrugated Packaging restructuring costs of £1.6m relate to restructuring of corrugated packaging facilities in France.

The Plastic Packaging restructuring costs of £3.5m relate to the closure of the Rugby office and related restructurings.

The Office Products Wholesaling restructuring costs of £3.7m relate to restructuring costs of Spicers UK, including the closure of the office furniture business.

Included within total restructuring costs for the year of £27.0m are fixed asset impairments of £0.6m.

Impairment of associate is in respect of the write down of the Group's investment in Rubezhansk (note 12).

Other impairments include a £5.0m impairment of the fixed assets in the Group's subsidiary in Turkey (Continental European Corrugated Packaging), and £0.5m impairment of an option to acquire a 20% holding in an Italian plastic packaging business.

The Group has recognised a £5.1m exceptional loss in respect of the Group's share of losses incurred by Rubezhansk, the Group's associate in Ukraine.

The exceptional tax of £(5.4)m includes a deferred tax charge of £13.3m following amendment to the UK Industrial Building Allowance regime. This is partially offset by £7.9m of income tax credits on the restructuring costs.

2007/08

The exceptional charge of £1.9m is recorded within administrative expenses and relates to the continued restructuring of our European liquid packaging and dispensing operations within Plastic Packaging.

5. FINANCE INCOME AND COSTS

	2009 £m	2008 £m
Interest on bank loans and overdrafts	**23.7**	19.4
Finance lease interest	**0.3**	0.3
Other	**2.1**	4.4
Finance costs	**26.1**	24.1
Interest income from financial assets held at amortised cost	**(1.7)**	(2.7)
Other	**(0.8)**	(0.6)
Finance income	**(2.5)**	(3.3)

Other finance costs largely relate to the increase in the fair value of the non-controlling shareholders' put options in Toscana Ondulati SpA (see note 23).

Included within other finance income is £0.6m (2007/08: cost of £0.3m) of hedge ineffectiveness on net investment hedges and fair value hedges. Refer to note 20(c) for further details of cash flow, fair value and net investment hedges.

6. PERSONNEL EXPENSES

	2009 £m	2008 £m
Wages and salaries	**318.6**	288.3
Social security costs	**49.9**	44.6
Contributions to defined contribution pension plans	**2.9**	3.3
Service costs for defined benefit schemes (see note 24)	**11.7**	9.8
Share-based payment expense (see note 25)	**0.3**	2.1
Personnel expenses	**383.4**	348.1

The average number of employees (full-time equivalents) during the financial year, analysed by geographical region was:

	2009 Number	2008 Number
UK	**6,913**	6,755
Western Continental Europe	**3,173**	3,075
Eastern Continental Europe	**1,120**	1,008
Rest of the World	**504**	511
Average number of employees	**11,710**	11,349

7. INCOME TAX EXPENSE

Income tax expense recognised in the income statement

	2009 £m	2008 £m
Current tax expense		
Current year	**(21.0)**	(29.9)
Over-provided in prior years	**–**	0.1
	(21.0)	(29.8)
Deferred tax (expense)/credit		
Origination and reversal of temporary differences	**5.9**	(3.0)
Reduction in UK tax rate from 30% to 28%	**–**	2.4
Abolition of Industrial Buildings Allowances	**(13.3)**	–
(Under-)/over-provided in prior years	**0.4**	(0.5)
	(7.0)	(1.1)
Total income tax expense in the income statement	**(28.0)**	(30.9)

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

	2009 £m	2008 £m
Profit before tax	**16.8**	109.1
Add/(Less): share of loss/(profit) of associates	**4.5**	(3.4)
Profit before tax and share of profit of associates	**21.3**	105.7
Income tax calculated using the domestic corporation tax rate of 28.0% (2007/08: 29.8%)	**(6.0)**	(31.5)
Effect of tax rates in overseas jurisdictions	**(2.7)**	(1.2)
Non-deductible expenses	**(5.7)**	(2.2)
Origination of tax losses not recognised	**(2.0)**	(0.2)
Adjustment in respect of prior years	**0.4**	0.4
Effect of change in UK corporation tax rate	**–**	2.4
Abolition of Industrial Buildings Allowances	**(13.3)**	–
Other	**1.3**	1.4
Income tax expense	**(28.0)**	(30.9)

	2009 £m	2008 £m
Deferred tax recognised directly in equity		
Relating to post-retirement benefits	**34.9**	21.4
Other	**18.4**	(3.0)
	53.3	18.4
Current tax recognised directly in equity		
Relating to post-retirement benefits	**–**	(0.7)
Tax relating to hedging transactions taken directly to reserves	**–**	7.4
	–	6.7

8. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 30 April 2009 is based on the net (loss)/profit attributable to ordinary shareholders of £(11.8)m (2007/08: £76.6m) and the weighted average number of ordinary shares outstanding during the year ended 30 April 2009 of 390.9m (2007/08: 391.5m). The number of shares excludes the weighted average number of the Company's own shares held as treasury shares during the year of 2.4m (2007/08: 1.9m).

	2009	2008
Net (loss)/profit attributable to ordinary shareholders (£m)	**£(11.8)m**	£76.6m
Weighted average number of ordinary shares at 30 April (millions)	**390.9m**	391.5m
Basic (loss)/earnings per share (pence per share)	**(3.0)p**	19.6p

Diluted earnings per share

The calculation of diluted earnings per share at 30 April 2009 is based on net (loss)/profit attributable to ordinary shareholders of £(11.8)m (2007/08: £76.6m) and the weighted average number of ordinary shares outstanding during the year ended 30 April 2009, as adjusted for potentially issuable ordinary shares, of 392.5m (2007/08: 393.9m), calculated as follows:

	2009 £m	2008 £m
Net (loss)/profit attributable to ordinary shareholders	**(11.8)**	76.6

In millions of shares	**2009**	2008
Weighted average number of ordinary shares at 30 April	**390.9**	391.5
Potentially dilutive shares issuable under share-based payment arrangements	**1.6**	2.4
Weighted average number of ordinary shares (diluted) at 30 April	**392.5**	393.9
Diluted (loss)/earnings per share (pence per share)	**(3.0)p**	19.4p

Adjusted earnings per share

The Directors believe that the presentation of an adjusted earnings per share amount, being the basic (loss)/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:

	2009			2008		
	£m	**Basic – pence per share**	**Diluted – pence per share**	£m	Basic – pence per share	Diluted – pence per share
Basic (loss)/earnings	**(11.8)**	**(3.0)p**	**(3.0)p**	76.6	19.6p	19.4p
Add back/(deduct) exceptional items, after tax	**61.1**	**15.6p**	**15.6p**	1.2	0.3p	0.4p
Adjusted earnings	**49.3**	**12.6p**	**12.6p**	77.8	19.9p	19.8p

9. DIVIDENDS

Dividends proposed and paid by the Group are as follows:

	2009		2008	
	Pence per share	**£m**	Pence per share	£m
Interim dividend – paid	**2.6p**	**10.2**	2.6p	10.2
Final dividend – proposed	**1.8p**	**7.0**	6.2p	24.4
	4.4p	**17.2**	8.8p	34.6

	2009 £m	2008 £m
Paid during the year	**34.4**	33.7

A final dividend in respect of 2008/09 of 1.8 pence per share (£7.0m) has been proposed by the Directors after the balance sheet date.

10. INTANGIBLE ASSETS

	Goodwill £m	Software £m	Intellectual property £m	Other £m	Total £m
Cost					
Balance at 1 May 2008	207.0	34.7	12.9	9.1	263.7
Acquisitions through business combinations	0.2	–	–	1.7	1.9
Additions	0.1	1.6	–	1.5	3.2
Disposals	–	(1.5)	–	(1.7)	(3.2)
Effect of movements in foreign exchange	7.1	1.6	0.2	0.4	9.3
Balance at 30 April 2009	**214.4**	**36.4**	**13.1**	**11.0**	**274.9**
Amortisation					
Balance at 1 May 2008	(14.1)	(29.8)	(4.3)	(0.3)	(48.5)
Amortisation for the year	–	(2.2)	(0.7)	(0.6)	(3.5)
Disposals	–	1.4	–	–	1.4
Effect of movements in foreign exchange	(1.0)	(1.3)	–	–	(2.3)
Balance at 30 April 2009	**(15.1)**	**(31.9)**	**(5.0)**	**(0.9)**	**(52.9)**
Carrying amount					
Balance as at 1 May 2008	192.9	4.9	8.6	8.8	215.2
Balance as at 30 April 2009	**199.3**	**4.5**	**8.1**	**10.1**	**222.0**

	Goodwill £m	Software £m	Intellectual property £m	Other £m	Total £m
Cost					
Balance at 1 May 2007	191.7	32.3	12.6	0.8	237.4
Acquisitions through business combinations	10.2	0.1	–	7.7	18.0
Additions	–	2.3	–	0.6	2.9
Disposals	–	(1.4)	–	(0.1)	(1.5)
Effect of movements in foreign exchange	5.1	1.4	0.3	0.1	6.9
Balance at 30 April 2008	207.0	34.7	12.9	9.1	263.7
Amortisation					
Balance at 1 May 2007	(13.6)	(27.2)	(3.6)	(0.1)	(44.5)
Amortisation for the year	–	(2.7)	(0.7)	(0.1)	(3.5)
Disposals	–	1.4	–	–	1.4
Effect of movements in foreign exchange	(0.5)	(1.3)	–	(0.1)	(1.9)
Balance at 30 April 2008	(14.1)	(29.8)	(4.3)	(0.3)	(48.5)
Carrying amount					
Balance as at 1 May 2007	178.1	5.1	9.0	0.7	192.9
Balance as at 30 April 2008	192.9	4.9	8.6	8.8	215.2

The amortisation charge for the year of £3.5m (2007/08: £3.5m) is included within administrative expenses. The other items above include acquired emissions quotas which are capitalised as an asset when granted to the Group and treated as a disposal when used to satisfy the Group's obligations or sold, as explained in note 1.

10. INTANGIBLE ASSETS CONTINUED

Impairment tests for cash-generating units containing goodwill

The following segments have cash-generating units containing significant carrying amounts of goodwill:

	2009 £m	2008 £m
UK Paper and Corrugated Packaging	**144.3**	144.2
Plastic Packaging	**39.1**	34.8
	183.4	179.0
Segments with no cash-generating units containing individually significant goodwill	**15.9**	13.9
	199.3	192.9

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the cash-generating units ('CGU') are determined from value-in-use calculations.

The key assumptions in the value-in-use calculation were:

- cash forecasts derived from the latest budgets and forecasts for the two years ending 30 April 2011 as approved by the Directors. Cash flows for the following three years were extrapolated assuming a progressive recovery in margins to historical levels;
- the pre-tax weighted average cost of capital ('WACC') for the Group is 11.8% (2007/08: 10.6%). The Group believes that the risk profile across the significant markets in which it operates are not significantly different, hence the same WACC is universally applied across all CGUs; and
- long-term growth rates are either equal to or less than, the inflation assumption.

The outcome of the impairment task for the CGUs containing significant carrying amounts of goodwill is summarised as follows:

Headroom	£m
UK Paper and Corrugated Packaging	**47.6**
Plastic Packaging	**55.3**

The headroom represents the difference between the calculated value-in-use and the net asset carrying value of the CGU.

Whilst management believe the assumptions are realistic, it is possible an impairment would be identified if any of the above key assumptions were changed significantly. For instance, factors which could cause impairment are:

- significant underperformance relative to the forecast results;
- changes to the way the assets are used or our strategy for the business;
- a further deterioration in the industry or the wider economy; and
- an increase in the Group's WACC.

The value-in-use is based upon anticipated discounted future cash flows. The Directors believe the assumptions used are appropriate, but in addition have conducted sensitivity analysis to determine the changes in assumptions that would result in an impairment.

A half percentage point increase in the WACC to 12.3% would result in a reduction in the headroom for UK Paper and Corrugated Packaging reducing to circa £20m. The headroom for Plastic Packaging would similarly reduce to circa £45m.

In order for there to be no impairments within UK Paper and Corrugated Packaging adjusted operating profits will need to achieve circa £56m in 2014/15; this compares to £68.5m in 2007/08 and £36.5m in 2008/09. For there to be no impairments within Plastic Packaging, adjusted operating profits will need to achieve circa £16.0m in 2014/15, which compares to £10.7m in 2007/08 and £7.0m in 2008/09. The assumptions underpinning UK Paper and Corrugated Packaging adjusted operating profits reflect managements' expectations of a return to historic levels of margins and profitability by 2014/15. The benefits of the restructuring of the Plastic Packaging segment are forecast to deliver the incremental profit growth over the next five years.

11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Plant and equipment £m	Fixtures and fittings £m	Under construction £m	Total £m
Cost					
Balance at 1 May 2008	321.8	1,078.1	63.1	21.9	1,484.9
Acquisitions through business combinations	–	0.2	–	–	0.2
Additions	3.5	71.2	1.3	5.0	81.0
Disposals	(2.8)	(51.6)	(2.6)	(0.5)	(57.5)
Transfers	0.3	7.0	(0.3)	(7.0)	–
Reclassification from inventory	–	2.4	0.8	0.2	3.4
Effect of movements in foreign exchange	11.8	41.5	4.1	1.3	58.7
Balance at 30 April 2009	**334.6**	**1,148.8**	**66.4**	**20.9**	**1,570.7**
Depreciation					
Balance at 1 May 2008	(82.3)	(743.9)	(51.6)	–	(877.8)
Depreciation charge for the year	(7.4)	(55.9)	(3.2)	0.1	(66.4)
Impairments	–	(5.6)	–	–	(5.6)
Disposals	3.5	48.3	2.4	–	54.2
Reclassification from inventory	–	(1.2)	(0.2)	(0.1)	(1.5)
Effect of movements in foreign exchange	(4.0)	(29.3)	(3.2)	–	(36.5)
Balance at 30 April 2009	**(90.2)**	**(787.6)**	**(55.8)**	**–**	**(933.6)**
Carrying amount					
Balance as at 1 May 2008	239.5	334.2	11.5	21.9	607.1
Balance as at 30 April 2009	**244.4**	**361.2**	**10.6**	**20.9**	**637.1**

In 2008/09, capital spares with a net book value of £1.9m have been reclassified from inventory to property, plant and equipment in accordance with the Group accounting policy.

Leased property, plant and equipment

The amounts above include land and buildings held under finance lease agreements. At 30 April 2009, the carrying amount of land and buildings held under finance leases was £6.9m (2008: £6.9m).

Property, plant and equipment under construction

Assets under construction mainly related to production machines being built for various sites across the Group.

11. PROPERTY, PLANT AND EQUIPMENT CONTINUED

	Land and buildings £m	Plant and equipment £m	Fixtures and fittings £m	Under construction £m	Total £m
Cost					
Balance at 1 May 2007	261.5	972.2	62.2	23.0	1,318.9
Acquisitions through business combinations	39.2	24.8	–	0.3	64.3
Additions	6.5	45.6	2.8	10.8	65.7
Disposals	(2.3)	(18.0)	(5.7)	–	(26.0)
Transfers	2.7	4.9	0.3	(7.9)	–
Reclassification from property, plant and equipment to other receivables	–	–	–	(5.8)	(5.8)
Effect of movements in foreign exchange	14.2	48.6	3.5	1.5	67.8
Balance at 30 April 2008	321.8	1,078.1	63.1	21.9	1,484.9
Depreciation					
Balance at 1 May 2007	(72.9)	(677.8)	(51.1)	–	(801.8)
Depreciation charge for the year	(5.8)	(49.3)	(3.4)	–	(58.5)
Disposals	0.4	15.0	5.5	–	20.9
Effect of movements in foreign exchange	(4.0)	(31.8)	(2.6)	–	(38.4)
Balance at 30 April 2008	(82.3)	(743.9)	(51.6)	–	(877.8)
Carrying amount					
Balance as at 1 May 2007	188.6	294.4	11.1	23.0	517.1
Balance as at 30 April 2008	239.5	334.2	11.5	21.9	607.1

12. INVESTMENT IN ASSOCIATES

	2009 £m	2008 £m
Balance at 1 May	**30.0**	30.5
Share of profit of associates after interest and tax, including exceptional loss of £5.1m (2007/08: £nil)	**(4.5)**	3.4
Dividends received	**–**	(1.0)
Additions	**–**	–
Disposals	**–**	(0.9)
Intra-group profit elimination	**(0.4)**	(2.8)
Impairment	**(18.1)**	–
Exchange differences	**(6.7)**	0.8
Balance at 30 April	**0.3**	30.0

	Nature of business	Principal country of operation	Financial year-end	Ownership 2009
OJSC Rubezhansk Paper and Packaging Mill (Rubezhansk)	Manufacturer of paper and packaging	Ukraine	31 December	49.6%

Rubezhansk is accounted for using the equity method within these financial statements.

Included within the share of profit of associates after interest and tax is an exceptional loss of £5.1m being the Group's share of the after-tax net loss at Rubezhansk incurred in the second half of 2008/09. This is principally as a result of foreign exchange losses on the US$87 million loan, following the significant decline in the Ukrainian Hryvnia against the US$. Exchange rate movements have resulted in Rubezhansk breaching its banking covenants. Consequently, due to the uncertainty of the financial position of Rubezhansk, the Group has fully impaired the carrying value of its investment in that associate at the year-end.

Summary of financial information in associate – 49.6%

	2009 £m	2008 £m
Rubezhansk		
Assets	**116.1**	98.2
Liabilities	**(71.8)**	(32.4)
Revenues	**82.8**	58.8
(Loss)/profit after tax	**(9.5)**	6.7

The remaining £0.3m investment in associates relates to the Group's investment in Wirth, a plastic packaging business in Germany.

13. OTHER INVESTMENTS

	2009 £m	2008 £m
Non-current investments	**0.8**	1.5
Current investments	**0.5**	0.1

Non-current investments comprise investments in the equity and debt securities of unlisted companies.

14. INVENTORIES

	2009 £m	2008 £m
Raw materials and consumables	**54.0**	67.7
Work in progress	**3.2**	4.2
Finished goods	**113.0**	115.8
	170.2	187.7

The Group consumed £1,604.4m (2008: £1,468.7m) of inventories during the year. Provisions against inventories totalled £20.2m (30 April 2008: £19.5m).

15. TRADE AND OTHER RECEIVABLES

	2009		2008	
	Non-current £m	Current £m	Non-current £m	Current £m
Trade receivables and provisions				
Trade receivables	**–**	**346.4**	–	375.5
Provisions for bad and doubtful receivables	**–**	**(21.7)**	–	(13.7)
Prepayments and other receivables	**0.9**	**31.4**	0.8	45.1
	0.9	**356.1**	0.8	406.9

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of trade receivables from the date credit was initially granted up to the reporting date. The fair value of trade and other receivables is not materially different from their carrying amounts above. Refer to note 20(d)(iii) for further quantitative and qualitative analysis of credit risk.

16. TRADE AND OTHER PAYABLES

	2009		2008	
	Non-current £m	Current £m	Non-current £m	Current £m
Trade payables	**–**	**288.8**	–	321.1
Non-trade payables and accrued expenses	**3.8**	**123.3**	4.0	133.9
	3.8	**412.1**	4.0	455.0

The fair value of trade and other payables is not materially different from their carrying amounts shown above.

17. NET DEBT

	Note	2009 £m	2008 £m
Non-current liabilities	19	**331.5**	260.7
Current liabilities	19	**5.8**	6.4
Derivative financial instruments	20	**8.3**	40.7
Net cash and cash equivalents	18	**(54.1)**	(56.0)
Net debt		**291.5**	251.8
Net debt divided by EBITDA (before exceptional items)		**1.8x**	1.4x
Gearing (net debt expressed as a percentage of net assets)		**63.9%**	41.8%

The movement in Group net debt is as set out in the table below:

	At 1 May 2008 £m	Cash flow £m	Acquisitions and disposals £m	Foreign exchange and fair value movements £m	At 30 April 2009 £m
Cash and cash equivalents	69.7	(16.9)	–	10.1	**62.9**
Overdrafts	(13.7)	8.0	–	(3.1)	**(8.8)**
Net cash and cash equivalents	56.0	(8.9)	–	7.0	**54.1**
Interest-bearing loans and borrowings due after one year	(255.3)	12.2	–	(83.1)	**(326.2)**
Interest-bearing loans and borrowings due within one year	(5.5)	0.6	–	–	**(4.9)**
Finance leases	(6.3)	1.1	(0.2)	(0.8)	**(6.2)**
Derivative financial instruments					
– assets	0.4	–	–	10.6	**11.0**
– liabilities	(41.1)	–	–	21.8	**(19.3)**
	(307.8)	13.9	(0.2)	(51.5)	**(345.6)**
Total net debt	**(251.8)**	**5.0**	**(0.2)**	**(44.5)**	**(291.5)**

18. CASH AND CASH EQUIVALENTS

	2009 £m	2008 £m
Bank balances	**55.4**	63.2
Short-term deposits	**7.5**	6.5
Cash and cash equivalents (per balance sheet)	**62.9**	69.7
Bank overdrafts	**(8.8)**	(13.7)
Net cash and cash equivalents (per cash flow statement)	**54.1**	56.0

19. INTEREST-BEARING LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, refer to note 20.

	2009		2008	
	Current £m	**Non-current £m**	Current £m	Non-current £m
Borrowings measured at amortised cost				
Bank and other loans	**4.9**	**80.2**	5.5	71.3
Note purchase agreements	**–**	**50.6**	–	37.9
Finance lease liabilities	**0.9**	**5.3**	0.9	5.4
	5.8	**136.1**	6.4	114.6
Borrowings in a fair value hedge relationship				
Note purchase agreements	**–**	**195.4**	–	146.1
	5.8	**331.5**	6.4	260.7

Bank loans, other loans and overdrafts of certain subsidiaries totalling £3.4m (2008: £3.6m) are secured over the properties and machinery of these companies. The holder of the security does not have the right to sell or re-pledge the assets as security.

The repayment dates of the Group's borrowings are as follows:

	2009				
	1 year or less £m	**1–2 years £m**	**2–5 years £m**	**More than 5 years £m**	**Total £m**
Interest-bearing loans and borrowings					
Fixed-rate	**0.4**	**0.2**	**67.1**	**50.8**	**118.5**
Floating-rate	**5.4**	**1.6**	**115.8**	**96.0**	**218.8**
Total interest-bearing loans and borrowings	**5.8**	**1.8**	**182.9**	**146.8**	**337.3**

	2008				
	1 year or less £m	1–2 years £m	2–5 years £m	More than 5 years £m	Total £m
Interest-bearing loans and borrowings					
Fixed-rate	5.0	0.6	–	38.0	43.6
Floating-rate	1.4	1.3	150.7	70.1	223.5
Total interest-bearing loans and borrowings	6.4	1.9	150.7	108.1	267.1

19. INTEREST-BEARING LOANS AND BORROWINGS CONTINUED

The Group's borrowings, after taking into account the effect of cross-currency swaps and interest rate swaps, are denominated in the following currencies:

	Sterling £m	Euro £m	US Dollar £m	Other £m	Total £m
At 30 April 2009					
Interest-bearing loans and borrowings					
Fixed-rate	**51.1**	**67.4**	**–**	**–**	**118.5**
Floating-rate	**26.8**	**153.1**	**35.1**	**3.8**	**218.8**
	77.9	**220.5**	**35.1**	**3.8**	**337.3**
Net cash and cash equivalents (including overdrafts)					
Fixed-rate	**–**	**(9.9)**	**(2.9)**	**(4.3)**	**(17.1)**
Floating-rate	**(10.7)**	**(15.7)**	**(2.4)**	**(8.2)**	**(37.0)**
	(10.7)	**(25.6)**	**(5.3)**	**(12.5)**	**(54.1)**
Net borrowings/(cash) at 30 April 2009	**67.2**	**194.9**	**29.8**	**(8.7)**	**283.2**

	Sterling £m	Euro £m	US Dollar £m	Other £m	Total £m
At 30 April 2008					
Interest-bearing loans and borrowings					
Fixed-rate	38.6	0.6	–	4.4	43.6
Floating-rate	24.1	173.8	25.6	–	223.5
	62.7	174.4	25.6	4.4	267.1
Net cash and cash equivalents (including overdrafts)					
Fixed-rate	(0.1)	(8.3)	(5.4)	(1.0)	(14.8)
Floating-rate	(8.5)	(12.8)	(1.0)	(18.9)	(41.2)
	(8.6)	(21.1)	(6.4)	(19.9)	(56.0)
Net borrowings/(cash) at 30 April 2008	54.1	153.3	19.2	(15.5)	211.1

19. INTEREST-BEARING LOANS AND BORROWINGS CONTINUED

Of the total borrowing facilities available to the Group, the undrawn committed facilities available at 30 April were as follows:

	2009 £m	2008 £m
Expiring within one year	**78.8**	6.5
Expiring between one and two years	**8.9**	76.8
Expiring between two and five years	**208.0**	181.8
	295.7	265.1

At 30 April 2009, 69% (30 April 2008: 72%) of the Group's net borrowings, after taking into account the effect of cross-currency swaps, were denominated in euros in order to hedge the underlying assets of the Group's relevant continental European operations. Interest rates on floating-rate borrowings are based on LIBOR, EURIBOR or base rates.

In August 2008, the Group entered into a syndicated revolving credit facility of £287.5m, which expires on 29 August 2013. In April 2008, the Group entered into a revolving credit facility of £50m, which expires on 30 April 2010. Advances drawn down under both facilities bear interest at a margin over LIBOR or EURIBOR.

In November 2002, the Group entered into a note purchase agreement with a number of institutions that purchased US$105m of DS Smith Plc's 6.24% senior notes and £25m of 6.85% senior notes, which will mature on 14 November 2012. The Group entered into a swap transaction with a bank counterparty under which it made a payment of US$80m in return for €81.6m. The swap counterparty also agreed to pay fixed-rate dollar interest of 6.24% per annum in exchange for floating euro rate interest at rates linked to EURIBOR. In addition, swap counterparties also agreed to pay fixed-rate dollar interest of 6.24% per annum on a principal amount of US$25m in exchange for floating dollar interest linked to dollar LIBOR and fixed-rate sterling interest of 6.85% per annum on a principal of £25m in exchange for floating sterling interest linked to sterling LIBOR.

In August 2004, the Group entered into a further note purchase agreement with a number of institutions that purchased US$105m of DS Smith Plc's 5.66% senior notes and US$95m of 5.80% senior notes, which will mature on 25 August 2014 and 25 August 2016, respectively. The Group entered into swap transactions with a bank counterparty under which it made payments of US$105m and US$20m in return for €86.5m and €16.5m, respectively, and a payment of US$75m in return for £40.8m. The swap counterparty agreed to pay fixed-rate dollar interest of 5.66% per annum and 5.80% per annum, respectively, in exchange for floating euro rate interest at rates linked to EURIBOR and fixed-rate dollar interest of 5.80% per annum in exchange for fixed-rate sterling interest at rates of 6.21% per annum.

Finance lease obligations

	2009			2008		
	Minimum lease payments £m	Interest £m	Principal £m	Minimum lease payments £m	Interest £m	Principal £m
Less than one year	**1.0**	**(0.1)**	**0.9**	1.2	(0.3)	0.9
Between one and five years	**2.8**	**(0.7)**	**2.1**	2.9	(0.8)	2.1
More than five years	**3.5**	**(0.3)**	**3.2**	3.8	(0.5)	3.3
Finance lease obligations	**7.3**	**(1.1)**	**6.2**	7.9	(1.6)	6.3

20. FINANCIAL INSTRUMENTS

The Group's activities expose the Group to a number of key risks which have the potential to affect its ability to achieve its business objectives. A summary of the Group's key financial risks and the policies and objectives in place to manage these risks is set out in the Financial Review and Risk Management sections of the Business Review on pages 22 to 29.

The derivative financial instruments set out in this note have been entered into to help achieve the Group's risk management objectives.

The Group's treasury policy is not to engage in speculative transactions.

a) Carrying amounts of financial assets and liabilities

Set out below is the accounting classification of all of the Group's financial instruments and their carrying values.

	2009				
	Loans and receivables £m	Available for sale financial assets £m	Derivative hedging instruments £m	Financial liabilities measured at amortised cost £m	Total carrying amount £m
Financial assets					
Other investments	–	1.3	–	–	1.3
Trade and other receivables	357.0	–	–	–	357.0
Other financial assets in designated hedge accounting relationships	–	–	25.4	–	25.4
Cash and cash equivalents	62.9	–	–	–	62.9
Financial liabilities					
Trade and other payables	–	–	–	(415.9)	(415.9)
Other financial liabilities in designated hedge accounting relationships	–	–	(24.4)	–	(24.4)
Loans and borrowings	–	–	–	(337.3)	(337.3)
Overdrafts	–	–	–	(8.8)	(8.8)
	419.9	1.3	1.0	(762.0)	(339.8)

	2008				
	Loans and receivables £m	Available for sale financial assets £m	Derivative hedging instruments £m	Financial liabilities measured at amortised cost £m	Total carrying amount £m
Financial assets					
Other investments	–	1.6	–	–	1.6
Trade and other receivables	407.7	–	–	–	407.7
Other financial assets in designated hedge accounting relationships	–	–	17.5	–	17.5
Cash and cash equivalents	69.7	–	–	–	69.7
Financial liabilities					
Trade and other payables	–	–	–	(459.0)	(459.0)
Other financial liabilities in designated hedge accounting relationships	–	–	(42.0)	–	(42.0)
Loans and borrowings	–	–	–	(267.1)	(267.1)
Overdrafts	–	–	–	(13.7)	(13.7)
	477.4	1.6	(24.5)	(739.8)	(285.3)

20. FINANCIAL INSTRUMENTS CONTINUED

b) Derivative financial instruments

The Group enters into derivative financial instruments, primarily interest rate, currency and commodity swaps, to manage interest rate, currency and commodity risks associated with the Group's underlying business activities and the financing of these activities. All derivatives have been designated as effective hedging instruments and are carried at their fair value.

The assets and liabilities of the Group as at 30 April in respect of derivative financial instruments are as follows:

	Assets		Liabilities		Net	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Derivatives held to						
Manage the interest rate and currency exposures on borrowings and net investments	**11.0**	0.4	**(19.3)**	(41.1)	**(8.3)**	(40.7)
Derivative financial instruments included in net debt	**11.0**	0.4	**(19.3)**	(41.1)	**(8.3)**	(40.7)
Derivatives held to						
Hedge future transactions – energy costs	**11.2**	17.1	**(4.5)**	(0.2)	**6.7**	16.9
Hedge future transactions – foreign exchange on purchases and sales of goods and services	**3.2**	–	**(0.6)**	(0.7)	**2.6**	(0.7)
Total derivative financial instruments	**25.4**	17.5	**(24.4)**	(42.0)	**1.0**	(24.5)
Current	**11.7**	7.3	**(0.7)**	(0.8)	**11.0**	6.5
Non-current	**13.7**	10.2	**(23.7)**	(41.2)	**(10.0)**	(31.0)
	25.4	17.5	**(24.4)**	(42.0)	**1.0**	(24.5)

20. FINANCIAL INSTRUMENTS CONTINUED

c) Cash flow, fair value and net investment hedges

(i) Cash flow hedging reserve movements

The following table identifies the movements in the cash flow hedging reserve during the year. All figures are post-tax.

	2009 £m	2008 £m
Balance at 1 May	13.0	(1.5)
Unrealised fair value gain/(loss) on designated cash flow hedges		
Forward exchange contracts	1.6	(0.4)
Cross-currency and interest rate swaps	(4.6)	1.5
Commodity contracts	(2.3)	13.0
Losses/(gains) in equity recycled to the income statement*		
Forward exchange contracts	0.6	0.2
Cross-currency and interest rate swaps	–	(0.3)
Commodity contracts	(5.1)	0.5
Losses/(gains) in equity recycled to the balance sheet**		
Forward exchange contracts	(0.5)	–
Cross-currency and interest rate swaps	–	–
Commodity contracts	–	–
Balance at 30 April	**2.7**	13.0

* (Gains) and losses in equity transferred into profit or loss during the period are included in the following line items on the face of the income statement:

** (Gains) and losses in equity transferred onto the balance sheet during the period are included in the following line items on the face of the balance sheet:

	2009 £m	2008 £m
Revenue	0.9	0.1
Cost of sales	(5.4)	0.6
Finance costs	–	(0.3)
	(4.5)	0.4

	2009 £m	2008 £m
Property, plant and equipment	(0.5)	–

(ii) Fair value hedges

At 30 April 2009, the Group held interest rate and currency swap contracts as fair value hedges of the interest rate and currency risk on fixed rate debt payable by the Group. The receive leg of the swap contracts is largely identical for all critical aspects to the terms of the underlying debt and thus the hedging is highly effective. The pre-tax gain on the hedging derivative instruments taken to the income statement in the year was £48.4m (2007/08: gain of £8.8m) offset by a pre-tax loss on the fair value of the debt of £47.2m (2007/08: loss of £8.4m).

(iii) Hedges of net investments in foreign operations

The Group holds currency swap contracts as hedges of long-term investments in foreign subsidiaries. The pre-tax loss on the hedges recognised in equity in the year was £19.4m (2007/08: loss of £20.0m). The gain or loss is matched by a similar gain or loss in equity on the retranslation of the hedged foreign subsidiary's net assets. During the year, hedge ineffectiveness arising from hedges of net investments resulted in a loss of £0.6m (2007/08: loss of £0.7m).

d) Risk identification and risk management

(i) Capital risk

The Group funds its operations from the following sources of cash: operating cash flow, borrowings, shareholders' equity and disposals of peripheral businesses, where appropriate. The Group's objective is to achieve a capital structure that results in an appropriate cost of capital whilst providing flexibility in immediate and medium-term funding so as to accommodate material investments or acquisitions. The Group also aims to maintain a strong balance sheet and to provide continuity of financing by having a range of maturities and borrowings from a variety of sources.

20. FINANCIAL INSTRUMENTS CONTINUED

d) Risk identification and risk management continued

(i) Capital risk continued

The Group's overall treasury objectives are to ensure sufficient funds are available for the Group to carry out its strategy and to manage financial risks. The Group's treasury strategy is controlled though the Treasury Committee, which meets regularly and includes the Group Chief Executive, the Group Finance Director and the Group Treasurer. The Group Treasury Function operates in accordance with policies and procedures approved by the Board and controlled by the Group Treasurer. The function arranges funding for the Group, provides a service to operations and implements strategies for interest rate, foreign exchange rate and energy exposure management.

(ii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument fluctuate because of a change in market prices. The Group is exposed to changes in interest rates, foreign currency exchange rates and commodity prices.

Interest rate risk

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate borrowings and by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with expectations of changes in interest rates, ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest rate expense through interest rate cycles. The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

At 30 April 2009, 35% (2008: 16%) of the Group's interest-bearing loans and borrowings were fixed for a period of at least one year. The sensitivity analysis below shows the impact on profit and total equity of a 100 basis points rise in market interest rates (representing management's assessment of the reasonably possible change in interest rates) in all currencies in which the Group had variable rate borrowings at 30 April.

To calculate the impact on the income statement for the year, the interest rates on all external interest-bearing loans and cash deposits have been increased by 100 basis points, and the resulting increase in the net interest charge has been adjusted for the effect of the Group's interest rate derivatives. The effect on equity includes the above impact on the income statement and the impact of a 100 basis point increase in interest rates on the market values of the Group's interest rate derivatives.

The results are presented before minority interests and tax.

	2009		2008	
	Impact on profit £m	Impact on total equity £m	Impact on profit £m	Impact on total equity £m
Increase in market interest rates by 100 basis points	(1.8)	–	(2.3)	–

Under interest rate swap contracts the Group agrees to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal amounts. At 30 April 2009, losses of £2.5m (2008: gains of £1.1m) (net of tax) are deferred in equity in respect of cash flow hedges of interest rate risk. This will be recycled to the income statement in the period in which the hedged item also affects the income statement, which will occur over time to 2016. During the year, £nil of gains deferred in equity were transferred to the income statement (2007/08: £0.3m).

Foreign exchange risk

Foreign exchange risk on investments

The Group is exposed to foreign exchange risk arising from net investments in Group entities, the functional currencies of which differ from the Group's presentational currency. The Group hedges this exposure through borrowings denominated in foreign currencies and through cross-currency swaps. Gains and losses for hedges of net investments are recognised in reserves.

Foreign exchange risk on borrowings

The Group is exposed to foreign exchange risk on borrowings denominated in foreign currencies. The Group hedges this exposure through cross-currency swaps designated as either cash flow or fair value hedges.

Foreign exchange risk on transactions

Foreign currency transaction risk arises where a business unit makes product sales and material purchases in a currency other than its functional currency. Part of this risk is hedged using foreign exchange contracts which are designated as cash flow hedges.

At 30 April 2009, £1.4m (2008: £(0.4)m) (net of tax) is deferred in equity in respect of cash flow hedges. This will be recycled to the income statement in the period in which the hedged item also affects the income statement, which occurs within two years. During the year, £0.6m of losses deferred in equity were transferred to the income statement (2007/08: £0.2m of losses).

The Group's main currency exposures are from the euro and US dollar. The following sensitivity analysis shows the impact on the Group's results of a 10% change in the year-end exchange rate of sterling against all other currencies. 10% represents management's assessment of the reasonably possible change in foreign exchange rates. The analysis is only on financial instruments denominated in a foreign currency and excludes the impact of financial instruments designated as net investment hedges. Loans that are treated as net investment hedges are not recorded within the impact on the Group's profit as the impact of foreign exchange movements on these are offset by equal and opposite movements in the foreign assets that the instruments hedge.

20. FINANCIAL INSTRUMENTS CONTINUED

d) Risk identification and risk management continued

Foreign exchange risk

The results are presented before minority interests and tax.

	2009		2008	
	Impact on profit £m	Impact on total equity £m	Impact on profit £m	Impact on total equity £m
10% strengthening of sterling	**(0.8)**	**0.9**	(0.3)	(0.9)
10% weakening of sterling	**1.0**	**(1.1)**	0.2	1.0

Commodity risk

The Group's main commodity exposures are to changes in UK gas and UK electricity prices. Part of this commodity price risk is managed by a combination of physical supply agreements and derivative instruments. At 30 April 2009, £4.8m (2008: £12.3m) (net of tax) is deferred in equity in respect of cash flow hedges in accordance with IAS 39. This will be recycled to the income statement in the period in which the hedged item also affects the income statement, which occurs within two years. During the year, £5.1m of gains deferred in equity were transferred to the income statement (2007/08: £0.5m of losses).

The following table details the Group's sensitivity to a 10% increase in these prices, which is management's assessment of the reasonably possible approximation of how much markets can move, on average, over any given year. In some years prices will be less volatile and in others they may be more volatile. A decrease of 10% in these prices would produce an opposite effect on equity. As all of the Group's commodity financial instruments achieve hedge accounting under IAS 39, there is no impact on profit for either financial year.

The results are presented before minority interests and tax.

	2009		2008	
	Impact on profit £m	Impact on total equity £m	Impact on profit £m	Impact on total equity £m
10% increase in UK electricity prices	**–**	**3.8**	–	3.1
10% increase in UK gas prices	**–**	**2.1**	–	2.2

(iii) Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will fail to perform or fail to pay amounts due, causing financial loss to the Group. In the current economic environment, the Group has placed increased emphasis on the management of credit risk. The majority of the Group's trade receivables are due for maturity within 90 days. Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and diverse. Management believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful debts (see note 15).

	Net carrying amount (see note 15) £m	Of which neither impaired nor past due £m	Of which past due but not impaired				
			1 month or less £m	1–3 months £m	3–6 months £m	6–12 months £m	More than 12 months £m
The ageing of trade receivables							
As at 30 April 2009	**324.7**	**300.7**	**16.6**	**5.4**	**1.0**	**0.6**	**0.4**
As at 30 April 2008	361.8	334.9	19.2	3.8	1.3	1.9	0.7

	2009 £m	2008 £m
Movement in the allowance for bad and doubtful receivables		
Balance as at 1 May	**(13.7)**	(12.7)
Uncollectible amounts written off, net of receivables	**0.3**	2.2
Increase in allowance recognised in profit or loss	**(7.1)**	(2.2)
Effect of movements in foreign exchange	**(1.2)**	(1.0)
Balance as at 30 April (see note 15)	**(21.7)**	(13.7)

Credit risk on financial instruments held with financial institutions is assessed through reference to the long-term credit ratings assigned to that counterparty by Standard & Poor's and Moody's. During the year increased scrutiny has been given to all of the Group's banking counterparties and exposures have been reduced if deemed necessary.

20. FINANCIAL INSTRUMENTS CONTINUED

d) Risk identification and risk management continued

(iv) Liquidity risk

Liquidity risk is the risk that the Group, although solvent, will have difficulty in meeting its obligations associated with its financial liabilities as they fall due.

The Group manages its liquidity risk by maintaining adequate financial resources, by continuously monitoring forecasted and actual cash flows and by matching the maturity profile of financial assets and liabilities to these risks.

e) Fair value of financial assets and liabilities

The fair value is the amount for which an asset or liability could be exchanged or settled on an arm's-length basis. For financial instruments carried at fair value, market prices or rates are used to determine fair value where an active market exists. The Group uses forward prices for valuing forward foreign exchange and commodity contracts and uses valuation models with present value calculations based on market yield curves to value note purchase agreements, cross-currency swaps and interest rate swaps.

All derivative financial assets and liabilities are shown at fair value on the balance sheet. Under IAS 39 hedge accounting rules, only portions of the note purchase agreements which form part of an effective fair value hedge are carried at fair value in the balance sheet.

The fair value of financial assets and liabilities which bear floating-rates of interest is estimated to be equivalent to book value.

For current and non-current receivables (note 15) and current and non-current payables (note 16) and provisions (note 22), fair value is estimated to be equivalent to book value and is not included in the table below.

	Carrying amount		Fair value	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Bank overdrafts	**(8.8)**	(13.7)	**(8.8)**	(13.7)
Bank borrowings	**(85.1)**	(76.8)	**(85.1)**	(76.8)
Note purchase agreements	**(246.0)**	(184.0)	**(255.9)**	(188.7)
Derivatives held to manage interest rate and the Group's exposure to foreign currency on investments and borrowings	**(8.3)**	(40.7)	**(8.3)**	(40.7)
Finance leases	**(6.2)**	(6.3)	**(6.2)**	(6.3)
	(354.4)	(321.5)	**(364.3)**	(326.2)
Cash and cash equivalents	**62.9**	69.7	**62.9**	69.7
Net debt	**(291.5)**	(251.8)	**(301.4)**	(256.5)
Derivatives held to hedge future energy costs	**6.7**	16.9	**6.7**	16.9
Derivatives held to hedge foreign exchange on future purchases and sales of goods and services	**2.6**	(0.7)	**2.6**	(0.7)

20. FINANCIAL INSTRUMENTS CONTINUED

f) Analysis of net debt cash flows

The following table is an analysis of the undiscounted cash flows relating to net debt at the balance sheet date (including the effect of cross-currency and interest rate swaps).

As at 30 April 2009	**Weighted average effective interest rate %**	**Contractual repayments** 1 year or less £m	1–5 years £m	More than 5 years £m	**Total £m**
Financial liabilities					
Bank overdrafts	**2.2%**	**8.8**	**–**	**–**	**8.8**
Bank loans	**4.8%**	**4.9**	**80.2**	**–**	**85.1**
Note purchase agreements	**3.4%**	**–**	**95.9**	**135.0**	**230.9**
Finance leases	**4.6%**	**0.9**	**2.1**	**3.2**	**6.2**
Financial assets					
Cash and cash equivalents	**1.2%**	**(62.9)**	**–**	**–**	**(62.9)**
Total net borrowings/(cash)	**4.4%**	**(48.3)**	**178.2**	**138.2**	**268.1**

As at 30 April 2008	Weighted average effective interest rate %	Contractual repayments 1 year or less £m	1–5 years £m	More than 5 years £m	Total £m
Financial liabilities					
Bank overdrafts	4.9%	13.7	–	–	13.7
Bank loans	4.5%	5.5	71.1	0.2	76.8
Note purchase agreements	6.0%	–	78.0	101.0	179.0
Finance leases	5.4%	0.9	2.1	3.3	6.3
Financial assets					
Cash and cash equivalents	2.3%	(69.7)	–	–	(69.7)
Total net borrowings/(cash)	6.5%	(49.6)	151.2	104.5	206.1

The tables above exclude interest expense estimated to be £18.4m in 2009/10, £18.2m in 2010/11, £17.6m in 2011/12, £16.4m in 2012/13, £6.4m in 2013/14 and £4.6m in 2014/15 and thereafter (assuming interest rates with respect to variable rate debt remain constant and there is no change in the aggregate principal amount of debt other than as a result of repayment at scheduled maturity).

The above table does not include forecast data for liabilities which may be incurred in the future which are not contracted as at 30 April 2009.

Refer to note 28 for an analysis of the Group's future operating lease payments and to note 29 for a summary of the Group's commitments.

The maturity profile of the Group's financial derivatives, using undiscounted cash flows, is presented in the tables on page 87. Where the payable and receivable legs of these derivatives are denominated in foreign currencies, the contractual payments/receipts have been calculated based on exchange rates as at the respective year ends.

20. FINANCIAL INSTRUMENTS CONTINUED

f) Analysis of net debt cash flows continued

Balance at 30 April 2009	**Contractual payments/(receipts)**			
	1 year or less £m	**1–5 years £m**	**More than 5 years £m**	**Total £m**
Payable				
Energy derivatives	**122.7**	**131.1**	**–**	**253.8**
Foreign exchange	**50.5**	**2.8**	**–**	**53.3**
Interest rate and currency swaps	**13.8**	**160.2**	**141.7**	**315.7**
Receivable				
Energy derivatives	**(131.0)**	**(129.2)**	**–**	**(260.2)**
Foreign exchange	**(53.1)**	**(2.8)**	**–**	**(55.9)**
Interest rate and currency swaps	**(16.8)**	**(152.6)**	**(146.3)**	**(315.7)**
Total derivatives	**(13.9)**	**9.5**	**(4.6)**	**(9.0)**

Balance at 30 April 2008	Contractual payments/(receipts)			
	1 year or less £m	1–5 years £m	More than 5 years £m	Total £m
Payable				
Energy derivatives	72.8	62.0	–	134.8
Foreign exchange	23.0	2.8	–	25.8
Interest rate and currency swaps	14.3	119.7	139.0	273.0
Receivable				
Energy derivatives	(79.8)	(72.7)	–	(152.5)
Foreign exchange	(22.3)	(2.8)	–	(25.1)
Interest rate and currency swaps	(11.4)	(83.6)	(115.2)	(210.2)
Total derivatives	(3.4)	25.4	23.8	45.8

21. DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets		**Liabilities**		**Net**	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Property, plant and equipment and intangible assets	**–**	–	**(70.5)**	(66.2)	**(70.5)**	(66.2)
Employee benefits including pensions	**55.7**	23.1	**–**	–	**55.7**	23.1
Other items	**17.5**	8.3	**–**	(5.0)	**17.5**	3.3
Tax assets/(liabilities)	**73.2**	31.4	**(70.5)**	(71.2)	**2.7**	(39.8)

Unrecognised deferred tax assets and liabilities

Deferred tax assets and liabilities have not been recognised in respect of the following items:

	Assets		**Liabilities**	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Tax losses	**3.7**	3.6	**–**	–
Unremitted earnings of overseas operations	**–**	–	**(5.2)**	(3.7)
Total	**3.7**	3.6	**(5.2)**	(3.7)

The tax losses above include £2.7m which do not expire and £1.0m which expire between 2010 and 2014, under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom. Deferred tax liabilities have not been provided for in respect of unremitted earnings of overseas subsidiaries as there is no current intention for any of the relevant overseas entities to remit their earnings.

21. DEFERRED TAX ASSETS AND LIABILITIES CONTINUED

Analysis of movements in recognised deferred tax assets and liabilities during the year

	Property, plant and equipment and intangible assets		Employee benefits including pensions		Other items		Total	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Balance at 1 May	**(66.2)**	(72.7)	**23.1**	7.1	**3.3**	5.6	**(39.8)**	(60.0)
Acquisitions and disposals	**–**	6.2	**–**	–	**–**	–	**–**	6.2
Credit/(charge) for the year	**(0.6)**	3.6	**(2.3)**	(4.6)	**(4.2)**	(0.1)	**(7.1)**	(1.1)
Recognised directly in equity	**–**	–	**34.9**	20.6	**18.4**	(2.2)	**53.3**	18.4
Exchange adjustments	**(3.7)**	(3.3)	**–**	–	**–**	–	**(3.7)**	(3.3)
Balance at 30 April	**(70.5)**	(66.2)	**55.7**	23.1	**17.5**	3.3	**2.7**	(39.8)

At 30 April 2009, deferred tax assets and liabilities were recognised for all taxable temporary differences:

– except where the deferred tax liability arises on goodwill;
– except on initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
– in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

At 30 April 2009, deferred tax assets were recognised for all taxable temporary differences, carry forward of unused tax assets and unused tax losses except where it is unlikely that taxable profit will be available against which to offset the loss.

Legislation to remove tax depreciation on UK Industrial Buildings was enacted in the year and as a result deferred tax of £13.3m has been provided in respect of temporary differences relating to certain UK buildings. This has been treated as an exceptional item.

22. PROVISIONS

	Employee benefits £m	Restructuring £m	Other £m	Total £m
Balance at 1 May 2008	5.2	11.3	12.5	29.0
Acquired during the year	–	–	0.5	0.5
Provisions made during the year	0.6	20.7	2.1	23.4
Provisions used during the year	(0.4)	(8.9)	(7.4)	(16.7)
Provisions reversed during the year	–	(1.3)	–	(1.3)
Effect of movements in foreign exchange	0.4	0.5	0.3	1.2
Balance at 30 April 2009	**5.8**	**22.3**	**8.0**	**36.1**
Non-current	5.5	5.4	3.1	14.0
Current	0.3	16.9	4.9	22.1
	5.8	**22.3**	**8.0**	**36.1**

The provision for employee benefits mainly represents that for long-service awards. The restructuring provision includes amounts associated with the closures and restructuring costs described in note 4. Other provisions mainly relate to an acquired onerous service contract (see note 30) and to provisions for vacant leaseholds and various legal claims. The timing of the utilisation of these provisions is uncertain, except where the associated costs are contractual, in which case the provision is utilised over the time period specified in the contract.

23. CAPITAL AND RESERVES

Reconciliation of movement in capital and reserves

	Share capital £m	Share premium £m	Hedging reserve £m	Translation reserve £m	Retained earnings			Total reserves attributable to equity shareholders £m	Minority interests £m	Total equity £m
					Own shares £m	Other £m	Total retained earnings £m			
Balance at 1 May 2007	39.3	262.9	(1.5)	2.8	(3.0)	268.9	265.9	569.4	(2.3)	567.1
Profit for the period	–	–	–	–	–	76.6	76.6	76.6	1.6	78.2
Actuarial losses recognised in the pension schemes	–	–	–	–	–	(73.0)	(73.0)	(73.0)	–	(73.0)
Movement on deferred tax relating to the actuarial losses	–	–	–	–	–	21.4	21.4	21.4	–	21.4
Currency translation differences (including tax)	–	–	–	24.3	–	–	–	24.3	0.7	25.0
Changes in the fair value of cash flow hedges (including tax)	–	–	14.1	–	–	–	–	14.1	–	14.1
Amounts recognised in profit or loss during the year (including tax)	–	–	0.4	–	–	–	–	0.4	–	0.4
New share capital issued	–	0.2	–	–	–	–	–	0.2	–	0.2
Own shares acquired	–	–	–	–	(2.0)	–	(2.0)	(2.0)	–	(2.0)
Share-based payment expense (including tax)	–	–	–	–	0.8	0.1	0.9	0.9	–	0.9
Dividends paid to shareholders	–	–	–	–	–	(33.7)	(33.7)	(33.7)	–	(33.7)
Transactions with minority interest (Toscana Ondulati SpA)	–	–	–	–	–	3.1	3.1	3.1	1.2	4.3
Purchase of minority interest shares (DS Smith Polska S.A.)	–	–	–	–	–	–	–	–	(1.0)	(1.0)
Balance at 30 April 2008	39.3	263.1	13.0	27.1	(4.2)	263.4	259.2	601.7	0.2	601.9
Profit for the period	–	–	–	–	–	(11.8)	(11.8)	(11.8)	0.6	(11.2)
Actuarial losses recognised in the pension schemes	–	–	–	–	–	(123.4)	(123.4)	(123.4)	–	(123.4)
Movement on deferred tax relating to the actuarial gains	–	–	–	–	–	34.9	34.9	34.9	–	34.9
Currency translation differences (including tax)	–	–	–	0.3	–	–	–	0.3	0.4	0.7
Changes in the fair value of cash flow hedges (including tax)	–	–	(5.3)	–	–	–	–	(5.3)	–	(5.3)
Amounts recognised in profit or loss during the year (including tax)	–	–	(4.5)	–	–	–	–	(4.5)	–	(4.5)
Amounts recognised in property, plant and equipment during the year	–	–	(0.5)	–	–	–	–	(0.5)	–	(0.5)
Own shares acquired	–	–	–	–	(0.2)	–	(0.2)	(0.2)	–	(0.2)
Share-based payment expense (including tax)	–	–	–	–	0.2	0.1	0.3	0.3	–	0.3
Dividends paid to Group shareholders	–	–	–	–	–	(34.4)	(34.4)	(34.4)		(34.4)
Dividends paid to minority interest	–	–	–	–	–	–	–	–	(1.9)	(1.9)
Transactions with minority interest (Toscana Ondulati SpA)	–	–	–	–	–	0.9	0.9	0.9	(0.9)	–
Balance at 30 April 2009	**39.3**	**263.1**	**2.7**	**27.4**	**(4.2)**	**129.7**	**125.5**	**458.0**	**(1.6)**	**456.4**

23. CAPITAL AND RESERVES CONTINUED

Share capital

	Number of shares			
	2009 Millions	2008 Millions	**2009 £m**	2008 £m
Ordinary equity shares of 10 pence each:				
Authorised	**410.0**	410.0	**41.0**	41.0
Issued, allotted, called up and fully paid	**393.4**	393.4	**39.3**	39.3

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In respect of the Company's shares that are held by the Group (see below), all rights are suspended until those shares are reissued. A reconciliation of the movement in share capital is given in note 9 to the Company balance sheet on page 105.

Translation reserve
The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

Hedging reserve
The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred. Refer to note 20(c) for further analysis of movements in the hedging reserve.

Own shares
The reserve for the Company's own shares comprises the cost of the Company's shares held by the Group. The Group operates a General Employee Benefit Trust, which acquires shares in the Company that can be used to satisfy the requirements of the Executive Share Option scheme, the Restricted Share Plan (discontinued in 2004) and the Long-Term Incentive Plan (established in 2004). At 30 April 2009, the Trust held 2.4m shares (2008: 2.4m shares). The market value of the shares at 30 April 2009 was £1.9m (2008: £3.1m). Dividends receivable on the shares owned by the Trust have been waived.

Minority interests
At the beginning of the year, the Group had a liability of £3.5m and a corresponding entry against minority interests in respect of the non-controlling shareholders' put option in Toscana Ondulati SpA. This amount was calculated with reference to the recent profitability of the company using a multiple based formula. The fair value of the put options increased during the year by £0.9m. This charge was recorded within finance costs through the income statement and then transferred out of retained earnings into minority interest.

24. POST-RETIREMENT BENEFITS

Liability for defined benefit obligations
The Group operates a funded, defined benefit scheme in the UK, the DS Smith Group Pension scheme ('the Group scheme'). In 2006/07 the Group operated a second funded, defined benefit scheme in the UK, the DS Smith Containers Pension scheme ('the Containers scheme'); the assets and liabilities of the Containers scheme were transferred to the Group scheme on 30 April 2007, with the effect that only the Group scheme operated from 1 May 2007. The Group made agreed annual contributions of £15.6m to the Group scheme in 2008/09 (2007/08: £14.6m). The Group operates various local pension arrangements for overseas operations and unfunded arrangements for senior executives: these are, in aggregate, not significant to the Group. The financial information given on pages 91 to 93 includes amounts related to these other arrangements, where appropriate. A charge over certain assets of the Group has been made as security for certain of the unfunded arrangements. The most recent actuarial valuation of the Group scheme was as at 30 April 2007, which has been updated to 30 April 2009 by a qualified independent actuary. All UK valuations used the projected unit method. The Group scheme is closed to new entrants. Because of this, the average age of the active members is likely to increase at future valuations and this may lead to an increasing current service contribution rate; this may be offset by a falling total pensionable salary resulting from leavers and retirements.

24. POST-RETIREMENT BENEFITS CONTINUED

Liability for defined benefit obligations

Principal actuarial assumptions are as follows:

	2009 %	2008 %	2007 %	2006 %
Discount rate for scheme liabilities	**6.4%**	5.9%	5.4%	5.1%
Inflation	**3.3%**	3.5%	2.9%	2.7%
Future salary increases	**4.3%**	4.5%	3.9%	3.7%
Future pension increases for pre 30 April 2005 service	**3.3%**	3.5%	2.9%	2.7%
Future pension increases for post 30 April 2005 service	**2.3%**	2.3%	2.3%	2.3%

The sensitivity of the liabilities and annual service costs in the main UK scheme to the key assumptions above is summarised below:

	Increase in pension liability £m	Increase in service costs £m
0.5% decrease in discount rate	(60.0)	(1.5)
0.5% increase in inflation	(60.0)	(0.9)
1 year increase in life expectancy	(20.0)	(0.3)

Future mortality is the most significant demographic assumption. The basic mortality table used by the Group at 30 April 2009 is PMA92/PFA92 (30 April 2008: PMA92/PFA92) with medium cohort mortality improvement. This means the mortality rates assumed for members of a particular age differ from those for members who will reach that age in the future. Studies have illustrated that the amount of pension, the location of employees and the nature of their work are significant factors on mortality. As a result, the basic mortality table rates are based on ages two years older than the members' actual age for non-pensioners and three years older for pensioners.

The current life expectancies (in years) are:

	2009		2008	
	Male	Female	Male	Female
Life expectancy at age 65				
Pensioner currently aged 65	**19.5**	**22.3**	19.4	22.2
Member currently aged 45	**21.3**	**24.1**	21.3	24.0

The amounts recognised in the balance sheet in respect of post-retirement benefits, and the expected long-term rates of return applied to the schemes' assets in the relevant financial period, are as follows:

	2009		2008		2007		2006	
	Expected rate of return %	Market value £m	Expected rate of return %	Market value £m	Expected rate of return %	Market value £m	Expected rate of return %	Market value £m
Equities	**7.4%**	**349.8**	7.6%	490.8	7.4%	527.1	7.5%	524.5
Bonds, gilts and cash (weighted average)	**5.1%**	**205.5**	4.4%	231.0	4.1%	210.8	4.3%	181.6
Total market value of assets		**555.3**		721.8		737.9		706.1
Present value of schemes' liabilities		**(746.6)**		(797.7)		(756.5)		(756.4)
Deficit in the schemes		**(191.3)**		(75.9)		(18.6)		(50.3)
Related deferred tax asset		**53.3**		21.4		5.6		15.0
Net pension liability		**(138.0)**		(54.5)		(13.0)		(35.3)

24. POST-RETIREMENT BENEFITS CONTINUED

Movements in the liability for defined benefit schemes' obligations recognised in the consolidated balance sheet

	2009 £m	2008 £m	2007 £m	2006 £m
Schemes' liabilities at 1 May	**(797.7)**	(756.5)	(756.4)	(674.1)
Employment benefit finance expense	**(46.4)**	(40.1)	(38.1)	(35.2)
Expense recognised in the income statement	**(11.7)**	(9.8)	(10.9)	(11.4)
Member contributions	**(6.2)**	(6.4)	(6.9)	(6.8)
Curtailments	**–**	–	–	3.3
Pension payments	**31.6**	28.0	31.3	24.2
Payments to the Pension Protection Fund	**1.5**	–	0.1	–
Actuarial gains and (losses) recognised in the consolidated statement of recognised income and expense	**84.0**	(10.8)	24.2	(56.4)
Effect of movements in foreign exchange	**(1.7)**	(2.1)	0.2	–
Schemes' liabilities at 30 April	**(746.6)**	(797.7)	(756.5)	(756.4)

Movements in the fair value of defined benefit schemes' assets recognised in the consolidated balance sheet

	2009 £m	2008 £m	2007 £m	2006 £m
Schemes' assets at 1 May	**721.8**	737.9	706.1	559.3
Employer contributions	**16.9**	16.8	17.3	16.8
Member contributions	**6.2**	6.4	6.9	6.8
Other contributions	**–**	0.7	–	–
Expected return on schemes' assets	**47.9**	48.9	46.1	36.4
Actuarial gains and (losses) recognised in the consolidated statement of recognised income and expense	**(207.4)**	(62.2)	(7.2)	110.8
Pension payments	**(31.4)**	(27.8)	(31.2)	(24.0)
Effect of movements in foreign exchange	**1.3**	1.1	(0.1)	–
Schemes' assets at 30 April	**555.3**	721.8	737.9	706.1

Expense recognised in the consolidated income statement

	2009 £m	2008 £m	2007 £m	2006 £m
Current service cost	**(9.7)**	(8.3)	(9.3)	(11.1)
Past service cost	**(0.8)**	(1.1)	(1.5)	(0.3)
Pension Protection Fund levy	**(1.2)**	(0.4)	(0.1)	–
Total service cost	**(11.7)**	(9.8)	(10.9)	(11.4)
Interest on schemes' liabilities	**(46.4)**	(40.1)	(38.1)	(35.2)
Expected return on schemes' assets	**47.9**	48.9	46.1	36.4
Employment benefit net finance income	**1.5**	8.8	8.0	1.2

24. POST-RETIREMENT BENEFITS CONTINUED

Analysis of amounts recognised in the consolidated statement of recognised income and expense

	2009 £m	2008 £m	2007 £m	2006 £m
Actual return less expected return on pension schemes' assets	**(207.4)**	(62.2)	(7.2)	110.8
Experience gains and (losses) arising on schemes' liabilities	**–**	16.1	10.3	(17.9)
Changes in assumptions underlying present value of schemes' liabilities	**84.0**	(26.9)	13.9	(38.5)
Actuarial (losses)/gains recognised in the consolidated statement of recognised income and expense	**(123.4)**	(73.0)	17.0	54.4

History of experience gains and losses

	2009 £m	2008 £m	2007 £m	2006 £m
Difference between expected and actual returns on schemes' assets	**(207.4)**	(62.2)	(7.2)	110.8
Above as a percentage of schemes' assets	**(37)%**	(9)%	(1)%	16%
Experience gains and (losses) arising on schemes' liabilities	**–**	16.1	10.3	(17.9)
Above as a percentage of the present value of schemes' liabilities	**–**	2%	1%	(2)%
Total amount recognised in the consolidated statement of recognised income and expense	**(123.4)**	(73.0)	17.0	54.4
Above as a percentage of the present value of schemes' liabilities	**(17)%**	(9)%	2%	7%

25. SHARE-BASED PAYMENT EXPENSE

The Group's share-based payment arrangements are as follows:

(i) An Executive Share Option Scheme (ESOS) was operated for Executive Directors and other senior executives, this scheme ceased to be operated from September 2008. Approved and unapproved options were granted to UK and overseas executives on an annual basis. The vesting of any options granted under this Scheme is subject to the achievement of long-term performance conditions, being that the growth in the Company's normalised earnings per share must match or exceed the growth in the UK Retail Prices Index plus an average of 3% per annum over the three-year period following grant. The base financial year for the purposes of measuring earnings per share growth was the financial year prior to the grant date. Normally, no part of the option will vest unless the long-term performance conditions have been achieved and the vesting period of three years' service has been attained.

(ii) In the past, Executive Directors and other senior executives received an award of shares in the Company equal in value to the participant's annual cash bonus, pursuant to a Restricted Share Plan (RSP). The award of these shares is dependent upon performance in the relevant financial year. There is a vesting period of three years' service. This scheme ceased to be operated from September 2004.

(iii) In September 2004, the Group established a Long-Term Incentive Plan (LTIP), this scheme ceased to be operated from September 2008. The key features of the plan are that:

- awards were made to selected Executive Directors and other senior executives over shares in the Company; performance will be measured over a single period of three financial years;
- awards will vest based on the Company's total shareholder return (being the increase in share price and the value of reinvested dividends) compared to a comparator group of companies, being the constituents of the FTSE Mid 250 Index (excluding investment trusts) for initial awards;
- if the Company's total shareholder return is ranked at the upper quartile of the comparator group or higher, the full award will vest, reducing on a straight-line basis to 30% of the award vesting for median performance. None of the award vests for below median performance; and
- additionally, no awards will vest, irrespective of total shareholder return performance, unless the Company's earnings per share growth matches or exceeds the growth in the Retail Prices Index over the three-year period.

(iv) A Deferred Share Bonus Plan (DSBP) is operated for Executive Directors. Shares awarded to Directors under the Plan will vest automatically if the Director is still employed by the Company three years after the grant of the award.

(v) A Replacement Deferred Share Bonus Plan (RDSP) was introduced during 2007/08 for Mr S W Dryden. The shares awarded under the Plan replace similar deferred share awards granted to Mr Dryden by his previous employer.

(vi) A Performance Share Plan (PSP) was approved during the year to replace the ESOS and LTIP plans above (see Remuneration Report for further details).

25. SHARE-BASED PAYMENT EXPENSE CONTINUED

The key features of the PSP are as follows:

- awards are made to Executive Directors and other senior executives.
- the individual grant limit under the PSP is 150% of basic salary per annum (in exceptional circumstances this may be increased to 200% of basic salary). During the 2008/09 period Executive Directors received an award under the PSP of 150% of basic salary. The other most senior executives generally received a PSP award of 100% basic salary.
- the vesting of each 2008 award is subject to three equally weighted performance measures:

  (i) the Company's total shareholder return (TSR) compared to the constituents of the Industrial Goods and Services Supersector within the FTSE 250;

  (ii) average adjusted earnings per share (EPS);

  (iii) average adjusted return on average capital employed (ROACE).
- for those senior executives working in one of the four Business Segments, for 2008 the three measures are TSR of the Company, average adjusted operating profit and average adjusted ROACE for the relevant segment.
- future awards under the PSP will be subject to a combination of the same performance measures however the weightings of the measures may be altered and certain measures may not be used in all years.
- the 2009 award will be reduced to a maximum of 100% of basic salary and the award weightings will be as follows:

  80% each award will be based on a TSR component as per above; and

  20% of each award will be based on average adjusted ROACE.
- for those senior executives working in one of the four Business Segments, for 2009 the two measures are TSR and ROACE for the relevant segment.
- each award's performance will be measured over the three financial years commencing on 1 May preceding the award date.
- see the Remuneration Report on page 42 for a summary of threshold and upper targets for the 2008/09 and 2009/10 PSP awards.

The total number of options outstanding and exercisable under share arrangements as at 30 April 2009 was as follows:

	Options outstanding				Options exercisable	
	Number of shares	Option price range (p)	Weighted average remaining contract life (years)	Weighted average exercise price (p)	Number exercisable	Weighted average exercise price (p)
Executive Share Option Scheme (1992)	52,163	166.6	0.3	166.6	52,163	166.6
Executive Share Option Scheme (1999)	5,541,320	135.2-243.8	5.6	162.4	3,567,620	148.5
Restricted Share Plan	29,373	Nil	2.3	Nil	29,373	Nil
Long-Term Incentive Plan	1,943,348	Nil	0.7	Nil	Nil	Nil
Deferred Share Bonus Plan	222,595	Nil	1.9	Nil	Nil	Nil
Replacement Deferred Share Bonus Plan	113,178	Nil	1.5	Nil	Nil	Nil
Performance Share Plan	4,089,991	Nil	2.4	Nil	Nil	Nil

The effect on earnings per share of potentially dilutive shares issuable under share-based payment arrangements is shown in note 8.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Executive Share Option Scheme (1992)		Executive Share Option Scheme (1999)		Restricted Share Plan		Long-Term Incentive Plan	
2009	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)
Balance at 1 May 2008	172.0	218	161.7	6,790	Nil	54	Nil	3,588
Granted	Nil	–	Nil	–	Nil	–	Nil	–
Exercised	Nil	–	Nil	–	Nil	(25)	Nil	(56)
Lapsed	173.7	(165.4)	158.2	(1,249)	Nil	–	Nil	(1,589)
Balance at 30 April 2009	**166.6**	**53**	**162.4**	**5,541**	**Nil**	**29**	**Nil**	**1,943**
Exercisable at 30 April 2009	**166.6**	**53**	**148.5**	**3,568**	**Nil**	**29**	**Nil**	**Nil**

25. SHARE-BASED PAYMENT EXPENSE CONTINUED

2009 continued	**Deferred Share Bonus Plan** Weighted average exercise price (p)	**Deferred Share Bonus Plan** Options ('000s)	**Replacement Deferred Share Bonus Plan** Weighted average exercise price (p)	**Replacement Deferred Share Bonus Plan** Options ('000s)	**Performance Share Plan** Weighted average exercise price (p)	**Performance Share Plan** Options ('000s)
Balance at 1 May 2008	Nil	69	Nil	143	Nil	–
Granted	Nil	153	Nil	–	Nil	4,090
Exercised	Nil	–	Nil	(30)	Nil	–
Lapsed	Nil	–	Nil	–	Nil	–
Balance at 30 April 2009	**Nil**	**222**	**Nil**	**113**	**Nil**	**4,090**
Exercisable at 30 April 2009	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**

2008	Executive Share Option Scheme (1992) Weighted average exercise price (p)	Executive Share Option Scheme (1992) Options ('000s)	Executive Share Option Scheme (1999) Weighted average exercise price (p)	Executive Share Option Scheme (1999) Options ('000s)	Restricted Share Plan Weighted average exercise price (p)	Restricted Share Plan Options ('000s)	Long-Term Incentive Plan Weighted average exercise price (p)	Long-Term Incentive Plan Options ('000s)
Balance at 1 May 2007	169.4	340	150.0	7,192	Nil	536	Nil	3,987
Granted	Nil	–	244.0	938	Nil	–	Nil	948
Exercised	164.8	(21)	148.2	(132)	Nil	482	Nil	(23)
Lapsed	164.8	(101)	157.6	(1,208)	Nil	–	Nil	(1,324)
Balance at 30 April 2008	172.0	218	161.7	6,790	Nil	54	Nil	3,588
Exercisable at 30 April 2008	172.0	218	146.4	126	Nil	54	Nil	Nil

2008 continued	Deferred Bonus Plan Weighted average exercise price (p)	Deferred Bonus Plan Options ('000s)	Replacement Deferred Share Bonus Plan Weighted average exercise price (p)	Replacement Deferred Share Bonus Plan Options ('000s)
Balance at 1 May 2007	Nil	–	Nil	–
Granted	Nil	95	Nil	143
Exercised	Nil	–	Nil	–
Lapsed	Nil	(26)	Nil	–
Balance at 30 April 2008	Nil	69	Nil	143
Exercisable at 30 April 2008	Nil	Nil	Nil	Nil

The average share price of the Company during the financial year was 93.7 pence (2007/08: 205.4 pence).

25. SHARE-BASED PAYMENT EXPENSE CONTINUED

The total expense recognised as employee costs is as follows:

	2009 £m	2008 £m
Share-based incentive awards granted in 2002/03	**–**	0.1
Share-based incentive awards granted in 2003/04	**–**	0.7
Share-based incentive awards granted in 2004/05	**(0.1)**	–
Share-based incentive awards granted in 2005/06	**0.2**	0.5
Share-based incentive awards granted in 2006/07	**(0.4)**	0.3
Share-based incentive awards granted in 2007/08	**0.2**	0.5
Share-based incentive awards granted in 2008/09	**0.4**	–
Total expense recognised as employee costs	**0.3**	2.1

The fair value of awards granted in the period relates to the PSP and the DSBP schemes. This is the first year of operation for the PSP scheme, accordingly there is no comparative information.

The fair value of the PSP award granted during the period determined using the stochastic valuation model, was £2.2m. The significant inputs into the model were share price of £1.24 for the PSP at the grant date; the exercise prices shown above; expected volatility of share price of 37.5%; scheme life disclosed above; annual risk-free interest rate of 4.2% and expected dividend yield of 7.1%. The volatility of share price returns measured as the standard deviation of expected share price returns is based on statistical analysis of average weekly share prices over a period of three years.

The significant input into the model for the DSBP plan was share price of £1.15 (2008: £2.37) at the grant date.

There were no grants for the LTIP or ESOS during the period as these plans ceased to be operated during the 2008/09 period.

The fair value of options granted during the 2008 period, determined using the stochastic valuation model, was £2.0m. The significant inputs into the model were: share price of £2.37 for LTIP, £2.44 for ESOS; exercise prices shown above; standard deviation of expected share price returns of 24.1% for LTIP and 26.6% for ESOS; options life disclosed above; annual risk-free interest rate of 5.5% for LTIP and 5.4% for ESOS; and expected dividend yield of 3.6% for LTIP and 3.5% for ESOS. The volatility of share price returns measured as the standard deviation of expected share price returns was based on statistical analysis of daily share prices over a period of three to six years.

26. CASH GENERATED FROM OPERATIONS

	2009 £m	2009 £m	2008 £m	2008 £m
Profit for the financial year		**(11.2)**		78.2
Adjustments for				
Exceptional item charged to income statement	**55.7**		1.9	
Cash outflow for exceptional items	**(17.2)**		(5.8)	
Depreciation and amortisation	**69.9**		62.0	
Profit on sale of non-current assets	**(1.7)**		(4.4)	
Share of profit of associates before exceptional loss of £(5.1)m (2007/08: £nil)	**(0.6)**		(3.4)	
Employment benefit net finance income	**(1.5)**		(8.8)	
Share-based payment expense	**0.3**		2.1	
Finance income	**(2.5)**		(3.3)	
Finance costs	**26.1**		24.1	
Other non-cash items	**–**		(1.3)	
Income tax expense	**28.0**		30.9	
		156.5		94.0
Changes in				
Inventories	**25.5**		(11.8)	
Trade and other receivables	**70.8**		(20.1)	
Trade and other payables	**(65.5)**		45.1	
Provisions and employee benefits	**(9.7)**		(5.6)	
		21.1		7.6
Cash generated from operations		**166.4**		179.8

27. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2009 £m	2008 £m
Operating profit before exceptional items	94.0	119.6
Depreciation and amortisation	69.9	62.0
EBITDA	163.9	181.6
Working capital movement	30.8	13.2
Other	(11.1)	(9.2)
Cash generated from operations before exceptional cash items	183.6	185.6
Capital expenditure payments	(87.4)	(66.5)
Proceeds from sales of assets and investments	7.7	9.3
Tax paid	(21.0)	(27.8)
Net interest paid	(23.0)	(16.8)
Dividends received from associate	–	1.0
Free cash flow before net (acquisitions)/disposals and dividends	59.9	84.8
Exceptional cash costs	(17.2)	(5.8)
Dividends paid to Group shareholders	(34.4)	(33.7)
Dividends paid to minorities in Group subsidiaries	(1.9)	–
Net acquisitions of subsidiaries	(1.2)	(87.2)
Net cash flow	5.2	(41.9)
Proceeds from the issue of share capital	–	0.2
Purchase of own shares	(0.2)	(2.0)
Net debt acquired	(0.2)	(1.3)
Foreign exchange and fair value movements (note 17)	(44.5)	(25.6)
Net debt movement	(39.7)	(70.6)
Opening net debt	(251.8)	(181.2)
Closing net debt	(291.5)	(251.8)

28. OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

	2009 £m	2008 £m
Less than one year	21.0	23.6
Between one and five years	58.9	65.7
More than five years	35.7	37.9
	115.6	127.2

Operating lease payments represent rentals payable by the Group for certain of its properties, machines, vehicles and office equipment.

As at 30 April 2009, the Group's future minimum sub-lease receipts totalled £1.1m (2008: £1.2m), of which: £0.2m (2008: £0.2m) falls within one year; £0.9m (2008: £0.8m) between one and five years; and £nil (2008: £0.2m) after five years.

29. CAPITAL COMMITMENTS

As at 30 April 2009, the Group had committed to incur capital expenditure of £2.9m (2008: £19.3m).

30. ACQUISITIONS AND DISPOSALS

2008/09

Vale Paper Limited

On 2 September 2008 the Group acquired the assets of Vale Paper Limited, a waste paper collection business in the UK, for a consideration of £1.2m. Further deferred consideration of £0.5m is due 18 months after the acquisition subject to certain performance measures being achieved.

2007/08

(a) New Thames and Grovehurst Energy

On 29 February 2008, the Group acquired 100% of the voting share capital of M-real New Thames Limited, which owned a paper mill in Kent, UK. On this date and also as part of the same acquisition, the Group acquired the balance of the voting share capital of its joint venture, Grovehurst Energy Limited, not already owned by the Group. Grovehurst Energy provides energy and other services to the site on which the New Thames Mill operates. The joint venture in Grovehurst Energy Limited was entered into in 1988 in connection with the Group's acquisition of the Kemsley Mill, which is adjacent to the New Thames Mill. The results of Grovehurst Energy have been consolidated as a subsidiary from 29 February 2008.

The impact on the Group's assets and liabilities was as follows:

	Carrying values before acquisition £m	Fair values £m
Intangible assets (EU emission allowances)	–	5.1
Property, plant and equipment	46.8	61.2
Inventories	3.0	3.0
Trade and other receivables	1.3	12.2
Trade and other payables	(2.5)	(3.9)
Provisions	–	(7.7)
Net assets acquired	48.6	69.9
Goodwill		–
Consideration		69.9

Consideration satisfied by:

Cash paid of £71.1m (including £1.1m of acquisition costs), being £67.4m in relation to New Thames and £3.7m for Grovehurst Energy, less cash and cash equivalents acquired of £1.2m.

The fair value adjustments relate to the valuation of surplus EU emission allowances received as part of the acquisition; the valuation of property, plant and equipment, as determined by an external valuation firm; recognition of a provision for an onerous service contract; and deferred and current tax assets recognised on acquisition. Deferred tax is also recognised on the temporary timing differences created by the fair value adjustments.

(b) Other acquisitions

On 4 March 2008, the Group acquired 100% of the voting equity instruments of Multigraphics Holdings Limited, a print and retail display business in the UK, for a consideration of £6.7m. The excess of the consideration over the fair value of net assets acquired of £3.1m, which includes an intangible asset of £2.6m recognised in relation to the value of the acquired order book (with an estimated useful life of ten years), has been recognised as goodwill in these consolidated financial statements.

During the year, further share capital in Toscana Ondulati SpA was acquired for £11.9m (see note 23).

On 30 September 2005, the Group acquired 100% of the voting share capital of Timmermans NV. During 2007/08, additional deferred consideration of £2.5m became due to the previous owners following the satisfaction of certain performance criteria of the acquired business.

31. RELATED PARTIES

Identity of related parties

In the normal course of business the Group undertakes a wide variety of transactions with certain of its subsidiaries (see note 32) and associates (see note 12). The key management personnel of DS Smith Plc comprise the Chairman, Executive Directors and Non-Executive Directors. The compensation of key management personnel can be found in the Remuneration Report set out on pages 41 to 48 of the Annual Report. Certain key management also participate in the Group's share option programme (refer to note 25). Included within the share-based payment expense is a charge of £0.2m (2008: £0.7m) relating to key management.

Other related party transactions

	2009 £m	2008 £m
Sales to associates and joint ventures	**–**	17.4
Purchases from associates and joint ventures	**0.4**	0.5

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32. DS SMITH GROUP COMPANIES

Control of the Group

The Group's ultimate parent company is DS Smith Plc.

List of key consolidated companies

	Country of incorporation or registration	Ownership interest 2009
UK Paper and Corrugated Packaging		
St Regis Paper Company Limited	England	100%*
SRP New Thames Limited	England	100%*
A. A. Griggs and Company Limited	England	100%*
DS Smith Packaging Limited	England	100%*
Continental European Corrugated Packaging		
DS Smith Kaysersberg S.A.S.	France	100%*
DS Smith Polska S.A.	Poland	100%*
Toscana Ondulati SpA	Italy	92%*
DS Smith Çopikas AS	Turkey	100%*
Plastic Packaging		
DS Smith Plastics Limited	England	100%*
Cartón Plástico s.a.	Spain	100%*
DW Plastics NV	Belgium	100%*
Ducaplast S.A.S.	France	100%*
Demes Logistics GmbH & Co KG	Germany	100%*
David S. Smith America Inc.	USA	100%*
DSS Rapak Inc.	USA	100%*
StePac L.A. Limited	Israel	90%*
Rapak GmbH & Co KG Systemverpackungen	Germany	100%*
Rapak Asia Pacific Limited	New Zealand	100%*
Office Products Wholesaling		
Spicers Limited	England	100%*
Spicers (Ireland) Limited	Ireland	100%*
Spicers France SAS	France	100%*
Spicers NV	Belgium	100%*

* indirectly held by DS Smith Plc

A complete list of the Group's companies is available from the registered office.

33. SUBSEQUENT EVENTS

No material events occurred after the balance sheet date that require disclosure.

COMPANY BALANCE SHEET PREPARED IN ACCORDANCE WITH UK GAAP

As at 30 April 2009

	Note	2009 £m	2008 £m
Fixed assets			
Tangible assets	4	**1.5**	1.5
Investments	5	**357.0**	995.3
		358.5	996.8
Current assets			
Debtors: amounts falling due within one year	6	**21.0**	48.0
Debtors: amounts falling due after more than one year	6	**1,092.5**	529.2
Cash at bank and in hand		**1.7**	0.3
		1,115.2	577.5
Creditors: amounts falling due within one year			
Trade and other creditors	7	**(44.9)**	(68.0)
Borrowings	7	**(47.1)**	(32.4)
Net current assets		**1,023.2**	477.1
Total assets less current liabilities		**1,381.7**	1,473.9
Creditors: amounts falling due after more than one year			
Trade and other creditors	7	**(24.3)**	(46.3)
Borrowings	7	**(823.6)**	(798.6)
Provisions for liabilities	8	**(2.7)**	(0.6)
Net assets excluding pension liability		**531.1**	628.4
Net pension liability	2	**(134.4)**	(51.9)
Net assets including pension liability		**396.7**	576.5
Capital and reserves			
Called up share capital	9	**39.3**	39.3
Share premium account	10	**263.1**	263.1
Acquisition reserve	10	**–**	88.1
Profit and loss account	10	**94.3**	186.0
Shareholders' funds		**396.7**	576.5

Approved by the Board on 24 June 2009 and signed on its behalf by
A D Thorne, Director
S W Dryden, Director
The notes on pages 102 to 106 form part of these accounts.

NOTES TO THE COMPANY BALANCE SHEET PREPARED IN ACCORDANCE WITH UK GAAP CONTINUED

1. SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies, which have been applied consistently, is set out below:

(a) Accounting basis

The financial statements have been prepared in accordance with applicable accounting standards.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

As the results of the Company are being presented together with its consolidated financial statements (refer to pages 54 to 100), the Company has taken advantage of the exception contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the Group (or investees of the Group qualifying as related parties).

The Company has also taken advantage of the exemption in FRS 29 'Financial instruments: disclosures' not to present Company only information as the disclosures provided in the notes to the consolidated financial statements comply with the requirements of this standard.

(b) Income recognition

Dividend income from subsidiary undertakings is recognised in the profit and loss account when declared by the subsidiary undertaking.

(c) Tangible fixed assets

Tangible fixed assets are stated at cost. Depreciation is calculated to write off the cost or valuation less the estimated residual value of all tangible fixed assets in equal annual installments over their estimated useful lives at the following rates:

Plant, machinery, fixtures and fittings	3 – 5 years

(d) Fixed asset investments

Fixed asset investments are valued at cost less provisions for impairment.

(e) Deferred taxation

In accordance with FRS 19, deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise, provided at current tax rates and based on current legislation. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

(f) Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the financial year-end.

Exchange differences arising on translation are taken to the profit and loss account.

(g) Pension contributions

The amounts charged to operating profit in respect of defined benefit arrangements are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and duration to the scheme liabilities. The resulting defined benefit net asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

(h) Financial instruments

Financial instruments are reported in accordance with FRS 26 'Financial Instruments: Recognition and Measurement'.

The Group uses derivative financial instruments, primarily interest rate, currency and commodity swaps, to manage interest rate, currency and commodity risks associated with the Group's underlying business activities and the financing of these activities. The Group has a policy not to, and does not, undertake any speculative activity in these instruments.

Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivative financial instruments are accounted for as hedges when designated as hedges at the inception of the contract and when the financial instruments provide an effective hedge of the underlying risk. Any gains or losses arising from the hedging instruments are offset against the hedged items.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; and
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

(i) Share options

The Company operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The fair value of the options granted is measured using a stochastic model, taking into account the terms and conditions upon which the options were granted. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the numbers of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

The proceeds received as a result of such options being exercised, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium when the options are exercised.

Where applicable, the fair value of employee services received by subsidiary undertakings within the DS Smith Plc Group in exchange for options granted by the Company is recognised as an expense in the financial statements of the subsidiary by means of a recharge from the Company.

2. PENSIONS

Details of the assumptions used in the calculation of the underlying assets and liabilities are disclosed in note 24 to the consolidated financial statements on page 91.

	2009 £m	2008 £m
Market value of schemes' assets	**544.7**	711.4
Present value of schemes' liabilities	**(731.3)**	(783.5)
Deficit in the schemes	**(186.6)**	(72.1)
Related deferred tax asset	**52.2**	20.2
Net pension liability	**(134.4)**	(51.9)

The movement in the deficit during the year is as follows:

	2009 £m	2008 £m
Opening deficit	**(72.1)**	(14.0)
Service cost	**(9.3)**	(8.8)
Pension Protection Fund Levy	**(1.2)**	(0.4)
Contributions	**15.6**	15.4
Payments to Pension Protection Fund	**1.5**	–
Other finance income	**1.6**	8.8
Actuarial gains and losses	**(122.9)**	(73.3)
Net payments	**0.2**	0.2
Closing deficit	**(186.6)**	(72.1)

Information on other aspects of the Company's defined benefit arrangements is materially the same as set out in note 24 to the consolidated financial statements.

3. EMPLOYEE INFORMATION

The average number of employees employed by the Company during the year was 31 (2007/08: 35).

	2009 £m	2008 £m
Wages and salaries	**3.9**	5.1
Social security costs	**0.2**	0.6
Pension costs	**0.4**	0.3
Total	**4.5**	6.0

Note 25 to the consolidated financial statements sets out the disclosure information required for the Company's share-based payments.

NOTES TO THE COMPANY BALANCE SHEET PREPARED IN ACCORDANCE WITH UK GAAP CONTINUED

4. TANGIBLE FIXED ASSETS

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
Balance at 1 May 2008	1.4	3.2	4.6
Additions	–	0.1	0.1
Balance at 30 April 2009	**1.4**	**3.3**	**4.7**
Depreciation and impairment losses			
Balance at 1 May 2008	–	(3.1)	(3.1)
Depreciation charge for the year	–	(0.1)	(0.1)
Balance at 30 April 2009	**–**	**(3.2)**	**(3.2)**
Carrying amount			
Balance as at 1 May 2008	1.4	0.1	1.5
Balance as at 30 April 2009	**1.4**	**0.1**	**1.5**

5. FIXED ASSET INVESTMENTS

	Shares in Group undertakings £m	Other £m	Total £m
Balance at 1 May 2008	995.3	–	995.3
Additions	522.3	–	522.3
Disposals	(995.3)	–	(995.3)
Impairment charge	(165.3)	–	(165.3)
Balance at 30 April 2009	**357.0**	**–**	**357.0**

The additions and disposals relate to the restructuring of the Group's holding companies. The impairment charge arose following the payment of a dividend from a Group holding company to the Company equivalent to this amount.

The Company's principal trading subsidiary undertakings at 30 April 2009 are shown in note 32 of the consolidated financial statements.

6. DEBTORS

	2009 £m	2008 £m
Amounts falling due within one year		
Amounts owed by subsidiary undertakings	**0.1**	29.7
Corporation tax	**11.3**	9.2
Other debtors includes other tax	**0.9**	1.6
Prepayments and accrued income	**0.2**	0.2
Derivative financial instruments	**8.5**	7.3
	21.0	48.0
Amounts falling due after more than one year		
Amounts owed by subsidiary undertakings	**1,078.8**	518.5
Deferred tax asset	**–**	0.5
Derivative financial instruments	**13.7**	10.2
	1,092.5	529.2
Total debtors	**1,113.5**	577.2

7. CREDITORS

	2009 £m	2008 £m
Trade and other creditors falling due within one year		
Amounts owed to subsidiary undertakings	**31.9**	52.8
Other tax and social security payables	**3.1**	2.6
Accruals and deferred income	**9.7**	12.4
Derivative financial instruments	**0.2**	0.2
	44.9	68.0
Trade and other creditors falling due after more than one year		
Deferred tax liability	**0.6**	5.2
Derivative financial instruments	**23.7**	41.1
	24.3	46.3
Borrowings falling due within one year		
Bank loans and overdrafts	**47.1**	32.4
	47.1	32.4
Borrowings falling due after more than one year (see note 19 of the consolidated accounts for further details)		
Bank loans	**77.5**	68.2
Loans from subsidiary undertakings	**500.1**	546.4
Other loans	**246.0**	184.0
	823.6	798.6
Total creditors	**939.9**	945.3

8. PROVISIONS FOR LIABILITIES

	Restructuring £m	Other £m	Total £m
Balance at 1 May 2008	–	0.6	0.6
Charged to the profit and loss account	1.9	0.2	2.1
Balance at 30 April 2009	**1.9**	**0.8**	**2.7**

9. SHARE CAPITAL

	Number of shares			
	2009 Millions	2008 Millions	2009 £m	2008 £m
Ordinary equity shares of 10 pence each				
Authorised	**410.0**	410.0	**41.0**	41.0
Issued, allotted, called up and fully paid	**393.4**	393.4	**39.3**	39.3

NOTES TO THE COMPANY BALANCE SHEET PREPARED IN ACCORDANCE WITH UK GAAP CONTINUED

10. RESERVES

	Share premium account £m	Acquisition reserve £m	Profit and loss account			
			Own shares £m	Hedging reserves £m	Other £m	Total £m
At 1 May 2008	263.1	88.1	(4.2)	13.3	176.9	186.0
Retained (loss)/profit for the financial year	–	(88.1)	–	–	9.5	9.5
Actuarial losses on pension schemes	–	–	–	–	(122.9)	(122.9)
Tax on actuarial losses on pension schemes	–	–	–	–	34.4	34.4
Changes in the fair value of cash flow hedges (including tax)	–	–	–	(12.2)	–	(12.2)
Own shares acquired	–	–	(0.2)	–	–	(0.2)
Share-based payments (after tax)	–	–	0.2	–	(0.5)	(0.3)
At 30 April 2009	**263.1**	**–**	**(4.2)**	**1.1**	**97.4**	**94.3**

The Company made a (loss)/profit for the financial year of £(44.4)m (2007/08: £31.4m) including the recognition of intra-group dividends.

No separate profit and loss account is presented for the Company as permitted by Section 230(4) of the Companies Act 1985.

The Company's profit and loss account includes an amount of £nil (2007/08: £76.6m) which is considered non-distributable.

11. CONTINGENT LIABILITIES

The Company has guaranteed the gross overdrafts and loans of certain subsidiary undertakings, which at 30 April 2009 amounted to £64.5m (2008: £124.1m).

FIVE-YEAR FINANCIAL SUMMARY

	Year ended 30 April 2005 £m	Year ended 30 April 2006 £m	Year ended 30 April 2007 £m	Year ended 30 April 2008 £m	**Year ended 30 April 2009 £m**
Revenue					
UK Paper and Corrugated Packaging	631.2	649.6	687.1	753.2	**785.8**
Continental European Corrugated Packaging	265.7	276.6	308.0	346.0	**363.4**
Plastic Packaging	195.9	202.4	201.8	223.4	**236.9**
Office Products Wholesaling	499.7	518.7	569.2	644.9	**720.5**
Office Products Manufacturing[3]	46.8	5.4	–	–	**–**
Intra-segment	(14.4)	–	–	–	**–**
Group revenue	1,624.9	1,652.7	1,766.1	1,967.5	**2,106.6**
Operating profit[1]					
UK Paper and Corrugated Packaging	31.6	20.5	36.5	68.5	**36.5**
Continental European Corrugated Packaging	20.2	20.1	18.2	20.3	**30.4**
Plastic Packaging	9.3	7.2	10.2	10.7	**7.0**
Office Products Wholesaling	21.5	12.6	12.8	20.1	**20.1**
Office Products Manufacturing[3]	–	–	–	–	**–**
Group operating profit[1]	82.6	60.4	77.7	119.6	**94.0**
Share of profit of associates[1]	3.4	4.1	3.9	3.4	**0.6**
Net finance cost	(13.2)	(12.3)	(15.0)	(20.8)	**(23.6)**
Employee benefit net finance income	1.1	1.2	8.0	8.8	**1.5**
Profit before taxation and exceptional items	73.9	53.4	74.6	111.0	**72.5**
Exceptional items	(9.6)	(42.4)	3.9	(1.9)	**(55.7)**
Profit before income tax	64.3	11.0	78.5	109.1	**16.8**
Free cash flow[1]	58.3	67.8	91.9	84.8	**59.9**
Capital expenditure[4]	53.6	62.7	66.0	68.6	**83.2**
Depreciation and amortisation	68.6	67.2	62.9	62.0	**69.9**
Average capital employed[2]	949.0	930.0	895.0	925.7	**1,009.5**
Shareholders' funds	519.8	541.5	567.1	601.9	**456.4**
Net debt	260.7	237.8	181.2	251.8	**291.5**
Adjusted return on sales[1]	5.1%	3.7%	4.4%	6.1%	**4.5%**
Adjusted return on average capital employed[1]	8.7%	6.5%	8.7%	12.9%	**9.3%**
Gearing	50.2%	43.9%	32.0%	41.8%	**63.9%**
Adjusted earnings per share[1]	14.4p	10.0p	13.1p	19.9p	**12.6p**
Dividends per share	8.4p	8.4p	8.6p	8.8p	**4.4p**
Adjusted dividend cover[1]	1.7x	1.2x	1.5x	2.3x	**2.9x**
Net assets per share	133.6p	138.5p	144.9p	153.9p	**116.7p**

1 before exceptional items
2 average capital employed is defined in note 2 on page 65
3 the Office Products Manufacturing business was sold in July 2005
4 capital expenditure represents additions to intangible assets and property, plant and equipment

NOTICE OF ANNUAL GENERAL MEETING 2009

Notice is hereby given that the Annual General Meeting of DS Smith Plc will be held at the Andaz (formerly Great Eastern) Hotel, Liverpool Street, London EC2M 7QN, on Tuesday 8 September 2009 at 12 noon to consider and, if thought fit, pass the following resolutions, of which Resolutions 1 to 7 will be proposed as ordinary resolutions and Resolutions 8, 9 and 10 will be proposed as special resolutions.

1 To receive and adopt the Directors' Report, the Auditors' Report and financial statements for the year ended 30 April 2009.

2 To declare a final dividend on the ordinary shares.

3 To approve the Report on Remuneration.

4 To re-elect Mr P M Johnson as a Director of the Company.

5 To re-appoint Deloitte LLP as auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are to be laid before the Company and to authorise the Directors to determine the remuneration of the auditors.

6 That the authorised share capital of the Company be increased from £41,000,000 to £70,000,000 by the creation of 290,000,000 additional ordinary shares of 10 pence each in the capital of the Company ranking *pari passu* in all respects with the existing ordinary shares of 10 pence each in the capital of the Company.

7 That:

(a) in accordance with article 6 of the Articles of Association of the Company

(i) the Directors be authorised to allot relevant securities up to a maximum nominal amount of £13,111,863.10; and further

(ii) the Directors be authorised to allot relevant securities up to an additional maximum nominal amount of £13,111,863.10 in connection with a rights issue (as defined in article 7 of the Company's Articles of Association);

(b) this authority shall expire at the conclusion of the next Annual General Meeting after the passing of this resolution or, if earlier, 1 November 2010; and

(c) all previous unutilised authorities under Section 80 of the Companies Act 1985 shall cease to have effect (save to the extent that the same are exercisable pursuant to Section 80(7) of the Companies Act 1985 by reason of any offer or agreement made prior to the date of this resolution which would or might require relevant securities to be allotted on or after that date).

8 That:

(a) in accordance with article 7 of the Articles of Association of the Company, the Directors be given power to allot equity securities for cash;

(b) the Directors be empowered to allot equity securities within Section 94(3A) of the Companies Act 1985 as if Section 89(1) of the Companies Act 1985 did not apply;

(c) the powers under paragraph (a) above (other than in connection with a rights issue) and paragraph (b) above shall be limited to the allotment of equity securities having a maximum nominal amount of £1,966,779;

(d) these authorities shall expire at the conclusion of the Annual General Meeting to be held in 2010 or, if earlier, 1 November 2010, save that the Company shall be entitled under such authorities to honour at any time before expiry thereof any commitment to allot its ordinary shares which will or might be concluded wholly or partly after the expiry of such authority; and

(e) all previous unutilised authorities under Section 95 of the Companies Act 1985 be revoked.

9 That in accordance with article 11 of the Articles of Association of the Company and the Companies Act 1985, the Company is generally and unconditionally authorised to make market purchases (within the meaning of the Companies Act 1985) of ordinary shares of 10 pence each in the capital of the Company in such manner and on such terms as the Directors may from time to time determine provided that:

(a) the maximum number of ordinary shares hereby authorised to be purchased is 39,335,589 ordinary shares;

(b) the minimum price which may be paid for each ordinary share is 10 pence (exclusive of expenses payable by the Company);

(c) the maximum price which may be paid for each ordinary share is an amount equal to the higher of 105% of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date of any such purchase and the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003 (in each case exclusive of expenses payable by the Company); and

(d) the authority hereby conferred shall, unless previously varied, revoked or renewed, expire at the conclusion of the Annual General Meeting to be held in 2010 or, if earlier, 1 November 2010, save that the Company shall be entitled under such authority to make at any time before the expiry thereof any contract to purchase its ordinary shares which will or might be concluded wholly or partly after the expiry of such authority.

10 That in accordance with the Company's Articles of Association, a general meeting (other than an Annual General Meeting) may be called on not less than 14 clear days' notice.

By Order of the Board

CAROLYN CATTERMOLE
Company Secretary
4-16 Artillery Row
London SW1P 1RZ

From end August 2009:
Beech House
Whitebrook Park
68 Lower Cookham Road
Maidenhead
Berkshire SL6 8XY

16 July 2009

NOTES

(i) Only those Members registered in the Register of Members of the Company as at 6pm on 6 September 2009 shall be entitled to attend and vote at the Meeting in respect of the number of shares registered in their names at that time.

(ii) Members are entitled to appoint a proxy to exercise all or any of their rights to attend and speak and vote on their behalf at the Meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company.

(iii) A Form of Proxy is enclosed. To be effective, Forms of Proxy must reach the Registrars at the address shown on the Form not later than 48 hours before the time of the Meeting. Completion and return of the Form will not, however, prevent a Member from attending and voting at the Meeting.

(iv) Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between them and the shareholder by whom they were nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, they may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

(v) The statement of rights of shareholders in relation to the appointment of proxies in Notes (ii) and (iii) above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.

(vi) Nominated persons are reminded that they should contact the registered holder of their shares (and not the Company) on matters relating to their investments in the Company.

(vii) CREST Members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting to be held on 8 September 2009 and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal Members or other CREST sponsored Members, and those CREST Members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by the latest time for receipt of proxy appointments specified in (iii) above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST Members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST Member concerned to take (or, if the CREST Member is a CREST personal Member or sponsored Member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST Members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

(viii) As at 24 June 2009 (being the latest practicable date prior to publication of this document), the Company's issued share capital consists of 393,355,893 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 24 June 2009 are 393,355,893.

(ix) In order to facilitate voting by corporate representatives at the Meeting, arrangements will be put in place at the Meeting so that

(a) if a corporate shareholder has appointed the Chairman of the Meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the Meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and

(b) if more than one corporate representative for the same corporate shareholder attends the Meeting but the corporate shareholder has not appointed the Chairman of the Meeting as its corporate representative, a designated corporate representative will be nominated from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – www.icsa.org.uk – for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (a) above.

(x) It is possible that, pursuant to requests made by Members of the Company under section 527 of the Companies Act 2006, the Company may be required to publish on its website a statement setting out any matter relating to the audit of the Company's accounts (including the Auditors' Report and the conduct of the audit) that are to be laid before the Annual General Meeting. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required, under section 527 of the Companies Act 2006, to publish on its website.

(xi) Copies of the following documents will be available for inspection at the Company's Registered Office and at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD during normal business hours and at the place of the Meeting from 11.45am until its conclusion:

(a) service contracts of the Executive Directors; and

(b) letters of appointment of the Chairman and the Non-Executive Directors.

(xii) The Chairmen of the Audit, Remuneration and Nomination Committees will be available to answer relevant questions at the Meeting.

NOTICE OF ANNUAL GENERAL MEETING 2009 CONTINUED

EXPLANATORY NOTES ON THE RESOLUTIONS

Resolution 1:
Report and financial statements

The Directors present to shareholders at the Annual General Meeting the Reports of the Directors and Auditors and the financial statements of the Company for the year ended 30 April 2009. These are contained in the Annual Report.

Resolution 2:
Declaration of a final dividend

Final dividends declared by shareholders must not exceed the amount recommended by the Directors. By passing Resolution 2, shareholders will declare a final dividend. The amount of the final dividend recommended by the Directors is 1.8 pence net per ordinary share.

Resolution 3:
Approval of Report on Remuneration

As required by section 439 of the Companies Act 2006, shareholder approval is sought for the Remuneration Report set out on pages 41 to 48.

Resolution 4:
Re-election of Directors

The Articles of Association of the Company require that all Directors retire from office at least once every three years but are eligible to submit themselves for re-election by shareholders. The Directors who retire at each Annual General Meeting are those who would otherwise have served for over three years without re-election by the date of the following Annual General Meeting.

Mr Johnson will retire and, being eligible, offers himself for re-election at this year's Annual General Meeting. Mr Johnson is Chairman of the Board and of the Nomination Committee.

A biography of each Director, including those seeking re-election, appears on pages 36 and 37 of the Annual Report.

Resolution 5:
Re-appointment of Auditors and Auditors' remuneration

The auditors of a company must be re-appointed at each general meeting at which accounts are presented. Resolution 5 proposes the re-appointment of the Company's existing auditors, Deloitte LLP, until the next Annual General Meeting and also gives authority to the Directors to determine the auditors' remuneration.

Resolution 6:
Increase in authorised share capital

The Company's current authorised share capital is £41,000,000, and the Company's issued share capital as at 24 June 2009 was £39,335,589.30, comprising 393,355,893 ordinary shares of 10 pence each. Accordingly, in order to renew the authority to allot ordinary shares as proposed by Resolution 7 for the full amount permitted in the latest guidelines issued by the Association of British Insurers, it is necessary to increase the Company's authorised share capital. The proposed increase is of £29,000,000 by the creation of 290,000,000 additional ordinary shares of 10 pence each. This represents an increase of 70.73% in the authorised share capital of the Company.

Resolution 7:
Directors' authority to allot shares

At the Annual General Meeting held in 2008, shareholders authorised the Directors, under section 80 of the Companies Act 1985, to allot relevant securities without the prior consent of shareholders for a period expiring at the conclusion of the Annual General Meeting to be held in 2009 or, if earlier, on 2 December 2009. It is proposed to renew this authority and to authorise the Directors to allot relevant securities for a period expiring no later than 1 November 2010.

In accordance with the latest institutional guidelines issued by the Association of British Insurers, the proposed new authority will allow the Directors to allot relevant securities equal to an amount of up to one-third of the Company's existing issued share capital (£13,111,863.10) plus, in the case of a fully pre-emptive rights issue only, a further amount of up to an additional one-third of the Company's existing issued share capital (£13,111,863.10), calculated as at 24 June 2009 (being the latest practicable date prior to the publication of this document).

The Directors have no present intention of exercising this authority. However, if they do exercise the authority, the Directors intend to follow emerging best practice as regards its use (including as regards the Directors standing for re-election in certain cases) as recommended by the Association of British Insurers.

Resolution 7 will be proposed as an ordinary resolution to renew this authority until the conclusion of the next AGM or, if earlier, 1 November 2010.

Resolution 8:
Directors' power to disapply pre-emption rights

This Resolution, which will be proposed as a special resolution, supplements the Directors' authority to allot shares in the Company (proposed by Resolution 7). Section 89 of the Companies Act 1985 requires a company proposing to allot equity securities for cash to offer them first to existing shareholders pro rata to their existing shareholdings. Authority was granted to the Directors at last year's Annual General Meeting and the Directors propose to seek shareholders' approval to renew this authority, pursuant to Section 95 of the Companies Act 1985, to allot such securities, notwithstanding the requirement imposed by Section 89, in two cases:

- in connection with a rights issue; and
- allotments of shares for cash up to a total nominal value of £1,966,779 (representing approximately 5% of the Company's issued share capital at 24 June 2009, being the latest practicable date prior to publication of this document) although it is not intended without prior consultation with the investment committee of the Association of British Insurers to issue or transfer in this way more than 7.5% of the share capital in a rolling three-year period. This gives the Directors flexibility to take advantage of business opportunities as they arise, including the sale of any shares the Company has purchased and held in treasury, whilst the 5% limit ensures that existing shareholders' interests are protected, and is in line with guidelines issued by institutional investors' bodies.

This authority will expire at the conclusion of the next Annual General Meeting, or, if earlier, on 1 November 2010, except in so far as commitments to allot shares have been entered into before that date. It is the present intention of the Directors to seek a similar authority annually.

Resolution 9:
Company's authority to purchase shares

This Resolution, which will be proposed as a special resolution, seeks to renew the existing authority for the Company to purchase its own shares in the market. This authority gives the Company greater flexibility in managing its capital resources. The Directors have no specific intention of using this authority and would do so only when, in the light of market conditions, they believed that the effect of such purchases would be to increase earnings per share, and that the purchases were in the interests of shareholders generally. The Directors would also give careful consideration to gearing levels of the Company and its general financial position. The purchase price would be paid out of distributable profits. Resolution 9 specifies the maximum number of shares which may be purchased (representing approximately 10% of the Company's issued share capital at 24 June 2009, being the latest practicable date prior to publication of this document), the minimum and maximum prices at which they may be bought and when the authority will expire, reflecting the requirements of the Companies Act 1985 and the Listing Rules of the FSA.

The maximum price at which the shares may be purchased is the higher of 5% above the average of the middle market values of those shares for the five business days before the purchase is made and the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003.

The Companies Act 1985 enables certain listed companies to hold shares in treasury, as an alternative to cancelling them, following a purchase of own shares by the Company. Shares held in treasury may subsequently be cancelled, sold for cash or used to satisfy share options and share awards under the Company's share schemes. Once held in treasury, the Company is not entitled to exercise any rights, including the right to attend and vote at meetings, in respect of those shares. Further, no dividend or distribution of the Company's assets may be made to the Company in respect of those shares whilst held in treasury.

Accordingly, if the Directors exercise the authority conferred by Resolution 9, the Company will have the option of holding those shares in treasury rather than cancelling them. The total number of ordinary shares that are under option through the Company's share option schemes at 24 June 2009 (being the latest practicable date prior to publication of this notice) is 5,593,483 of which 4,675,676 are options over unissued ordinary shares.

The proportion of issued ordinary share capital that the options over unissued ordinary shares represented on this date was 1.19% and the proportion of issued ordinary share capital that they will represent if the full authority to purchase shares (existing and being sought) is used is 1.08%. The authority will expire on 1 November 2010 or at the conclusion of the next Annual General Meeting (whichever is the earlier). It is the present intention of the Directors to seek a similar authority annually.

Resolution 10:
Notice of general meetings

Resolution 10 is required in view of the implementation in the UK in August 2009 of the Shareholder Rights Directive ('SRD'). The Company's Articles of Association provide that it is able to call general meetings (other than annual general meetings) on 14 clear days' notice and the Company would like to preserve the ability to do so. The regulation implementing the SRD has increased the notice period for general meetings of the Company to 21 days except in those cases where shareholders have approved the calling of meetings on 14 days' notice.

Resolution 10 will be proposed as a special resolution. Under the terms of the SRD, the resolution will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. The Company will need to meet the requirements for electronic voting under the SRD before it can call a general meeting on 14 days' notice.

Recommendation

Your Directors believe that all the proposals to be considered at the Annual General Meeting are in the best interests of the Company and its shareholders and recommend shareholders to vote in favour of the resolutions. The Directors will be voting in favour of the resolutions in respect of their own shareholdings.

IMPORTANT NOTES ABOUT THE ANNUAL GENERAL MEETING

Date

Tuesday 8 September 2009

Location

Andaz (formerly Great Eastern) Hotel, Liverpool Street, London EC2M 7QN

Timing

The Meeting will start promptly at 12 noon and shareholders wishing to attend are advised to be in the venue no later than 11.50am. The reception area will be open from 11.30am, from which time refreshments will be served.

Travel information

A map on the reverse of the Admittance Card shows the location of the Andaz (formerly Great Eastern) Hotel and the nearest underground and railway stations. The venue is less than five minutes' walk from Liverpool Street station. There are no car-parking facilities at the venue.

Admission

Please bring the Admittance Card (which is the tear-off section at the bottom of the Form of Proxy) with you to the Meeting. You may be asked to show the Card before being admitted to the venue. Shareholders and proxy holders may also be required to provide proof of identity. The registration process may take longer without these documents. Shareholders are politely requested to bring no more than one guest to the Meeting except by prior arrangement with the Company Secretary.

Facilities

The Andaz (formerly Great Eastern) Hotel has wheelchair access. If you are planning to come to the Meeting and are a wheelchair user, it would be helpful if you would telephone the venue in advance on 020 7618 5618.

Enquiries and questions

Shareholders who intend to ask a question related to the business of the Meeting are asked to provide their name, address and question at the Registration desk. Staff from Equiniti will be on hand to provide advice and assistance.

SHAREHOLDER INFORMATION

FINANCIAL DIARY

25 June 2009
Announcement of final results for the year ended 30 April 2009

12 August 2009
Ex-dividend date for final dividend

8 September 2009
Annual General Meeting

15 September 2009
Payment of final dividend

10 December 2009*
Announcement of half-year results for the six months ended 31 October 2009

27 January 2010*
Ex-dividend date for interim dividend

2 March 2010*
Payment of interim dividend

24 June 2010*
Announcement of final results for the year ended 30 April 2010

* provisional date

COMPANY WEBSITE

The Company's website at www.dssmith.uk.com contains the latest information for shareholders, including press releases and an updated financial diary. E-mail alerts of the latest news, press releases and financial reports about DS Smith Plc may be obtained by registering for the e-mail news alert service on the website.

SHARE PRICE INFORMATION

The latest price of the Company's ordinary shares is available from the FT Cityline service. Calls within the UK are charged at 75 pence per minute at all times. To access this service, telephone 09058 171 690. Alternatively click on www.londonstockexchange.com. DS Smith's ticker symbol is SMDS. It is recommended that you consult your financial adviser and verify information obtained from these services before making any investment decision.

REGISTRARS

Please contact the Registrars at the address below to advise of a change of address or for any enquiries relating to dividend payments, lost share certificates or other share registration matters.

The Registrars provide on-line facilities at www.shareview.co.uk. Once you have registered you will be able to access information on your DS Smith Plc shareholding, update your personal details and amend your dividend payment instructions on-line without having to call or write to the Registrars.

DIVIDENDS

Shareholders who wish to have their dividends paid directly into a bank or building society account should contact the Registrars. In addition, the Registrars are now able to pay dividends in 36 foreign currencies. This service is called 'TAPS' and enables the payment of your dividends directly into your bank account in your home currency. A charge of £2.50 is deducted from each dividend payment to cover the costs involved. Please contact the Registrars to request further information.

SHARE DEALING SERVICES

The Registrars offer a real-time telephone and internet dealing service. Further details including terms and rates can be obtained by logging on to the website at www.shareview.co.uk/dealing or by calling 0845 603 7037. Lines are open between 8am and 4.30pm, Monday to Friday.

J.P.Morgan Cazenove operates a low-cost share dealing service for private investors who wish to buy or sell ordinary shares of the Company. This is an execution-only service and further details can be obtained from The Share Dealing Service, J.P.Morgan Cazenove, 20 Moorgate, London EC2R 6DA. Telephone 020 7155 5155. Please note there is a minimum transaction level of £500 for using this service.

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Stockbroker

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London EC2R 6DA

Joint investment banks

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London EC2R 6DA

UBS
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London EC2M 2PP

Registrars

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Registrars queries

UK telephone 0871 384 2197
Calls to this number will be charged at 8 pence per minute from a BT landline. Other telephone providers' costs may vary.
Overseas telephone +44 121 415 7047
On the internet at www.shareview.co.uk

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VISIT US AT: www.dssmith.uk.com

The DS Smith Plc website provides news and details of the Group's activities, plus links to our business sites and up-to-date information including:

- results announcements and other press releases
- presentations
- share price data
- analysts' coverage and forecasts
- e-mail alert service
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