STRATEGY AND ACTIONS DELIVERING RESULTS

Annual Report 2007

DS Smith Plc

Financial Summary

	2006/07	2005/06
Revenue	**£1,766.1m**	£1,652.7m
Adjusted profit before tax[1]	**£74.6m**	£53.4m
Profit before tax	**£78.5m**	£11.0m
Adjusted earnings per share[1]	**13.1p**	10.0p
Earnings per share	**15.6p**	1.1p
Free cash inflow before dividends and net acquisitions[2]	**£84.0m**	£63.2m
Gearing	**32.0%**	43.9%
Total dividend per share	**8.6p**	8.4p

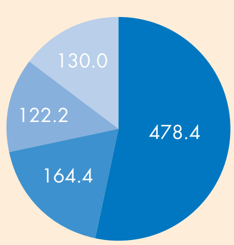
1 before net exceptional income of £3.9m (2005/06: exceptional charge £42.4m)
2 including the net cash consideration of £29.6m for the sale of the Taplow site

Highlights

- Good organic growth achieved across our businesses
- Results benefited from our previous restructuring actions
- Spicers UK turnaround programme now underway
- Continuing price increases in Paper and Corrugated Packaging to recover the higher input costs
- Strong cash flow boosted by the sale of the Taplow site

2006/07 Average Capital Employed

£million

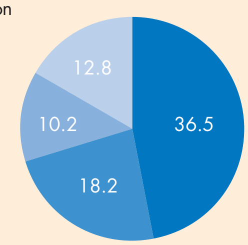


Group total: **£895.0m**

- UK Paper and Corrugated Packaging
- Continental European Corrugated Packaging
- Plastic Packaging
- Office Products Wholesaling

2006/07 Adjusted Operating Profit

£million



Group total: **£77.7m**

- UK Paper and Corrugated Packaging
- Continental European Corrugated Packaging
- Plastic Packaging
- Office Products Wholesaling

Contents

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For more information please visit www.dssmith.uk.com

» OUR STRATEGY, AND THE ACTIONS WE HAVE TAKEN, CONTRIBUTED TO DS SMITH DELIVERING IMPROVED RESULTS IN 2006/07.

WE MADE PROGRESS TOWARDS OUR FINANCIAL GOALS AND DEVELOPED FURTHER OUR STRONG MARKET POSITIONS.

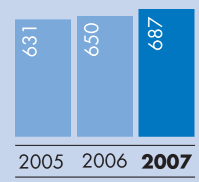
THE GROUP IS WELL-POSITIONED FOR CONTINUED PROGRESS IN 2007/08. »

UK Paper and Corrugated Packaging

In the UK, we have a leading position covering the whole corrugated packaging supply chain from the collection of waste paper for recycling, through the production of recycled paper, to the manufacturing of an extensive range of corrugated packaging.

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

Revenue
£million

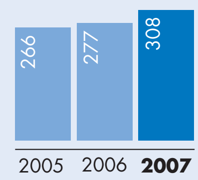


Continental European Corrugated Packaging

On the continent, we have regional corrugated packaging manufacturing businesses in France, Italy, Poland, Turkey and the Czech Republic; we also produce recycled paper in France and Turkey and have an associate paper and corrugated packaging business in Ukraine.

www.dssmith-kaysersberg.com

Revenue
£million

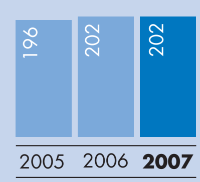


Plastic Packaging

We are focused on two Plastic Packaging markets: liquid packaging and dispensing, which we supply from operations in Europe, the USA and Australasia; and industrial returnable transit packaging (RTP) which we supply from several locations in Europe.

www.dssmith-plastics.com

Revenue
£million

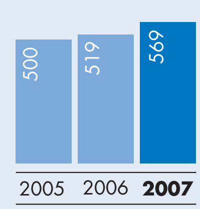


Office Products Wholesaling

Spicers is the leading European office products wholesaler. It supplies its customers – office products dealers – with a comprehensive range of own-label and branded traditional stationery, electronic office supplies, furniture and other products.

www.spicers.net

Revenue
£million



DS Smith is an international group with revenue of £1.8 billion, employing over 11,000 people in 16 countries.

39%
of Group revenue

Innovative retail-ready box design combines good protection in transit and strong visual impact in store.

Key Facts

Employees: 5,011*
Manufacturing locations: 36
Market positions:
– No. 1 UK waste paper collector for recycling
– No. 1 UK recycled paper producer
– No. 1 UK corrugated packaging manufacturer

18%
of Group revenue

Customers increasingly require boxes which are printed to a high quality and which convert easily for display.

Key Facts

Employees: 2,315*
Manufacturing locations: 14
Market positions: strong capabilities in
– Heavy-duty corrugated packaging
– Laminated bulk boxes
– Litho-laminated packaging

11%
of Group revenue

Bag-in-box technology is being used in fast-food outlets for iced coffee or freshly brewed hot coffee.

Key Facts

Employees: 1,611*
Manufacturing locations: 22
Market positions:
– No. 2 globally in liquid packaging and dispensing
– A leading European supplier of RTP

32%
of Group revenue

Spicers' catalogue offers up to 18,000 product lines for use in the office.

Key Facts

Employees: 2,123*
Distribution centres: 22
Market positions:
– No. 1 European office products wholesaler
– No. 1 office products wholesaler in UK, Ireland, France, Benelux
– Developing in Germany, Spain, Italy

* number as at 30 April 2007

Chairman's Statement

The considerable potential to build on the Group's existing base gives me confidence for the future.

Peter Johnson
Chairman

Since becoming Chairman of DS Smith in January, I have spent time extending my understanding of the Group's activities by visiting a number of our operations and reviewing our businesses with their management. I have been impressed by the quality and the commitment of the people I have met and the actions that are being taken to raise the performance of the businesses, not just in the short-term but also through the business cycle. In addition to a continuing drive for greater efficiency, the Group has developed strong market positions which are being enhanced through investment, new product development and geographic extension. The considerable potential to build on the Group's existing base gives me confidence for the future.

I am also fortunate to have inherited from my predecessor, Antony Hichens, good and strong procedures for corporate governance. These are underpinned both by management processes within DS Smith and an open and honest management culture which seeks to tell it as it is. I can assure shareholders of my own commitment to maintain and develop this culture of good governance.

In 2006/07, the Group benefited from both a better pricing environment in the paper and corrugated packaging market and the actions taken to improve the underlying business base. These actions have enhanced the Group's business mix, increased operational efficiency and lowered operating costs. There was an improving trend in the Group's results through the second half of the financial year and profit for the full year was well ahead of the 2005/06 result.

The Group's adjusted profit before tax was £74.6 million (2005/06: £53.4 million) and adjusted earnings per share were 13.1 pence (2005/06: 10.0 pence). Cash flow, before dividends and net acquisitions, was £84.0 million (2005/06: £63.2 million).

The exceptional costs associated with the Group's restructuring programme were £18.6 million (2005/06: £28.9 million). The 2006/07 exceptional costs were more than offset during the financial year by an exceptional profit of £20.5 million resulting from the sale of the Taplow paper mill site in August 2006.

In the light of the Group's recent positive developments and the potential to build on its strengthened position, the Board is proposing an increased final dividend of 6.0 pence (2005/06: 5.8 pence) which, together with the interim dividend of 2.6 pence, gives a total dividend for the year of 8.6 pence (2005/06: 8.4 pence).

Given the decline in the Group's results from late 2004/05, the recent focus has had to be on short-term profit recovery. The higher profits in 2006/07 and the improving trend through the year demonstrate that the actions taken are working. The emphasis now is on maintaining momentum and ensuring that we take the right strategic options to maximise shareholder value over the medium-term.

Antony Hichens retired from the Board at the end of 2006 after seven years as Chairman, during which time the Group benefited greatly from his considerable experience and wise counsel. He guided the Group through a period of significant strategic development and operational improvement. On behalf of the Board, I thank Antony for his substantial contribution to DS Smith.

In September 2006, we were pleased to welcome Philippe Mellier to the Board as a non-Executive Director. Philippe, who is President of Alstom Transport and an Executive Vice-President of Alstom Group, brings to the Board his considerable experience gained with several major European manufacturing companies. Daniel Piette, who had been a non-Executive Director since 1993, retired from the Board in May 2007; his consistently challenging views and valuable guidance on the Group's affairs have been greatly appreciated.

In the coming year, our objective is to build on the improved results of the second half of 2006/07. The Board is confident that the Group is well-positioned to make further progress.

Peter Johnson
Chairman

Chief Executive's Review

The Group achieved a marked improvement in its profits in 2006/07. Although the results throughout the financial year were held back by high input costs in Packaging and lower profits in our UK Office Products Wholesaling business, we benefited from actions taken to strengthen the Group and from an easing of the recent harsh trading environment in Paper and Corrugated Packaging. Strong European packaging demand combined with a tightened supply position for corrugated case material (CCM) created a firmer pricing environment in both CCM and corrugated boxes. In this changed situation, our drive to raise selling prices so as to recover the previous substantial increases in our input costs of energy and waste paper became increasingly successful. Additionally, our good market positions allowed us to grow our sales volumes strongly in many sectors of our business.

The positive trend in the Group's performance was reflected in the results for the two halves of the financial year. While in the first half of 2006/07 adjusted operating profit was 8% lower than in the same period of the previous year, in the second half of the year it was 74% higher than in the previous second half; for 2006/07 as a whole it was 29% up on 2005/06 at £77.7 million.

UK Paper and Corrugated Packaging

The most significant segmental profit improvement was achieved in UK Paper and Corrugated Packaging, where adjusted operating profit for the full year increased by £16.0 million to £36.5 million. This advance was the result of a combination of the extensive actions we have taken to raise efficiency, as well as the improved pricing in both paper and corrugated packaging and strong growth in corrugated packaging.

The programme to improve the cost competitiveness of our business and to enhance the product mix was continued during 2006/07. In our UK Paper business, we closed Taplow Mill, which was loss-making and was not likely to be competitive over the longer-term, and we sold the Taplow site for a net cash consideration of £29.6 million. We continued the development of sales of plasterboard liner, supported by an extensive capital expenditure programme to upgrade existing machines.

Our Severnside Recycling business strengthened its capability to supply the waste paper raw material for our own mills and to generate other revenue from its waste collection infrastructure and expertise. In our UK Corrugated Packaging business, we are seeing the benefit of our actions to establish a more competitive conventional box plant network and a strong group of speciality corrugated businesses. The significant attention we have given to supporting our customers in the trend to retail-ready packaging and promotional packaging has contributed to our growth in corrugated box sales in these sectors of the market.

The considerable CCM and corrugated products price increases achieved during 2006/07 enabled us to recover a substantial proportion of the additional approximately £19 million of input cost increases incurred during the year and the earlier margin erosion we experienced during the previous financial year.

The programme to raise returns in the UK Paper and Corrugated Packaging segment will remain a focus for attention in the coming year.

Continental European Corrugated Packaging

Revenue advanced strongly in Continental European Corrugated Packaging. However, operating profit in this segment, which is a substantial net buyer of paper, was lower at £18.2 million (2005/06: £20.1 million) as a result of the higher costs of CCM, which it was not able fully to recover through increased prices during the financial year. We gained market share in all our major markets and grew sales particularly strongly in Italy, Poland and Turkey. Our corrugated box businesses continued to benefit from concentrating on higher added-value products, while our speciality paper mill in France had another good year, exploiting its increased capacity as a result of recent investment.

Our Ukrainian associate business continued to make good profits and we are supporting its investment programme which is designed to meet the growth in market demand and to broaden its product range.

Box price increases were slower to take effect on the continent but have started to come through strongly since the autumn of 2006. These increases have

Tony Thorne
Group Chief Executive

Key features of 2006/07

- Good organic growth across our businesses
- Results benefited from previous restructuring
- Spicers UK turnaround programme now underway
- Price increases in Paper and Corrugated Packaging
- Strong cash flow

We benefited from actions taken to strengthen the Group.

Continuing attention to improving our operations contributed significantly to our better results in 2006/07.

not been sufficient, however, to recover the previous increases in our input costs and the pressure on margins is being compounded by further rises in CCM and energy costs in 2007/08. In the current financial year we will continue our strong efforts to achieve the necessary cost recovery.

Plastic Packaging

Plastic Packaging achieved a healthy advance in adjusted operating profit to £10.2 million (2005/06: £7.2 million). A further increase in energy, polymer and film costs of around £5 million during the financial year was almost entirely recovered through higher selling prices and a better sales mix. The result also benefited from a 4.9% underlying advance in revenue, excluding the plastic coating and laminating business which was sold in December 2005.

The Group has developed good market positions in its two principal sectors of returnable transit packaging (RTP) and liquid packaging and dispensing. In RTP, beverage crate sales were particularly strong in the early months of the financial year but then slowed as a number of large contracts came to an end. The extruded products businesses benefited from our previous actions to strengthen the sales function and improve the sales mix. We have developed several encouraging new product opportunities and are growing sales in eastern Europe in partnership with our Corrugated Packaging operations in that region.

The liquid packaging and dispensing sector benefited from a higher-margin sales mix, sales growth as a result of its strengthened product range and improved operating efficiency. We are consulting with our employees about the proposed restructuring of our European liquid packaging and dispensing operations. Our Plastic Packaging segment is expected to continue to show steady progress.

Office Products Wholesaling

Adjusted operating profit was marginally higher at £12.8 million (2005/06: £12.6 million). The profitability of the UK business declined, in line with expectations, but this was more than offset by the growth in profits from the continental European businesses.

Revenue in Spicers UK, which represents 50% of Spicers' total revenue, grew but the impact of strong competition on pricing and higher operating costs resulted in a significant drop in profits. Our priority for 2006/07 was to strengthen the UK management team and make good progress on implementing a comprehensive programme to rebuild Spicers UK's profits over a three-year period. The new management team has taken decisive action and there is good momentum behind a range of improvement initiatives, principally aimed at enhancing the sales mix, raising service levels and lowering costs. The UK distribution network has been streamlined further through the closure in early June 2007 of the Park Royal distribution depot in London. We are seeing the initial evidence of improved performance arising from this ongoing turnaround programme and further considerable benefits are expected over the next two years.

On the continent, the well-established French and Benelux businesses maintained their strong performance and further confirmed the considerable potential for Spicers' business model across Europe. The businesses in Germany, Spain and Italy, which are each at a different stage in their development, all made good progress. The Spanish business opened its new distribution centre near to Madrid in October 2006, which gives it better national coverage.

The objectives within Spicers are to rebuild profitability in Spicers UK and continue the development of our existing continental European network.

Our People

Our employees have made a very significant contribution to the recent improvement in the Group's results. I am grateful for their considerable skill and enthusiasm as we have looked to drive up our results. I thank them for their hard work, commitment and support.

Strategy

In recent years, we have significantly changed the balance of the Group's business. We have developed our Paper and Corrugated Packaging and Plastic Packaging businesses in higher added-value and faster-growing product and market sectors and grown the Office Products Wholesaling business in continental Europe. At the same time, we have sold several peripheral activities and closed parts of our Paper business that were not likely to be viable in the longer-term. These moves have strengthened DS Smith and provided a good base from which we can develop the Group further.

Adjusted return on average capital employed improved to 8.7% in 2006/07 (2005/06: 6.5%) but this remains below our return target, which is to exceed the Group's weighted average pre-tax cost of capital of circa 10% over the business cycle. We are determined to achieve our targeted returns. This will be done by continuing to focus on raising operational performance, exiting operations that will not deliver adequate returns and concentrating capital in those parts of the business which offer the best opportunities for profit growth. Capital expenditure projects for 2007/08 will include completion of the upgrading of paper manufacturing at the Kemsley paper mill, the extension of the box manufacturing capabilities of our plants in the UK and France, particularly to produce higher added-value, retail-ready packaging, the expansion of corrugated box manufacturing in our growth markets in continental Europe and the development of Plastic Packaging through new products and further expansion into eastern Europe.

Outlook

Our priorities are to continue to drive for recovery of the high input costs within our Packaging businesses and to raise profits at Spicers, particularly in the UK. Entering 2007/08, the business is performing well and I am confident that the Group will make good progress this year.

Tony Thorne
Group Chief Executive

We are developing our revenues in new products and markets; Spicers benefited from its 2005 acquisition of Timmermans in the Benelux region.

Directors and Company Secretary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1 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. He was previously Chief Executive of George Wimpey Plc and prior to that Chief Executive of The Rugby Group PLC. Age 59.

2 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 56.

3 Gavin Morris§
Group Finance Director
Appointed to the Board on 5 November 2002 as Group Finance Director. He previously held Chief Financial Officer positions at Citex Group Ltd, Philips Lighting Holding BV, Ionica Group plc, Alfred McAlpine Plc and Norcros Plc. Age 53.

4 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 65.

5 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 Xansa plc and was a non-Executive Director of Mowlem Plc and Baltimore Technologies plc. Age 60.

6 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 66.

7 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 51.

8 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 46.

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

OUR STRATEGY IS TO CREATE VALUE FOR SHAREHOLDERS THROUGH OPERATIONAL IMPROVEMENT AND THE DEVELOPMENT OF AN ENHANCED BUSINESS MIX.

ACTIONS BEING TAKEN ACROSS OUR BUSINESSES ARE STRENGTHENING THE GROUP:

UK Paper and Corrugated Packaging

We are targeting higher added-value and growing sectors of the market and raising our competitiveness.

p10

Continental European Corrugated Packaging

We are building on our good market positions and expanding in eastern Europe.

p11

Plastic Packaging

We are restoring profits, particularly through new product development and improved productivity.

p12

Office Products Wholesaling

We are taking action to raise profits in the UK while continuing the development of the continental European businesses.

p13

Corporate Responsibility

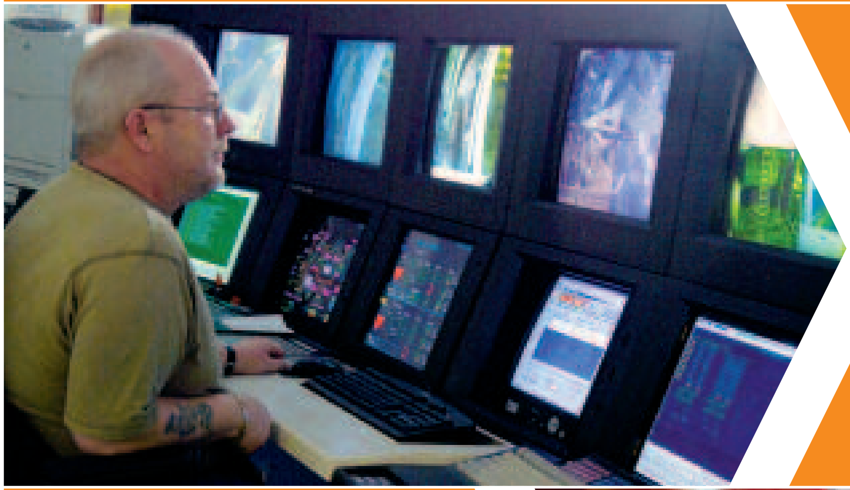
We are reducing accidents, lowering the Group's impact on the environment and playing a major role in recycling.

p14

UK Paper and Corrugated Packaging

» IMPROVING RETURNS FROM OUR SUBSTANTIAL MARKET POSITIONS

» RAISING EFFICIENCY AND ENHANCING OUR PRODUCT MIX



Reinforcing competitiveness

Recent investment at St Regis' Kemsley paper mill has further strengthened its cost-competitive position and extended its product capabilities.

£30 million

The cumulative cost of our capital expenditure programme at Kemsley and Wansbrough Mills to enhance the quality of our plasterboard liner and CCM products

Increasing production capability

New equipment for producing more sophisticated retail-ready boxes is assisting DS Smith Packaging in selling higher added-value products.

1.5 billion

The approximate number of boxes produced by DS Smith Packaging in a year

Satisfying customers' requirements

Meeting our customers' stringent quality specifications is particularly important when producing boxes that are on display in stores.

Continental European Corrugated Packaging

» BUILDING ON EXISTING SOLID RETURNS AND GOOD GROWTH

» FOCUSING ON SELECTED MARKETS AND HIGHER ADDED-VALUE PRODUCT SEGMENTS

Investing for future success

We have strengthened our competitiveness in France and Italy and grown sales in eastern Europe through substantial capital expenditure.

£50 million

DS Smith Kaysersberg's total capital expenditure in the last three financial years

Expanding in eastern Europe

Our rapidly developing businesses in Poland, Turkey and the Czech Republic are making good profits in fast-growing markets.

+53%

DS Smith Kaysersberg's cumulative sales growth in eastern Europe and Turkey over the last three financial years

Capitalising on our expertise

The knowledge and skills of our continental European team have been shared across our network of businesses to help improve performance and train new employees in our growing businesses.

Plastic Packaging

» GROWING PROFITS IN OUR TWO PRINCIPAL BUSINESSES

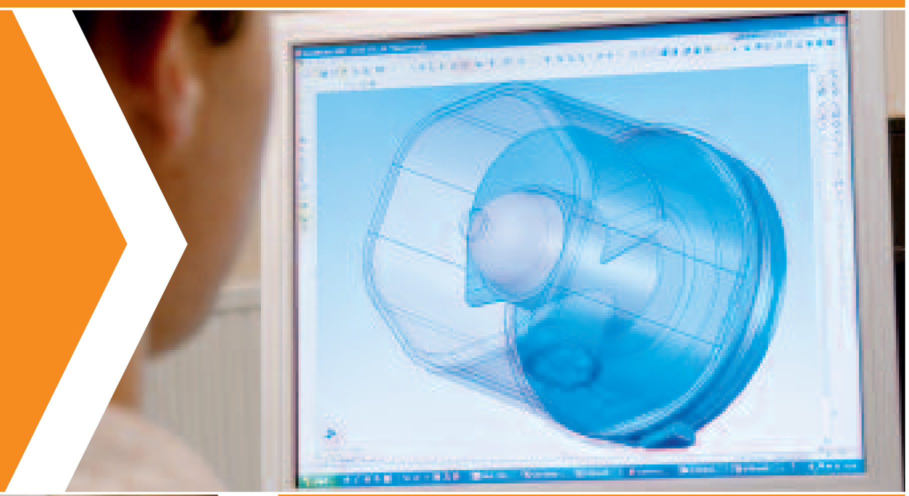
» EXPANDING SALES THROUGH NEW PRODUCT DEVELOPMENT AND INCREASING OUR PRODUCTIVITY

Developing new products

We are winning new business as a result of our strengthened product design capability.

+48%

The cumulative growth in the number of plastic taps we sold over the last three years



Improving our operations

Increased productivity through changes in working methods and investment has helped raise profits.

+42%

The increase in DS Smith Plastics' adjusted operating profit in 2006/07

Growing our business

DS Smith Plastics is using its technical skills to develop new outlets for its liquid packaging and dispensing products.

Office Products Wholesaling

» ESTABLISHING SPICERS ACROSS THE MAJOR MARKETS OF WESTERN EUROPE
» IMPLEMENTING OUR PLAN TO RESTORE PROFITS IN THE UK

Building on Spicers' leading position

Spicers is growing its business in continental Europe through organic development in France, Germany, Spain and Italy; it also acquired the established Timmermans business in the Benelux region.

+29%

Spicers' cumulative sales growth in continental Europe over the last three years

Servicing our customers

Spicers provides a same-day or overnight delivery service on up to 18,000 product lines.

12,000

The approximate number of office products dealers that Spicers supplies throughout Europe

Investing for growth

The new Châteauroux central distribution centre in France, which replaced the previous smaller facility, will support further major expansion in that market.

» STRIVING TO MAINTAIN HIGH STANDARDS OF ETHICAL AND SOCIAL BEHAVIOUR WHILE PROVIDING GOOD SUSTAINABLE RETURNS FOR OUR INVESTORS

Working more safely

A Group-wide campaign "think safe... be safe!", to raise employees' awareness of their safety responsibilities, has helped reduce accidents.

–8%

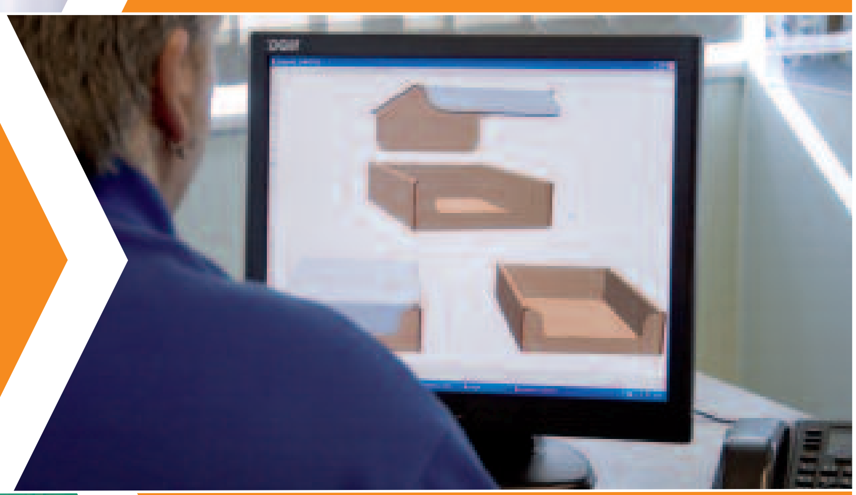
The percentage reduction in 2006/07 in the number of lost time accidents at the Group's businesses

Reducing waste

The Group's packaging businesses contribute to reducing waste by designing packs that minimise the use of resources and limit damage to products.

74%

The proportion of the paper, polymer and film processed by the Group to make packaging in 2006/07 which was recycled material



Recycling more

Severnside Recycling sourced 1.7 million tonnes of waste paper for recycling in 2006/07 to help businesses, such as the large supermarket chains, to avoid sending waste to landfill.

10 million

The approximate number of dustbins that the waste handled by Severnside for recycling in 2006/07 would fill

Improving our operations and developing an enhanced business mix

DS Smith is an international Group with revenues in 2006/07 of £1,766.1 million, employing over 11,000 people in 16 countries. The Group recognises that its activities of Packaging manufacturing and Office Products Wholesaling are quite different: for this reason they are managed separately within the Group. We are confident that we are able to add value to both and that the Group's present composition can meet our objective of generating good returns and cash flows for our investors.

The majority of the markets in which we operate are mature and all are highly competitive. This makes it essential for our profitability that we continually raise the operational performance of our businesses while investing in the development of new products and markets which have inherent growth.

In the short-term, we will continue to place strong emphasis on raising returns in both our UK Paper and Corrugated Packaging business and the UK operations of Spicers.

Financial Objectives

We have four key financial objectives:

- to achieve a return on average capital employed over the business cycle in excess of the Group's weighted average cost of capital, which we estimate to be circa 10% (before tax);
- to invest in market opportunities that offer above average rates of growth;
- to generate sufficient free cash flow to service our dividend while providing funds for development; and
- to maintain a strong balance sheet that provides financial resilience and allows the Group to pursue bolt-on acquisitions.

Our performance against these financial objectives is described in the Financial Review on pages 26 to 30.

Segment Strategies

The objectives and strategies for each of our four segments are:

UK Paper and Corrugated Packaging

Our objectives are to improve further the returns from our substantial UK market positions and to sustain these better returns over the business cycle. The priorities for achieving this are: a continued drive to recover the current high input costs; further cost reduction; and targeting growth sectors of the market. Investment will be concentrated on: expanding Severnside Recycling; increasing the efficiency and enhancing the product mix of our paper and conventional corrugated box businesses; and developing a selected number of our specialist corrugated packaging businesses.

Continental European Corrugated Packaging

Our goal is to sustain and build on our existing solid returns and good growth rates. We will continue our targeted approach, concentrating on selected markets and higher added-value product segments. In the short-term a priority is to recover the recent and prospective rises in input costs. Investment will be concentrated on maintaining the competitiveness of our existing operations and their expansion, through organic development and bolt-on acquisitions.

Plastic Packaging

Our aim is to grow the profits of our two principal Plastic Packaging businesses. In liquid packaging and dispensing, we have an established international position and our priorities are to increase our competitiveness through structural cost reduction and to expand sales through new product development and penetration into new markets. In returnable transit packaging, we will continue to focus on the European market but use our enhanced development capability to grow in new markets, particularly in central and eastern Europe. We will continue to make bolt-on acquisitions where these support either a product range or market extension.

Office Products Wholesaling

Our goal in Office Products Wholesaling is to establish the Spicers business model profitably across the major markets of western Europe. An immediate priority is to restore profits in the important UK business through improving the sales mix, raising service levels and lowering costs. On the continent we will maintain the competitiveness of our major established positions in France and the Benelux region and continue to grow the returns from our developing businesses in Germany, Spain and Italy.

Investment

Our capital expenditure programme will maintain investment in our key assets and support development of the strategy. It will be targeted at three main areas: cost reduction; development of products or markets offering good profit growth opportunities; and anticipation of health and safety or environmental requirements. Given our range of businesses and our strong market positions, we are confident that there will be many opportunities for organic development of the Group. We also expect that there will be further restructuring in the European paper and corrugated packaging industry and that this may present opportunities for further development through acquisitions.

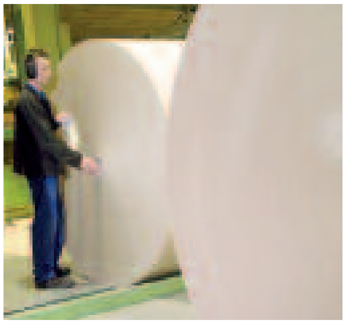
8.7%
The Group's 2006/07 adjusted return on average capital employed

6.9%
The 2006/07 growth in Group revenue

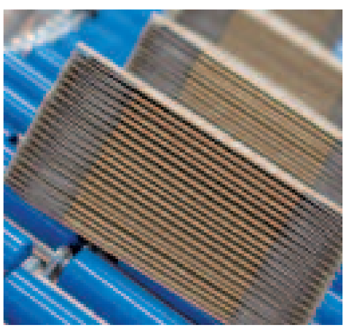
£66.0m
The 2006/07 Group capital expenditure

32.0%
The Group's gearing at 30 April 2007

DS Smith – international packaging manufacturer and office products wholesaler



St Regis Paper Company is the UK's leading producer of corrugated case material; all of its output is recycled paper.



The Group's corrugated box plants in the UK and continental Europe supply many of Europe's top food and beverage companies.

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

UK Paper and Corrugated Packaging

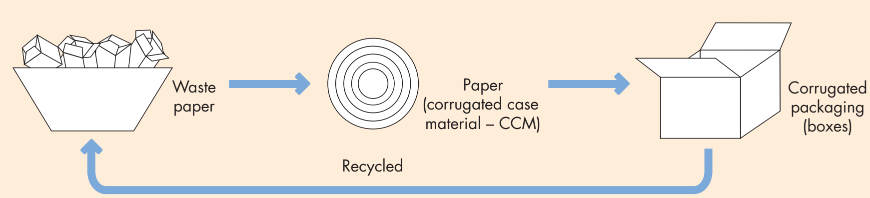
This segment is comprised of three activities: Severnside Recycling, which collects waste paper for recycling; St Regis Paper Company, which processes the waste paper to produce recycled paper, the majority of which is corrugated case material (CCM) used in the manufacture of corrugated packaging; and DS Smith Packaging, which converts CCM into corrugated board and boxes. The three activities of the corrugated packaging supply chain are heavily inter-dependent although all three maintain open-market positions to ensure competitiveness. DS Smith manages its UK Paper and Corrugated Packaging operations through Severnside Recycling, St Regis Paper and DS Smith Packaging.

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 17 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 15% of the total amount sourced. Severnside particularly concentrates on sourcing used corrugated packaging, referred to as old corrugated cases (OCC), which is the most suitable form of waste paper for producing recycled CCM. Severnside supplies all of the 0.9 million tonnes of waste paper required by the St Regis paper mills and it sells 0.8 million tonnes on the open market.

St Regis' four paper mills produce over 0.8 million tonnes of 100% recycled paper. St Regis is the leading UK producer of CCM, which accounts for approximately 70% of the paper it produces, and is a leading European producer of plasterboard liner, which accounts for over 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 over 330 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 32 factories located throughout the UK. It is the leading supplier of corrugated packaging to the UK market with a market share of around 27%. 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 3% 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 – 580 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 – 165	DS Smith Kaysersberg – France Italy, Poland, Turkey, Czech Republic Boxes and board – 395

Continental European Corrugated Packaging

In continental Europe, DS Smith Kaysersberg produces 0.6 billion square metres per annum of corrugated packaging at 12 factories located in France, Italy, Poland, Turkey and the Czech Republic. 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 5% in Turkey. Although its market positions in France and Italy have recently been relatively stable, the business has been growing strongly in eastern Europe and Turkey. 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 35% 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 for more than 6% of Continental European Corrugated Packaging's total revenue.

Plastic Packaging

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

In liquid packaging and dispensing, 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 nine locations in the UK, Germany, the USA, Australia and New Zealand.

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 12 locations in the UK, France, Belgium, Spain, Poland, Czech Republic, Slovakia and the Dominican Republic.

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.

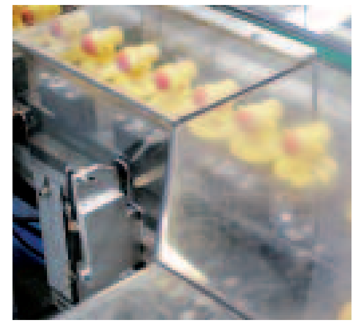
The division purchases a wide range of polymers and plastic films, principally polypropylene, high density polyethylene and polycarbonate; the largest polymer supplier accounts for approximately 12% of raw material costs. This segment has a widely spread customer base and no single customer accounts for more than 5% of DS Smith Plastics' total revenue.

Office Products Wholesaling

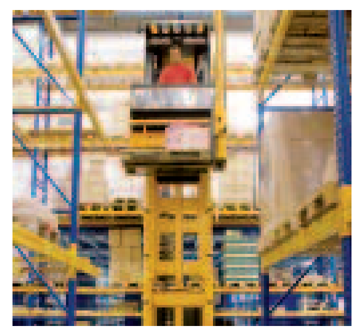
Spicers is the leading European wholesaler of office products; it is ranked as the number one wholesaler in each of the UK, Ireland, France and the Benelux region, and it is building its position in continental Europe with development businesses in Germany, Spain and Italy. Its network of distribution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

Spicers provides a wholesaling service to its customer base of office products dealers and resellers, who principally supply smaller and medium-sized offices. It supplies approximately 12,000 dealers throughout Europe and no single dealer customer accounts for more than 4% of Spicers' total revenue. Spicers' product range of up to 18,000 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 transactions-intensive with approximately 735,000 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 by telephone or on-line, is a key feature of the business.



DS Smith Plastics manufactures taps and dispensing systems in the UK and the USA.

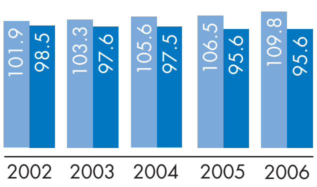


Spicers, the leading European office products wholesaler, operates 22 distribution centres in seven countries.

In 2006/07 demand was stronger, CCM supply was tighter and prices increased.

Total European and UK Corrugated Packaging Market Indices

Tonnes index 2000 =100



Source: European Federation of Corrugated Board Manufacturers

Boxes are generally supplied to customers within a radius of approximately 150 miles.

Paper and Corrugated Packaging Market Overview

The European market for corrugated packaging is estimated to be approximately €18 billion, equivalent to approximately 21 million tonnes or 39 billion square metres[1], of which the UK market is estimated to be approximately 10%. Demand for corrugated packaging is principally influenced by overall economic activity and manufacturing output.

In the calendar year 2006, the European market by weight for corrugated packaging grew by 3.1% (2005: 0.9%)[2]. In western Europe the market grew by 2.5% (2005: 0.3%) while growth in eastern and central Europe continued to be much stronger at 7.7% (2005: 5.8%). DS Smith's principal markets are the UK, where demand by weight was flat (2005: a fall of 1.9%), France and Italy, where it grew moderately by 0.9% and 2.2% respectively (2005: 0.3% and nil), and Poland and Turkey, where it grew more strongly, by 4.7% and 14.3% respectively (2005: 9.3% and 7.6%). The continuing trend in certain markets towards the greater use of lighter-weight packaging, for cost and environmental reasons, meant that demand by area grew in the UK by 0.6% (2005: a fall of 1.5%) although for Europe as a whole demand growth by area and by weight was similar. The stronger demand in the total European market in 2006 was significantly influenced by Germany, the largest national market, where demand grew by 4.8% (2005: 3.1%) by weight. Indicators of demand in the early months of 2007 suggest that growth is at similar levels to those of 2006.

Within the total European market, the growth rates of different segments vary considerably. Corrugated packaging usage in some industrial manufacturing sectors of western Europe has tended to decline as a result of the transfer of manufacturing to lower cost countries. Usage for fast-moving consumer goods, which account for approximately two thirds of the corrugated market, has been relatively strong due to the growth of this economic sector. Demand for the packaging of products for home delivery is increasing as purchases through the internet continue to grow. A major feature of the market during the last two years has been the increasing demand for retail-ready packaging (RRP) which can be readily converted from its initial role as a protective transit pack into its second role as a box or tray that can be placed on display in the retail store. RRP benefits retailers by reducing the manual work involved in loading goods onto store shelves and lowering 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 added-value boxes, often requiring multi-passes within the production process, has absorbed some of the excess capacity across the corrugated industry. 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 corrugated case material (CCM), the paper that is the principal component in corrugated packaging and that typically accounts for around 50% of the cost of a box.

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 factors. The total demand for CCM in western Europe is circa 22 million tonnes, with an additional approximately three million tonnes of demand in eastern Europe (not including Russia). 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 75% of the market is waste-based or recycled CCM, with the balance principally comprising kraftliner, made from virgin wood pulp.

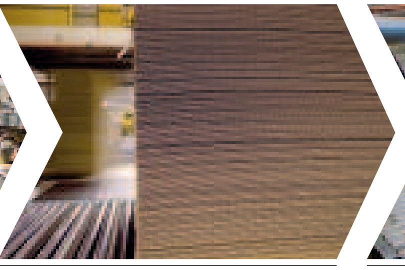
During the first half of 2005, low growth in corrugated packaging demand and the commissioning of four new continental European CCM machines, with an aggregate capacity of approximately 1.3 million tonnes, in a market in which there was already excess capacity, resulted in severe downward pressure on selling prices throughout the European market. This downward pressure on CCM selling prices and, consequently, on box prices was compounded by the cost-down requirements of our customers. From autumn 2005, the pace of machine closures increased and over 1.5 million tonnes of older CCM capacity was removed from the market during 2005 and 2006. No significant CCM capacity additions

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

DS Smith – waste paper collection to corrugated boxes

Severnside Recycling supplies 100% of our UK paper mills' requirements for waste paper.

St Regis Paper Company produces recycled CCM for the Group's box plants and for external sale.



The Group's UK and continental European box operations convert CCM into corrugated board.

The board is cut, folded and glued to form boxes ready for despatch to customers. After use the boxes are fully recyclable.

are expected in western Europe during 2007 or 2008 but new capacity is expected to come on stream from 2009. If the CCM market continues to grow at over 2% per annum, demand for CCM will have increased by at least 1.5 million tonnes between 2006 and 2009.

The squeeze on European CCM producers' margins from depressed selling prices was exacerbated during 2005 by the sharp increases in energy costs. Against a background of slightly stronger growth in demand for CCM across Europe and the removal of some capacity, CCM producers began to increase prices from November 2005 to recover some of this severe margin erosion. Since that time, CCM prices throughout Europe have increased on several occasions and in June 2007 are on average circa 45%[3] higher than in the autumn of 2005. In response to this, box producers have increased prices several times to recover the higher CCM costs. Box price increases were slower to take effect in continental Europe as the impact of energy cost increases on the supply chain occurred later and with less severity than in the UK. However, the upward pressure on CCM and box prices from energy cost increases has continued through into the spring of 2007 in many continental countries. To date, anecdotal evidence suggests that the rises in box prices achieved across the European industry have not yet been sufficient to recover all of the paper and energy cost increases.

The pressure on CCM producers to increase selling prices has been intensified by the relatively high cost of waste paper, the principal raw material for recycled CCM. Waste paper is a globally traded commodity; the continuing high level of demand for it from Asia, where there has recently been substantial investment in recycled paper manufacturing, is contributing to European prices remaining firm and being subject to short-term, demand-driven, spikes. Waste paper prices were relatively stable during 2006 but rose by approximately 20% in March 2007. In the UK, the net cost of our raw material is also affected by the price of Packaging Recovery Notes (PRNs), which are issued as evidence that packaging has been reprocessed, in compliance with the UK Packaging Waste Regulations. As a reprocessor of waste paper, we receive revenue from the sale of PRNs to packaging waste compliance schemes and companies in the packaging supply chain that have an obligation under the regulations to ensure that sufficient quantities of packaging are being recycled. We set PRN revenue against the cost of purchasing waste paper and put it towards investment in our waste collection and recycling operations. Since early 2006, there has been a sharp increase in the quantity of waste packaging being exported for recycling in Asia. As Packaging Export Recovery Notes (PERNs), which are equivalent to PRNs, are issued when paper is exported for recycling, PRNs and PERNs have been in increasingly plentiful supply. Consequently, the price of paper PRNs and PERNs fell steadily through 2006 to a current very low level, raising the net cost of our waste paper.

Waste paper is a globally traded commodity; strong demand for it from Asia is contributing to its price in Europe remaining firm.

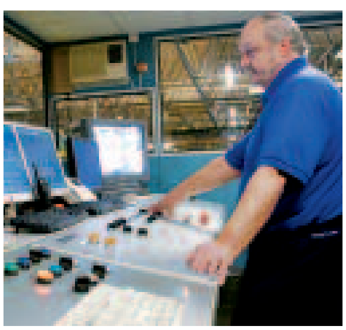
3 Source: RISI industry price data for the UK and France

UK Paper and Corrugated Packaging

Adjusted operating profit advanced strongly despite a further increase in input costs.

	2006/07	2005/06
Revenue – £m	**687.1**	649.6
Adjusted operating profit – £m*	**36.5**	20.5
Adjusted EBITDA – £m*	**68.0**	55.1
Key performance indicators:		
Revenue growth – %	**5.8%**	2.9%
Adjusted return on sales – %*	**5.3%**	3.2%
Adjusted EBITDA margin – %*	**9.9%**	8.5%
Adjusted return on average capital employed – %*	**7.6%**	4.0%

* before an exceptional profit of £6.7 million (2005/06: exceptional charge £28.9 million)



Our network of conventional box plants benefited from higher productivity.

2006/07 Performance

Results in UK Paper and Corrugated Packaging benefited from a combination of the improved pricing environment in the European paper and corrugated packaging market and the actions we have taken over the last three years to strengthen our businesses in this segment. The strong advance in adjusted operating profit was achieved despite a circa £19 million increase in the segment's input costs for energy and net waste paper.

Revenue advanced by 5.8% to £687.1 million as a result of higher sales in Corrugated Packaging, raised selling prices for both Paper and Corrugated Packaging and increased external sales of waste paper and services by Severnside Recycling. On a like-for-like basis, excluding the two paper mills that were closed during calendar year 2006, revenue increased by 13%. Adjusted operating profit was markedly higher at £36.5 million (2005/06: £20.5 million).

Against a background of stronger European demand for CCM and corrugated boxes, and tighter European supply of CCM, we significantly raised our prices of CCM and boxes over the course of the financial year in order to recover the higher input costs. These increases, in conjunction with those achieved in the second half of the prior year, are enabling us to recover a substantial proportion of the margin erosion experienced as a result of the higher input costs and the fall in prices that took place over the previous two years. The box price increase programme is being maintained so as to recover more fully the most recent increases in CCM costs.

DS Smith Packaging, our UK Corrugated Packaging business, achieved strong sales volume, partly as a result of its focus on meeting the increased demand for retail-ready packaging. Throughout the financial year, margins were under pressure from the rises in CCM costs. Our network of conventional plants benefited from better productivity while the speciality sector, which concentrates on higher added-value products, performed well despite its higher input costs. Sales of heavy-duty packaging, which is predominantly used by the industrial manufacturing sector, held up well given the continued pressure on its customer base. Our sheet feeding operations, which supply corrugated sheet, performed well, particularly as a result of strong sales of lighter-weight and speciality board. Our sheet plant business, which converts corrugated board into boxes, was affected by us having to close a plant after a major customer transferred its production to eastern Europe.

At our UK Paper business, St Regis, revenue was flat as the benefits of the higher selling prices for paper and the increased revenue at Severnside Recycling were offset by lower paper sales volume as a result of the closures of Sudbrook Mill in March 2006 and Taplow Mill in October 2006. Margins improved significantly as a result of the plant closures and the actions taken to increase selling prices and enrich the business mix.

The capital expenditure programme to upgrade existing machines at the Kemsley and Wansbrough Mills, in order to enhance the quality of plasterboard liner and other products produced at these mills, is well-advanced and is expected to be completed by the end of 2007. Kemsley Mill, which now accounts for approximately 65% of St Regis' ongoing paper production, made good progress despite some planned loss of production during the upgrading of one of its three machines. The mill continues to benefit from the previous investment in its combined heat and power plant and waste-to-energy plant but its energy costs rose as a result of the lagged pricing arrangements in the energy supply contracts for these plants. Hollins Mill benefited from healthy demand for its principal product, white top testliner, and the action taken to raise its product quality. Increased output, as a result of our recent investment, contributed to an improved result at Wansbrough Mill. The previously announced closure of PM1, the smaller of the two paper machines, at Wansbrough Mill, which was planned to take place at the end of June 2006, was re-considered following the closure in mid-June 2006 of another UK paper producer. In view of the consequent improvement in the market environment for envelope and imitation kraft paper grades, products PM1 is well suited to producing, it was decided to continue operating PM1 to satisfy the increased demand for these speciality grades. Higher Kings Mill, which focuses on higher margin, speciality, non-packaging papers, grew its sales volume, raised its prices and improved its profitability.

Taplow Mill, which made losses in 2005/06, was closed at the end of October 2006 because it was not likely to be an economic proposition over the longer-term, even under a more benign market and energy environment. The Taplow site was sold to a commercial property developer for a net cash consideration of £29.6 million, resulting in a net gain, after the costs of closure of the mill's operations and related restructuring, of £6.7 million.

Our UK waste collection business, Severnside Recycling, which we enlarged through acquisition in 2004, sourced a greater volume of material and made good progress. In addition to meeting the requirements of St Regis' mills for waste paper, Severnside exported an increased quantity of waste paper for recycling in continental Europe and Asia. It also grew its added-value services, including its facilities management business which manages customers' entire waste recycling and disposal needs.

In 2007/08, we will look to build on the progress made in 2006/07. This will be through continuing our efforts to recover the higher input costs through price increases, growing sales in the higher value-added sectors and raising the efficiency of our operations.

Severnside Recycling increased the quantity of waste paper it collected and grew its facilities management business.

Continental European Corrugated Packaging

Higher costs of CCM and energy were not fully recovered through increased box prices.

	2006/07	2005/06
Revenue – £m	**308.0**	276.6
Operating profit – £m	**18.2**	20.1
EBITDA – £m	**31.5**	33.6
Key performance indicators:		
Revenue growth – %	**11.4%**	4.1%
Return on sales – %	**5.9%**	7.3%
EBITDA margin – %	**10.2%**	12.1%
Return on average capital employed – %	**11.1%**	12.4%

2006/07 Performance

DS Smith Kaysersberg grew its revenue by 11.4% to £308.0 million through strong advances in sales volume and higher selling prices. This segment, which is a substantial net buyer of paper, was affected by higher input costs of CCM and energy which it was not able fully to recover through increased box prices during the financial year. Operating profit was lower at £18.2 million (2005/06: £20.1 million).

We implemented a box price increase programme across our continental European markets with the aim of recovering the higher input costs. The considerable increase in prices we have achieved has recovered part of the additional costs of energy and CCM which we have incurred and the price increase programme is continuing.

Our French paper business, which focuses on providing a high level of customer service in speciality markets, had another good year despite increases in its energy and waste paper costs. We increased production and sales, assisted by the previous investment which enlarged the capacity at the main Kaysersberg Mill.

Continental European Corrugated Packaging Locations

NB Indicative relative sizes of operations – not drawn to scale
*Associate business

The recently opened Kutno factory in Poland is performing well and contributed to our further strong growth in that market.

Strong sales volumes and higher selling prices enabled our corrugated packaging businesses partially to offset the effects of higher bought-in paper and energy costs. The French business increased its market share and raised productivity, while in Italy we also gained share in this highly competitive market. Our Polish business, which we are developing through substantial investment, maintained its high growth-rate despite some slow-down in the market as a whole. It is benefiting from its highly-competitive Kutno factory, opened in autumn 2005, which supplies the rapidly expanding FMCG sector in Poland. Our small converting business in the Czech Republic, which principally supplies heavy-duty packaging to the automotive industry, performed well. We have recently created a similar operation in Slovakia and have opened a marketing unit in Lithuania.

Our business in Turkey continues to develop its sales, principally in speciality products and industrial market sectors although profits are being affected by the slow progress in passing on the higher CCM costs. We are investing in this business to enable it to meet the considerable potential demand in Turkey. We increased our stake in our Ukrainian associate business, Rubezhansk, which is reported under associates, taking our holding to 49.6%. This business continued to perform well and is investing further to broaden its product range and meet the burgeoning demand in its region.

Our priorities in this sector in 2007/08 are to continue our price increase programme to recover the higher input costs and to grow further our market share in higher added-value sectors.

Plastic Packaging

Adjusted operating profit advanced strongly in both RTP and liquid packaging and dispensing.

	2006/07	2005/06
Revenue – £m	**201.8**	202.4
Adjusted operating profit – £m*	**10.2**	7.2
Adjusted EBITDA – £m*	**21.9**	19.3
Key performance indicators:		
Revenue (decline)/growth – %	**(0.3)%**	3.3%
Adjusted return on sales – %*	**5.1%**	3.6%
Adjusted EBITDA margin – %*	**10.9%**	9.5%
Adjusted return on average capital employed – %*	**8.3%**	5.6%

* before exceptional charge of £1.9 million (2005/06: £2.6 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. As RTP is often a capital purchase for our customers, being driven by particular projects, and raw materials represent a high proportion of the cost, annual demand can be of an uneven nature. The European market for RTP, which is estimated to be approximately €1.5 billion, is fragmented into many product sub-sectors and has a large number of suppliers. In western Europe, market growth is estimated to be approximately 2-3% per annum; the trend towards the use of multi-trip, reusable packaging on cost and environmental grounds has been slower over the last two years than was previously the case. The slow-down in demand has been partly as a result of the higher polymer costs and partly due to the relocation of some major customer sectors, such as the automotive and electronics industries, to eastern Europe, where RTP market growth is estimated to be approximately 15% per annum.

The global market for liquid packaging and dispensing 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). Volume growth in the North American and European markets is estimated to be approximately 5% per annum while the market in Asia-Pacific is at an early stage of development and growing rapidly. The market for dispensing products (principally taps), other than for bag-in-box systems, is fragmented across a wide range of applications. DS Smith is a major supplier to the wine and liquid detergent sector; the latter has grown strongly in recent years in the USA and is now starting to develop in Europe.

2006/07 Performance

Revenue at DS Smith Plastics was broadly flat but on an underlying basis, excluding the BSK plastic coating and laminating business which was sold in December 2005, it increased by 4.9% to £201.8 million as a result of our actions to strengthen our sales and product development capability and to raise prices. Adjusted operating profit advanced by 41.7% to £10.2 million with good progress in both RTP and liquid packaging and dispensing. This result was achieved despite energy, polymer and film costs being approximately £5 million higher than in the previous year; almost all of this was recovered during the year through higher prices and a better sales mix.

Revenue in RTP, which accounted for 46% of the segment revenue, advanced by 5.2%. Beverage crate sales were particularly strong in the first half of the financial year due to the fulfilment of a number of large contracts in that period. The extruded product businesses grew their sales well and achieved a richer sales mix, benefiting from our actions to strengthen and to co-ordinate better the sales and product development functions on a pan-European basis. We are expanding our capability to supply RTP in eastern Europe from an existing plant in the Czech Republic and a new one in Slovakia, in response to increased sourcing of RTP products in that region by some customers, particularly in the automotive sector.

In liquid packaging and dispensing, which accounted for 45% of the segment revenue, we increased revenue by 2.7%. Our US operations grew sales in new market sectors through innovative product development. In Europe, we benefited from a higher margin sales mix, sales growth as a result of a strengthened product range, and improved operating performance following the restructuring undertaken in 2005/06. In April 2007 we established a small joint venture in Bulgaria to increase our sales of wine bags into the rapidly growing eastern European market. We are consulting with our employees about the proposed restructuring of our European liquid packaging and dispensing operations.

Our small packaging management business was adversely affected during much of 2006/07 by competitive pressure and the contraction of a major customer's operations; nevertheless, the business remained in profit and is now benefiting from restructuring action taken in the UK and some new business which has been subsequently won. Our Israel-based development business, StePac, which specialises in modified atmosphere packaging, achieved record sales and moved into profit for the first time.

Although present indications are that in 2007/08 this segment is likely to face higher energy costs in its continental operations and further increases in polymer costs, our objective is to achieve steady progress in the year ahead.

Our liquid packaging and dispensing business benefited from a strengthened product range and better operating performance.

Spicers focuses exclusively on supplying dealers and resellers and derives significant benefits from its international scale.

Office Products Wholesaling

The continental European businesses progressed well and we are taking action to rebuild UK profits.

	2006/07	2005/06
Revenue – £m	**569.2**	518.7
Adjusted operating profit – £m*	**12.8**	12.6
Adjusted EBITDA – £m*	**19.2**	19.2
Key performance indicators:		
Revenue growth – %	**9.7%**	3.8%
Adjusted return on sales – %*	**2.2%**	2.4%
Adjusted EBITDA margin – %*	**3.4%**	3.7%
Adjusted return on average capital employed – %*	**9.8%**	9.9%

* before exceptional charge of £2.9 million (2005/06: 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 €7 billion, €6 billion and €8 billion, respectively, at manufacturers' selling prices. Recent annual growth in these markets is estimated to have been low or flat overall, with the traditional stationery sector being flat or in decline and the electronic office supplies (EOS) sector showing strong growth[4]. The volume of products bought by offices continues to increase, but 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. However, in the countries in which Spicers operates, the channel that Spicers principally supplies – that of office products dealers or resellers – 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 smaller and medium-sized offices, generally offer a high standard of service to their customers, and source most of their products either from wholesalers or direct from manufacturers.

Wholesalers, on average, account for approximately 10% of the total market. The direct wholesaling competition that Spicers faces varies by country. In the UK there is one other significant national wholesaler of office products. In most continental European markets competition from other national wholesalers is limited, but there are significant numbers of regional and local wholesalers. The European scale of Spicers' business assists it in offering a broad range of products at competitive prices relative to those of many of its smaller wholesaling competitors. Spicers' commitment to supplying only the trade, and not, as some of its competitors do, supplying end-users, gives it a competitive advantage. Spicers competes indirectly with a number of other distribution channels. The most significant of these, contract stationers, accounts for 10-15% of the total market; they generally sell to larger offices and offer a smaller range of products than is stocked by Spicers. The other principal competitor channels to market are: mail order, office superstores, other retailers and manufacturers selling direct to offices.

2006/07 Performance

Spicers' revenue advanced by 9.7% to £569.2 million, both as a result of a full year's contribution from Timmermans, the Benelux business acquired in October 2005, and strong growth in Spain and Italy. Significantly higher profit from the continental European businesses was largely offset by a substantial decline in profit in the UK but overall there was a slight increase in adjusted operating profit to £12.8 million (2005/06: £12.6 million).

Spicers' European Coverage

Countries covered by Spicers' distribution centres

4 Source: DS Smith estimates based on national data

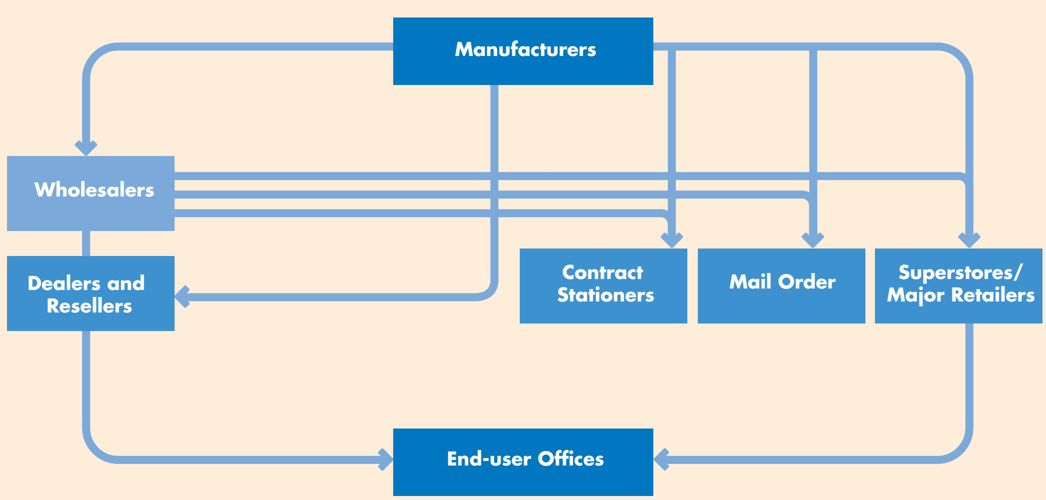
Although Spicers UK continued to be significantly affected throughout the year by competitive pressure, its performance towards the end of the second half reflected some initial benefits from the steps we have taken to date, as part of our three-year plan to restore UK profits. The business ended the year with an encouraging sales trend while service levels at the important dealer distribution centre improved significantly. The substantially strengthened UK management team is vigorously implementing a programme of actions aimed at improving the sales mix, raising service levels and lowering costs. The regional distribution centre (RDC) network has been further consolidated with the closure in early June 2007 of the Park Royal RDC in London. We expect the benefits of these actions to be increasingly evident through the 2007/08 financial year.

In 2006/07, Spicers made further advances in developing its business and profitability in continental Europe. Spicers France continued to gain market share and grew its profit, particularly as a result of the further expansion of its own branded dealer groups, Plein Ciel and Calipage. In January 2007, a new central distribution centre was commissioned at Châteauroux, in central France, to support sales growth and to improve further customer service. The Benelux business, Timmermans, continued to perform well; its increased focus on developing its business in The Netherlands contributed to good sales growth. Spicers Germany advanced, partly as a result of new marketing initiatives which enabled it to grow sales with its target dealer customer base. The Spanish business saw excellent sales growth; it consolidated its profitable position and, in October 2006, opened its new distribution centre near Madrid; this has extended our distribution coverage across central and southern Spain. Spicers Italy, which has been in operation for two and a half years, continued to broaden its customer base and build its sales rapidly. It recently concluded an important supply agreement with Italy's leading franchised stationery store operator.

In 2007/08, we will focus on rebuilding Spicers' profit performance in the UK and further developing our continental businesses.

In France, Spicers' own branded dealer groups, Plein Ciel and Calipage, are growing well.

Office Products Market
Distribution channels

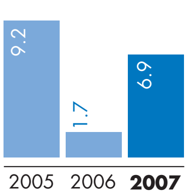


There are a number of channels through which office products are distributed from manufacturers to the end-users in offices. Spicers operates in the wholesaler/dealer channel. The specialisation and buying power of the wholesaler and the low overhead cost structure of the dealer enable this channel to compete effectively and profitably. Wholesalers also supply product to the other three main channels because they are well equipped to hold stock of a larger range of items.

Revenue and operating profit advanced well.

Gavin Morris
Group Finance Director

KPI
Revenue Growth
(%)



% change in Group revenue compared with the previous year

Trading Results

The Group's trading results for the year to 30 April 2007 are summarised in Table 1. The financial key performance indicators (KPIs) used throughout this Review show three years' data, for 2004/05, 2005/06 and 2006/07; these are prepared on the basis of International Financial Reporting Standards (IFRS).

The major drivers of the 2006/07 results were: the substantial increases in selling prices in the Paper and Corrugated segments that were realised in order to recover the major rises in materials and energy costs that have taken place in recent years; improved performance in both major sectors in the Plastic Packaging segment; and continuing strong competition in the UK business of the Office Products Wholesaling segment. The Operating Review on pages 18 to 25 provides an overview of the performance of the Group's operations in 2006/07. Further details on the Group's energy costs and the way in which these are being managed are provided on pages 28, 31 and 32.

Revenue for the financial year ended 30 April 2007 increased by 6.9% over the prior year; it was 5.7% higher in the first half of the year and 8.0% higher in the second half. Excluding the effects of the acquisition of Timmermans within Office Products Wholesaling and the closures of the Sudbrook and Taplow Mills within UK Paper and Corrugated (and the previous disposals of John Dickinson and the BSK plastic coating and laminating business), revenue was up 9.9%. If, in addition, the effect of movements in foreign exchange rates is excluded, revenue was up 10.8 % on 2005/06 (up 8.7% in the first half of the year and up 12.9% in the second half).

Adjusted Group operating profit (excluding exceptional items) in 2006/07 was £77.7 million (2005/06: £60.4 million). The increase in adjusted Group operating profit resulted from rises in UK Paper and Corrugated Packaging of £16.0 million, in Plastic Packaging of £3.0 million and £0.2 million in Office Products Wholesaling, while Continental European Corrugated Packaging fell £1.9 million. Group adjusted operating profit in the first half of the year was £30.4 million (2005/06 H1: £33.2 million) and in the second half was £47.3 million (2005/06 H2: £27.2 million). Adjusted full-year operating profit from UK operations increased by £10.2 million to £28.6 million, principally due to higher profits in UK Paper and Corrugated Packaging, offset by a slump in the profits in the UK business within Office Products Wholesaling. Adjusted operating profit from non-UK operations was up £7.1 million, reflecting the stronger continental European performance of Office Products Wholesaling, including the acquired business in the Benelux region, and a different geographical mix of profits within Plastic Packaging. The Group's adjusted return on sales was 4.4% (2005/06: 3.7%).

The Group recorded net exceptional income before tax of £3.9 million during the year (2005/06: net exceptional charges of £42.4 million). This net exceptional income arose from a profit of £20.5 million on the sale of the Taplow paper mill site and a negative goodwill credit related to an increase in our ownership of our associate, Rubezhansk, of £2.0 million, offset by costs on the closure of loss-making paper capacity, and related restructuring, in UK Paper and Corrugated Packaging (£13.8 million), the proposed restructuring of our European liquid packaging and dispensing operations within Plastic Packaging (£1.9 million) and the restructuring of the UK operations of Office Products Wholesaling (£2.9 million). Operating profit after exceptional items was £79.6 million (2005/06: £18.0 million).

The Group's adjusted return on capital employed (which is defined as the adjusted operating profit divided by the average capital employed) increased from 6.5% in 2005/06 to 8.7% in 2006/07. Notwithstanding this improvement, this return remains unacceptable as it is below the Group's estimated pre-tax cost of capital of circa 10%. The improvement in the Group's return on capital employed reflects better returns in 2006/07 across UK Paper and Corrugated

Table 1 – Trading Results Summary

	Full year		Second half	
	2006/07	2005/06	**2006/7**	2005/06
Revenue – £m	**1,766.1**	1,652.7	**897.6**	831.1
Adjusted operating profit – £m*	**77.7**	60.4	**47.3**	27.2
Adjusted return on sales – %*	**4.4%**	3.7%	**5.3%**	3.3%
Adjusted return on average capital employed – %*	**8.7%**	6.5%	**10.7%**	5.9%

* before exceptional items

Packaging and Plastic Packaging as a result of better operating profits and lower capital employed, following the closure and disposal of facilities, offset by lower returns in Continental European Corrugated Packaging and Office Products Wholesaling.

Interest, tax and earnings per share

Net interest expense increased from £12.3 million in 2005/06 to £15.0 million in 2006/07, mainly reflecting higher euro interest rates on slightly lower average net debt. Employment benefit net finance income was £8.0 million (2005/06: £1.2 million), reflecting the lower opening deficit on the defined benefit schemes.

The Group included £3.9 million as the Group's adjusted share of associated undertakings' after-tax profits, down from £4.1 million in 2005/06. Within this amount, £3.6 million (2005/06: £3.3 million) related to the Group's share of the after-tax operating profit of Rubezhansk, the Group's associate paper and packaging company in Ukraine (in which the Group's ownership increased from 38.8% to 49.6% towards the end of 2006/07); the decline in the associates' profit is due to the Group's lower share of the profits from its Japanese packaging associate, following the reduction in its stake from 14.8% to 6.3% during 2006/07.

Adjusted profit before tax was £74.6 million (2005/06: £53.4 million). Profit before tax after exceptional items was £78.5 million (2005/06: £11.0 million).

The Group's effective tax rate, excluding exceptional items and associates, at 32%, was higher than last year's rate of 27%, the 2005/06 rate benefiting from prior year items following the resolution of historical tax uncertainties. Excluding the effect of any prior year items, the effective tax rate is expected to be slightly higher than the UK statutory rate in the coming year, largely because of higher overseas tax rates.

Adjusted basic earnings per share were 13.1p (2005/06: 10.0p). Basic earnings per share were 15.6p (2005/06: 1.1p).

Dividend

The proposed final dividend is increased to 6.0p (2005/06: 5.8p). The total dividend for the year is 8.6p (2005/06: 8.4p). Dividend cover before exceptional items was 1.5 times in 2006/07 (2005/06: 1.2 times). Dividend cover after exceptional items was 1.8 times (2005/06: 0.1 times).

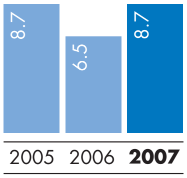
Table 2 – Cash Flow

	2007 £m	2006 £m
Operating profit before exceptional items	**77.7**	60.4
Depreciation and amortisation	**62.9**	67.2
Adjusted EBITDA	**140.6**	127.6
Working capital movement	**8.5**	27.4
Exceptional cash costs	**(7.2)**	(4.6)
Other	**(13.9)**	(12.2)
Cash generated from operations	**128.0**	138.2
Capital expenditure payments	**(55.8)**	(62.7)
Sales of assets	**41.0**	13.2
Tax paid	**(15.1)**	(13.5)
Interest paid	**(14.1)**	(12.0)
Free cash flow	**84.0**	63.2
Dividends	**(32.7)**	(32.6)
Net (acquisitions)/disposals	**0.2**	0.5
Net cash flow	**51.5**	31.1
Shares issued	**3.7**	2.6
Net debt acquired	**–**	(2.6)
Non-cash movements	**1.4**	(6.1)
Net debt movement	**56.6**	25.0

Cash Flow

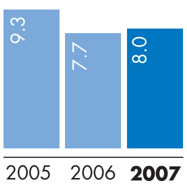
Free cash flow (which is defined as the net cash flow before dividends, acquisitions and disposals) and net cash flow are shown in Table 2. Cash generated from operations was £128.0 million (2005/06: £138.2 million). This reflects the higher adjusted operating profit, offset by the exceptional cash restructuring costs and a reduced inflow from working capital. The cash outflow in respect of exceptional restructuring costs was £7.2 million (including cash outflows related to exceptional charges made in 2005/06), compared with a cash outflow from restructuring costs of £4.6 million in 2005/06. As is discussed below, this was more than offset by the £29.6 million of net exceptional cash realised on the sale of the Taplow site, included within sales of assets. There was a strong focus on working capital management which resulted in a cash inflow of

KPI
Adjusted Return on Average Capital Employed
(%)



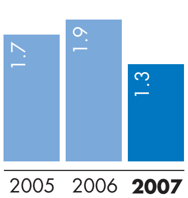
Operating profit before exceptional items divided by average capital employed, expressed as a percentage

KPI
Adjusted EBITDA Margin
(%)



Earnings before interest, tax, depreciation, amortisation and exceptional items divided by revenue, expressed as a percentage

KPI
Net Debt/Adjusted EBITDA
(times)



Net debt divided by earnings before interest, tax, depreciation, amortisation and exceptional items

£8.5 million. In respect of pension payments, the agreed annual contributions into the UK Group Pension scheme were £14.0 million in 2006/07 (2005/06: £14.0 million). Capital expenditure payments were £55.8 million, the most significant investment being within St Regis to support growth in plasterboard liner production in the UK, down from £62.7 million in 2005/06, which included the cost of our new corrugated plant in Poland and the first phase of the St Regis plasterboard liner investment. The proceeds from the sales of assets includes £29.6 million (after disposal costs) from the sale of the Taplow mill site. The interest paid increased in line with the income statement charge.

Tax payments were £15.1 million (2005/06: £13.5 million) as the effect of the higher adjusted trading profit described above was partially offset by the tax deductions from the exceptional restructuring charges (the exceptional gain being relieved by previously unrecognised tax losses).

Free cash flow, before acquisitions, disposals and dividends, was £84.0 million (2005/06: £63.2 million). Cash dividend cover, defined as free cash flow divided by dividends paid/declared for the year, was 2.5 times, up from 1.9 times in 2005/06.

The net cash inflow on acquisitions and disposals was £0.2 million (2005/06: £0.5 million inflow).

Financial Position

Shareholders' funds totalled £569.4 million at 30 April 2007, up from £532.1 million at 30 April 2006. Net assets per share were 144.9p (30 April 2006: 138.5p). The profit attributable to the shareholders of DS Smith Plc was £60.6 million and dividends of £32.7 million were paid during the year. In addition, after-tax actuarial gains of £11.9 million on the Group's defined benefit pension schemes were credited to reserves through the statement of recognised income and expense, as explained in the pensions section below. Other items recognised directly in equity, relating to the issue of new share capital, foreign currency differences, hedge accounting and share-based payment expense (all with associated tax), totalled £2.5 million.

The Group's closing net debt was £181.2 million, £56.6 million lower than at the start of the year, reflecting the net cash inflow during the year of £55.2 million and non-cash movements, principally exchange differences and related fair-value movements, of £1.4 million.

Gearing was 32.0% (30 April 2006: 43.9%); the decrease reflected the improvement in borrowings from the net cash inflow for the year and the increase in shareholders' funds from the profit for the year and the reduction in the net pension deficit. Adjusted interest cover was 5.2 times, compared with 4.9 times last year, the higher cover reflecting the higher adjusted operating profit partially offset by the increased interest charge. The ratio of net debt to EBITDA (before exceptional items) was 1.3 times (2005/06: 1.9 times).

Energy Costs

The high level of energy costs continued to be a significant factor for the Group in 2006/07. The Group's total costs for gas, electricity and diesel fuel decreased from circa £95 million in 2005/06 to circa £88 million in 2006/07; after adjusting for the effects of the closures of two paper mills this represents an underlying increase of circa £6 million. Although market energy prices in the UK eased to some extent during the year, the benefits of this were more than offset by the expiry in October 2005 of the Group's previous favourable fixed-price UK electricity contract and the effects of lagged price increases resulting from the supply contracts for some of our operations.

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. The remainder of our energy costs relate to fuel which is purchased on the open market, for which we use price-hedging techniques, as appropriate, to limit pricing volatility.

Capital Structure and Treasury Management

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.

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 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: a private placement, due in 2012, of US$105.0 million and £25.0 million; a private placement, due in 2014 and 2016, of US$200.0 million; and a syndicated revolving credit facility of £250.0 million, which expires in 2010. At 30 April 2007, the Group's committed borrowing facilities were £460.0 million. Uncommitted borrowing facilities, including overdrafts, totalled £108.2 million. The total gross borrowings drawn under all these facilities at the year end were £238.5 million. At 30 April 2007, the Group's borrowing facilities had a weighted-average maturity of four years and six months.

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 no speculative use of financial instruments, including derivatives, is 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 Group has flexible price purchase arrangements with its suppliers of electricity and natural gas; it also enters into hedge arrangements with its suppliers and financial institutions.

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 policy of borrowing at floating rates, which the Treasury Committee believes provides better value over the medium-term. The Group has previously taken advantage of low levels of medium- to long-term sterling interest rates to fix the interest rate on a total of £80.8 million of sterling denominated borrowings. Of this amount, the interest rate on £40.0 million is fixed to 2008 and the interest rate on £40.8 million is fixed to 2016. Fixed-rate borrowings, taking into account the effect of related swaps, comprised 33% of total borrowings at 30 April 2007 (30 April 2006: 30%).

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 borrowings decreased from 81% at 30 April 2006 to 73% at 30 April 2007 as a proportion of the Group's euro net investment, as a result of the reduction in euro borrowings and an increase in euro net assets.

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 borrowings. 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 borrowings 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.

Accounting Policies

The Group's accounting policies are set out in note 1 to the financial statements. The Group has identified the following accounting policies, and the judgements involved in their application, as being critical to understanding the results and position of the Group:

- 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. The use of different estimates, assumptions and judgements could result in a different assessment of the value-in-use of the assets involved and, consequently, result in the impairment of the assets involved. In particular, such different assessments might arise from the estimates, assumptions and judgements involved in (a) determining a value based on our current estimation of future conditions and the associated cash from the Group's operations and (b) our determination of the level at which groups of assets can reasonably be tested for impairment separately from other parts of the business. Note 10 to the financial statements sets out additional information regarding the Group's annual impairment exercise.

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

The likely effect of future changes in accounting standards and interpretations is also set out in note 1 to the financial statements.

Pensions

The Group operates one defined benefit pension scheme in the UK and has some small, overseas arrangements. The aggregate gross assets of the schemes at 30 April 2007 were £737.9 million and the gross liabilities at 30 April 2007, calculated under IAS 19, were £756.5 million, resulting in the recognition of a gross balance sheet deficit of £18.6 million (30 April 2006: £50.3 million), a net deficit of £13.0 million (30 April 2006: £35.3 million) after the establishment of a deferred tax asset of £5.6 million (30 April 2006: £15.0 million).

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 contributions collected from members have been increased during 2006/07. The lower current service cost in 2006/07, £9.4 million compared with £11.1 million in 2005/06, reflects these higher member contributions and the reduction in the number of active scheme members following the closure or disposal of facilities. The Group's agreed annual cash contributions to the main UK scheme were £14.0 million (2005/06: £14.0 million). The next triennial valuation of the scheme is to be carried out as at 30 April 2007.

The balance sheet deficit (before a related deferred tax asset) decreased from £50.3 million at 30 April 2006 to £18.6 million at 30 April 2007. The decrease of £31.7 million included net actuarial gains of £17.0 million, principally because the scheme's liabilities decreased as a result of the increase in the discount rate used to value the liabilities, from 5.1% at 30 April 2006 to 5.4% at 30 April 2007. No changes were made during the year to the assumptions made in respect of the longevity of scheme members.

Outlook

Our priorities are to continue to drive for recovery of the high input costs within our Packaging businesses and to raise profits at Spicers, particularly in the UK. Entering 2007/08, the business is performing well and I am confident that the Group will make good progress this year.

Gavin Morris
Group Finance Director

Risk Management

The procedures adopted by the Group to manage its key risks, including environmental, social and governance risks, and to comply with the guidance of the Turnbull Committee are described in the Corporate Governance section on pages 38 to 40. The Group's exposure to individual risks is limited and diversified by the fact that it has several distinct types of activity, with 27 business sectors operating from over 100 sites in 16 different countries, and it sells to a broad range of customers. Any significant 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 the way they are managed are described below. 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.

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 28 and 29.

The funding position on the Group's UK defined benefit pension scheme and the consequent impact of any deficit on corporate activity

The funding on the Group's defined benefit scheme is sensitive to a number of factors. The Group faces the risk that this funding position will deteriorate over time, in particular if actual longevity exceeds current assumptions and investment returns are lower than expected. 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 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 28 and 29.

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 33 and are available in full 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.

Political instability

Profits from the Group's wholly-owned operations are not subject to any significant degree of political risk as they are almost entirely located in countries which are members of the Organisation for Economic Co-operation and Development (OECD), members of which are committed to democratic government and the market economy. The Group's adjusted after tax profits from associated undertakings, which totalled £3.9 million in 2006/07, are currently exposed to some political risk as they are substantially derived from Rubezhansk, a paper and corrugated packaging business located in Ukraine, a country which has recently experienced political instability. The Group's ability to manage this risk is also lessened since it has influence, rather than control, over these operations. The Group maintains a close relationship with local management and regular visits are made to Ukraine by Group executives to ensure a good understanding of the business and the context in which it is operating.

Volatility and increasing energy prices

The Group's exposure to energy costs is described on page 28 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 and a UK waste-to-energy plant, 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 has recently closed two of its least energy-efficient operations and continues to reduce its energy usage through energy-saving projects; these factors contributed significantly to a 15% reduction in the Group's energy usage in 2006/07 compared with 2005/06. The Group has developed further its centralised energy-purchasing approach in the UK and France, which enables it to obtain economies of scale in buying and to apply specialist expertise, including the application of price-hedging techniques. Regulatory developments in the energy market are monitored and the Group collaborates, when appropriate, with other heavy energy users in the paper and other industry sectors to influence government on energy policy and the operation of the energy markets.

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 pages 34 and 35 and in the statement of the Group's strategy for managing its energy costs above in this section.

Changes in packaging demand as a result of environmental concerns

The increasing concerns of consumers, retailers and government about conservation of resources and waste reduction may result in lower total usage of packaging or changes in the pattern of demand for certain types of packaging. The positive role that most packaging plays in contributing to reducing total waste in the supply chain and the actions that the Group's packaging businesses have been taking for a number of years to minimise the use of resources, are described in the Packaging and the Environment section of the Corporate Responsibility Review on pages 35 to 37. Our packaging businesses are increasingly working with the other members of their product supply chains to minimise the total environmental impact of the production, distribution, use and disposal of goods. At the same time, the Group is collaborating with other companies which produce, specify or use packaging to increase the understanding of government and other opinion-formers of the positive role packaging does, and can in future, play in achieving more sustainable consumption.

Volatility of pricing and availability of globally traded raw materials

In 2006/07, the Group purchased over £75 million of waste paper and approximately £85 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.

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.

Of the Group's total polymer and film purchases in 2006/07, polycarbonate, polypropylene and high density polyethylene accounted for approximately 45% with the remainder comprising a large number of different polymers and films. The Group has developed a good level of knowledge in polymer purchasing and uses a number of suppliers to ensure it is purchasing at competitive prices.

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 33 to 37.

The Group's overriding priority is safety at work.

DS Smith is committed to providing good sustainable returns for its investors while maintaining high standards of behaviour in all its business dealings. The Group's overriding priority is safety at work and it also places special emphasis on care for the environment.

The Board considers risks to the Group's short- and long-term value arising from corporate responsibility (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 human resources, health and safety and environment policies.

We have a clear set of principles, the Group's Key Corporate Values, which stipulate that all employees will at all times act ethically and with integrity, treat their colleagues fairly, equitably and with respect, work safely and protect the environment. The Key Corporate Values statement, which may be viewed on the Group's website, is underpinned by more detailed policies on health and safety, the environment and other relevant topics. The Group has a workplace malpractice policy, under which employees may report in confidence concerns they have about any perceived wrongdoing within the Group on matters relating to safety, the environment, unethical business conduct or breaches of company policies, the law or other regulations. This policy is reinforced by a confidential Employee Concern Helpline and e-mail facility which is progressively being made available to our employees worldwide as local legal and regulatory issues are resolved; to date it has been extended to approximately 70% of our employees, located in nine countries. Any concerns reported are appropriately investigated.

DS Smith has been 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.

Given the nature of the Group's operations, our primary CR focus is on safety and environmental matters. With a worldwide workforce of over 11,000 people operating from over 100 sites, the Group also places considerable importance on its dealings with its employees and local communities. This review presents information on these highest priority aspects of CR for the Group.

Health and Safety

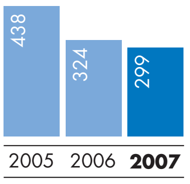
Safety at work remains our top priority and its importance is reflected in it being the first fixed agenda item at all main Board, executive committee and divisional review meetings. DS Smith is committed to the protection and safety of its staff and others affected by its operations. Providing a safe workplace and ensuring safe working practices are not only legal and ethical responsibilities for the Group but are also essential factors in achieving our aims of attracting and retaining a high quality and well-motivated workforce and in carrying out our operations productively and cost-effectively.

The Group places strong emphasis on communicating with our people about the importance of safety at work and the ways in which safety can be improved on our sites. A Group-wide campaign was launched in autumn 2006, under the slogan "think safe… be safe!" aimed at further raising employees' awareness of their individual responsibilities for preventing accidents. Our businesses have used the campaign as a platform for implementing improvement programmes, linked to this core theme, which focus attention on particular types of accidents that are most relevant to their operations.

Information on safety performance is reported to the Board quarterly. In 2006/07, the continuing emphasis on safety throughout the Group was reflected in an 8% reduction in the number of accidents that resulted in one shift or more of working time being lost and a 13% reduction in the accident frequency rate, which measures all accidents in proportion to the number of hours worked. Regrettably, the accident severity rate, which measures the hours lost as a result of all accidents as a percentage of the total hours worked, increased by 5%, as a result of an increase in the number of accidents which resulted in the affected employees being absent from work for longer periods. Despite this increase in the severity rate for the year as a whole there was evidence in the second half of the year of an improving trend in this indicator and the figure for the final quarter was significantly lower than that of the previous year's final quarter.

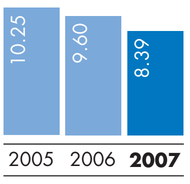
Lost Time Accidents

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



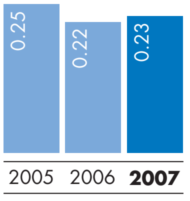
Accident Frequency Rate

Number of accidents of all types per 100,000 hours worked



Accident Severity Rate

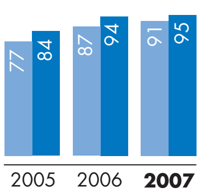
Working hours lost as a result of accidents as a percentage of hours worked



The Group's businesses share experience and information on safety matters and use a wide variety of techniques in their continuing efforts to reduce accidents. They work closely with external health and safety agencies to identify areas for increased attention and to provide appropriate training. Site health and safety audits by internal specialists and external consultants are used to measure 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. Training in risk assessment and root-cause analysis features strongly in health and safety training programmes. Surveys carried out at a number of sites about employees' attitudes towards safety have been followed up with initiatives aimed at addressing the issues identified. Although we have made significant progress in improving our safety performance, we are determined to reduce accidents further and continually seek new ways to achieve this.

Environmental Management

% of Group operations with an appropriate environmental management system (EMS)



Higher potential environmental impact operations with ISO 14001 accreditation

Lower potential environmental impact operations with a simplified EMS

Environment

The Group makes a major contribution to conserving resources and reducing landfill waste through its position as the leading UK collector of waste paper for recycling and the UK's largest producer of recycled paper. DS Smith's corrugated and plastic packaging products are made from recycled raw materials wherever it is practicable; in 2006/07, 74% of the paper, polymers and films used were recycled material. The Group's businesses work with their packaging customers and retailers to optimise the use of resources and reduce waste in their supply chains. In the year, the Group made progress towards its objective to reduce its impact on the environment and it further strengthened the environmental management of its operations.

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. Further progress was made in 2006/07 towards our goal that all Group operations will have an appropriate environmental management system (EMS) in place. 94% of the Group's operations now have an EMS and, within this, 91% of the 35 Group operations identified as having higher potential environmental impact, due to their size or type of activity, are now accredited under the internationally recognised ISO 14001 EMS. 95% of the Group's other 60 operations have a simplified EMS in place, appropriate to their lower level of potential environmental impact. As part of their EMS, many Group businesses have procedures in place for assessing their suppliers' environmental policies and management systems, as appropriate.

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 circumstances surrounding all environmental incidents are investigated immediately and 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 Pollution Prevention and Control (PPC) permits under which they each have specific improvement programmes and targets; St Regis' overall compliance with its PPC emission limits was 99.7% in 2006/07. 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 2006 and is on course to meet its next target for the year to September 2007. We are investigating potential alternative energy sources, including refuse-derived fuel, for our UK paper manufacturing operations.

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. Under the terms of the UK scheme, our UK mills have opted out of the first phase of the EU Emissions Trading Scheme (EU ETS) as they are a participant in the UK paper sector CCL Agreement; they will, however, be subject to the second phase of EU ETS, which commences in January 2008. Our French paper mills, which have been subject to Phase 1 of EU ETS, have invested in a combined heat and power facility and have, to date, had an emissions allocation which is in excess of their actual emissions. The extent of the effect of future phases of EU ETS on our UK and French paper mills is as yet uncertain, being dependent upon the details of the emissions allocations and the market price of carbon under future phases of the scheme. Present indications are that phase 2 of EU ETS is unlikely to have a significant negative effect on DS Smith but the effects of subsequent phases from 2013 onwards are likely to be more onerous. There is an added risk that, over time, governments will extend emissions trading, or other forms of regulation of carbon emissions, to additional sectors of the economy which will encompass more of DS Smith's operations.

Environmental Performance

Throughout the Group, our businesses undertook a variety of initiatives to reduce their environmental impact in the course of the year. The Group's overall performance is reflected in the environmental key performance indicators shown in the adjacent table.

The Group consumed 15% less energy in 2006/07 compared with the previous year, principally as a result of the closure of two paper mills. Energy usage per £'000 of revenue was 21% lower. Excluding the effect of the two paper mill closures, the Group's energy usage was 1% lower, reflecting improved overall energy efficiency in the light of the increased production at the continuing operations.

The Group's lower energy usage in 2006/07 resulted in a 20% reduction in direct emissions of carbon dioxide (CO_2) and a 6% reduction in indirect CO_2 emissions (associated with the Group's usage of bought-in electricity and steam). Direct emissions of sulphur dioxide and nitrous oxides, the other gases emitted to air in material quantities, were 2% and 19% lower, respectively, than in the previous year.

Water usage was reduced by 36%, as a result of a combination of the closures of two paper mills and our investment in water recycling processes. Our paper mills account for approximately 95% of the total water used by the Group. The average quality of the water discharged by the paper mills, as measured by the biological oxygen demand and suspended solids loads of the effluent, has improved substantially following the closure of Sudbrook Mill; the particular manufacturing process of that mill resulted in its effluent containing a high level of cellulose material.

The waste sent to landfill by the Group reduced by 14% while the proportion of the waste produced by our businesses that was recycled increased from 82% in 2005/06 to 84% in 2006/07. A substantial proportion of this recycling is accounted for by the reprocessing of waste created during the production of corrugated packaging and plastic packaging. The paper mills also recycle much of their reject material, such as plastic and polystyrene, which enters their process mixed in with the waste paper and is separated out during paper manufacture. Kemsley Mill utilises a substantial proportion of its process waste through its own waste-to-energy plant, which efficiently burns the waste to produce electricity and steam to power the mill.

Packaging and the Environment

There is growing concern by society and government about the need to conserve resources and lower the

Environmental Key Performance Indicators

	2006/07	2005/06
Energy consumption[1]		
Gigawatt hours	**3,106**	3,671
Megawatt hours/£'000 revenue	**1.76**	2.22
Emissions to air[2]		
Carbon dioxide (CO_2)		
Scope 1 (direct) emissions – '000 tonnes	**336**	421
Kilograms/£'000 revenue	**190**	255
Scope 2 (indirect) emissions – '000 tonnes	**474**	504
Kilograms/£'000 revenue	**268**	305
Sulphur dioxide (SO_2)		
Tonnes	**135**	137
Grams/£'000 revenue	**76**	83
Nitrous oxides (NO_x)		
Tonnes	**851**	1,050
Kilograms/£'000 revenue	**482**	635
Water Usage		
Million cubic metres	**9.5**	14.9
'000 cubic metres/£'000 revenue	**5.4**	9.0
Water discharge quantity (paper mills only)[3]		
Million cubic metres of process water discharged	**7.5**	10.5
'000 cubic metres/tonne of paper produced	**6.8**	8.4
Water discharge quality (paper mills only)		
Biological oxygen demand load		
'000 tonnes	**1.5**	14.5
Kilograms/tonne of paper produced	**1.4**	11.6
Suspended solids load		
'000 tonnes	**1.3**	3.6
Kilograms/tonne of paper produced	**1.2**	2.9
Waste management		
Waste sent to landfill		
'000 tonnes	**62**	72
Kilograms/£'000 revenue	**35**	44
Waste recycled[4]		
'000 tonnes	**332**	324
Kilograms/£'000 revenue	**188**	196
% of total waste recycled	**84%**	82%

Methodology: The Group is working towards collecting and reporting 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 relate to all of the Group's wholly-owned or majority-owned operations. As a result of some changes in data coverage and methods of calculation, in order to comply with the above guidelines, the data for 2005/06 has in some cases been restated from that published in the 2006 Annual Report.

1 Energy figures relate to usage of all fuels, including diesel for freight transport.

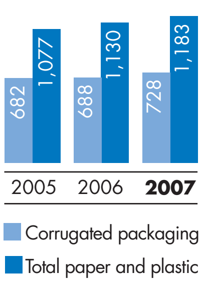
2 Emissions to air figures have been calculated from the usage of all fuels, including for freight transport. As required by the GHGP, Scope 1 and Scope 2 carbon dioxide emissions are reported separately. Scope 1 (direct) emissions are those arising from combustion of fuel in installations or vehicles owned by the Group; Scope 2 (indirect) emissions are those arising from bought-in energy (e.g. electricity or steam) where the combustion has been carried out by another company. The 2006/07 Scope 1 emissions included 18,000 tonnes (2005/06: 19,000 tonnes) of CO_2 which were associated with the production of electricity which was sold to the grid from one of our CHP plants. The reported emissions of sulphur dioxide and nitrous oxides are those produced directly by the Group.

3 Water discharge figures relate only to the Group's paper mills, which account for approximately 95% of the total water usage of the Group. The quantities measured, in accordance with the requirements of the IPPC regulations, are for process water only and do not include cooling water. 48% of these discharges are to the sea, 35% are to rivers and 17% are to sewers.

4 Waste figures relate to waste generated by our operations; waste recycled includes recycling through waste-to-energy and for agricultural use as landspread.

The Group makes a major contribution to recycling in the UK as both a collector and reprocessor of waste paper.

Material Collected by Severnside Recycling
'000 Tonnes



amount of waste being disposed of in landfill through a reduction in the amount of waste being created and an increase in the amount of materials being recycled. This is resulting in increased attention being paid to reducing the overall quantity of packaging in use and increasing the proportion of packaging that is recycled. The Group recognises its responsibility to contribute to the conservation of resources and is fulfilling this responsibility in a number of ways.

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. It is increasingly being recognised that packaging is just one, often relatively minor, aspect of the total environmental impact of a product and it should be considered in that context. Our packaging businesses work with their customers to develop packaging of the optimum specification for the required end-use. DS Smith Packaging's PackRight system enables all the factors relating to a particular pack to be analysed and 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. Recent collaboration by DS Smith Kaysersberg over a particular item of packaging for a major international beverage company, for example, resulted in our recyclable corrugated packaging replacing the previously used material which was difficult to recycle, and in the process the weight of the packaging was reduced by 20%.

In some circumstances, packaging which is designed to be re-used many times, such as the Group's plastic returnable transit packaging, may be required by customers if the packaging can be readily recovered, transported and cleaned for re-use. 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 use space efficiently and are relatively light-weight 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. Plastic materials may be more difficult to recycle than some other materials, due to the large variety of polymers in use, the practicalities of separate collection and processing, contamination from contact with food and other technical considerations. Wherever it is appropriate, our Plastic Packaging businesses use recycled materials and they increased the recycled proportion of their polymer and film raw material requirements from 18% in 2005/06 to 21% in 2006/07.

Although corrugated packaging is not generally re-used, it is a fully recyclable packaging material that is produced predominantly from recycled paper in what is essentially a loop system. 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's operations make a major contribution to the corrugated packaging recycling process. Severnside Recycling is the UK's largest collector of waste paper and also collects other materials for recycling. It sources waste from major supermarkets, other retailers and industrial operations and is providing the waste collection services for Tesco plc's project to collect consumer packaging waste at an increasing number of its stores. All of the paper produced by the Group is made from recycled 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 recovered paper in France; in total the Group recycled 1.2 million tonnes of paper in 2006/07. 76% of the paper used by the Group's corrugated packaging operations in 2006/07 was 100% recycled paper and a further 3% was paper made from a mixture of recycled and virgin wood pulp. The other 21% of the paper used was made from 100% virgin wood pulp; it has particular strength and appearance characteristics which certain customers require for their packaging and it is sourced from producers which obtain their wood pulp from sustainable forestry sources.

Our UK Paper and Corrugated Packaging businesses recently completed a project, supported by the Carbon Trust, to establish the carbon footprint of their operations. 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.

The Group's paper collection and recycling operations play an important role in meeting the EU and UK government objectives for 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 by 2008; it is already well ahead of this target, with 77% of paper packaging being recycled in 2006, and DS Smith is the largest contributor to this reprocessing.

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.

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 11% (2005/06: 11%) compares favourably with the UK national average of 18%[1]. 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. In common with many other employers, a number of our businesses experience difficulty in recruiting high-calibre engineers; this is being addressed through the provision of apprenticeships and graduate sponsorships.

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.

The recent restructuring actions undertaken to improve the Group's performance regrettably resulted in significant reductions in employment at a number of locations. In situations where there is no viable alternative to making employees redundant, the Group's approach is to minimise the number of compulsory redundancies and, in situations where compulsory redundancies are unavoidable, to make every effort to assist employees in finding alternative positions within the Group or with other employers.

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 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 E-learning programmes.

Community Involvement

We seek to develop and maintain good relations in the local communities in which we operate. As well as providing significant employment opportunities, we aim to make positive contributions to these 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 product 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.

Content of the Business Review

This Business Review has been prepared to meet the requirements for companies to provide an enhanced Business Review in accordance with the March 2005 amendments to the UK Companies Act 1985.

1 Source: Chartered Institute of Personnel and Development

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 July 2003 and updated in June 2006. The Board has an ongoing review of its corporate governance policy and has implemented some changes to take account of the Combined Code and best practice. 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. Mr A P Hichens, who was Chairman from September 1999, retired from the Board at the end of December 2006, having reached the age of 70. Mr P M Johnson, who was a non-Executive Director of the Company from December 1999 until December 2006, became Chairman on 1 January 2007. 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. It is recognised that Mr D R Piette was not considered a fully independent non-Executive Director because of his length of service.

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 Hichens did not attend the Board meeting held in October 2006 and Mr Piette did not attend the Board meeting held in March 2007. There were no other absences from any Board or Committee meetings by any Director. In addition to formal Board meetings, the Chairman and 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 divestments, the approval of the annual and interim 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 self-appraisal which was led by the Chairman and the Senior Independent Director. The Board concluded that the review process showed that the Board and its Committees operated effectively. The review resulted in a Board paper and an action plan aimed at further enhancing the effectiveness of the Board. The review comprised feedback from a questionnaire and individual discussions. 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. All Directors and the Company Secretary participated in the exercise. During the current financial year the Board intends to repeat the process. The non-Executive Directors meet separately at least once a year to appraise the Chairman's performance.

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. 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 Johnson. The membership and experience of each Committee can be seen on page 8. 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 page 8, 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 Johnson retired as a member of the Committee on taking up his appointment as Chairman of the Board. Mr P J C Mellier became a member of the Committee with effect from his appointment to the Board. 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 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 their 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, and their quality control processes.

The Committee's policy on the supply of non-audit services by external auditors is as follows. The external Auditors are permitted to undertake some non-audit services, for example advisory services and due diligence activities associated with potential acquisitions and divestments 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 2006/07, non-audit fees were less than 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.

During the year the Committee met on four occasions, one of which was to receive presentations from the audit firms tendering for the external audit and consequently to make a recommendation to the Board, and there were no absences. On three 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.

In addition to its regular business, during the year the Committee dealt with the following particular matters:

- it conducted a tender process for the Group's external audit and made a recommendation to the Board that Deloitte & Touche LLP should be appointed as the Group's external auditor in place of KPMG Audit Plc, which had been the Group's external auditor for over 20 years;
- it considered progress on revisions to certain elements of the Group's internal controls procedures;
- it carried out an appraisal of the effectiveness of the Audit Committee, the external Auditors and 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

The Nomination Committee considers the appointment of Directors, reviews succession planning at Board level and makes recommendations to the Board as a whole. Mr R E C Marton and Mr A D Thorne were appointed to the Committee with effect from 1 January 2007, Mr Thorne having previously attended by invitation. A rigorous process is in place for the appointment of new Directors, involving the use of external recruitment consultants, where appropriate, followed by meetings both with the Committee and then with the Board. The Committee planned for some time for the appointment of a new Chairman to succeed Mr Hichens in anticipation of his retiring from the Board at the end of 2006, having reached the age of 70. The Committee considered that Mr Johnson was the right person for the role based on his skill, experience and knowledge of the Company. Consequently, the Committee did not consider it appropriate to place an external advertisement for the position of Chairman. The Committee met twice 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. In addition Mr Piette attended by invitation in order that he could provide an international view on remuneration. Mr Johnson retired as a member of the Committee on taking up his appointment as Chairman of the Board. 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 Report on Remuneration is set out on pages 41 to 47. During the year the Committee met four times and 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.

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 annual and interim 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 2007 and up to the date of the approval of these financial statements and they are reviewed regularly.

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 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 quarterly meetings between central 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 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

The Directors are required under the Combined Code to have satisfied themselves as to the Group's ability to continue in existence for the foreseeable future. A review has been carried out and the Directors have 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 on pages 54 to 98.

Remuneration Report

In accordance with the Directors' Remuneration Report Regulations 2002, shareholders' approval of the Remuneration Report will be sought at the forthcoming Annual General Meeting. 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. 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 and is responsible for determining the remuneration of Executive Directors, the Chairman and the Company Secretary. It also considers the remuneration of senior executives reporting to the Group Chief Executive (taking into account recommendations from him) and the incentives of senior executives reporting to the other Executive Directors.

(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 ('the 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

New Bridge Street Consultants LLP has been appointed by the Committee to provide advice on the remuneration of Executive Directors and other senior executives. New Bridge Street Consultants LLP also provides advice to the Company in connection with the operation of the Company's long-term incentive schemes. The Committee consults with the Chairman of the Company and with the Group Chief Executive, who may attend a meeting of the Committee on matters which do not directly affect them, although they are not involved in deciding their own remuneration. During the year under review, the Committee also consulted with Mr D R Piette, who attended by invitation in order that he could provide an international view on remuneration. The Committee is assisted by the Company Secretary and the Human Resources Director, and receives advice from Mercer Human Resource Consulting Ltd, the Actuary to the Company's pension scheme, in relation to Executive Directors' pensions.

(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 incentive schemes which are linked to the achievement of short-term and long-term performance targets. Variable performance-related remuneration for Executive Directors accounts for approximately 50% of total target remuneration (excluding pensions). The remuneration package is described more fully in the remainder of this report, but the main elements are as follows:

- basic salary
- pension provision
- annual bonus scheme
- long-term incentives, comprising:
  - (i) share option grants under the Executive Share Option Scheme; and
  - (ii) awards under the Long-Term Incentive Plan.

Basic salaries and pension provision are not linked to performance (except when basic salaries are reviewed), whilst payments under the annual bonus scheme, the Executive Share Option Scheme and the Long-Term Incentive Plan are wholly dependent upon performance against agreed targets.

(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 pay 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 G M Morris are £498,000 and £282,000 respectively.

(f) Annual bonus

The Executive Directors participate in an annual bonus scheme which has been approved by the Committee. For the financial year 2006/07, the maximum bonus payable was 100% of basic salary for Mr Thorne and 75% of basic salary for Mr Morris. The amount of annual bonus payable to Mr Thorne and Mr Morris for the financial year 2006/07 was one-third based on profit before tax, one-third on return on capital employed and one-third on three strategic targets determined by the Committee. No bonus was payable in respect of profit before tax unless the results were better than those achieved in 2005/06 and full bonus required a greater degree of out-performance of budget than previously. The outcome of the results for the financial year 2006/07 and the achievement of strategic targets as judged by the Committee means that Mr Thorne earned a bonus of 91.6% of salary (£456,168) and Mr Morris earned a bonus of 67.8% of salary (£191,196). Full bonus was achieved for the profit before tax and return on capital employed targets and this required the Executive Directors to exceed the top end of the range of the financial targets.

The first 25% of salary worth of bonus will be payable in cash, with the excess split equally between cash and deferred shares. The deferred shares will vest three years after they are awarded. At that point, the Director will receive 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 Remuneration 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 policy for 2007/08 for bonus arrangements for Executive Directors will remain unchanged with regard to maximum potential, performance conditions and share deferral.

Mr Loison's maximum annual bonus for 2006/07 was 60% of basic salary and was based 40% on Group profit before tax performance and 60% on targets, as determined by the Committee, for the DS Smith Kaysersberg division. A payment of £59,202 will be made on 31 July 2007 which represents a maximum bonus pro-rated from 1 May 2006 to 30 September 2006, the date on which he retired.

The annual bonus maximum for the other most senior executives for 2006/07 was generally 60% of basic salary and was based on an appropriate combination of Group profit before tax, divisional profit and personal performance, appropriate to the role. As far as practicable, this scheme has been extended to divisional executives. However, their bonus schemes are based on differing criteria relating to the operating performance targets of the division in which they are employed.

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) Long-term incentives

Executive Directors and other senior executives are eligible to receive grants of options under an Executive Share Option Scheme and awards of shares under a Long-Term Incentive Plan on a phased basis.

The individual grant limit under each Plan is 100% of salary per annum. However, in order to ensure that the aggregate award levels executives receive under the Long-Term Incentive Plan and the Executive Share Option Scheme are not excessive, in cases where executives are granted awards under both schemes in the same year, the maximum awards for the most senior executives under each scheme will not exceed 75% of salary worth of shares, unless there are exceptional circumstances such as a high-level recruitment or promotion, in which case the annual limit will be 100% of salary worth of shares under each scheme. During the financial year 2006/07, the Executive Directors received a grant of options over shares worth 75% of salary and an award under the Long-Term Incentive Plan of the same amount. The other most senior executives generally received grants under both plans of 50% of salary. The Committee currently intends to operate the same policy in 2007/08.

Senior executives are expected to retain in shares half of the after-tax gains on the vesting of Long-Term Incentive Plan awards until they have built up a shareholding equal to 100% of salary in the case of Executive Directors and 50% in the case of other senior executives.

(i) Executive Share Option Scheme

Executive Directors and other senior executives are eligible to receive grants of approved and unapproved options.

The exercise of any option granted under this Scheme is subject to the achievement of long-term performance conditions. The target for future options granted will be 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, with no retesting facility. The base financial year for the purposes of measuring earnings per share growth will be the financial year prior to the grant date. Normally, no part of the option may be exercised unless the performance target has been achieved. Following the introduction of IFRS, performance will be based on adjusted earnings per share as disclosed in the Annual Report, except that the Committee may adjust this figure in exceptional circumstances where this is appropriate.

(ii) Long-Term Incentive Plan

The key features of the plan are that:

- awards will be made to 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. The Committee has determined that the constituents of the FTSE 250 Index (excluding investment trusts) should be the comparator group for awards;
- if the Company's total shareholder return 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;
- 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. For this purpose, following the introduction of IFRS, the earnings per share growth will be based on adjusted earnings per share as disclosed in the Annual Report, except that the Committee may adjust this figure in exceptional circumstances where this is appropriate.

The Executives' long-term incentives, therefore, take into account the Company's absolute share price performance (via the grant of market value share options), its relative performance (via awards under the Long-Term Incentive Plan, based on total shareholder return) and its underlying financial performance (via the earnings per share performance condition that applies to share options and awards under the Long-Term Incentive Plan). The Committee currently considers that this will provide for the most robust assessment of the Company's long-term performance.

The earnings per share figures are derived from the audited accounts and the verification of the calculation of earnings per share growth as well as the total shareholder return calculation will be performed by New Bridge Street Consultants LLP, in their capacity as advisers to the Committee. During the transition to international accounting standards, the Committee will ensure that a consistent basis is used to measure earnings per share performance.

The interests of the Directors in the share capital of the Company and details of options granted to date under the Executive Share Option Scheme and awards made under the Long-Term Incentive Plan are shown on pages 46 and 45 respectively.

(h) Benefits in kind

Mr Thorne has the provision of a company car, a driver and free fuel. Mr Morris receives a car allowance. Mr Thorne and Mr Morris both receive unapproved life cover, permanent health insurance and private medical cover. Mr Loison received from DS Smith Kaysersberg S.A.S. life cover, a car allowance, free fuel, private medical cover and his utility and telephone bills were also paid for by DS Smith Kaysersberg.

(i) Pensions

Mr Thorne and Mr Morris participate in a funded contributory defined benefit pension scheme with death in service cover. Subject to the variations mentioned below, the Group provides pension benefits for

UK-based Executive Directors on retirement at their normal pension age of 60 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 their final pensionable pay.

As far as possible, the benefit is provided through the Registered Group Pension Scheme, in which other employees of the Group participate. In the case of Mr Thorne, whose benefits are subject to a Scheme specific earnings cap (which was introduced on 6 April 2006 when the Government's simplification regulations came in), the Company has given a promise to provide the balance through a non-Registered unfunded arrangement. The total accumulated unfunded provision at 30 April 2007 is £5.0 million (2005/06: £4.7 million), £1.5 million of which relates to Mr Thorne.

In the case of other appointed UK-based Executive Directors, the Company's normal policy under the rules of the Registered Group Pension Scheme in relation to earnings above the Scheme specific earnings cap is to provide compensation by way of a cash supplement, rather than by way of a funded or unfunded arrangement. Accordingly, Mr Morris receives a cash supplement of £51,000 per annum. This payment is not pensionable and is not considered as salary for the purpose of calculating any bonus payment.

Life cover of four times basic salary is provided under the Registered Group Pension Scheme on death in service in addition to spouses' pensions of two-thirds of the members' prospective pensions plus dependants' benefits. For those UK-based Executive Directors whose benefits are restricted by the Scheme specific earnings cap, optional additional life cover is available. Spouses' pensions on death after retirement are two-thirds of the members' pensions, 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.

Most members, including UK-based Executive Directors, contribute to the Registered Group Pension Scheme at the rate of 9% of their pensionable pay (increased from 7.5% with effect from 1 May 2006) subject to a maximum, for those affected, of 15% of the Scheme specific earnings cap.

Members have the option of paying Additional Voluntary Contributions (AVCs). Neither the contributions nor the resulting benefits are included in the table on page 47.

Mr Loison participated in a funded defined benefit pension scheme, which did not require an employee contribution. The Group provided pension benefits for Mr Loison at his normal pension age of 65 based on an accrual rate of one fortieth with reference to final average salary equal to the average of the last full five years' annual salaries preceding retirement, less any offset pensions.

This benefit was provided as a supplementary arrangement to the mandatory national programme, which operates on a pay-as-you-go basis and supplements social security benefits. Benefits under these arrangements are dependent on salary progression during an individual's career.

Following the introduction of the UK Government's simplification regulations with effect from 6 April 2006 under the Finance Act 2004, the Principal Employer has agreed with the Trustee the changes to the Registered Group Pension Scheme rules in response to the legislation. In particular, a Scheme specific earnings cap has been retained. 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. AVCs can be facilitated via the Group's Saver Plus arrangement.

(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. In addition, service contracts for newly appointed directors will not normally include liquidated damages provisions. Instead, the payment of any sums due on the termination of employment by the Company will be determined pursuant to general contractual principles, and with full recognition of a Director's duty to mitigate his loss.

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 Morris is dated 5 November 2002. It may be terminated by 12 months' notice by the Company, and by Mr Morris. The Company may terminate the contract with immediate effect, in which case it must make a payment equal to 12 months' basic salary, plus an equal payment in respect of the loss of his contractual benefits.

(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. Currently no Executive Director has an external appointment.

(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. Mr Piette had a rolling 12 month letter of appointment from the Company. Their respective dates of appointment are shown on page 8.

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.

Neither the non-Executive Directors nor the Chairman are 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	Deferred bonus £'000	Benefits £'000	Pension supplement £'000	**2007 total £'000**	2006 total £'000	Pension contributions 2007 £'000	Pension contributions 2006 £'000
Chairman									
P M Johnson	77	–	–	5	–	**82**	39	–	–
Chief Executive									
A D Thorne	492	290	166	16	–	**964**	491	16	16
Finance Director									
G M Morris	279	131	60	16	50	**536**	329	10	8
Non-Executives									
R G Beeston	50	–	–	–	–	**50**	49	–	–
C J Bunker	49	–	–	–	–	**49**	46	–	–
R E C Marton	40	–	–	–	–	**40**	39	–	–
P J C Mellier*	29	–	–	–	–	**29**	–	–	–
D R Piette	45	–	–	–	–	**45**	44	–	–
	1,061	421	226	37	50	**1,795**	1,037	26	24

* appointed 7 September 2006

Past Directors	Salary/ fees £'000	Annual bonus £'000	Deferred bonus £'000	Benefits £'000	Compensation for loss of office £'000	**2007 total £'000**	2006 total £'000	Pension contributions 2007 £'000	Pension contributions 2006 £'000
A P Hichens	113	–	–	21	–	**134**	194	–	–
J-P Loison	108	59	–	7	–	**174**	360	–	–
Total	221	59	–	28	–	**308**	554	–	–

Mr Morris is subject to the Scheme specific earnings cap and therefore he received an additional non-pensionable payment during the year. In addition to the remuneration disclosed above, Mr Loison was paid consultancy fees of £30,289 after 30 September 2006. This related to chairing DS Smith's Toscana business in Italy, chairing DS Smith Plastics' RTP business in Europe and supporting and advising the Group's paper purchasing activities. Mr Loison's salary and benefits in kind from DS Smith Kaysersberg S.A.S. were paid in euros and have been converted to sterling at the average exchange rate for the year. Mr Hichens was paid £3,381 in respect of office expenses after 31 December 2006. The deferred bonus has been included in the table above as it was awarded in respect of the results for the financial year 2006/07. Shares in DS Smith Plc to the value of the deferred bonus will be purchased on 26 July 2007 and held in the Executive Directors' Deferred Bonus Plan. The shares are transferred to participants on the third anniversary of the award, but lapse on termination of employment. The total emoluments of Mr Thorne excluding the deferred bonus were £798,000. The total emoluments of Mr Morris excluding the deferred bonus were £476,000.

(n) Directors' interests in share options (auditable)

Directors' interests in share options over ordinary shares are as follows:

Name of Director	Options held at 30 April 2006	Options granted during the year	Options exercised during the year	Options lapsed during the year	**Options held at 30 April 2007**	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
	189,850	–	–	–	**189,850**	158.00	29 Jul 07	28 Jul 14
	207,500	–	–	–	**207,500**	159.00	2 Aug 08	1 Aug 15
	–	239,050	–	–	**239,050**	149.00	1 Aug 09	31 Jul 16
G M Morris	161,152	–	–	–	**161,152**	142.69	18 Dec 05	17 Dec 12
	154,129	–	–	–	**154,129**	149.22	31 Jul 06	30 Jul 13
	112,950	–	–	–	**112,950**	158.00	29 Jul 07	28 Jul 14
	116,950	–	–	–	**116,950**	159.00	2 Aug 08	1 Aug 15
	–	134,850	–	–	**134,850**	149.00	1 Aug 09	31 Jul 16
Past Director								
J-P Loison*	88,415	–	–	–	**88,415**	169.62	30 Jul 00	29 Jul 07
	61,313	–	–	–	**61,313**	187.94	31 Jul 01	30 Jul 08
	9,515	–	–	–	**9,515**	167.12	30 Jul 02	29 Jul 09
	93,751	–	–	–	**93,751**	155.08	5 Oct 02	4 Oct 09
	93,547	–	–	–	**93,547**	159.85	31 Jul 03	30 Jul 10
	128,988	–	–	–	**128,988**	151.53	26 Jul 05	25 Jul 12
	142,779	–	–	–	**142,779**	148.72	31 Jul 06	30 Jul 13
	113,800	–	–	–	**113,800**	157.00	29 Jul 07	28 Jul 14
	119,200	–	–	–	**119,200**	153.00	2 Aug 08	1 Aug 15

* at date ceased to be a Director
Mr Loison exercised 285,228 share options under the Executive Share Option Scheme on 14 December 2006 at a price of 186.92p. On 13 February 2007 he exercised a further 61,313 share options at a price of 205.56p. He was not a Director of the Company at the time of either of these exercises.

All of the above options were granted for nil consideration.

The market price of the ordinary shares at 30 April 2007 was 238.25p and the range during the year was 140.5p to 239.5p. Aggregate gains made by Directors on exercise of share options in the year were £nil (2005/06: £265,822.64).

All options will be exercisable from the dates stated above, subject to them satisfying the performance target stated on page 42. Share options granted in 2002 and 2003 can be retested, from a fixed base, until the sixth anniversary of grant. Options granted from 2004 onwards have no retest facility. All options granted since 2002 have not yet met the performance conditions.

(o) Directors' interests under the Restricted Share Plan (auditable)

The Restricted Share Plan ceased to be operated with effect from the financial year 2004/05. Details of the Directors' interests in the Plan are as follows:

Executive Directors	Interests under the Plan at 30 April 2006	Awards granted/ commitments made during year	Awards lapsed/ crystallised in year	Date of award	Market price on date of award (p)	Market price at date of exercise (p)	**Interests under the Plan at 30 April 2007**	Exercisable from	Expiry date
A D Thorne	71,774	–	71,774	1 Aug 03	152.0	203.0	**–**	1 Aug 06	31 Jul 10
	43,610	–	–	–	–	–	**43,610**	2 Aug 07	1 Aug 11
G M Morris	28,219	–	28,219	1 Aug 03	152.0	203.0	**–**	1 Aug 06	31 Jul 10
	25,948	–	–	–	–	–	**25,948**	2 Aug 07	1 Aug 11
Past Director									
J-P Loison*	42,349	–	42,349	1 Aug 03	152.0	146.2	**–**	1 Aug 06	31 Jul 10
	58,189	–	–	–	–	–	**58,189**	2 Aug 07	1 Aug 11

* at date ceased to be a Director

The exercise price is £1 in total, the grant being given in relation to the deferred bonus for the years ended 2002/03 and 2003/04 under the Restricted Share Plan.

(p) Directors' interests under the Long-Term Incentive 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 2006	Awards granted/ commitments made during year	Awards lapsed/ crystallised in year	Date of award	Market price on date of award (p)	Market price at date of vesting (p)	**Interests under the Plan at 30 April 2007**	Vesting date if performance conditions met
A D Thorne	216,039	–	–	14 Sep 04	152.7	–	**216,039**	14 Sep 07
	210,191	–	–	28 Jul 05	157.0	–	**210,191**	28 Jul 08
	–	237,500	–	27 Jul 06	150.0	–	**237,500**	27 Jul 09
G M Morris	121,767	–	–	14 Sep 04	152.7	–	**121,767**	14 Sep 07
	118,471	–	–	28 Jul 05	157.0	–	**118,471**	28 Jul 08
	–	134,000	–	27 Jul 06	150.0	–	**134,000**	27 Jul 09
Past Director								
J-P Loison*	116,530	–	–	14 Sep 04	152.7	–	**116,530**	14 Sep 07
	116,164	–	–	28 Jul 05	157.0	–	**116,164**	28 Jul 08

* at date ceased to be a Director

(q) 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 2006*		**30 April 2007**	
Name of Director	Beneficial	Non-beneficial	**Beneficial**	**Non-beneficial**
P M Johnson	230,000	–	**230,000**	**–**
A D Thorne	208,884	–	**251,169**	**–**
P J C Mellier	–	–	**10,000**	**–**
G M Morris	12,698	–	**29,322**	**–**
R G Beeston	30,000	–	**30,000**	**–**
C J Bunker	10,000	–	**10,000**	**–**
R E C Marton	70,000	–	**100,000**	**–**
D R Piette	–	–	**–**	**–**

* or at date of appointment

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 and the Restricted 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). As beneficiaries under the Trust, the Executive Directors are deemed to be interested in the shares held by the Trust which, at 30 April 2007, amounted to 1,912,788 ordinary shares.

(r) Directors' pension entitlements (auditable)

The following Executive Directors were members of defined benefit schemes provided by the Group during the year, with death in service cover. Pensions entitlements and corresponding transfer values increased as follows:

Name of Director	Employee contributions paid during the period £	Gross increase in accrued pension (1) £	Increase in accrued pension net of inflation (2) £	Total accrued pension at 30 April 2007 (3) £	Transfer value of net increase in accrual over period (net of Director's contribution) (4) £	Transfer value of accrued pension at 30 April 2007 (5) £	Transfer value of accrued pension at 30 April 2006 (6) £	Total change in value during period (net of Director's contribution) (7) £
A D Thorne	16,343	20,710	17,894	98,945	282,066	1,650,425	1,282,937	351,145
G M Morris	9,806	3,898	3,455	16,165	40,248	234,119	175,877	48,436
J-P Loison (* see note below)								

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 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.

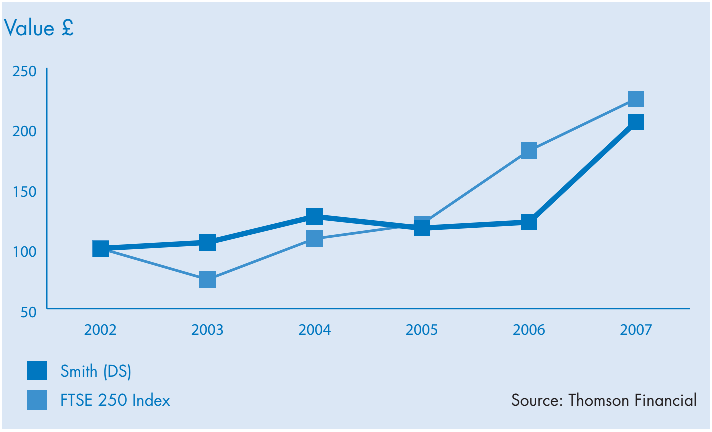
* Mr Loison retired on 30 September 2006. Upon retirement, Mr Loison opted to exchange part of his pension benefits for death benefits, payable to Mr Loison's spouse upon his death in retirement. The value of Mr Loison's benefits at retirement was broadly equal to the value at the start of the year. The value at the end of the year was lower than the value at the start of the year.

(s) Total shareholder return performance

The following graph illustrates the Company's total shareholder return performance since 1 May 2002, 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 2007, 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
27 June 2007

Directors' Report

The Directors submit their Annual Report and the audited financial statements for the financial year ended 30 April 2007. The Directors' statement as to disclosure of information to auditors, as required by Section 234ZA of the Companies Act 1985, is on page 50.

Principal Activities and Business Review

The Company acts as the holding company of a group, which, during 2006/07, was engaged in the production of corrugated and plastic packaging and of paper, from recycled waste, and the distribution of office products. A full review of the activities during the financial year ended 30 April 2007 and future developments is given in the Chairman's Statement, Chief Executive's Review and Business Review on pages 4 to 37. The principal subsidiary undertakings are listed in note 33 on page 92.

The information that fulfils the requirements of the Business Review can be found in the Business Review on pages 15 to 37, which are incorporated in this report by reference. The Business Review has been prepared to meet the requirements for companies to provide an enhanced Business Review in accordance with the March 2005 amendments to the UK's 1985 Companies Act.

Cautionary Statement

The purpose of the Annual Report is to provide information to the members of the Company. 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. 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 98.

Dividends

An interim dividend of 2.6p net per ordinary share was paid on 6 March 2007 and the Directors recommend a final dividend of 6.0p net per ordinary share, making a total dividend to be paid for the year of 8.6p (2005/06: 8.4p) net per ordinary share. Subject to approval of shareholders at the Annual General Meeting to be held on 5 September 2007, the final dividend will be paid on 18 September 2007 to shareholders on the register at the close of business on 17 August 2007. The dividends per ordinary share stated above are those actually paid or to be paid. Historical dividends per share have been restated for the bonus element inherent in the 26 March 2004 rights issue in the Five-Year Financial Summary on page 99.

Share Capital

Pursuant to the Company's employee share option schemes, 2,277,340 ordinary shares of 10p each were issued during the year. No shares pursuant to the Company's employee share option schemes were issued between 30 April 2007 and 27 June 2007 inclusive. The Company has not utilised its authority to make market purchases of shares granted to it at the 2006 Annual General Meeting but will be seeking to renew such authority at this year's Meeting.

Substantial Shareholders

At 27 June 2007, the Company has been informed of the following notifiable interests in its issued ordinary share capital:

	Ordinary shares held	%
AXA Investment Managers UK Ltd	50,990,453	12.97%
Schroder Investment Management Ltd	29,048,988	7.38%
Prudential Plc group of companies	22,748,186	5.78%
Sparinvest Holdings A/S	19,992,238	5.08%
Legal & General Plc	14,711,546	3.74%

Acquisitions and Disposals

There were no material acquisitions or disposals during 2006/07.

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 page 8. All the Directors served throughout the year except as follows. Mr A P Hichens, who had served as Chairman since September 1999, retired from the Board at the end of December 2006, having reached the age of 70. Mr P M Johnson, who has been a non-Executive Director of the Company since December 1999, became Chairman on 1 January 2007. Mr P J C Mellier was appointed as a non-Executive Director of the Company on 7 September 2006. Mr J P Loison retired from the Board on 30 September 2006. Mr D R Piette retired from the Board on 30 May 2007. 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.

Re-election of Directors

The Articles of Association require that all Directors who are subject to retirement by rotation retire every three years, but they are eligible to submit themselves for re-election by the shareholders. The Directors retiring by rotation at the Annual General Meeting on 5 September 2007 are Mr R G Beeston, Mr C J Bunker, and Mr A D Thorne but, being eligible, they offer themselves for re-election at the Meeting. Mr P J C Mellier has been appointed to the Board since the last Annual General Meeting and in accordance with the Articles, retires from office at the Meeting and, being eligible, offers himself for election. Following formal performance evaluation, the individual performance of the Directors offering themselves for re-election and election continues to be effective and they continue to demonstrate 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 Executive Share Option Schemes, Restricted Share Plan and Long-Term Incentive Plan, were as shown in the tables on pages 45 and 46.

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 1985.

Employee Involvement and Communications

The Group is committed to 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 wholeheartedly supports the principle and achievement 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 will be taken to ensure that individuals are treated equally and fairly. Depending upon their skills and abilities, the Group applies the same criteria to disabled persons as it does to other employees and, if necessary, retraining is offered to any of its employees who develop a disability during such employment.

Pension Fund

The Group had, in the year under review, five UK pension arrangements: two defined benefit schemes (which are closed to new entrants), 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. With effect from 30 April 2007, the two defined benefit schemes were merged into one scheme.

The investments of the assets of the defined benefit scheme are managed on a discretionary basis by AllianceBernstein Institutional 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 external investment fund managers, 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 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 each pension scheme send an Annual Report to the members of that scheme. The Trustee Company of the merged defined benefit scheme has an Investment Sub Committee, which has been established in line with guidelines recommended in the Myners Report.

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.

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. The aggregate amount owed by the Company to trade creditors at 30 April 2007 was equivalent to 36 days of purchases invoiced by suppliers during the year.

Charitable and Political Donations

The Group contributed £71,000 (2005/06: £84,000) 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.

Annual General Meeting

The notice of the Annual General Meeting of the Company to be held on 5 September 2007, together with explanations of the Resolutions to be proposed, appears at the back of this Annual Report.

Auditors

During the year under review, KPMG Audit Plc resigned as auditors of the Company and Deloitte & Touche LLP were appointed to fill the casual vacancy. Resolutions to appoint Deloitte & Touche 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
Secretary
27 June 2007

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. They are required to prepare the Group financial statements in accordance with IFRS, as adopted by the EU; they have elected to prepare the Company financial statements in accordance with UK Generally Accepted Accounting Standards.

The Group financial statements are required by law and IFRS, as adopted by the EU, to present fairly the financial position, financial performance and cash flows of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Company financial statements are required by law to give a true and fair view of the state of affairs of the Company.

In preparing each of the Group and Company 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;
- for the Group financial statements, assert whether these have been prepared in accordance with IFRS, as adopted by the EU;
- for the Company financial statements, assert whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

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 its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Remuneration Report and Corporate Governance Report that comply with that law and those regulations.
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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.

Financial Statements and Five-Year Financial Summary

Index to the Financial Statements and Five-Year Financial Summary

Independent Auditors' Report to the Members of DS Smith Plc

We have audited the Group and parent Company financial statements (the 'financial statements') of DS Smith Plc for the year ended 30 April 2007 which comprise the Group Income Statement, the Group and parent Company Balance Sheets, the Group Statement of Cash Flows, the Group Statement of Recognised Income and Expense and the related notes 1 to 35 in the Group financial statements and notes 1 to 11 in the parent Company financial statements. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the parent Company financial statements and the Directors' Remuneration Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the Group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented elsewhere in the Report and Accounts that is cross referred from the Principal Activities and Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' Remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 April 2007 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent Company's affairs as at 30 April 2007;
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
27 June 2007

Consolidated Income Statement

For the year ended 30 April 2007

	Note	Before exceptional items 2007 £m	Exceptional items (note 4) 2007 £m	After exceptional items 2007 £m	Before exceptional items 2006 £m	Exceptional items (note 4) 2006 £m	After exceptional items 2006 £m
Revenue	2	**1,766.1**	**–**	**1,766.1**	1,652.7	–	1,652.7
Cost of sales		**(1,328.4)**	**(13.7)**	**(1,342.1)**	(1,243.0)	(26.1)	(1,269.1)
Gross profit		**437.7**	**(13.7)**	**424.0**	409.7	(26.1)	383.6
Operating expenses	3	**(360.0)**	**15.6**	**(344.4)**	(349.3)	(16.3)	(365.6)
Operating profit	2,3	**77.7**	**1.9**	**79.6**	60.4	(42.4)	18.0
Finance income	5	**1.7**	**–**	**1.7**	2.3	–	2.3
Finance costs	5	**(16.7)**	**–**	**(16.7)**	(14.6)	–	(14.6)
Employment benefit net finance income	24	**8.0**	**–**	**8.0**	1.2	–	1.2
Net financing costs		**(7.0)**	**–**	**(7.0)**	(11.1)	–	(11.1)
Profit after financing costs		**70.7**	**1.9**	**72.6**	49.3	(42.4)	6.9
Share of profit of associates	12	**3.9**	**2.0**	**5.9**	4.1	–	4.1
Profit before income tax		**74.6**	**3.9**	**78.5**	53.4	(42.4)	11.0
Income tax (expense)/credit	7	**(22.8)**	**5.6**	**(17.2)**	(13.4)	7.7	(5.7)
Profit for the financial year		**51.8**	**9.5**	**61.3**	40.0	(34.7)	5.3
Profit for the financial period attributable to:							
DS Smith Plc equity shareholders		**51.1**	**9.5**	**60.6**	38.9	(34.7)	4.2
Minority interest		**0.7**	**–**	**0.7**	1.1	–	1.1
Basic earnings per share (pence)	8	**13.1p**		**15.6p**	10.0p		1.1p
Diluted earnings per share (pence)	8	**13.0p**		**15.4p**	10.0p		1.1p
Dividend per share							
– interim, paid (pence)	9			**2.6p**			2.6p
– final, proposed (pence)	9			**6.0p**			5.8p

Consolidated Statement of Recognised Income and Expense

For the year ended 30 April 2007

	Note	**2007 £m**	2006 £m
Actuarial gains on defined benefit pension schemes	24	**17.0**	54.4
Movements on deferred tax relating to actuarial gains		**(5.1)**	(16.5)
Currency translation differences, including tax of £(1.5)m (2006: tax of £1.8m)		**(6.7)**	9.7
Changes in the fair value of cash flow hedges, including tax of £0.4m (2006: tax of £0.1m)		**(1.2)**	0.2
Net income recognised directly in equity		**4.0**	47.8
Profit for the financial period	23	**61.3**	5.3
Total recognised income and expense attributable to equity shareholders and minority interest relating to the financial year		**65.3**	53.1

Total recognised income and expense relating to the financial year attributable to:

DS Smith Plc equity shareholders	**64.7**	52.0
Minority interest	**0.6**	1.1

Consolidated Balance Sheet

As at 30 April 2007

	Note	2007 £m	2006 £m
Assets			
Non-current assets			
Intangible assets	10	**192.9**	195.4
Property, plant and equipment	11	**517.1**	536.1
Investments in associates	12	**30.5**	29.2
Other investments	13	**0.5**	0.5
Deferred tax assets	21	**21.4**	24.0
Other receivables	15	**2.4**	2.5
Derivative financial instruments	20	**0.2**	1.4
Total non-current assets		**765.0**	789.1
Current assets			
Inventories	14	**160.5**	163.3
Other investments	13	**0.1**	0.1
Income tax receivable		**0.9**	4.8
Trade and other receivables	15	**350.2**	347.2
Cash and cash equivalents	18	**92.4**	60.4
Derivative financial instruments	20	**0.7**	3.7
Total current assets		**604.8**	579.5
Total assets		**1,369.8**	1,368.6
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	19	**(230.9)**	(264.9)
Post-retirement benefits	24	**(18.6)**	(50.3)
Other payables	16	**(5.1)**	(3.6)
Provisions	22	**(8.9)**	(2.8)
Deferred tax liabilities	21	**(81.4)**	(76.3)
Derivative financial instruments	20	**(31.7)**	(25.0)
Total non-current liabilities		**(376.6)**	(422.9)
Current liabilities			
Bank overdrafts	18	**(10.8)**	(1.5)
Interest-bearing loans and borrowings	19	**(1.6)**	(7.7)
Trade and other payables	16	**(384.8)**	(355.3)
Income tax liabilities		**(16.6)**	(21.0)
Provisions	22	**(10.6)**	(16.7)
Derivative financial instruments	20	**(1.7)**	(2.0)
Total current liabilities		**(426.1)**	(404.2)
Total liabilities		**(802.7)**	(827.1)
Net assets		**567.1**	541.5
Equity			
Issued capital	23	**39.3**	39.1
Share premium	23	**262.9**	259.4
Reserves	23	**267.2**	233.6
DS Smith Plc shareholders' equity		**569.4**	532.1
Minority interest	23	**(2.3)**	9.4
Total equity		**567.1**	541.5

Approved by the Board on 27 June 2007 and signed on its behalf by
A D Thorne, Director
G M Morris, Director
The notes on pages 58 to 92 form part of these accounts.

Consolidated Statement of Cash Flows

For the year ended 30 April 2007

	Note	2007 £m	2006 £m
Operating activities			
Cash generated from operations	26	**128.0**	138.2
Interest received		**2.8**	0.8
Interest paid		**(16.9)**	(12.8)
Tax paid		**(15.1)**	(13.5)
Cash flows from operating activities		**98.8**	112.7
Investing activities			
Acquisition of subsidiary businesses and joint ventures, net of cash and cash equivalents acquired		**(0.8)**	(10.5)
Disposal of subsidiary businesses, net of cash and cash equivalents disposed of		**1.0**	11.0
Capital expenditure payments		**(55.8)**	(62.7)
Proceeds from the sale of assets		**39.2**	9.7
Proceeds from the sale of investment in associates, net of additions of £0.5m (2006: nil)		**1.8**	3.5
Cash flows from investing activities		**(14.6)**	(49.0)
Financing activities			
Proceeds from issue of share capital		**3.7**	2.6
Repayment of borrowings		**(28.7)**	(17.2)
Repayment of finance lease obligations		**(2.5)**	(0.9)
Dividends paid	9	**(32.7)**	(32.6)
Cash flows from financing activities		**(60.2)**	(48.1)
Increase in cash and cash equivalents		**24.0**	15.6
Net cash and cash equivalents at 1 May		**58.9**	41.2
Exchange (losses)/gains on cash and cash equivalents		**(1.3)**	2.1
Net cash and cash equivalents at 30 April	18	**81.6**	58.9

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 93 to 98.

The 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 preparation of 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 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 (refer to accounting policy j).

(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

A government grant is recognised in the balance sheet initially as deferred income when there is a reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. 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 rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the foreign exchange rate 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 rate at the date of the transaction.

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.

(h) Property, plant and equipment

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

(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.

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 accrual 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.

(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. 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 require the management of DS Smith Plc to make estimates and assumptions; these estimates and assumptions affect the reported assets and liabilities and financial result 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.

(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 ended 30 April 2008 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 7	Financial Instruments: Disclosures	30 April 2008
IAS 1	Amendment to IAS 1 – Presentation of Financial Statements: Capital Disclosures	30 April 2008
IFRS 8	Operating Segments	30 April 2010
IAS 23	Amendment to IAS 23 – Borrowing Costs	30 April 2010
International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 8	Scope of IFRS 2	30 April 2008
IFRIC 9	Reassessment of Embedded Derivatives	30 April 2008
IFRIC 10	Interim Financial Reporting and Impairment	30 April 2008
IFRIC 11	Group Treasury Share Transactions	30 April 2008
IFRIC 12	Service Concession Arrangements	30 April 2009

2. Segment reporting

Primary reporting format – business segments

Year ended 30 April 2007	UK Paper and Corrugated Packaging £m	Continental European Corrugated Packaging £m	Plastic Packaging £m	Office Products Wholesaling £m	Total Group £m
External revenue	687.1	308.0	201.8	569.2	1,766.1
Adjusted operating profit[1]	36.5	18.2	10.2	12.8	77.7
Exceptional items	6.7	–	(1.9)	(2.9)	1.9
Segment result	43.2	18.2	8.3	9.9	79.6
Net financing costs					(15.0)
Employee benefit net finance income					8.0
Share of profit of associates					5.9
Profit before income tax					78.5
Income tax expense					(17.2)
Profit for the financial year					61.3
Profit attributable to DS Smith Plc equity shareholders					60.6
Profit attributable to minority interest					0.7
Balance sheet					
Segment assets	606.3	235.3	158.5	222.5	1,222.6
Unallocated items					
Investments, associates and other assets					31.6
Derivative financial instruments					0.9
Cash and cash equivalents					92.4
Tax balances					22.3
Total assets					1,369.8
Segment liabilities	(161.7)	(88.9)	(47.6)	(107.1)	(405.3)
Unallocated items					
Borrowings and accrued interest					(247.4)
Derivative financial instruments					(33.4)
Tax balances					(98.0)
Post-retirement benefits					(18.6)
Total liabilities					(802.7)
Other segment items:					
Adjusted return on sales – %[1]	5.3%	5.9%	5.1%	2.2%	4.4%
Adjusted EBITDA – £m[1]	68.0	31.5	21.9	19.2	140.6
Adjusted EBITDA margin – %[1]	9.9%	10.2%	10.9%	3.4%	8.0%
Year-end capital employed – £m	444.6	146.4	110.9	115.4	817.3
Average capital employed – £m[2]	478.4	164.4	122.2	130.0	895.0
Adjusted return on average capital employed – %[1, 2]	7.6%	11.1%	8.3%	9.8%	8.7%
Capital expenditure – £m[3]	34.2	12.8	10.1	8.9	66.0
Depreciation and amortisation – £m	31.5	13.3	11.7	6.4	62.9

1 before exceptional items
2 average capital employed is defined on page 64
3 capital expenditure represents additions to intangible assets and property, plant and equipment

2. Segment reporting continued

Primary reporting format – business segments continued

Year ended 30 April 2006	UK Paper and Corrugated Packaging £m	Continental European Corrugated Packaging £m	Plastic Packaging £m	Office Products Wholesaling £m	Other[3] £m	Total Group £m
External revenue	649.6	276.6	202.4	518.7	5.4	1,652.7
Adjusted operating profit[1]	20.5	20.1	7.2	12.6	–	60.4
Exceptional items	(28.9)	–	(2.6)	–	(10.9)	(42.4)
Segment result	(8.4)	20.1	4.6	12.6	(10.9)	18.0
Net financing costs						(12.3)
Employee benefit net finance income						1.2
Share of profit of associates						4.1
Profit before income tax						11.0
Income tax expense						(5.7)
Profit for the financial year						5.3
Profit attributable to DS Smith Plc equity shareholders						4.2
Profit attributable to minority interest						1.1
Balance sheet						
Segment assets	629.7	233.5	158.2	223.1	–	1,244.5
Unallocated items						
Investments, associates and other assets						29.8
Derivative financial instruments						5.1
Cash and cash equivalents						60.4
Tax balances						28.8
Total assets						1,368.6
Segment liabilities	(158.3)	(71.5)	(48.3)	(100.3)	–	(378.4)
Unallocated items						
Borrowings						(274.1)
Derivative financial instruments						(27.0)
Tax balances						(97.3)
Post-retirement benefits						(50.3)
Total liabilities						(827.1)
Other segment items:						
Adjusted return on sales – %[1]	3.2%	7.3%	3.6%	2.4%	–	3.7%
Adjusted EBITDA – £m[1]	55.1	33.6	19.3	19.2	0.4	127.6
Adjusted EBITDA margin – %[1]	8.5%	12.1%	9.5%	3.7%	7.4%	7.7%
Year-end capital employed – £m	471.4	162.0	109.9	122.8	–	866.1
Average capital employed – £m[2]	509.3	162.3	129.3	127.0	2.1	930.0
Adjusted return on average capital employed – %[1, 2]	4.0%	12.4%	5.6%	9.9%	–	6.5%
Capital expenditure – £m[4]	28.8	24.4	7.2	3.2	1.4	65.0
Depreciation and amortisation – £m	34.6	13.5	12.1	6.6	0.4	67.2

1 before exceptional items
2 average capital employed is defined on page 64
3 Other represents the activity of the former Office Products Manufacturing segment, the loss on the disposal of the Office Products Manufacturing business and the impairment of an investment that is described in note 4
4 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 15 to 25. 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, pension liabilities and fixed 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		Total assets		Capital expenditure	
Year ending 30 April	**2007 £m**	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
UK	**999.7**	957.6	**736.3**	760.8	**34.4**	31.9
Western continental Europe	**632.8**	570.5	**371.2**	384.7	**17.8**	15.4
Eastern continental Europe	**82.5**	74.5	**71.4**	57.5	**10.8**	15.9
Rest of world	**51.1**	50.1	**43.7**	41.5	**3.0**	1.8
	1,766.1	1,652.7	**1,222.6**	1,244.5	**66.0**	65.0

3. Operating profit

	2007 £m	2006 £m
Operating expenses		
Distribution expenses	**200.4**	199.6
Administrative expenses	**144.0**	166.0
	344.4	365.6

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

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

	2007 £m	2006 £m
Depreciation – owned assets	**58.2**	62.1
– leased assets	**0.6**	1.2
Amortisation of intangibles	**4.1**	3.9
Hire of plant and machinery	**12.4**	11.7
Other operating lease rentals	**13.3**	12.5
Research and development	**1.0**	1.1
Gains on the sale of land and buildings	**(3.7)**	(4.2)
Amounts paid to Deloitte & Touche LLP and, prior to their resignation, to KPMG Audit Plc and their associates (see below)	**0.9**	1.3

3. Operating profit continued

Auditors' remuneration	2007 UK £m	2007 Overseas £m	2007 Total £m	2006 UK £m	2006 Overseas £m	2006 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**	**0.2**	**0.6**	0.5	0.3	0.8
Tax and other services	**0.1**	**–**	**0.1**	0.2	0.1	0.3
	0.7	**0.2**	**0.9**	0.9	0.4	1.3

The 2005/06 audit fee disclosure relates to amounts paid to the Group's former external auditors, KPMG Audit plc, and their associates.

Government grants

The Group has been awarded government grants in the form of emissions quotas in France, in respect of the EU Emissions Trading Scheme. Grants during the period totalled £0.1m (2005/06: £3.8m). These grants are initially recorded as intangible assets at market value at the date of grant, which are then used to satisfy the Group's obligations in respect of emissions or are sold, and deferred income, which is released to the income statement when the related expense is incurred or any quotas not used by the Group are sold.

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.

	2007 £m	2006 £m
Restructuring costs		
UK Paper and Corrugated Packaging	**(13.8)**	(28.9)
Plastic Packaging	**(1.9)**	–
Office Products Wholesaling	**(2.9)**	–
Total restructuring costs	**(18.6)**	(28.9)
Gain on sale of Taplow site	**20.5**	–
Loss on disposal of businesses	**–**	(4.3)
Impairment charges	**–**	(9.2)
Total exceptional items recognised in operating profit	**1.9**	(42.4)
Negative goodwill recognised in associate accounting	**2.0**	–
Total exceptional items	**3.9**	(42.4)

The restructuring costs relate to the following.

The UK Paper and Corrugated Packaging restructuring costs in the year to 30 April 2007 of £13.8m relate to the closure of paper-making operations at Taplow Mill and related restructurings. The UK Paper and Corrugated Packaging restructuring costs in 2005/06 related to the closure of a paper mill (£20.3m), the planned closure of a paper machine at another mill (£5.0m), and other restructuring costs (£3.6m).

The Plastic Packaging restructuring costs in the year to 30 April 2007 relate to the proposed restructuring of our European liquid packaging and dispensing operations.

The Office Products Wholesaling restructuring costs in the year to 30 April 2007 relate to the closure of a regional distribution centre within the UK operations and related restructuring.

The gain of £20.5m arising on the sale of the Taplow site, in the UK Paper and Corrugated Packaging segment, resulted from the sale of the site for net proceeds of £29.6m.

The negative goodwill credit recognised in associate accounting of £2.0m arose in respect of an increase in the Group's investment in Rubezhansk, as described in note 12.

The loss on disposal of businesses in 2005/06 arose on the disposal of the Office Products Manufacturing business (loss of £1.7m) and a business in the Plastic Packaging segment (loss of £2.6m).

4. Exceptional items continued

The impairment charge in 2005/06 related to an investment in the debt securities of an independent UK packaging business.

The 2006/07 exceptional items are recorded within cost of sales, charge of £13.7m, within administrative expenses, credit of £18.5m, within distribution expenses, charge of £2.9m, and within share of profit of associates, credit of £2.0m.

The 2005/06 exceptional items were recorded within cost of sales, charge of £26.1m, and within administrative expenses, charge of £16.3m.

5. Financing income and costs

	2007 £m	2006 £m
Interest on bank loans and overdrafts	**5.3**	5.0
Interest on other loans	**11.2**	9.5
Finance lease interest	**0.2**	0.1
Total financing costs	**16.7**	14.6
Finance income on cash and cash equivalents	**(1.7)**	(2.3)
Net financing costs	**15.0**	12.3

6. Personnel expenses

	2007 £m	2006 £m
Wages and salaries	**280.9**	277.4
Social security costs	**42.2**	40.7
Contributions to defined contribution pension plans	**2.5**	1.6
Increase in liability for defined benefit schemes (see note 24)	**10.9**	11.4
Share-based payment expense (see note 25)	**1.0**	0.1
Personnel expenses	**337.5**	331.2

The average number of employees (full-time equivalents) during the year ended 30 April 2007 was 11,288 (2006: 11,653).

7. Income tax expense

Income tax expense recognised in the income statement

	2007 £m	2006 £m
Current tax (expense)/credit		
Current year	**(17.2)**	(13.5)
Over-provided in prior years	**2.3**	1.9
	(14.9)	(11.6)
Deferred tax (expense)/credit		
Origination and reversal of temporary differences	**0.9**	6.2
Under-provided in prior years	**(3.2)**	(0.3)
	(2.3)	5.9
Total income tax expense in income statement	**(17.2)**	(5.7)

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

	2007 £m	2006 £m
Profit before tax	**78.5**	11.0
Less: share of profit of associates	**(5.9)**	(4.1)
Profit before tax and share of profit of associates	**72.6**	6.9
Income tax calculated using the domestic corporation tax rate of 30%	**(21.8)**	(2.1)
Effect of tax rates in foreign jurisdictions	**(1.2)**	(1.5)
Non-deductible expenses	**(0.9)**	(5.6)
Recognition of previously unrecognised tax losses	**6.7**	1.9
Adjustment in respect of prior years	**(0.9)**	1.6
Other	**0.9**	–
Income tax expense	**(17.2)**	(5.7)

	2007 £m	2006 £m
Deferred tax recognised directly in equity		
Relating to post-retirement benefits	**(5.1)**	(16.5)
Other	**(0.6)**	1.8
	(5.7)	(14.7)

8. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 April 2007 is based on the net profit attributable to ordinary shareholders of £60.6m (2005/06: £4.2m) and the weighted average number of ordinary shares outstanding during the year ended 30 April 2007 of 389.5m (2005/06: 387.2m). The number of shares excludes the weighted average number of the Company's own shares held as treasury shares during the year of 2.2m (2005/06: 2.5m).

	2007	2006
Profit attributable to ordinary shareholders (£m)	**£60.6m**	£4.2m
Weighted average number of ordinary shares at 30 April (millions)	**389.5m**	387.2m
Basic earnings per share (pence per share)	**15.6p**	1.1p

Diluted earnings per share

The calculation of diluted earnings per share at 30 April 2007 is based on net profit attributable to ordinary shareholders of £60.6m (2005/06: £4.2m) and the weighted average number of ordinary shares outstanding during the year ended 30 April 2007, as adjusted for potentially issuable ordinary shares, of 392.9m (2005/06: 388.8m), calculated as follows:

	2007 £m	2006 £m
Net profit attributable to ordinary shareholders	**60.6**	4.2

In millions of shares	**2007**	2006
Weighted average number of ordinary shares at 30 April	**389.5**	387.2
Potentially dilutive shares issuable under share-based payment arrangements	**3.4**	1.6
Weighted average number of ordinary shares (diluted) at 30 April	**392.9**	388.8
Diluted earnings per share (pence per share)	**15.4p**	1.1p

Adjusted earnings per share

The Directors believe that the presentation of an adjusted earnings per share amount, being the basic earnings per share adjusted for exceptional items, helps to explain the underlying performance of the Group. A reconciliation of basic to adjusted earnings per share is as follows:

	2007			2006		
	£m	**Basic – pence per share**	**Diluted – pence per share**	£m	Basic – pence per share	Diluted – pence per share
Earnings	**60.6**	**15.6p**	**15.4p**	4.2	1.1p	1.1p
(Deduct)/add back exceptional items, after tax	**(9.5)**	**(2.5)p**	**(2.4)p**	34.7	8.9p	8.9p
Adjusted earnings	**51.1**	**13.1p**	**13.0p**	38.9	10.0p	10.0p

9. Dividends

Dividends declared and paid by the Group are as follows:

	2007		2006	
	Pence per share	**£m**	Pence per share	£m
Interim dividend – paid	**2.6p**	**10.2**	2.6p	10.1
Final dividend – proposed	**6.0p**	**23.5**	5.8p	22.5
	8.6p	**33.7**	8.4p	32.6

	2007 £m	2006 £m
Paid during the year	**32.7**	32.6

A final dividend in respect of 2006/07 of 6.0 pence per share (£23.5m) 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 2006	191.7	31.1	12.6	1.2	236.6
Acquisitions through business combinations	0.5	–	–	–	0.5
Additions	–	1.6	–	0.6	2.2
Disposals	–	(0.2)	–	(1.0)	(1.2)
Effect of movements in foreign exchange	(0.5)	(0.2)	–	–	(0.7)
Balance at 30 April 2007	**191.7**	**32.3**	**12.6**	**0.8**	**237.4**
Amortisation					
Balance at 1 May 2006	(13.9)	(24.3)	(3.0)	–	(41.2)
Amortisation for the year	–	(3.4)	(0.6)	(0.1)	(4.1)
Disposals	–	0.3	–	–	0.3
Effect of movements in foreign exchange	0.3	0.2	–	–	0.5
Balance at 30 April 2007	**(13.6)**	**(27.2)**	**(3.6)**	**(0.1)**	**(44.5)**
Carrying amount					
At 1 May 2006	177.8	6.8	9.6	1.2	195.4
At 30 April 2007	**178.1**	**5.1**	**9.0**	**0.7**	**192.9**

	Goodwill £m	Software £m	Intellectual property £m	Other £m	Total £m
Cost					
Balance at 1 May 2005	188.7	28.4	11.0	–	228.1
Acquisitions through business combinations	3.1	0.4	1.6	–	5.1
Additions	–	3.0	–	4.0	7.0
Disposals	–	(0.8)	–	(2.8)	(3.6)
Effect of movements in foreign exchange	(0.1)	0.1	–	–	–
Balance at 30 April 2006	191.7	31.1	12.6	1.2	236.6
Amortisation					
Balance at 1 May 2005	(13.9)	(20.9)	(2.4)	–	(37.2)
Acquisitions through business combinations	–	(0.5)	–	–	(0.5)
Amortisation for the year	–	(3.3)	(0.6)	–	(3.9)
Disposals	–	0.5	–	–	0.5
Effect of movements in foreign exchange	–	(0.1)	–	–	(0.1)
Balance at 30 April 2006	(13.9)	(24.3)	(3.0)	–	(41.2)
Carrying amount					
At 1 May 2005	174.8	7.5	8.6	–	190.9
At 30 April 2006	177.8	6.8	9.6	1.2	195.4

The amortisation charge for the year of £4.1m (2005/06: £3.9m) is included within administrative expenses. The Other items above include 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 3.

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:

	2007 £m	2006 £m
UK Paper and Corrugated Packaging	**140.6**	140.3
Plastic Packaging	**31.8**	31.7
	172.4	172.0
Segments with no cash-generating units containing individually significant goodwill	**5.7**	5.8
	178.1	177.8

As set out in accounting policy i in note 1, the Group tests its goodwill for potential impairment annually. The recoverable amount of the Group's cash-generating units is calculated on the present value of their respective expected future cash flows (the value-in-use) or the net selling price (fair value), if greater. Given the limited available information on the likely fair value of the Group's assets, the recoverable amount used is predominately the value-in-use. The value-in-use calculations use a pre-tax discount rate of 10.6%, derived from the Group's weighted average cost of capital, and discount a five-year period with a terminal value. The cash flows included in the value-in-use are based for the forthcoming and subsequent financial years on the Group's Plan approved by the Board of Directors; subsequent years' cash flows are based on estimates of future performance. The key assumptions used in the calculation are as follows: long-term sales growth – up to 3.0%; capital expenditure – equal to annual depreciation; and nominal growth in profit at terminal value – up to 3.0%.

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 2006	266.2	971.0	64.8	18.7	1,320.7
Additions	8.4	44.8	2.0	8.6	63.8
Disposals	(11.3)	(19.9)	(3.9)	–	(35.1)
Transfers	0.1	4.0	0.2	(4.3)	–
Exceptional write-offs	–	(20.1)	–	–	(20.1)
Effect of movements in foreign exchange	(1.9)	(7.6)	(0.9)	–	(10.4)
Balance at 30 April 2007	**261.5**	**972.2**	**62.2**	**23.0**	**1,318.9**
Depreciation					
Balance at 1 May 2006	(69.2)	(663.4)	(52.0)	–	(784.6)
Depreciation charge for the year	(5.8)	(49.1)	(3.9)	–	(58.8)
Disposals	1.5	14.5	4.3	–	20.3
Exceptional write-offs	–	14.7	–	–	14.7
Effect of movements in foreign exchange	0.6	5.5	0.5	–	6.6
Balance at 30 April 2007	**(72.9)**	**(677.8)**	**(51.1)**	**–**	**(801.8)**
Carrying amount					
At 1 May 2006	197.0	307.6	12.8	18.7	536.1
At 30 April 2007	**188.6**	**294.4**	**11.1**	**23.0**	**517.1**

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 2005	266.0	987.5	61.2	16.2	1,330.9
Acquisitions/(disposals) through business combinations	(5.7)	(44.8)	1.9	–	(48.6)
Additions	3.3	18.8	2.7	33.2	58.0
Disposals	(3.0)	(8.4)	(1.9)	–	(13.3)
Transfers	6.2	25.0	0.1	(31.3)	–
Exceptional write-offs	(3.6)	(18.2)	–	–	(21.8)
Effect of movements in foreign exchange	3.0	11.1	0.8	0.6	15.5
Balance at 30 April 2006	266.2	971.0	64.8	18.7	1,320.7
Depreciation					
Balance at 1 May 2005	(66.0)	(659.0)	(46.6)	–	(771.6)
Acquisitions/(disposals) through business combinations	1.2	41.2	(1.9)	–	40.5
Depreciation charge for the year	(5.4)	(53.2)	(4.7)	–	(63.3)
Disposals	1.3	7.1	1.6	–	10.0
Exceptional write-offs	0.4	7.3	–	–	7.7
Effect of movements in foreign exchange	(0.7)	(6.8)	(0.4)	–	(7.9)
Balance at 30 April 2006	(69.2)	(663.4)	(52.0)	–	(784.6)
Carrying amount					
At 1 May 2005	200.0	328.5	14.6	16.2	559.3
At 30 April 2006	197.0	307.6	12.8	18.7	536.1

Leased property, plant and equipment
The amounts above include land and buildings held under finance lease agreements. At 30 April 2007 the net carrying amount of land and buildings held under finance leases was £4.8m (2006: £2.0m).

Property, plant and equipment under construction
Assets under construction mainly relate to production machines being built for various sites across the Group.

12. Investment in associates

	2007 £m	2006 £m
At 1 May	**29.2**	22.1
Share of profit of associates after interest and tax, including exceptional credit of £2.0m (2005/06: £nil)	**5.9**	4.1
Additions	**0.5**	–
Disposals	**(0.7)**	(1.4)
Exchange differences	**(4.4)**	4.4
At 30 April	**30.5**	29.2

	Nature of business	Principal country of operation	Financial year-end	Ownership 2007
OJSC Rubezhansk Paper and Packaging Mill (Rubezhansk)	Manufacturer of paper and packaging	Ukraine	31 December	49.6%
Tri-Wall KK	Supplier of industrial packaging and heavy-duty corrugated cases	Japan	31 December	6.3%

Rubezhansk and Tri-Wall KK are accounted for using the equity method within these financial statements. During the year, Rubezhansk acquired and then subsequently cancelled 20% of its share capital: as a consequence of this and the purchase of 1.1% of the reduced share capital, the Group increased its holding in Rubezhansk to 49.6%. The acquisition by Rubezhansk of the 20% shareholding was made at a discount to the underlying net asset amount. As a consequence, negative goodwill of £2.0m arose on DS Smith Plc's shareholding, which has been treated as exceptional in the income statement (see note 4). During the year the Group sold 8.5% of Tri-Wall KK shares, reducing its holding to 6.3%. The Group retains significant influence over Tri-Wall KK through representation on the Board of Directors and active participation in policy-making processes. There are no significant restrictions on the ability of associates to transfer funds to the Group in the form of cash dividends or the repayment of loans.

Summary of financial information on associates – 100%:

	Rubezhansk 2007 £m	Tri-Wall KK 2007 £m	Total 2007 £m	Rubezhansk 2006 £m	Tri-Wall KK 2006 £m	Total 2006 £m
Assets	**73.3**	**44.8**	**118.1**	84.8	40.3	125.1
Liabilities	**(13.2)**	**(26.2)**	**(39.4)**	(13.1)	(30.3)	(43.4)
Revenue	**50.1**	**45.0**	**95.1**	45.8	40.1	85.9
Profit after tax	**9.3**	**2.5**	**11.8**	8.6	2.8	11.4

13. Other investments

	2007 £m	2006 £m
Non-current investments	**0.5**	0.5
Current investments	**0.1**	0.1

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

14. Inventories

	2007 £m	2006 £m
Raw materials and consumables	**52.6**	52.0
Work in progress	**3.5**	3.8
Finished goods	**104.4**	107.5
	160.5	163.3

The Group consumed £1,342.1m of inventories during the year (2005/06: £1,269.1m). Provisions against inventories totalled £16.5m (30 April 2006: £15.5m).

15. Trade and other receivables

	2007		2006	
	Non-current £m	Current £m	Non-current £m	Current £m
Trade receivables	**–**	**321.0**	–	315.0
Prepayments and other receivables	**2.4**	**29.2**	2.5	32.2
	2.4	**350.2**	2.5	347.2

The fair value of trade and other receivables is not materially different from their carrying amounts above. Allowances for bad and doubtful debts totalled £13.6m (30 April 2006: £12.1m).

16. Trade and other payables

	2007		2006	
	Non-current £m	Current £m	Non-current £m	Current £m
Trade payables	**–**	**262.9**	–	244.8
Non-trade payables and accrued expenses	**5.1**	**121.9**	3.6	110.5
	5.1	**384.8**	3.6	355.3

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

17. Net debt

	Note	2007 £m	2006 £m
Non-current liabilities	19	**230.9**	264.9
Current liabilities	19	**1.6**	7.7
Derivative financial instruments	20	**30.3**	24.1
Net cash and cash equivalents	18	**(81.6)**	(58.9)
Net debt		**181.2**	237.8
Gearing (net debt expressed as a percentage of net assets)		**32.0%**	43.9%

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

	At 1 May 2006 £m	Cash flow £m	Other non-cash movements £m	At 30 April 2007 £m
Cash and cash equivalents	60.4	33.3	(1.3)	**92.4**
Overdrafts	(1.5)	(9.3)	–	**(10.8)**
Net cash and cash equivalents	58.9	24.0	(1.3)	**81.6**
Interest-bearing loans and borrowings due after one year	(264.9)	24.4	14.1	**(226.4)**
Interest-bearing loans and borrowings due within one year	(5.7)	4.3	0.1	**(1.3)**
Finance leases	(2.0)	2.5	(5.3)	**(4.8)**
Derivative financial instruments				
– assets	0.8	–	(0.6)	**0.2**
– liabilities	(24.9)	–	(5.6)	**(30.5)**
	(296.7)	31.2	2.7	**(262.8)**
Total net debt	**(237.8)**	**55.2**	**1.4**	**(181.2)**

18. Cash and cash equivalents

	2007 £m	2006 £m
Bank balances	**39.7**	43.9
Short-term deposits	**52.7**	16.5
Cash and cash equivalents (per balance sheet)	**92.4**	60.4
Bank overdrafts	**(10.8)**	(1.5)
Net cash and cash equivalents (per cash flow statement)	**81.6**	58.9

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 currency risk, refer to note 20.

	2007 £m	2006 £m
Non-current liabilities		
Bank and other loans	**51.5**	77.7
Note purchase agreements	**174.9**	187.2
Finance lease liabilities	**4.5**	–
	230.9	264.9
Current liabilities		
Bank and other loans	**1.3**	5.7
Finance lease liabilities	**0.3**	2.0
	1.6	7.7

Bank loans, other loans and overdrafts of certain subsidiaries totalling £4.1m (2005/06: £8.2m) are secured over the properties and machinery of these companies. The repayment dates of the Group's borrowings are as follows:

			2007		
	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	**–**	**–**	**20.1**	**57.6**	**77.7**
Floating-rate	**1.6**	**1.4**	**31.3**	**120.5**	**154.8**
	1.6	**1.4**	**51.4**	**178.1**	**232.5**

			2006		
	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	0.1	–	20.2	61.4	81.7
Floating-rate	7.6	0.2	55.9	127.2	190.9
	7.7	0.2	76.1	188.6	272.6

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 2007					
Interest-bearing loans and borrowings					
Fixed-rate	**77.4**	**0.3**	**–**	**–**	**77.7**
Floating-rate	**4.5**	**137.8**	**12.4**	**0.1**	**154.8**
	81.9	**138.1**	**12.4**	**0.1**	**232.5**
Net cash and cash equivalents (including overdrafts)					
Fixed-rate	**–**	**(9.5)**	**(0.9)**	**(5.8)**	**(16.2)**
Floating-rate	**(19.6)**	**(37.3)**	**(1.7)**	**(6.8)**	**(65.4)**
	(19.6)	**(46.8)**	**(2.6)**	**(12.6)**	**(81.6)**
Net borrowings/(cash) at 30 April 2007	**62.3**	**91.3**	**9.8**	**(12.5)**	**150.9**

	Sterling £m	Euro £m	US Dollar £m	Other £m	Total £m
At 30 April 2006					
Interest-bearing loans and borrowings					
Fixed-rate	80.6	1.1	–	–	81.7
Floating-rate	5.2	172.3	13.0	0.4	190.9
	85.8	173.4	13.0	0.4	272.6
Net cash and cash equivalents (including overdrafts)					
Fixed-rate	–	(2.6)	–	(3.4)	(6.0)
Floating-rate	(19.4)	(22.0)	(2.2)	(9.3)	(52.9)
	(19.4)	(24.6)	(2.2)	(12.7)	(58.9)
Net borrowings/(cash) at 30 April 2006	66.4	148.8	10.8	(12.3)	213.7

19. Interest-bearing loans and borrowings continued

Of the total borrowing facilities available to the Group, the undrawn committed facilities available at 30 April 2007 were as follows:

	2007 £m	2006 £m
Expiring within one year	**23.3**	5.8
Expiring between one and two years	**5.5**	24.4
Expiring between two and five years	**203.5**	173.7
Expiring in more than five years	**–**	0.6
	232.3	204.5

At 30 April 2007, 61% 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 April 2005, the Group entered into a syndicated revolving credit facility of £250m, which expires on 31 May 2010. Advances drawn down under this facility 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'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 $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'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 $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

	2007			2006		
	Minimum lease payments £m	Interest £m	Principal £m	Minimum lease payments £m	Interest £m	Principal £m
Less than one year	**0.5**	**(0.2)**	**0.3**	2.1	(0.1)	2.0
Between one and five years	**2.1**	**(0.7)**	**1.4**	–	–	–
More than five years	**3.6**	**(0.5)**	**3.1**	–	–	–
Finance lease obligations	**6.2**	**(1.4)**	**4.8**	2.1	(0.1)	2.0

20. Financial instruments

The 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 26 to 32. The derivative financial instruments set out in this note have been entered into to help achieve the Group's risk management objectives.

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.

The assets and liabilities as at 30 April 2007 in respect of derivative financial instruments are as follows:

	Assets		Liabilities		Net	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Derivatives held to						
Manage the Group's exposure to foreign exchange exposure on foreign currency investments	**–**	–	**(7.4)**	(9.7)	**(7.4)**	(9.7)
Manage the interest rate and currency exposures on borrowings	**0.2**	0.8	**(23.1)**	(15.2)	**(22.9)**	(14.4)
Derivative financial instruments included in net debt	**0.2**	0.8	**(30.5)**	(24.9)	**(30.3)**	(24.1)
Derivatives held to						
Hedge future transactions – energy costs	**0.7**	4.3	**(2.6)**	(1.9)	**(1.9)**	2.4
Hedge future transactions – foreign exchange on purchases and sales of goods and services	**–**	–	**(0.3)**	(0.2)	**(0.3)**	(0.2)
Total derivative financial instruments	**0.9**	5.1	**(33.4)**	(27.0)	**(32.5)**	(21.9)
Current	**0.7**	3.7	**(1.7)**	(2.0)	**(1.0)**	1.7
Non-current	**0.2**	1.4	**(31.7)**	(25.0)	**(31.5)**	(23.6)
	0.9	5.1	**(33.4)**	(27.0)	**(32.5)**	(21.9)

i) Foreign exchange risk on investments
The Group is exposed to foreign exchange risk arising from net investments in Group entities, the functional currency of which differs from the Group's presentational currency. The Group hedges this exposure through borrowings denominated in foreign currencies and through cross-currency swaps.

ii) Interest rate and currency risk on borrowings
The Group's policy on interest rate risk is designed to reduce the Group's exposure to fluctuating interest rates. The Group designates interest rate swaps as fair value hedges, to swap fixed-rate debt into floating-rates, and as cash flow hedges, to swap floating-rate debt into fixed-rates. The Group is exposed to currency risk on borrowings denominated in foreign currencies. The Group hedges part of this exposure through cross-currency swaps designated as either cash flow or fair value hedges. £0.1m (net of tax) is deferred in equity in respect of cash flow hedges. This will be recycled to the income statement with the underlying hedged interest, which will occur over periods to 2016.

iii) Commodity price risk
The Group is exposed to price risk on energy purchases. Part of this commodity price risk is managed by a combination of physical supply agreements and derivative instruments. £1.3m (net of tax) is deferred in equity in respect of cash flow hedges. This will be recycled to the income statement with the underlying hedged transactions, which occur within two years.

iv) Foreign exchange risk on transactions
The Group is exposed to foreign exchange risk where a business unit makes product sales and materials 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, resulting in £0.1m (net of tax) being deferred in equity. This will be recycled to the income statement with the underlying hedged transactions, which occur within two years.

v) Credit risk
The Group has no significant concentrations of credit risk and does not enter into financial instruments to manage credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

20. Financial instruments continued

vi) Fair values 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 the 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 the 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	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Bank overdrafts	**(10.8)**	(1.5)	**(10.8)**	(1.5)
Bank borrowings	**(52.8)**	(83.4)	**(52.8)**	(83.4)
Note purchase agreements	**(174.9)**	(187.2)	**(180.7)**	(190.8)
Derivatives held to manage the Group's exposure to foreign exchange exposure on investments	**(7.4)**	(9.7)	**(7.4)**	(9.7)
Derivatives held to manage interest rate and currency exposure on foreign currency borrowings	**(22.9)**	(14.4)	**(22.9)**	(14.4)
Finance leases	**(4.8)**	(2.0)	**(4.8)**	(2.0)
	(273.6)	(298.2)	**(279.4)**	(301.8)
Cash and cash equivalents	**92.4**	60.4	**92.4**	60.4
Net debt	**(181.2)**	(237.8)	**(187.0)**	(241.4)
Derivatives held to hedge future energy costs	**(1.9)**	2.4	**(1.9)**	2.4
Derivatives held to hedge foreign exchange on future purchases and sales of goods and services	**(0.3)**	(0.2)	**(0.3)**	(0.2)

20. Financial instruments continued

vii) Effective interest rates and repricing analysis

The table below shows the effective interest rate and contractual repricing or maturity dates. The effect and fair value of the cross-currency and interest rate swaps are, in the table below, included with the financial liability to which they relate.

As at 30 April 2007	Weighted average effective interest rate %	Total £m	At floating interest rates** £m	Fixed interest: Total At fixed interest rates £m	Fixed interest: 1 year or less £m	Fixed interest: 1-5 years £m	Fixed interest: More than 5 years £m
Financial liabilities							
Bank overdrafts	**4.7%**	**10.8**	**10.8**	**–**	**–**	**–**	**–**
Bank loans*	**4.0%**	**52.0**	**32.6**	**19.4**	**–**	**19.3**	**0.1**
Note purchase agreements*	**5.5%**	**206.0**	**144.9**	**61.1**	**–**	**–**	**61.1**
Finance leases	**4.7%**	**4.8**	**4.8**	**–**	**–**	**–**	**–**
Financial assets							
Cash and cash equivalents	**3.1%**	**(92.4)**	**(76.3)**	**(16.1)**	**(16.1)**	**–**	**–**
Net debt/(cash)	**6.2%**	**181.2**	**116.8**	**64.4**	**(16.1)**	**19.3**	**61.2**
(Less)/add							
Effect of cross-currency and interest rate swaps	**1.2%**	**(30.3)**	**(124.9)**	**94.6**	**–**	**(19.2)**	**113.8**
Total net borrowings/(cash) (excluding effect of cross-currency and interest rate swaps)	**7.4%**	**150.9**	**(8.1)**	**159.0**	**(16.1)**	**0.1**	**175.0**

As at 30 April 2006	Weighted average effective interest rate %	Total £m	At floating interest rates** £m	Fixed interest: Total At fixed interest rates £m	Fixed interest: 1 year or less £m	Fixed interest: 1-5 years £m	Fixed interest: More than 5 years £m
Financial liabilities							
Bank overdrafts	3.7%	1.5	1.5	–	–	–	–
Bank loans*	3.4%	83.0	62.2	20.8	0.2	19.9	0.7
Note purchase agreements*	4.7%	211.7	148.8	62.9	–	–	62.9
Finance leases	4.7%	2.0	2.0	–	–	–	–
Financial assets							
Cash and cash equivalents	2.3%	(60.4)	(54.4)	(6.0)	(6.0)	–	–
Net debt/(cash)	4.8%	237.8	160.1	77.7	(5.8)	19.9	63.6
(Less)/add							
Effect of cross-currency and interest rate swaps	1.3%	(24.1)	(128.7)	104.6	–	(19.6)	124.2
Total net borrowings/(cash) (excluding effect of cross-currency and interest rate swaps)	6.1%	213.7	31.4	182.3	(5.8)	0.3	187.8

* including the effect of interest rate and cross-currency swaps
** floating interest rates reprice between one day and three months

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	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Property, plant and equipment	**–**	–	**(72.7)**	(70.5)	**(72.3)**	(70.5)
Employee benefits including pensions	**7.1**	16.1	**–**	–	**7.1**	16.1
Other items	**14.3**	7.9	**(8.7)**	(5.8)	**5.2**	2.1
Tax assets/(liabilities)	**21.4**	24.0	**(81.4)**	(76.3)	**(60.0)**	(52.3)

Unrecognised deferred tax assets and liabilities

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

	Assets		Liabilities	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Tax losses	**3.3**	6.4	**–**	–
Unremitted earnings of overseas operations	**–**	–	**(4.7)**	(4.3)
Total	**3.3**	6.4	**(4.7)**	(4.3)

The tax losses above do not expire 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.

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

	Property, plant and equipment		Employee benefits		Other		Total	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
At 1 May	**(70.5)**	(75.3)	**16.1**	35.6	**2.1**	(2.8)	**(52.3)**	(42.5)
Acquisitions and disposals	**–**	(0.6)	**–**	–	**–**	–	**–**	(0.6)
(Charge)/credit for the year	**(2.5)**	5.8	**(4.4)**	(3.1)	**4.6**	3.2	**(2.3)**	5.9
Recognised directly in equity	**–**	–	**(4.6)**	(16.4)	**(1.1)**	1.7	**(5.7)**	(14.7)
Exchange adjustments	**0.3**	(0.4)	**–**	–	**–**	–	**0.3**	(0.4)
At 30 April	**(72.7)**	(70.5)	**7.1**	16.1	**5.6**	2.1	**(60.0)**	(52.3)

At 30 April 2007 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 2007 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.

In March 2007, the UK government announced an intention to amend UK tax legislation to reduce the UK corporation tax rate from 30% to 28% from 1 April 2008 and also to remove tax depreciation on UK industrial buildings from 2011 onwards. At 30 April 2007 these changes in legislation had not been substantively enacted and therefore the UK tax rate applied for the purposes of the measurement of the Group's deferred tax in the Annual Report is 30% and no amendment to deferred tax has been recognised in respect of temporary differences relating to certain UK buildings. Had the legislation been substantively enacted on 30 April 2007, the Group estimates its net deferred tax provision would have increased from £60.0m to £73.0m.

22. Provisions

	Employee benefits £m	Restructuring £m	Other £m	Total £m
Balance at 1 May 2006	4.4	12.9	2.2	19.5
Provisions made during the year	0.5	13.4	0.5	14.4
Provisions used during the year	(0.1)	(13.4)	(0.5)	(14.0)
Provisions reversed during the year	(0.4)	–	–	(0.4)
Balance at 30 April 2007	**4.4**	**12.9**	**2.2**	**19.5**
Non-current	4.2	3.8	0.9	8.9
Current	0.2	9.1	1.3	10.6
	4.4	**12.9**	**2.2**	**19.5**

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 provisions for vacant leaseholds and various legal claims.

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: Own shares £m	Retained earnings: Other £m	Retained earnings: Total retained earnings £m	Total reserves attributable to equity shareholders £m	Minority interests (see below) £m	Total equity £m
Balance at 1 May 2005	38.9	257.0	(0.5)	(0.3)	(4.7)	219.6	214.9	510.0	8.3	518.3
Profit for the period	–	–	–	–	–	4.2	4.2	4.2	1.1	5.3
Actuarial gains recognised in the pension schemes	–	–	–	–	–	54.4	54.4	54.4	–	54.4
Movement on deferred tax relating to the actuarial gains	–	–	–	–	–	(16.5)	(16.5)	(16.5)	–	(16.5)
Currency translation differences (including tax)	–	–	–	9.7	–	–	–	9.7	–	9.7
Changes in the fair value of cash flow hedges (including tax)	–	–	0.2	–	–	–	–	0.2	–	0.2
New share capital issued	0.2	2.4	–	–	–	–	–	2.6	–	2.6
Share-based payment expense (including tax)	–	–	–	–	0.6	(0.5)	0.1	0.1	–	0.1
Dividends paid to shareholders	–	–	–	–	–	(32.6)	(32.6)	(32.6)	–	(32.6)
Balance at 30 April 2006	39.1	259.4	(0.3)	9.4	(4.1)	228.6	224.5	532.1	9.4	541.5
Profit for the period	–	–	–	–	–	60.6	60.6	60.6	0.7	61.3
Actuarial gains recognised in the pension schemes	–	–	–	–	–	17.0	17.0	17.0	–	17.0
Movement on deferred tax relating to the actuarial gains	–	–	–	–	–	(5.1)	(5.1)	(5.1)	–	(5.1)
Currency translation differences (including tax)	–	–	–	(6.6)	–	–	–	(6.6)	(0.1)	(6.7)
Changes in the fair value of cash flow hedges (including tax)	–	–	(1.2)	–	–	–	–	(1.2)	–	(1.2)
New share capital issued	0.2	3.5	–	–	–	–	–	3.7	–	3.7
Share-based payment expense (including tax)	–	–	–	–	1.1	0.5	1.6	1.6	–	1.6
Minority interest: non-controlling shareholders' put option	–	–	–	–	–	–	–	–	(12.3)	(12.3)
Dividends paid to shareholders	–	–	–	–	–	(32.7)	(32.7)	(32.7)	–	(32.7)
Balance at 30 April 2007	**39.3**	**262.9**	**(1.5)**	**2.8**	**(3.0)**	**268.9**	**265.9**	**569.4**	**(2.3)**	**567.1**

23. Capital and reserves continued

Share capital

	Number of shares			
	2007 Millions	2006 Millions	**2007 £m**	2006 £m
Ordinary shares of 10 pence each:				
Authorised	**410.0**	410.0	**41.0**	41.0
Issued, allotted, called up and fully paid	**393.2**	390.9	**39.3**	39.1

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 97.

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.

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 2007, the Trust held 1.9m shares (2006: 2.6m shares). The market value of the shares at 30 April 2007 was £4.6m (2006: £3.9m). Dividends receivable on the shares owned by the Trust have been waived.

Minority interest

The non-controlling shareholders of one subsidiary in respect of which a minority interest is recognised in these financial statements have an option to put their shareholding to the DS Smith Group. On the exercise of this put option, the purchase price of the shares will be calculated by reference to the recent profitability of the subsidiary involved, using a multiple-based formula. During the current financial year, the International Financial Reporting Interpretations Committee (IFRIC) clarified the accounting treatment to be adopted in circumstances such as these. Accordingly, a liability of £12.3m has been recognised and a corresponding entry has been recorded against minority interest, as shown in the table on page 83.

24. Post-retirement benefits

Liability for defined benefit obligations

During 2006/07 the Group operated two funded, defined benefit schemes in the UK, the DS Smith Group Pension scheme ('the Group scheme') and the DS Smith Containers 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 operates from 1 May 2007. The Group made agreed annual contributions of £14.0m to the Group scheme in 2006/07 (2005/06: £14.0m) and contributions of £0.6m to the Containers scheme (2005/06: £0.6m). Future contributions will be in part dependent on the results of the triennial actuarial valuation of the scheme as at 30 April 2007 and related discussions between the Group and the combined scheme's trustees. 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 85 and 86 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 5 April 2004, which has been updated to 30 April 2007 by a qualified independent actuary. The Containers scheme was valued in 2004 and this valuation has been updated to 30 April 2007 by a qualified independent actuary. All valuations used the projected unit method. Both the Group scheme and the Containers scheme are closed to new entrants. Because of this, the average age of the active members is likely to increase at future valuations and this will 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:

	2007 %	2006 %	2005 %
Discount rate for scheme liabilities	**5.4%**	5.1%	5.3%
Inflation	**2.9%**	2.7%	2.6%
Future salary increases	**3.9%**	3.7%	3.6%
Future pension increases	**2.9%**	2.7%	2.6%

For mortality tables, the Group has used PA 92 tables for pensioners and PA 92 tables with a three-year age reduction adjustment for non-pensioners. Using these tables, a male member currently aged 40 is expected to live for a further 43.2 years, while a male pensioner aged 65 is expected to live for a further 16.9 years. The tables above have been used as at 30 April 2007 and 30 April 2006 and reflect published mortality investigation data in conjunction with the consideration of the mortality experience of scheme members.

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:

	2007		2006		2005	
	Expected rate of return %	**Market value £m**	Expected rate of return %	Market value £m	Expected rate of return %	Market value £m
Equities	**7.4%**	**527.1**	7.5%	524.5	7.9%	392.2
Bonds, gilts and cash (weighted average)	**4.1%**	**210.8**	4.3%	181.6	4.7%	167.1
Total market value of assets		**737.9**		706.1		559.3
Present value of schemes' liabilities		**(756.5)**		(756.4)		(674.1)
Deficit in the schemes		**(18.6)**		(50.3)		(114.8)
Related deferred tax asset		**5.6**		15.0		34.5
Net pension liability		**(13.0)**		(35.3)		(80.3)

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

	2007 £m	2006 £m
Schemes' liabilities at 1 May	**(756.4)**	(674.1)
Employment benefit finance expense	**(38.1)**	(35.2)
Expense recognised in the income statement	**(10.9)**	(11.4)
Member contributions	**(6.9)**	(6.8)
Curtailments	**–**	3.3
Pension payments	**31.4**	24.2
Actuarial gains and (losses) recognised in the consolidated statement of recognised income and expense	**24.2**	(56.4)
Effect of movements in foreign exchange	**0.2**	–
Schemes' liabilities at 30 April	**(756.5)**	(756.4)

24. Post-retirement benefits continued

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

	2007 £m	2006 £m
Schemes' assets at 1 May	**706.1**	559.3
Employer contributions	**17.3**	16.8
Member contributions	**6.9**	6.8
Expected return on schemes' assets	**46.1**	36.4
Actuarial gains and (losses) recognised in the consolidated statement of recognised income and expense	**(7.2)**	110.8
Pension payments	**(31.2)**	(24.0)
Effect of movements in foreign exchange	**(0.1)**	–
Schemes' assets at 30 April	**737.9**	706.1

Expense recognised in the consolidated income statement

	2007 £m	2006 £m
Current service cost	**(9.4)**	(11.1)
Past service cost	**(1.5)**	(0.3)
Total service cost	**(10.9)**	(11.4)
Interest on schemes' liabilities	**(38.1)**	(35.2)
Expected return on schemes' assets	**46.1**	36.4
Employment benefit net finance income	**8.0**	1.2

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

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

History of experience gains and losses

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

25. Share-based payment expense

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

(i) An Executive Share Option Scheme (ESOS) is operated for Executive Directors and other senior executives. Approved and unapproved options are granted to UK and overseas executives on a phased 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 will be 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). The key features of the plan are that:

- awards will be 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 in 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.

During the year, awards totalling 1,520,663 shares were made to participating executives under the LTIP. At 30 April 2007, the total number of shares awarded and outstanding under the LTIP was 3,987,241 (2006: 2,929,312).

The total number of options outstanding and exercisable under share arrangements as at 30 April 2007 was as follows:

	Options outstanding				Options exercisable	
	Number of shares	Option price range	Weighted average remaining contract life (years)	Weighted average exercise price (p)	Number exercisable	Weighted average exercise price (p)
Executive Share Option Scheme (1992)	339,784	164.8p –187.9p	1.2	169.4	339,784	169.4
Executive Share Option Scheme (1999)	7,191,864	135.2p –159.0p	7.2	150.0	126,145	146.4
Restricted Share Plan	536,213	Nil	4.0	Nil	69,883	Nil
Long-Term Incentive Plan	3,987,241	Nil	1.3	Nil	–	Nil

The effect on earnings per share of potentially dilutive shares issuable under share-based payment arrangements is shown in note 8.

25. Share-based payment expense continued

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

2007	Executive Share Option Scheme (1992)		Executive Share Option Scheme (1999)		1999 Savings Related Option Scheme		Restricted Share Plan		Long-Term Incentive Plan	
	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)	Weighted average exercise price (p)	Options ('000s)
Balance at 1 May 2006	182.9	2,024	150.5	7,132	–	–	Nil	1,265	Nil	2,929
Granted	–	–	148.7	1,533	–	–	–	–	Nil	1,521
Exercised	170.3	(1,353)	151.4	(924)	–	–	Nil	(697)	–	–
Lapsed	248.6	(331)	150.3	(549)	–	–	Nil	(32)	Nil	(463)
Balance at 30 April 2007	**169.4**	**340**	**150.0**	**7,192**	**–**	**–**	**Nil**	**536**	**Nil**	**3,987**
Exercisable at 30 April 2007	**169.4**	**340**	**146.4**	**126**	**–**	**–**	**Nil**	**70**	**Nil**	**–**

2006	Executive Share Option Scheme (1992)		Executive Share Option Scheme (1999)		1999 Savings Related Option Scheme		Restricted Share Plan		Long-Term Incentive Plan	
	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)	Weighted average exercise price (p)	Options ('000s)
Balance at 1 May 2005	200.0	3,099	147.3	7,717	139.9	1,123	Nil	1,750	Nil	1,556
Granted	–	–	157.9	1,583	–	–	–	–	Nil	1,594
Exercised	165.1	(163)	142.9	(1,533)	138.1	(84)	Nil	(376)	–	–
Lapsed	244.1	(912)	148.1	(635)	140.1	(1,039)	Nil	(109)	Nil	(221)
Balance at 30 April 2006	182.9	2,024	150.5	7,132	–	–	Nil	1,265	Nil	2,929
Exercisable at 30 April 2006	182.9	2,024	150.0	915	–	–	Nil	200	Nil	–

The total expense recognised as employee costs is as follows:

	2007 £m	2006 £m
Share options granted in 2005	**0.2**	(0.2)
Share options granted in 2006	**0.4**	0.3
Share options granted in 2007	**0.4**	–
Total expense recognised as employee costs	**1.0**	0.1

The fair value of options granted during the period, determined using a stochastic valuation model, was £1.3m (2006: £1.5m). The significant inputs into the model were: share prices of £1.50 for LTIP (2006: £1.57) and £1.48 for ESOS (2006: £1.59) at the grant date; the exercise prices shown above; standard deviation of expected share price returns of 28.7% for LTIP and 23.2% for ESOS; options life disclosed above; annual risk-free interest rate of 4.7% for LTIP and ESOS; and expected dividend yield of 5.6% for LTIP and 5.7% for ESOS. The volatility of share price returns measured as the standard deviation of expected share price returns is based on statistical analysis of daily share prices over a period of three to six years.

26. Cash generated from operations

	2007 £m	2007 £m	2006 £m	2006 £m
Profit for the financial year		**61.3**		5.3
Adjustments for				
Exceptional items – non-cash amounts	**(11.1)**		37.8	
Depreciation and amortisation	**62.9**		67.2	
Profit on sale of non-current assets	**(6.6)**		(7.1)	
Share of profit of associates	**(3.9)**		(4.1)	
Employment benefit net finance income	**(8.0)**		(1.2)	
Share-based payment expense	**1.0**		0.1	
Finance income	**(1.7)**		(2.3)	
Finance costs	**16.7**		14.6	
Income tax expense	**17.2**		5.7	
		66.5		110.7
Changes in				
Inventories	**(1.9)**		(4.2)	
Trade and other receivables	**(11.5)**		13.1	
Trade and other payables	**21.9**		18.5	
Provisions and employee benefits	**(8.3)**		(5.2)	
		0.2		22.2
Cash generated from operations		**128.0**		138.2

27. Reconciliation of net cash flow to movement in net debt

	2007 £m	2006 £m
Operating profit before exceptional items	**77.7**	60.4
Depreciation and amortisation	**62.9**	67.2
Adjusted EBITDA	**140.6**	127.6
Working capital movement	**8.5**	27.4
Exceptional cash costs	**(7.2)**	(4.6)
Other	**(13.9)**	(12.2)
Cash generated from operations	**128.0**	138.2
Capital expenditure payments	**(55.8)**	(62.7)
Proceeds from sales of assets and investments	**41.0**	13.2
Tax paid	**(15.1)**	(13.5)
Interest paid	**(14.1)**	(12.0)
Free cash flow before net (acquisitions)/disposals and dividends	**84.0**	63.2
Dividends	**(32.7)**	(32.6)
Net (acquisitions)/disposals of subsidiaries	**0.2**	0.5
Net cash flow	**51.5**	31.1
Proceeds from the issue of share capital	**3.7**	2.6
Net debt acquired	**–**	(2.6)
Non-cash movements	**1.4**	(6.1)
Net debt movement	**56.6**	25.0
Opening net debt	**(237.8)**	(262.8)
Closing net debt	**(181.2)**	(237.8)

28. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2007 £m	2006 £m
Less than one year	**21.8**	16.1
Between one and five years	**68.7**	68.9
More than five years	**36.0**	48.0
	126.5	133.0

Operating lease payments represent rentals payable by the Group for certain of its properties, machines, vehicles and office equipment.

As at 30 April 2007, the Group's future minimum sub-lease receipts totalled £1.4m (2006: £1.6m), of which: £0.2m (2006: £0.2m) falls within one year; £0.8m (2006: £0.8m) between one and five years; and £0.4m (2006: £0.6m) after five years.

29. Capital commitments

As at 30 April 2007, the Group had committed to incur capital expenditure of £7.2m (2006: £12.6m).

30. Contingencies

The Group has guaranteed certain future operating commitments of its joint venture, Grovehurst Energy Limited (see note 35).

31. Acquisitions and disposals

On 30 September 2005, the Group acquired 100% of the voting share capital of Timmermans NV, the largest office products wholesaler in the Benelux region of Europe, for initial consideration of £10.5m. The acquisition gave rise to goodwill of £2.8m. There were no material adjustments in the 2006/07 financial statements to the fair values of the assets and liabilities acquired on the finalisation of the previously provisional amounts. Additional consideration, of up to £2.8m, is payable to the previous owners depending on the performance of the business in future financial periods.

In July 2005, the Group sold its Office Products Manufacturing business, John Dickinson, for a loss of £1.7m. In 2006/07, the Group received £1.0m of deferred consideration in respect of the disposal of John Dickinson. In December 2005, the Group sold its plastic coating and laminating business, BSK, in the Plastic Packaging segment for a loss of £2.6m. Total proceeds for the disposals in 2005/06 were £11.0m, net of cash and cash equivalents disposed of.

32. 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 33), associates (see note 12) and joint venture (see note 35).

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 47 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 (2006: £nil) relating to key management.

Other related party transactions

	2007 £m	2006 £m
Sales to associates and joint venture	**0.9**	1.4
Purchases from associates and joint venture	**35.1**	26.5
Amounts due from associates and joint venture	**0.1**	0.1
Amounts due to associates and joint venture	**6.2**	–

33. 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 2007
UK Paper and Corrugated Packaging		
St Regis Paper Company Limited	England	100%
A. A. Griggs & Co 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	98%*
Toscana Ondulati SpA	Italy	65%*
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%*
Office Products Wholesaling		
Spicers Limited	England	100%
Spicers (Ireland) Limited	Ireland	100%*
Spicers France SAS	France	100%*
Timmermans NV	Belgium	100%*

* indirectly held by DS Smith Plc

A complete list of the Group's companies is available at DS Smith Plc, 4-16 Artillery Row, London SW1P 1RZ, United Kingdom.

34. Subsequent events

No material events occurred after the balance sheet date that require disclosure.

35. Interest in joint venture

The Group has a 50% interest in Grovehurst Energy Limited, a company incorporated in England and Wales, the principal activity of which is the provision of energy and other services to the UK paper business. Grovehurst Energy Limited has a financial year-end of 31 December; its results have been proportionately consolidated in these financial statements. The assets and liabilities and income and expenses of Grovehurst Energy Limited, on a 100% basis, are as follows: non-current assets – £7.2m (2006: £8.0m); current assets – £11.1m (2006: £5.7m); non-current liabilities – £7.4m (2006: £6.6m); current liabilities – £11.7m (2006: £7.3m); income – £56.2m (2006: £53.0m); expenses – £56.2m (2006: £53.0m).

Company Balance Sheet Prepared in Accordance with UK GAAP

As at 30 April 2007

	Note	2007 £m	2006 £m
Fixed assets			
Tangible assets	4	**1.5**	1.6
Investments	5	**920.0**	920.0
		921.5	921.6
Current assets			
Debtors: amounts falling due within one year	6	**46.8**	13.7
Debtors: amounts falling due after more than one year	6	**216.9**	243.5
Short-term investments		**23.7**	–
Cash at bank and in hand		**0.3**	2.0
		287.7	259.2
Creditors: amounts falling due within one year			
Trade and other creditors	7	**(34.7)**	(32.8)
Borrowings	7	**(61.7)**	–
Net current assets		**191.3**	226.4
Total assets less current liabilities		**1,112.8**	1,148.0
Creditors: amounts falling due after more than one year			
Trade and other creditors	7	**(31.7)**	(25.0)
Borrowings	7	**(454.3)**	(462.2)
Provisions for liabilities and charges	8	**(0.6)**	(0.7)
Net assets excluding pension liability		**626.2**	660.1
Net pension liability	2	**(9.8)**	(32.1)
Net assets including pension liability		**616.4**	628.0
Capital and reserves			
Called up share capital	9	**39.3**	39.1
Share premium account	10	**262.9**	259.4
Acquisition reserve	10	**88.1**	88.1
Profit and loss account	10	**226.1**	241.4
Shareholders' funds		**616.4**	628.0

Approved by the Board on 27 June 2007 and signed on its behalf by
A D Thorne, Director
G M Morris, Director
The notes on pages 94 to 98 form part of these accounts.

Notes to the Company Balance Sheet Prepared in Accordance with UK GAAP

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 are prepared in accordance with applicable accounting standards.

Under section 230(4) of the Companies Act 1985 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 92), 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).

(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 instalments over their estimated useful lives at the following rates:

Plant, machinery, fixtures and fittings	5-33.3% pa

(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;
- 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 85.

	2007 £m	2006 £m
Market value of schemes' assets	**728.9**	697.0
Present value of schemes' liabilities	**(742.9)**	(742.8)
Deficit in the schemes	**(14.0)**	(45.8)
Related deferred tax asset	**4.2**	13.7
Net pension liability	**(9.8)**	(32.1)

The movement in deficit during the year is as follows:

	2007 £m	2006 £m
Opening deficit	**(45.8)**	(110.2)
Service cost	**(10.0)**	(10.5)
Contributions	**16.0**	15.7
Other finance income	**8.0**	1.5
Actuarial gain and losses	**17.6**	54.7
Curtailments	**–**	3.3
Transfers	**–**	(0.5)
Net payments	**0.2**	0.2
Closing deficit	**(14.0)**	(45.8)

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 employed by the Company during the year was 37 (2005/06: 37).

	2007 £m	2006 £m
Wages and salaries	**5.1**	3.7
Social security costs	**0.6**	0.4
Pension costs	**0.3**	0.4
Total	**6.0**	4.5

Note 25 to the consolidated financial statements sets out the disclosure information required for the Company's share-based payments.

4. Tangible fixed assets

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
Balance at 1 May 2006	1.4	3.1	4.5
Additions	–	–	–
Balance at 30 April 2007	**1.4**	**3.1**	**4.5**
Depreciation and impairment losses			
Balance at 1 May 2006	–	(2.9)	(2.9)
Depreciation charge for the year	–	(0.1)	(0.1)
Balance at 30 April 2007	**–**	**(3.0)**	**(3.0)**
Carrying amount			
At 1 May 2006	1.4	0.2	1.6
At 30 April 2007	**1.4**	**0.1**	**1.5**

5. Fixed asset investments

	Shares in Group undertakings £m	Other £m	Total £m
At 30 April 2006 and 30 April 2007	**918.7**	**1.3**	**920.0**

The Company's principal trading subsidiary undertakings at 30 April 2007 are shown in note 33 of the consolidated financial statements.

6. Debtors

	2007 £m	2006 £m
Amounts falling due within one year		
Amounts owed by subsidiary undertakings	**30.2**	5.1
Corporation tax	**11.5**	3.0
Other debtors	**3.8**	1.6
Prepayments and accrued income	**0.2**	0.1
Derivative financial instruments	**1.1**	3.9
	46.8	13.7
Amounts falling due after more than one year		
Amounts owed by subsidiary undertakings	**215.0**	240.1
Other debtors	**–**	1.9
Deferred tax asset	**1.7**	0.1
Derivative financial instruments	**0.2**	1.4
	216.9	243.5
Total debtors	**263.7**	257.2

7. Creditors

	2007 £m	2006 £m
Trade and other creditors falling due within one year		
Amounts owed to subsidiary undertakings	**22.1**	21.0
Other tax and social security payables	**1.8**	1.7
Accruals and deferred income	**9.0**	8.1
Derivative financial instruments	**1.8**	2.0
	34.7	32.8
Trade and other creditors falling due after more than one year		
Derivative financial instruments	**31.7**	25.0
	31.7	25.0
Borrowings falling due within one year		
Bank loans and overdrafts	**61.7**	–
	61.7	–
Borrowings falling due after more than one year		
Bank loans	**47.9**	75.8
Loans from subsidiary undertakings	**231.5**	199.2
Other loans	**174.9**	187.2
	454.3	462.2
Total creditors	**582.4**	520.0

8. Provisions for liabilities and charges

	Total £m
At 1 May 2006	0.7
Utilised	(0.1)
At 30 April 2007	**0.6**

9. Share capital

	Number of shares			
	2007 Millions	2006 Millions	2007 £m	2006 £m
Ordinary equity shares of 10 pence each				
Authorised	**410.0**	410.0	**41.0**	41.0
Issued, allotted, called up and fully paid	**393.2**	390.9	**39.3**	39.1

Shares issued during the year to 30 April 2007 and the consideration received were:

	Allotted, called up and fully paid			
	Number of shares '000	Nominal value £'000	Share premium £'000	Total consideration £'000
Reason for issue				
Executive options	**2,277**	**228**	**3,475**	**3,703**

10. Reserves

	Share premium account £m	Acquisition reserve £m	Profit and loss account			
			Own shares £m	Hedging reserve £m	Other £m	Total £m
At 1 May 2006	259.4	88.1	(4.1)	(0.5)	246.0	241.4
Premium arising on shares issued under option schemes	3.5	–	–	–	–	–
Retained profit for the financial year	–	–	–	–	(27.7)	(27.7)
Actuarial gains on pension schemes	–	–	–	–	17.6	17.6
Tax on actuarial gains on pension schemes	–	–	–	–	(5.3)	(5.3)
Changes in the fair value of cash flow hedges (including tax)	–	–	–	(0.9)	–	(0.9)
Share-based payments	–	–	1.1	–	(0.1)	1.0
At 30 April 2007	**262.9**	**88.1**	**(3.0)**	**(1.4)**	**230.5**	**226.1**

The Company made a profit for the financial year of £5.0m (2005/06: £41.9m) 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 £76.6m (2005/06: £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 2007 amounted to £113.7m (2006: £155.0m).

Five-Year Financial Summary

	Reported under UK GAAP[4]		Reported under IFRS[4]		
	Year ended 30 April 2003 £m	Year ended 30 April 2004 £m	Year ended 30 April 2005 £m	Year ended 30 April 2006 £m	**Year ended 30 April 2007 £m**
Revenue					
UK Paper and Corrugated Packaging	747.0	748.9	631.2	649.6	**687.1**
Continental European Corrugated Packaging			265.7	276.6	**308.0**
Plastic Packaging	195.0	208.7	195.9	202.4	**201.8**
Office Products Wholesaling	495.6	498.8	499.7	518.7	**569.2**
Office Products Manufacturing[5]	59.7	48.0	46.8	5.4	**–**
Intra-segment	(18.3)	(15.9)	(14.4)	–	**–**
Group revenue	1,479.0	1,488.5	1,624.9	1,652.7	**1,766.1**
Operating profit[1, 4]					
UK Paper and Corrugated Packaging	53.1	41.4	31.6	20.5	**36.5**
Continental European Corrugated Packaging			20.2	20.1	**18.2**
Plastic Packaging	14.7	14.0	9.3	7.2	**10.2**
Office Products Wholesaling	16.2	19.7	21.5	12.6	**12.8**
Office Products Manufacturing[5]	4.0	0.3	–	–	**–**
Group operating profit[1, 4]	88.0	75.4	82.6	60.4	**77.7**
Share of profit of associates[6]	2.6	3.0	3.4	4.1	**3.9**
Net finance cost	(10.9)	(10.4)	(13.2)	(12.3)	**(15.0)**
Employee benefit net finance income[4]	–	(3.2)	1.1	1.2	**8.0**
Profit before taxation, exceptional items and amortisation of intangibles[4]	79.7	64.8	73.9	53.4	**74.6**
Exceptional items	(8.5)	–	(9.6)	(42.4)	**3.9**
Amortisation of intangibles	(2.2)	(3.6)	–	–	**–**
Profit before income tax[4]	69.0	61.2	64.3	11.0	**78.5**
Free cash flow	60.2	63.0	55.8	63.2	**84.0**
Capital expenditure[7]	57.4	49.8	53.6	62.7	**66.0**
Depreciation/amortisation	62.2	64.5	68.6	67.2	**62.9**
Average capital employed[2]	775.5	789.3	949.0	930.0	**895.0**
Shareholders' funds[4]	472.9	494.4	519.8	541.5	**567.1**
Net debt	202.3	274.7	260.7	237.8	**181.2**
Adjusted return on sales[1, 4]	5.9%	5.1%	5.1%	3.7%	**4.4%**
Adjusted return on average capital employed[1, 4]	11.3%	9.6%	8.7%	6.5%	**8.7%**
Gearing[4]	42.8%	54.9%	50.2%	43.9%	**32.0%**
Adjusted earnings per share[1, 3, 4]	16.8p	13.6p	14.4p	10.0p	**13.1p**
Dividends per share[3]	8.2p	8.2p	8.4p	8.4p	**8.6p**
Adjusted dividend cover[1, 4]	2.0x	1.5x	1.7x	1.2x	**1.5x**
Adjusted net assets per share[3, 4]	137.0p	129.2p	133.6p	138.5p	**144.9p**

1 before exceptional items and, for years reported under UK GAAP, amortisation of intangibles

2 average capital employed is defined in note 2 on page 64

3 adjusted for the bonus element of the rights issue which took place during the year ended 30 April 2004

4 profit and profit-related figures for the financial years 2004/05, 2005/06 and 2006/07 are not comparable with those for the previous two years. Results for 2002/03 were reported under pensions accounting standard SSAP 24 and there is no pension charge in this year; results for 2003/04 are stated under pensions accounting standard FRS 17 and include a pension charge; and results for 2004/05, 2005/06 and 2006/07 are stated under pensions accounting standard IAS 19 and include a pensions charge. Shareholders' funds, gearing and net assets per share for the financial year 2003/04 are presented under UITF 38; 2004/05, 2005/06 and 2006/07 are presented under adopted IFRSs; in both cases they include holdings of own shares as a reduction of shareholders' funds; those for 2002/03 include holdings of own shares as investments

5 the Office Products Manufacturing business was sold in July 2005

6 before exceptional items

7 capital expenditure represents additions to intangible assets and property, plant and equipment

Notice of Annual General Meeting 2007

Notice is hereby given that the Annual General Meeting of DS Smith Plc will be held at the Great Eastern Hotel, Liverpool Street, London EC2M 7QN, on Wednesday 5 September 2007 at 12 noon to consider and, if thought fit, pass the following resolutions, of which Resolutions 1 to 11 will be proposed as ordinary resolutions and Resolutions 12 and 13 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 2007.

2 To declare a final dividend on the ordinary shares.

3 To approve the Report on Remuneration.

4 To re-elect Mr R G Beeston as a Director of the Company.

5 To re-elect Mr C J Bunker as a Director of the Company.

6 To re-elect Mr A D Thorne as a Director of the Company.

7 To elect Mr P J C Mellier as a Director of the Company.

8 To re-appoint Deloitte & Touche 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.

9 To authorise the Directors to determine the remuneration of the Auditors.

10 That:

(a) pursuant to paragraph 10(2) of Schedule 5 of the Companies Act 2006, and without prejudice to the existing provisions of the Articles of Association of the Company, the Company may send or supply documents or information to members by making them available on the Company's website; and

(b) the Company may use electronic means (within the meaning of the Disclosure Rules and Transparency Rules Sourcebook published by the Financial Services Authority) to convey information to members.

11 That:

(a) in accordance with article 6 of the Articles of Association of the Company, the Directors be authorised to allot relevant securities up to a maximum nominal amount of £11,009,660;

(b) this authority shall expire at the conclusion of the Annual General Meeting to be held in 2008 or, if earlier, 4 December 2008 save that the Company shall be entitled under such authority 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

(c) all previous authorities under Section 80 of the Companies Act 1985 be revoked.

12 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 Act 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 £1,966,011;

(d) these authorities shall expire at the conclusion of the Annual General Meeting to be held in 2008 or, if earlier, 4 December 2008 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 authorities under Section 95 of the Companies Act 1985 be revoked.

13 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 10p 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 39,320,213 ordinary shares;

(b) the minimum price which may be paid for each ordinary share is 10p (exclusive of expenses payable by the Company);

(c) the maximum price which may be paid for each ordinary share is an amount equal to 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(i) 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 on 4 December 2008 or, if earlier, at the conclusion of the next Annual General Meeting of the Company, 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.

By Order of the Board

Carolyn Cattermole
Secretary
4-16 Artillery Row
London SW1P 1RZ
19 July 2007

Notes

(i) Only those Members registered in the Register of Members of the Company as at 6 pm on 3 September 2007 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) A Member entitled to attend and vote at the Meeting is entitled to appoint one or more Proxies to attend and, on a poll, to vote instead of him. A Proxy need not be a Member 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) 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 5 September 2007 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 CRESTCo'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 7RA01) 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 CRESTCo 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.

(v) Copies of the following documents will be available for inspection at the Registered Office and at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AO during normal business hours and at the place of the Meeting from 11.45 am until its conclusion:

(a) Service contracts of the Executive Directors;

(b) Letters of appointment of the Chairman and the non-Executive Directors; and

(c) Articles of Association.

(vi) The Chairmen of the Audit, Remuneration and Nomination Committees will be available to answer relevant questions at the Meeting.

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 2007. 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 6.0p net per ordinary share.

Resolution 3:
Approval of Report on Remuneration
As required by the Directors' Remuneration Report Regulations 2002, shareholder approval is sought for the Report on Remuneration set out on pages 41 to 47.

Resolutions 4 – 7:
Re-election of Directors
The Articles of Association of the Company require that all Directors retire at least once every three years but are eligible to submit themselves for re-election by the 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 Beeston, Mr Bunker and Mr Thorne will retire and, being eligible, offer themselves for re-election at this year's Annual General Meeting. Mr Beeston is the Senior Independent non-Executive Director, Chairman of the Remuneration Committee and a member of the Nomination and Audit Committees. Mr Bunker is Chairman of the Audit Committee and a member of the Remuneration Committee. Mr Thorne is a member of the General Purposes Committee.

The Articles of Association of the Company require that a Director appointed since the previous Annual General Meeting shall be subject to election by the shareholders. Mr Mellier was appointed Director with effect from 7 September 2006 and, in accordance with the Articles, he retires from office at the Meeting. He is a member of the Remuneration Committee. Being eligible he offers himself for election.

A biography of each Director, including those seeking re-election, appears on page 8 of the Annual Report.

Resolutions 8 and 9:
Re-appointment of Auditors
The auditors of a company must be re-appointed at each general meeting at which accounts are presented. During the year under review KPMG Audit Plc resigned as Auditors to the Company and Deloitte & Touche LLP were appointed to fill the casual vacancy. Special notice of the resolution proposing the re-appointment of Deloitte & Touche LLP until the next Annual General Meeting has been received by the Company in accordance with the Companies Act 1985. Resolution 9 gives authority to the Directors to determine the Auditors' remuneration.

Resolution 10:
Electronic Communications
In January 2007, certain provisions of the Companies Act 2006 and the Disclosure and Transparency Rules Sourcebook, which govern communications in electronic form between the Company and its shareholders, came into force.

One of the key changes to the existing regime made by the new legislation is that a company may, as a default method of communicating with shareholders, use electronic and/or website communications to send or supply documents or information to its shareholders. In the case of website communications, the legislation requires that a company must continue to notify its shareholders (by post or other permitted means) of the presence of a document or information on the website. Previous legislation only facilitated the use of electronic communications in certain limited circumstances.

To enable the Company to take advantage of these new provisions in the future, two requirements must be met:

(a) the shareholders of the Company must have resolved that the Company may send or supply documents or information to shareholders by making them available on a website (or the Company's Articles of Association must contain a provision to this effect); and

(b) the relevant shareholder must have been asked individually by the Company to agree that the Company may send or supply documents or information to him by means of a website and the Company must either have received a positive response or received no response within the period of 28 days beginning with the date on which the Company's request was sent.

Resolution 10 will be proposed as an ordinary resolution to facilitate this.

The Directors have no current intention to use this authority.

Resolution 11:
Directors' authority to allot shares
Authority was granted to the Directors at last year's Annual General Meeting, pursuant to Section 80 of the Companies Act 1985, to allot shares in the Company without the prior consent of shareholders for a period of five years. Resolution 11, which will be proposed as an ordinary resolution, will, if passed, give the Directors renewed authority to allot shares up to a maximum nominal value of £11,009,660 (representing 28% of the issued share capital of the Company at 27 June 2007).

Other than in connection with any exercise of options under the Group's employee share option schemes, the Directors have no present intention of exercising the allotment authority proposed by this Resolution. This authority will expire at the conclusion of the next Annual General Meeting, or, if earlier, on 4 December 2008, 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 12:
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 11). 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 £1,966,011 (representing 5% of the Company's issued share capital at 27 June 2007) 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 4 December 2008, 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 13:
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 13 specifies the

maximum number of shares which may be purchased (representing 10% of the Company's issued share capital at 30 April 2007), 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 5% above the average of the middle market values of those shares for the five business days before the purchase is made.

Purchases of shares under the proposed authority are required by the FSA to be made in compliance with The Model Code. Accordingly, the Company would not exercise the authority at a time when the Directors would be precluded from dealing in the Company's shares. Specifically, purchases would not be made within the 60 days preceding the announcement of the interim or final results. This proposal should not be taken as an indication that the Company would purchase shares at any particular price or to imply any opinion on the part of the Directors as to the market or other value of the Company's ordinary shares.

The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 enable certain listed companies to hold shares in treasury, as an alternative to cancelling them, following a purchase of own shares by the Company in accordance with the Companies Act 1985. 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 13, 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 27 June 2007 (being the latest practicable date prior to publication of this notice) is 7,531,648 of which 6,488,893 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 1.65% 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 1.50%. The authority will expire on 4 December 2008 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.

Important notes about the Annual General Meeting

Date
Wednesday 5 September 2007

Location
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 11.50 am. The reception area will be open from 11.30 am, from which time refreshments will be served.

Travel information
See map on the reverse of Admittance Card for the location of the 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 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 Lloyds TSB Registrars will be on hand to provide advice and assistance.

Shareholder Information

Financial diary

28 June 2007
Preliminary announcement of results for the year ended 30 April 2007

15 August 2007
Ex-dividend date for final dividend

5 September 2007
Annual General Meeting

18 September 2007
Payment of final dividend

5 December 2007*
Announcement of interim results for the six months ended 31 October 2007

30 January 2008*
Ex-dividend date for interim dividend

4 March 2008*
Payment of interim dividend

27 June 2008*
Preliminary announcement of results for the year ended 30 April 2008

* 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. Email alerts of the latest news, press releases and financial reports about DS Smith Plc may be obtained by registering for the email 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 60 pence per minute at all times. To access this service, telephone 0906 843 4044 and enter the code 4044 when requested to do so. 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/dealing. 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 0870 850 0852. Lines are open between 8 am and 4.30 pm, Monday to Friday.

JPMorgan 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, JPMorgan Cazenove, 20 Moorgate, London EC2R 6DA. Telephone 020 7606 1768. Please note there is a minimum level of £500 for purchasing shares using this service.

Registered Office and Advisers

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Registered in England No: 1377658

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Solicitors
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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
- email alert service
- this and historical Annual Reports in PDF format

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