THIS DOCUMENT AND THE ACCOMPANYING FORM OF PROXY ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 (FSMA) if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.

If you have sold or otherwise transferred all your Ordinary Shares, please forward this document, together with the accompanying Form of Proxy, as soon as possible to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee. If you have sold or otherwise transferred only part of your holding of Ordinary Shares, you should retain these documents and consult the bank, stockbroker or other agent through whom the sale was effected.

The distribution of this document and/or the accompanying Form of Proxy into jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession this document and/or the Form of Proxy come should inform themselves about, and observe, any such restrictions. Any failure to comply with any such restrictions may constitute a violation of the securities laws of such jurisdictions.

This document should be read as a whole. Your attention is drawn to the letter from your Chairman which is set out in Part I of this document and which contains a recommendation from your Board that you vote in favour of the Resolution to be proposed at the General Meeting referred to below. Part II of this document entitled "Risk Factors" includes a discussion of certain risk factors which should be taken into account when considering the matters referred to in this document.

DS Smith Plc

(*incorporated and registered in England and Wales with registered number 1377658*)

Proposed acquisition of the Otor Group

and

Notice of General Meeting

A Notice of General Meeting of the Company, to be held at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD at 9.00 a.m. on 26 August 2010, is set out at the end of this document. Whether or not you intend to be present at the General Meeting, you are asked to complete and return the enclosed Form of Proxy in accordance with the instructions printed on it as soon as possible and, in any event, so as to be received by the Registrar, Equiniti at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, by not later than 9.00 a.m. on 24 August 2010 (or, in the case of an adjournment, not later than 48 hours before the time fixed for the holding of the adjourned meeting). You may also submit your proxy electronically at www.sharevote.co.uk using the Voting ID, Task ID and Shareholder Reference Number on the Form of Proxy. If you are a member of CREST you may be able to use the CREST electronic proxy appointment service. Proxies sent electronically must be sent as soon as possible and, in any event, so as to be received by not later than 9.00 a.m. on 24 August 2010 (or, in the case of an adjournment, not later than 48 hours before the time fixed for the holding of the adjourned meeting).

This document is a circular relating to the Acquisition which has been prepared in accordance with the Listing Rules of the Financial Services Authority (**FSA**) made under section 73A of FSMA. This document has been approved by the FSA.

J.P. Morgan Cazenove, which is authorised and regulated in the United Kingdom by the FSA, is acting for DS Smith and for no-one else in connection with the Acquisition and will not be responsible to any person other than DS Smith for providing the protections afforded to clients of J.P. Morgan Cazenove or for providing advice in relation to the matters described in this document.

FORWARD-LOOKING STATEMENTS

The statements contained in this document that are not historical facts are "forward-looking" statements. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the Company's control and all of which are based on the Directors' current beliefs and expectations about future events. Forward-looking statements are typically identified by the use of forward-looking terminology such as "believes", "expects", "may", "will", "could", "should", "intends", "estimates", "plans", "assumes" or "anticipates" or the negative of such words or other variations of them or comparable terminology, or by discussions of strategy that involve risks and uncertainties. In addition, from time to time, the Company or its representatives have made or may make forward-looking statements orally or in writing. Such forward-looking statements may be included in, but are not limited to, press releases or oral statements made by or with the approval of one of the Company's authorised executive officers. These forward-looking statements and other statements contained in this document regarding matters that are not historical facts involve predictions. No assurance can be given that such future results will be achieved. Actual events or results may differ materially as a result of risks and uncertainties facing the Company and its subsidiary undertakings. Such risks and uncertainties could cause actual results to vary materially from the future results indicated, expressed or implied in such forward-looking statements. See Part II of this document for further information in this regard. The forward-looking statements contained in this document speak only as at the date of this document. Except to the extent required by applicable law, the Listing Rules or the Disclosure and Transparency Rules, the Company will not necessarily update any of them in light of new information or future events and undertakes no duty to do so. Shareholders should note that this paragraph is not intended to qualify the statements made as to sufficiency of working capital in Part VI of this document.

DEFINITIONS AND INTERPRETATION

Capitalised and certain technical terms contained in this document have the meanings set out in Part VII of this document.

ROUNDING

Certain figures included in this document have been subject to rounding adjustments. Accordingly, any apparent discrepancies in tables between the totals and the sums of the relevant amounts are due to rounding.

DATE

This document is dated 9 August 2010.

TABLE OF CONTENTS

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Announcement of the proposed Acquisition	7 July 2010
CREST accounts credited with Placing shares	12 July 2010
Record date for final dividend	13 August 2010
Latest time and date for receipt of General Meeting Forms of Proxy	9.00 a.m. on 24 August 2010
General Meeting	9.00 a.m. on 26 August 2010
Annual General Meeting	12 noon on 7 September 2010
Expected completion of the Acquisition and the Minority Offer	Q4 2010

Notes:
Each of the times and dates in this timetable is given on the basis of the Directors' current expectations and is subject to change.
All references to times in this document are, unless otherwise stated, references to London times.

DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors	Peter Johnson (*Chairman*) Miles Roberts (*Group Chief Executive*) Steve Dryden (*Group Finance Director*) Bob Beeston (*non-Executive Director*) Christopher Bunker (*Senior non-Executive Director*) Gareth Davis (*non-Executive Director*) Philippe Mellier (*non-Executive Director*) Jonathan Nicholls (*non-Executive Director*)
Company Secretary	Carolyn Cattermole
Registered Office	Beech House Whitebrook Park 68 Lower Cookham Road Maidenhead Berkshire SL6 8XY
Sponsor and Financial Adviser	J.P. Morgan plc 125 London Wall London EC2Y 5AJ
Legal Advisers to DS Smith	Allen & Overy LLP One Bishops Square London E1 6AD
Auditors and Reporting Accountants to DS Smith	Deloitte LLP 2 New Street Square London EC4A 3BZ
Registrar	Equiniti Limited Aspect House Spencer Road Lancing West Sussex BN99 6DA

PART I

LETTER FROM THE CHAIRMAN OF DS SMITH

DS Smith Plc

(Incorporated and registered in England and Wales with registered number 1377658)

Directors:	**Registered Office:**
Peter Johnson (*Chairman*)	Beech House
Miles Roberts (*Group Chief Executive*)	Whitebrook Park
Steve Dryden (*Group Finance Director*)	68 Lower Cookham Road
Bob Beeston (*non-Executive Director*)	Maidenhead
Christopher Bunker (*Senior non-Executive Director*)	Berkshire SL6 8XY
Gareth Davis (*non-Executive Director*)	United Kingdom
Philippe Mellier (*non-Executive Director*)	
Jonathan Nicholls (*non-Executive Director*)	

9 August 2010

Dear Shareholder,

PROPOSED ACQUISITION OF THE OTOR GROUP AND NOTICE OF GENERAL MEETING

1. Overview of the Acquisition

On 7 July 2010, the Board announced that DS Smith Plc (**DS Smith** or the **Company**) had submitted a binding offer for the acquisition of the Otor Group, one of the leading corrugated packaging companies in France, for a total consideration of €247 million (approximately £206 million at the exchange rate on 7 July 2010, the date of announcement of the acquisition) (the **Acquisition**).

I am writing to give you further details of the Acquisition, including the background to and reasons for it, to explain why the Board considers it to be in the best interests of DS Smith and DS Smith Shareholders as a whole and to seek your approval of the Resolution. The Board, having taken financial advice from J.P. Morgan Cazenove in relation to the Acquisition, unanimously recommends that DS Smith Shareholders vote in favour of the Resolution set out in the notice of general meeting at the end of this document. The action you should take to vote on the Resolution, and the recommendation of the Board, are set out in paragraphs 14 and 17 respectively of this letter.

The Otor Group consists of Otor S.A. (**Otor**), the shares of which are listed on NYSE Alternext Paris, Otor's subsidiaries and Otor Finance S.A. (**Otor Finance**), a holding company for The Carlyle Group (**Carlyle**) which together with Crédit Lyonnais (**LCL**) owns and controls 94.75 per cent. of Otor. The remaining 5.25 per cent. of the shares of Otor are in free float on NYSE Alternext Paris.

On 14 July 2010, the Company announced that the Acquisition Agreement had been executed. Under the terms of the Acquisition Agreement, DS Smith will acquire control of more than 95 per cent. of the share capital of Otor from entities controlled by Carlyle, from LCL and from the chairman of Otor before making a mandatory offer for the shares of Otor not controlled by the Company following Closing in accordance with French stock exchange regulations (the **Minority Offer**). The total consideration for the Acquisition, including the Minority Offer, of €247 million (approximately £206 million at the exchange rate on 7 July 2010, the date of announcement of the Acquisition), will be in cash and the assumption of the net debt at Closing, equivalent to an all cash offer of €8.97 per Otor share. As at the date of this document, the estimated net debt at Closing is €48.2 million (approximately £40.3 million at the exchange rate on 7 July 2010, the date of announcement of the Acquisition). This amount could be subject to variation, due to the timing of the actual cash flows from the Otor business. Under French regulations, a minority squeeze out can be achieved with a shareholding representing 95 per cent. of the shares and voting rights. More details on the Acquisition structure can be found in Part III of this document.

The Acquisition remains subject to, among other things, DS Smith Shareholder approval and regulatory clearances, and will be financed from existing and new debt facilities as well as the proceeds of a share placing which was announced, and completed, on 7 July 2010.

The Board believes that the combination of DS Smith and Otor satisfies a number of key strategic objectives, in particular the development of a strong continental European corrugated packaging business focused on the fast moving consumer goods (**FMCG**) sector and strengthening significantly DS Smith's French presence. The Board also believes that the DS Smith Group, as enlarged by the Acquisition (the **Enlarged Group**), will have enhanced long-term growth potential through its strong business across the UK and continental Europe and from increased spending on the more resilient FMCG markets. Combining Otor's successful and well-established corrugated packaging business with DS Smith's existing French operations will create a platform with significantly enhanced capabilities to address the needs of key corrugated packaging customers both in France and more broadly in continental Europe.

Following the Acquisition, DS Smith will re-enforce its position as a leading European supplier of recycled corrugated packaging, complementing its existing strong business in the UK in corrugated packaging and recycling. The Board expects to derive the following key benefits from the Acquisition:

- a broader customer base and greater exposure to the large, and more resilient, FMCG segment of the corrugated packaging market in France;
- the strengthening of DS Smith's position as a major corrugated packaging company with a better product and market mix and a reduction in the effect of the paper cycle on the DS Smith Group;
- estimated total cost synergies of around €9.3 million (approximately £7.7 million at the exchange rate on 7 July 2010, the date of announcement of the Acquisition) in the second full financial year of ownership; and
- margin and earnings enhancement and a return on the investment in Otor above DS Smith's weighted average cost of capital, in the first full financial year of ownership.

The total consideration for the Acquisition, including the Minority Offer, of €247 million (approximately £206 million on 7 July 2010, the date of announcement of the Acquisition), will be in cash and the assumption of the net debt at Closing, equivalent to an all cash offer of €8.97 per Otor share. As at the date of this document, the estimated net debt at Closing is €48.2 million (approximately £40.3 million at the exchange rate on 7 July 2010, the date of announcement of the Acquisition). This amount could be subject to variation, due to the timing of the actual cash flows from the Otor business. The cash element will be funded through a combination of existing and new committed bank facilities and the proceeds from a placing of 9.99 per cent. of new Ordinary Shares, which was announced separately on 7 July 2010 and completed on the same day, and which raised approximately £46 million net of expenses (the **Placing**).

2. Summary of the Terms of the Acquisition

The Board announced on 7 July 2010 that it had agreed with Carlyle the terms of the acquisition of 94.99 per cent. of the issued share capital of Otor for a total consideration, including the Minority Offer, of €247 million (approximately £206 million). This implies a cash offer equivalent to €8.97 per Otor share.

The Otor Group consists of Otor, the shares of which are listed on NYSE Alternext Paris, Otor's subsidiaries and Otor Finance, a holding company for Carlyle which owns and controls 94.75 per cent. of Otor. The remaining 5.25 per cent. of the shares of Otor are in free float on NYSE Alternext Paris.

Under the terms of the Acquisition Agreement, DS Smith will acquire control of more than 95 per cent. of the share capital of Otor from entities controlled by Carlyle, from LCL and from the chairman of Otor before making the Minority Offer in accordance with French stock exchange regulations. The total consideration for the Acquisition, including the Minority Offer, of €247 million (approximately £206 million on 7 July 2010, the date of announcement of the Acquisition), will be in cash and the assumption of the net debt at Closing, equivalent to an all cash offer of €8.97 per Otor share. As at the date of this document, the estimated net debt at Closing is €48.2 million (approximately £40.3 million at the exchange rate on 7 July 2010, the date of announcement of the Acquisition). This amount could be subject to variation, due to the timing of the actual cash flows from the Otor business. Under French regulations a minority squeeze out can be achieved with a shareholding representing 95 per cent. of the shares and voting rights. More details on the Acquisition structure can be found in Part III of this document.

Owing to its size, the Acquisition constitutes a Class 1 transaction for DS Smith for the purposes of the Listing Rules and therefore requires the approval of DS Smith Shareholders. Accordingly, a DS Smith General Meeting has been convened for 9.00 a.m. on 26 August 2010 at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD. An explanation of the Resolution to be proposed at the General Meeting is set out in paragraph 13 below.

The Acquisition will require regulatory clearances. The process to inform the Otor Group works council of the terms of the Acquisition was concluded on 13 July 2010.

3. Information on DS Smith

DS Smith is an international packaging supplier and office products wholesaler headquartered in England which recently reported adjusted operating profits of £94.0 million on sales of approximately £2,071 million for the financial year ended 30 April 2010.

DS Smith's Ordinary Shares are admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange and DS Smith is a constituent of the FTSE 250. The Company's businesses are managed within four segments; UK Paper and Corrugated Packaging; Continental European Corrugated Packaging; Plastic Packaging; and Office Products Wholesaling. The Annual Report for the financial year ended 30 April 2010 was published on 15 July 2010 and is available to download from the Company's website www.dssmith.uk.com.

DS Smith has operating locations across the UK, continental Europe, the USA and Australasia and employs over 10,500 people in over 16 countries. DS Smith is highly cash generative reflecting the ongoing focus on cash management.

4. Information on Otor

Otor is a French based manufacturer of corrugated packaging, recycled container board, and packaging machines. Otor is headquartered in Paris, and has operational facilities consisting of six box plants, two small paper mills, three sheet plants and one box machine fabrication plant. Corrugated capacity and paper capacity are approximately 450,000 tonnes and 130,000 tonnes per annum respectively.

The Otor Group was formed in 1989 following the merger of several French paper mills and box plants. All of the shares of Otor are listed on NYSE Alternext Paris. Carlyle acquired an initial stake in Otor in May 2000 and control of the company in June 2005. Together with LCL, Carlyle currently holds 94.75 per cent. of Otor's share capital. The remaining 5.25 per cent. of the share capital is held by minority shareholders of Otor (including certain of the Otor directors).

Otor recorded 2009 operating income before exceptional items of approximately €29 million and profit before tax and post exceptional items of €2.3 million on sales of €315.1 million for the financial year ended 31 December 2009. As at 31 December 2009, Otor had gross assets of €264.7 million.

5. Background to, and reasons for, the Acquisition

Strategy

DS Smith continues to focus on its strategic objective of being a leading packaging company in the UK and selected overseas markets with strong businesses in recycled corrugated packaging, paper, recycling and plastic packaging.

In DS Smith's UK Paper and Corrugated Packaging segment, the largest segment within Packaging, the focus is on continued operational improvement and the development of DS Smith's principal activities. In the Continental European Corrugated Packaging segment, DS Smith has successfully built on the knowledge derived in serving UK customers to build strong businesses in France, Italy and Poland. In the Plastic Packaging segment, DS Smith is focused on growing in returnable transit packaging and the liquid packaging and dispensing market.

The Company's goal in Office Products Wholesaling (**Spicers**) remains to build on its strong businesses in the UK, France, Germany and the Benelux region and make steady progress on margin enhancement.

Packaging

Following the acquisition of the LINPAC Containers Group in 2004, DS Smith has continued to expand its business in its key UK market.

DS Smith remains focused on plastic packaging with returnable transit packaging. DS Smith is a leading European supplier of beverage crates, reusable containers and extruded sheet as well as liquid packaging and dispensing, and a leading supplier globally of bag-in-box systems and taps.

The Corrugated Packaging market

The European market for corrugated packaging in 2008 is estimated to have been approximately €23 billion, equivalent to circa 17.5 million tonnes or 33 billion square metres of which the French market is estimated to have been 13 per cent.. Demand for corrugated packaging is principally influenced by overall economic activity and manufacturing output.

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

Usage of corrugated packaging for the home delivery of products continues to grow in association with the growth of purchasing through the internet.

The outlook for the French corrugated packaging business

Following a two year slowdown as a result of the recession, sales of French FMCG corrugated packaging are expected to return to a 1.6 per cent. annual rate of growth over the next four years. These sales benefit from exposure to Food and Grocery, which is structurally the least sensitive category of consumer spending to economic conditions. These sales maintained growth, at a reduced pace of 0.3 per cent., through the course of 2008 and 2009.

Rationale for the Acquisition

The Board believes that the Acquisition is an exceptional opportunity to consolidate DS Smith's position by creating a leading corrugated packaging company in France. Otor has strong businesses in corrugated packaging, particularly in the FMCG segment.

Improved position in France and opportunity for further continental expansion

The Acquisition will significantly broaden DS Smith's customer base and the markets it serves. Otor has many customers including a number of major FMCG companies, to which it is sole or joint supplier. The Enlarged Group will also have the additional opportunity to expand its product offering into other European countries such as Poland and Italy where DS Smith already has a developing business.

Higher Group operating margins through product mix and cost synergies

Due to its product mix, Otor operates at significantly higher margins compared to DS Smith and the combination will result in margin improvement for the Enlarged Group. This impact will be further enhanced by the significant cost synergies which the Board envisages can be extracted from the combination of the two businesses.

Increased manufacturing competitiveness

The Board believes that combining DS Smith's and Otor's corrugated packaging operations in France will enable the Enlarged Group to be highly competitive through increased efficiency and implementation of envisaged synergies. The locations of DS Smith and Otor's manufacturing sites complement each other well, enabling the Enlarged Group to derive material benefit from optimising the geographic regions and customers served.

Experienced management team

Otor has high quality employees and a very experienced management team who will contribute further to the success of the Enlarged Group in France. The Board's current intention is that the management teams of Otor and DS Smith's French corrugated operations will be merged to form a strong team to implement the integration of the businesses and to take the combined French corrugated packaging operations forward.

Reduced reliance on the UK business

Following Closing, DS Smith will be materially less reliant on its business in the UK, the largest contributor to DS Smith's operating profits.

6. Current trading and prospects

DS Smith

DS Smith announced its Preliminary Results for the financial year ended 30 April 2010 on 24 June 2010. Since the end of April 2010, trading performance continues to be in line with expectations, underpinned by continued FMCG demand from DS Smith's customers.

The Board believes that DS Smith's visibility on revenues continue to be of high quality and in line with previous guidance, underpinning the Board's confidence in the prospects of DS Smith. The Directors anticipate DS Smith making good progress throughout 2010 and 2011.

The Enlarged Group

The Board believes that, following Closing, the Enlarged Group will be well placed to continue to develop its strong French FMCG business. The Acquisition will enable DS Smith to meet the increasing requirements of European retailers for enhanced packaging products. The Board has confidence in the financial and trading prospects of the Enlarged Group for the current year and beyond.

7. Strategy for the Enlarged Group

The Enlarged Group will continue to focus on delivering shareholder value by growing organically, and through portfolio optimisation and selected acquisitions in its chosen markets. At the same time, the Enlarged Group will maintain its focus on the corrugated packaging market across Europe by leveraging its leadership position in innovation and service.

It is intended to integrate DS Smith and Otor's business across France, thereby generating significant opportunities for performance improvement and the Enlarged Group will also endeavour to exploit additional paper and packaging opportunities across Europe from Otor's designs and patents.

8. Financial impact of the Acquisition and Placing

The Board estimates that the total pre-tax cost synergies from the Acquisition will be around €9.3 million (approximately £7.7 million at the exchange rate on 7 July 2010, the date of announcement of the Acquisition) per annum (before integration costs as detailed below) achieved within the second full financial year of ownership. All synergies are expected to be reflected in the cash flow. These synergies are expected to arise from cost reduction principally through the elimination of duplicate head office costs and other functions, purchasing optimisation and bringing out-sourced services in house.

The estimated integration and rationalisation costs of £3 million will be incurred between Closing and the end of the first full financial year.

The Board believes that the Acquisition will be financially beneficial to the Company, particularly in relation to the following key measures:

- the Acquisition and Placing, taken together and before exceptional items, are expected to be modestly accretive to earnings in the financial year ending 30 April 2011 and earnings enhancing in the year ending 30 April 2012, being the first full year following Closing; and
- the Directors believe that the Acquisition will deliver a return on capital in the year ending 30 April 2012 (being the first full year following Closing) greater than DS Smith's cost of capital. The Enlarged Group is expected to maintain strong operating cash flows.

Nothing in this document should be construed as a profit forecast or interpreted to mean that the future earnings per share, profits, margins or cash flows of DS Smith will necessarily be greater than the historic published figures.

9. Financing the Acquisition and Minority Offer

New and existing debt facilities

The consideration payable to Otor's shareholders under the terms of the Acquisition and Minority Offer will be provided from existing and new debt facilities. On 29 August 2008, DS Smith entered into a syndicated revolving credit facility for £287.5 million. On 6 July 2010, DS Smith contracted with The Prudential Insurance Company of America and Prudential Retirement Insurance and Annuity Company to draw down €118 million on 11 August 2010 from a private placement shelf facility. On 4 August 2010, DS Smith signed an agreement with three of its existing lenders to borrow €81 million on Closing, on documentation largely identical to the existing borrowing facilities entered into on 29 August 2008.

The Placing

Subsequent to its announcement of the Placing on 7 July 2010, DS Smith has issued 39,296,253 new Ordinary Shares of 10 pence each, representing approximately 9.99 per cent. of the Company's existing issued share capital. The new Ordinary Shares were offered to existing institutional shareholders at 120 pence per share, representing a discount of 4.8 per cent. to the closing price on 6 July 2010, the last day before the announcement of the Placing, and raised approximately £46 million, net of expenses.

10. Employees and management

DS Smith attaches great importance to the skills and experience of the existing management and employees of Otor.

Combining two substantial groups often provides opportunities for the combined group to share resources between businesses which will lead to cost savings. The Board believes that the combination of DS Smith and Otor will be to the employees' advantage, as they will have the opportunity of continued employment in a larger group, with the anticipated benefits the Board expects the combination to bring.

11. Principal terms of the Acquisition and Minority Offer

Under the Acquisition Agreement, which was signed on 13 July 2010, DS Smith has agreed to acquire 94.99 per cent. of the issued share capital of Otor for a total consideration, including the Minority Offer, of €247 million (approximately £206 million at the exchange rate on 7 July 2010, the date of announcement of the Acquisition). This implies a cash offer equivalent to €8.97 per Otor share.

The Acquisition Agreement is conditional, *inter alia*, upon obtaining the approval of DS Smith Shareholders at the General Meeting and relevant regulatory clearances having been received. It is expected that the Acquisition and the Minority Offer will complete in Q4 2010.

Carlyle, together with LCL, currently owns 94.75 per cent. of the share capital of Otor through three holding companies, Otor Finance, Packaging Investment I SARL and Packaging Investment II SARL (Packaging Investment I SARL and Packaging Investment II SARL, together **Packaging Investment**). Otor Finance is wholly-owned by Packaging Investment and LCL. Otor Finance holds directly 80.14 per cent. of the share capital of Otor and Packaging Investment owns directly 14.61 per cent. of the share capital of Otor. In addition, shares held by the chairman of Otor will also be sold to the Company. After the Acquisition, the Company will control more than 95 per cent. of the Otor share capital, taking into account shares of Otor held in treasury.

Under the Acquisition Agreement, DS Smith will acquire 100 per cent. of Otor Finance from LCL and Packaging Investment, and all of Otor's share capital held by Packaging Investment and the chairman of Otor. DS Smith will also make a mandatory offer for the shares of Otor not controlled by the Company following Closing in accordance with French stock exchange regulations. Under French regulations, a minority squeeze out can be achieved with a 95 per cent. shareholding and after Closing DS Smith will control more than 95 per cent. of the Otor share capital, taking into account shares of Otor held in treasury.

DS Smith's break fee

Under the Acquisition Agreement, DS Smith has committed to pay a break fee of €6,906,250, equal to 1 per cent. of the market capitalisation of DS Smith on the Business Day immediately before the date on which the Acquisition Agreement was signed, in the event that the Acquisition does not complete because approval is not given by Shareholders or regulatory clearances are not obtained.

The terms and conditions of the Acquisition are summarised more fully in Part III of this document.

12. Dividend and dividend policy

For the year ended 30 April 2010, the Board recommended interim and final dividends which in aggregate provided a full year dividend of 4.6 pence per Ordinary Share, an increase of 4.5 per cent. on the prior year. The new Ordinary Shares issued as part of the Placing rank *pari passu* in all respects with the existing issued Ordinary Shares of the Company, including the right to receive all dividends and other distributions declared, made or paid on or in respect of the Ordinary Shares after the date of issue of the new Ordinary Shares.

The Board recognises the importance of dividends to Shareholders and remains committed to the payment of dividends that reflect the sustainable earnings and cash generation of the Group over the cycle. Future dividend policy is under review as part of the Group Chief Executive's review of strategy.

13. DS Smith General Meeting and the Resolution

The Acquisition and Minority Offer are conditional upon, among other things, the prior approval of DS Smith Shareholders at a General Meeting to be held at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD at 9.00 a.m. on 26 August 2010, notice of which is set out at the end of this document. A Form of Proxy to be used in connection with the General Meeting is enclosed with this document.

The General Meeting is being held for the purposes of considering, and, if thought fit, passing the Resolution to approve the Acquisition and Minority Offer.

The implementation of the Acquisition and Minority Offer are conditional upon the passing of the Resolution.

The Resolution will be proposed as an ordinary resolution requiring a simple majority of votes in favour.

The Acquisition and Minority Offer will not proceed if the Resolution is not passed. The Resolution proposes that the Acquisition and Minority Offer be approved and the DS Smith Directors be authorised to implement the Acquisition and Minority Offer.

14. Action to be taken

You will find enclosed with this document a Form of Proxy for use at the DS Smith General Meeting. Whether or not you propose to attend the DS Smith General Meeting in person, it is important that you complete and sign the enclosed Form of Proxy in accordance with the instructions printed on it and return it to Equiniti, at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA as soon as possible and, in any event, so as to be received not later than 9.00 a.m. on 24 August 2010. The completion and return of a Form of Proxy will not preclude you from attending the General Meeting and voting in person, if you so wish and are so entitled.

You may also submit your proxies electronically at www.sharevote.co.uk using the Voting ID, Task ID and Shareholder Reference Number on the Form of Proxy. If you hold shares in CREST, you may appoint a proxy by completing and transmitting a CREST Proxy Instruction to ID RA19 so that it is received no later than 9.00 a.m. on 24 August 2010.

15. Further information and risk factors

Your attention is drawn to the risk factors set out in Part II of this document and the additional information set out in Part VI of this document. Shareholders should read the whole of this document and not rely solely on the summarised information in this letter.

The result of the General Meeting will be announced through a Regulatory Information Service and on the DS Smith website (www.dssmith.uk.com) as soon as practicable after the meeting.

16. Financial advice

The Board has received financial advice from J.P. Morgan Cazenove in relation to the Acquisition. In providing its financial advice to the Board, J.P. Morgan Cazenove has taken into account the Board's commercial assessment of the Acquisition.

17. Recommendation

The Board considers the Acquisition and Minority Offer to be in the best interests of the Company and its Shareholders taken as a whole. Accordingly, the Board unanimously recommends that Shareholders vote in favour of the Resolution, as the Directors intend to do in respect of their own beneficial shareholdings held at the time of the General Meeting, amounting to 419,611 Ordinary Shares in aggregate as at the date of this document (representing approximately 0.097 per cent. of DS Smith's existing issued ordinary share capital).

Yours sincerely,

Peter Johnson
Chairman

PART II

RISK FACTORS

All the information set out in this document should be carefully considered, including those risks described below, when deciding whether or not to vote in favour of the Resolution to be proposed at the General Meeting. If any or a combination of the following risks actually materialise, DS Smith's business, reputation, financial condition, operating results, prospects and share price and the business, reputation, financial condition, operating results and prospects of the Enlarged Group could be materially and adversely affected to the detriment of DS Smith, the Enlarged Group and the Shareholders and you may lose all or part of your investment. All risks of which the Directors are aware at the date of this document and which they consider material are set out in this Part II. However, further risks and uncertainties which are not presently known to the Directors, or that the Directors currently deem immaterial, may also have a material effect on DS Smith, the Enlarged Group and/or the Shareholders.

RISKS RELATING TO THE GROUP AND/OR THE ENLARGED GROUP

Changes in the demand for, or pricing of, the Group's products and services as a result of general economic conditions or market-specific factors

The profitability of the Group's businesses is sensitive to the volume and mix of sales and to product pricing. Demand across the Group's markets has weakened and become less predictable as a result of the global economic downturn. This has, in turn, contributed to a fall in prices in some of the Group's markets. In the present circumstances, management has reduced visibility for forecasting the Group's levels of activity and margins. Trading conditions may prove to be very different from those that are currently expected. In these circumstances the Group's businesses are monitoring sales and pricing trends in their markets especially closely. The businesses all have programmes in place aimed at maximising sales and managing margins in the context of the evolving situation in their specific markets. Changes in the demand for, or pricing of, the Group's products and services as a result of general economic conditions or market-specific factors could have a material adverse effect on the Group's business, financial condition, operating results and/or prospects.

Volatility of pricing and availability of globally traded raw materials

In 2009/10, the Group purchased approximately £112 million of waste paper and approximately £101 million of polymers and films as the principal raw materials in its Paper and Plastic Packaging businesses, respectively. These products are globally traded and subject to variations in supply and demand which result in volatility in their pricing. The Group endeavours to recover any raw material cost increases through good material usage programmes and through price rises. Approximately one-third of the Group's corrugated and plastic packaging customer contracts include arrangements to link selling prices to an index of raw material prices. The achievement of price increases for the majority of our Packaging business is substantially determined by the state of supply and demand in the relevant market at any time. Due to the variety of contractual arrangements with customers, margins may be squeezed for a period of time until price increases are achieved to recover input cost increases. In the present trading environment it is likely to prove more difficult to recover input cost increases through price rises.

The Group's Severnside Recycling business collects and trades waste paper to ensure a continuous cost-competitive supply to the Group's paper mills. It achieves this through long-term contracts with major suppliers of waste paper and the collection of waste from smaller suppliers through its network of collection depots. Future profitability of the Group may be adversely affected by the extent to which finished goods prices are linked to input prices.

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

Volatile and increasing energy prices

The Group continues to have an exposure to energy costs. The Group's total costs for gas, electricity and diesel fuel were circa £109 million in 2009/10 (down from circa £114 million in 2008/09). The Group's exposure to energy costs is being managed in a number of ways. The Group is looking to maximise in-house energy generation from its combined heat and power (**CHP**) plants in the UK and France, thereby taking advantage of the greater efficiency of the CHP process. It is also investigating the potential for the use of renewable or low-carbon energy sources, including refuse-derived fuel. The Group continues to undertake a wide range of energy-saving projects aimed at increasing its energy efficiency and reducing its energy usage. There can be no certainty however that the Group will continue to manage the impact of rising energy prices in the future, particularly in relation to the purchase of gas in the UK. Volatile and increasing energy prices could have a material adverse effect on the Group's business, financial condition, operating results and/or prospects.

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

Increasing costs in the medium term related to climate change and carbon dioxide (CO_2) emissions

As a result of its substantial energy usage and production emissions, the Group is likely, in the medium term, to be increasingly subject to regulation and taxation of its CO_2 emissions. Specifically, a potential increase in the European Union's commitment to reduce greenhouse gas emissions may lead to more onerous obligations on the Group, particularly the paper mills that are already required to participate in the European Union Emission Trading System. The details of the actions being taken to reduce the Group's future energy usage and CO_2 emissions are described in further detail above.

Serious breaches of the law or other regulations

The Group's Key Corporate Values 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. The Group cannot be certain however that employees adhere to either the Key Corporate Values or the Workplace Malpractice Policy and there is a risk that employees could be in violation of these policies without senior management being aware of this. Management believes that the risk is managed appropriately, however.

Environmental laws and regulations

The Group will be subject to various environmental laws and regulation that, among other things, impose limitations on the discharge of pollutants into the air and water, establish standards for the protection, clean-up and restoration of the environment, the safe handling of hazardous materials and wastes and the safeguarding of human health and safety.

Failure to comply with such laws and regulations could result in the imposition of fines or penalties and/or the payment of damages, suspension or revocation of permits or licences, operational restrictions or other costs, suspension or cessation of production at one or more of the Group's facilities or a requirement to upgrade the equipment or processes at such facilities. Failure to comply may also damage the Group's reputation. In general, environmental, safe handling and human health and safety laws and regulations are complex, continue to change, may be applied retroactively and, overall, are becoming increasingly stringent.

Contamination and clean-up

The Group may be subject to fines and/or clean-up liability for contamination at past and present operating sites under statutory regimes. Some environmental laws and regulations impose liability and responsibility on present and former owners, operators or users of facilities and sites for the clean-up of contamination at, or arising from, such facilities, without regard to causation or knowledge of contamination. Investigations in the future may lead to discoveries of contamination that the Group is required to remedy or damage that may subject the Group to claims. Closure of facilities may trigger compliance requirements that are not applicable to operating facilities.

Over and above any statutory liability for clean-up, other regimes, including liability under common law (for example ongoing negligence, or nuisance) may be relevant and civil claims may be brought in respect of contamination.

Increasing costs due to regulatory and customer pressure to reduce packaging waste

As a packaging producer, the Group is under increasing pressure from customers and legal compliance obligations to reduce the quantity of packaging placed on the European market, to increase the amount of packaging that is recycled rather than sent to landfill and to increase the use of recycled materials in new packaging products. The Group has taken a number of steps to conserve resources and reduce the amount of packaging waste sent to landfill. However, future regulatory developments in relevant jurisdictions may expose the Group to further compliance costs.

Regulatory and consumer pressure to decrease packaging waste and packaging used may also reduce demand for the Group's products. Certain types of products may become less popular with customers due to such environmental concerns.

The funding position of the Group's UK defined benefit pension scheme

The funding of the Group's UK defined benefit pension scheme is sensitive to a number of key factors: the value of the assets, of which 61 per cent. are invested in equities and 39 per cent. in bonds, gilts and cash; the discount rate, based on the yield on high quality corporate bonds, which is used to calculate the scheme's liabilities; and the expected mortality rate of the scheme's members. The funding position of the scheme has deteriorated during 2009/10. The Group faces the risk that this funding position may deteriorate further over time. The Group and the scheme's trustee have sought to mitigate this risk through the scheme's investment strategy and through having increased the contributions made to the scheme by both the members and the Group. The regulatory environment for pension schemes and their trustees has changed in recent years, in particular with the Pensions Act 2004: the presence of a deficit in a scheme may now oblige the trustee or possibly the Pensions Regulator to seek some further funding of the scheme in the event of a significant corporate action or perceived decline in the Group's financial covenant. On 30 April 2010, the scheme commenced the triennial actuarial valuation, the results of which are expected to be available by the end of 2010/11. At that time the Group expects to reach agreement with the trustees as to the increased level of pension contributions necessary to repay the deficit.

Labour disputes

DS Smith believes that all of its operations and those of Otor have, in general, good relations with their employees and, where applicable, the trade unions that represent those employees. There can, however, be no assurance that the Enlarged Group's operations will not be affected by problems in the future. There can also be no assurance that work stoppages or other labour-related developments (including the introduction of new labour regulations in countries where the Enlarged Group will operate) will not adversely affect the financial condition of the Enlarged Group.

Competitive risk

DS Smith operates in competitive markets. Aggressive pricing from competitors may cause a reduction in our revenues and margins. We aim to build long-term relationships with our customers in order to become an integral part of their supply chain and help them reduce costs. We also aim to ensure that we are the supplier of choice by focusing on innovation for our customers and maintaining high standards of service. There can be no guarantee however that customers will not seek out alternative products which may either be more cost effective for them or alternatively provide better service.

Product liability

The Group's packaging products, many of which are supplied to 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.

Political and economic stability

The Enlarged Group will operate in a large number of countries and regions with differing economic and political conditions and sensitivities. The Enlarged Group's earnings may therefore be adversely affected by political or economic instability and unrest in some of these countries (including financial crisis, civil unrest, wars, international conflicts, greater and tighter government regulation on cross-border trading, production, pricing and the environment).

Proprietary rights

DS Smith relies on intellectual property laws to protect its rights to certain aspects of its systems, products and processes including product designs, proprietary technologies, research and concepts. The actions DS Smith takes to protect its proprietary rights may be inadequate to prevent imitation or unauthorised use. The laws of various countries offer different levels of protection for DS Smith's intellectual proprietary rights and there can be no assurance that DS Smith's intellectual property will not be challenged, invalidated, misappropriated or circumvented by third parties. Any of these possibilities could have a material adverse effect on DS Smith's business, results of operations and financial condition.

Customer credit risk

Although the Group has a broad base of customers, the financial failure of the Group's key customers may have a material impact on the results in a particular segment and result in a significant loss of future business. Although no single customer represents more than 2 per cent. of the Group's revenue, given the current economic environment the Group continues to closely monitor credit risk across its customer base.

Movements in foreign exchange rates and interest rates

The Enlarged Group will be exposed to the translation of the results of overseas subsidiaries into sterling as well as the impact of currency fluctuations on its commercial transactions denominated in foreign currencies. Although the Enlarged Group will engage in currency hedging transactions to reduce exposure to transactional currency fluctuations, there can be no assurance that these currency hedging transactions will be sufficient to protect against adverse exchange rate movements which could have a material adverse effect on its business, financial condition and operating results.

Interest rate risk is the risk that the Enlarged Group will sustain losses from adverse movements in interest bearing assets and liabilities. The Enlarged Group will be subject to the effects of interest rate fluctuations on certain of its financing arrangements and on banking deposits.

Possible volatility of the price of the Ordinary Shares

The market price of the Ordinary Shares may be affected by a variety of factors such as changes in sentiment regarding the Ordinary Shares, variations in the Group's and, following Closing, the Enlarged Group's operating results compared with the expectations of market analysts and investors, its business developments or those of its competitors, the operating performance of its competitors, speculation about the Group's and, following Closing, the Enlarged Group's business or regulatory changes affecting the Group or the Enlarged Group. Shareholders should be aware that the value of the Ordinary Shares can go down as well as up and may not always reflect the underlying asset value or prospects of the Group, and following Closing, the Enlarged Group.

RISKS RELATING TO THE ACQUISITION AND MINORITY OFFER

Closing is conditional and the conditions may not be satisfied

The Acquisition is conditional, among other things, upon: (i) its approval by the Shareholders at the General Meeting; and (ii) all requisite regulatory and other anti-trust clearances having been obtained. There can be no assurance that these conditions will be satisfied (or waived, if applicable) and that Closing will be achieved.

The terms of the Minority Offer are subject to review by an independent expert

Under French regulations, the offer price and terms which are offered to minority shareholders of Otor under the Minority Offer and any subsequent squeeze out are subject to review by an independent expert. The opinion given by the independent expert will then be used by the AMF to make its decision in relation to the approval of the Minority Offer and the squeeze out process. Although DS Smith has no reason to believe that the offer price or terms that will be offered to the minority shareholders of Otor following Closing will not be acceptable to the AMF or the independent expert, there nevertheless remains a risk that the Company may be required to make alterations to the terms of the Minority Offer and/or to the terms of the subsequent squeeze out which may have a material impact on the cost to the Group of the Minority Offer and subsequent squeeze out (in respect of the Otor shares remaining following the acquisition by DS Smith of more than 95 per cent. of the Otor shares).

DS Smith's ability to integrate Otor effectively and fully realise the benefits of the Acquisition

The success of the Enlarged Group may in part be dependent upon DS Smith's ability to integrate Otor without any significant disruption to the business. The integration may take longer or prove more costly than anticipated. Any such issues may adversely affect the financial position of the Enlarged Group, and ultimately the trading price of the Ordinary Shares.

DS Smith may need to rely on certain key management of the Enlarged Group to integrate Otor

The future success of the Enlarged Group will, in part, be dependent upon the successful integration, retention and motivation of key members of the Enlarged Group's management and staff. Failure to retain certain individuals may affect DS Smith's ability to successfully integrate Otor into the Enlarged Group. This may have a detrimental effect on the future performance of the Enlarged Group.

DS Smith may not realise the desired synergy benefits from the Acquisition

There is a risk that synergy benefits from the Acquisition may fail to materialise, or they may be materially lower than have been estimated. In addition, the costs of funding these synergies may exceed expectations. Such eventualities may have a material adverse effect on the financial position of the Enlarged Group.

Customer concentration

Otor's two largest customers account for approximately 15 per cent. of Otor Group turnover. Due to their size, these customers may have bargaining power and the ability to cancel contracts at reasonably short notice. The loss, expiration, suspension, termination or cancellation of any of these contracts could have a material adverse effect on Otor's future results and financial condition. DS Smith will mitigate the risk of these customers cancelling their contracts by ensuring that Otor continues to offer superior service and more innovative and advanced products compared to its competition.

Otor may not perform in line with expectations

If the results and cash flows generated by the combination of the operations of DS Smith and Otor are not in line with the Directors' expectations, a write-down may be required against the carrying value of the Group's investment in Otor. Such a write-down may reduce the Enlarged Group's ability to generate distributable reserves and consequently affect the Enlarged Group's ability to pay dividends.

PART III

SUMMARY OF THE PRINCIPAL TERMS OF THE ACQUISITION

1. The Acquisition

On 13 July 2010, the Company (the **Purchaser**) entered into a conditional agreement to acquire (i) the entire issued share capital of Otor Finance from LCL and Packaging Investment (together, the **Sellers**) (the **Otor Finance Shares**); and (ii) all of the share capital in Otor held by Packaging Investment from Packaging Investment, representing 14.61 per cent. of the share capital and 8.11 per cent. of the voting rights of Otor (the **Otor Shares** and, together with the Otor Finance Shares, the **Purchased Shares**). Shares in Otor, representing 80.14 per cent. of the share capital and 88.93 per cent. of the voting rights of Otor, are held by Otor Finance.

The Company is entitled to assign the benefit of the Acquisition Agreement to any of the Company's related persons for the time being.

2. The Minority Offer

Following Closing, the Purchaser is required to make a mandatory offer for the shares of Otor not controlled by the Company in accordance with French stock exchange regulations. The Purchaser will request that remaining minority shareholders be squeezed out (*retrait obligatoire*) after the mandatory offer.

Under French regulations, a minority squeeze out can be achieved with a shareholding representing 95 per cent. of the shares and voting rights of Otor. Following Closing the Purchaser will control, together with the RJR Shares referred to in paragraph 3 below and the shares of Otor held in treasury, more than 95 per cent. of the shares and voting rights of Otor.

3. Acquisition of Shares from the Otor Chairman

In addition to the Acquisition Agreement, for the purpose of the condition referred to in paragraph 6(c) below, the Purchaser has entered into a share purchase agreement with Packaging Investment II S.A.R.L. and Mr Robertus Renders, the chairman of Otor (the **Renders Agreement**). Under the Renders Agreement, subject to the satisfaction or waiver of relevant conditions in the Acquisition Agreement, the Purchaser will ultimately acquire 54,221 shares in Otor now held by Mr Renders (the **RJR Shares**) for a cash consideration of €8.97 per share.

4. Consideration and Interest

The cash consideration to be paid for the Purchased Shares is €8.97 per Otor share sold under the Acquisition Agreement (the **Purchase Price**). The Purchase Price will be allocated among the Sellers as provided in the Acquisition Agreement.

Should Closing occur after expiration of a period of 40 Business Days following the date of the Acquisition Agreement, the Purchaser will be required to pay to the Sellers interest calculated on the Purchase Price at a rate of 1 month EURIBOR + 250 basis points, for the period starting after expiration of such 40 Business Day period through and including the date on which Closing occurs (the **Closing Date**). No interest shall be due or payable by the Purchaser to the Sellers in the event the break fee referred to in paragraph 7 below is due by the Purchaser to the Sellers.

5. Locked Box Mechanism

The Acquisition Agreement contains a "locked box" mechanism under which the Sellers covenant that between 31 December 2009 (being the date of the last audited consolidated financial statements of Otor) (the **Accounts Date**) and Closing there will have been no "leakage" from Otor, and none of the Sellers shall have consented to or voted in favour of any leakage from Otor. The definition of leakage in the Acquisition Agreement includes any payment or transfer (including transfer of value) or promise to make any payment or transfer by an Otor Group company to any of the Sellers or its related persons between the Accounts Date and Closing (**Leakage**).

Any Leakage which in fact occurs shall be deducted from the Purchase Price (if determined before the payment of the Purchase Price) or reimbursed to the Purchaser by the Sellers on a euro for euro basis (the Purchaser must claim within three months of Closing, with court proceedings in respect thereof to have been commenced within three months of notification of the claim).

6. Conditionality

Closing of the Acquisition is subject to:

(a) the relevant regulatory clearances having been obtained by the Purchaser;

(b) approval of the Acquisition by the Shareholders in general meeting; and

(c) the Sellers, together with Otor Finance, holding such number of Otor shares as, together with the shares of Otor held in treasury, represent at least 95 per cent. of the share capital and voting rights of Otor.

It is expected that the Acquisition and the Minority Offer will complete in Q4 2010.

7. DS Smith Break Fee

Under the Acquisition Agreement, the Purchaser has committed to pay a break fee of €6,906,250, equal to 1 per cent. of the market capitalisation of DS Smith on the Business Day immediately before the date on which the Acquisition Agreement was signed, in the event that the Acquisition does not complete because approval is not given by Shareholders or regulatory clearances are not obtained.

8. Representations and Warranties

The Acquisition Agreement contains, subject to certain exceptions, limitations and qualifications, warranties of the Sellers in relation to a limited number of key matters including, among other things, title to the Purchased Shares, the Sellers' corporate organisation and authority to enter into the Acquisition Agreement and certain matters concerning the Otor Group and its business (including in relation to the audited consolidated financial statements of Otor as at the Accounts Date and the conduct of the Otor business since the Accounts Date).

Except for claims based on fraud or breaches of certain key warranties, the Sellers' aggregate liability for claims under the warranties is limited to €13 million. Further, except in the case of claims based on fraud or breaches of those key warranties, the Sellers will not be liable for breaches of warranties until the aggregate liability is greater than €5 million (in which case the Purchaser shall be entitled to all amounts resulting from those claims and not just the excess over that sum), provided that such threshold may be satisfied only by individual claims of €250,000 or greater.

The Acquisition Agreement contains, subject to certain exceptions, limitations and qualifications, warranties of the Purchaser in relation to, among other things, its corporate organisation and authority to enter into the Acquisition Agreement and that it has available and will have available at Closing, all funds necessary to pay the Purchase Price to the Sellers (including any interest thereon), to refinance any and all indebtedness of Otor that would need to be refinanced as a consequence of the Closing, and to consummate the Minority Offer.

9. Survival of Warranties and Packaging Investment Covenant

The liability of the Sellers in respect of their warranties will terminate three months after Closing, except in respect of any warranty claim notified to the Sellers before that date.

In order to satisfy their obligations under the warranties, Packaging Investment undertake in the Acquisition Agreement not to make any distribution of dividend or otherwise before the earlier of (i) the expiry of a three month period from Closing or (ii) the final resolution of any warranty claims, which would result in the Packaging Investment holding less than a minimum amount of available cash or equivalent assets of €13 million (being the aggregate limit for all warranty claims). If any warranty claims remain unsettled at the expiry of the three month period from Closing, the €13 million figure mentioned above shall be reduced from time to time to an amount corresponding at all times to the lesser of €13 million or 110 per cent. of the aggregate amount of the unsettled warranty claims.

10. Covenants

The Acquisition Agreement contains a number of covenants from the Sellers in relation to the management of the Otor Group companies in the ordinary course of business between the signature of the Acquisition Agreement and Closing, and provides that the Sellers will cause the Otor Group companies not to take certain actions without the prior consent of the Purchaser (such consent not to be unreasonably withheld, conditioned or delayed).

11. Termination

The Acquisition Agreement may be terminated *inter alia* by the written agreement of the parties or by the Purchaser on the occurrence of certain events.

The Acquisition Agreement will automatically terminate if Closing has not occurred before 9 January 2011 (the **Long-Stop Date**).

The Purchaser may elect not to complete the purchase of the Purchased Shares if before Closing:

(a) certain key warranties become untrue or inaccurate unless cured before the Long Stop Date; or

(b) any Leakage has occurred which, individually or in the aggregate, would be likely to give rise to a reduction in the value of the Otor business by 25 per cent. or more.

12. Subsequent Transactions

In addition to the Purchase Price, the Acquisition Agreement provides that the Purchaser will pay additional consideration to the Sellers if, within one year of Closing, the Purchaser enters into a subsequent transaction for the sale of more than 5 per cent. of the shares of Otor or Otor Finance for a subsequent equity value which is higher than the Purchase Price. The amount of the additional consideration payable will be equal to the difference between the subsequent equity value and the Purchase Price.

13. Termination of Financing Agreements

The Acquisition Agreement provides that if after Closing certain specified financing agreements of the Otor Group are terminated on the grounds of a change of control constituted by the Acquisition Agreement and/or Closing by or on behalf of any party thereto other than the relevant Otor Group company, then all costs, charges and penalties in relation to such termination shall be for the account of the Sellers.

14. Governing Law

The Acquisition Agreement is exclusively governed in all respects by French law, without regard to principles of conflicts of law.

PART IV

FINANCIAL INFORMATION ON THE OTOR GROUP

SECTION A: HISTORICAL FINANCIAL INFORMATION ON THE OTOR GROUP

Otor Finance – Consolidated Income Statement

For the three years ended 31 December 2009

	Note	*Before exceptional items 2009 €'000*	*Exceptional items (Note 4) 2009 €'000*	*After exceptional items 2009 €'000*	*Before exceptional items 2008 €'000*	*Exceptional items (Note 4) 2008 €'000*	*After exceptional items 2008 €'000*	*Before exceptional items 2007 €'000*	*Exceptional items (Note 4) 2007 €'000*	*After exceptional items 2007 €'000*
Revenue	2	**315,100**	**—**	**315,100**	**363,810**	—	363,810	365,650	—	365,650
Cost of goods sold		**(98,465)**	**—**	**(98,465)**	**(124,376)**	—	(124,376)	(134,534)	—	(134,534)
Operating expenses	3, 4	**(187,883)**	**(23,196)**	**(211,079)**	**(208,642)**	(27,699)	(236,341)	(200,334)	15	(200,319)
Operating profit	3	**28,752**	**(23,196)**	**5,556**	**30,792**	(27,699)	3,093	30,782	15	30,797
Finance income	5	—	—	**922**	—	—	2,610	—	—	4,551
Finance costs	5	—	—	**(3,581)**	—	—	(12,236)	—	—	(13,789)
Employment benefit net finance (expense)/ income	23	—	—	**(550)**	—	—	(310)	—	—	(555)
Net financing costs		—	—	**(3,209)**	—	—	(9,936)	—	—	(9,793)
Profit/(loss) before income tax and discontinued operations		—	—	**2,347**	—	—	(6,843)	—	—	21,004
Income tax (expense)/ credit	7	—	—	**(161)**	—	—	(2,669)	—	—	(3,544)
Profit before discontinued items		—	—	**2,186**	—	—	(9,512)	—	—	17,460
Profit from discontinued operations	8	—	—	—	—	—	22,671	—	—	8,829
Profit/(loss) for the financial year		—	—	**2,186**	—	—	13,159	—	—	26,289
Profit/(loss) for the financial year attributable to:										
Owners of the parent		—	—	**1,756**	—	—	10,299	—	—	21,068
Non-controlling interests		—	—	**430**	—	—	2,860	—	—	5,221
Basic earnings/(loss) per share (pence)	9	—	—	**0.01**	—	—	0.06	—	—	0.11
Diluted earnings/(loss) per share (pence)	9	—	—	**0.01**	—	—	0.06	—	—	0.11

Otor Finance – Statement of Comprehensive Income

	Note	*2009* *€'000*	*2008* *€'000*	*2007* *€'000*
Actuarial (losses)/gains on defined benefit pension schemes	23	**(152)**	(1,320)	320
Movements on deferred tax relating to actuarial losses		**52**	454	(110)
Currency translation adjustments		**—**	6	100
Cash flow hedges losses including tax of €86,000 (2008: tax of €117,000, 2007: tax of €77,000)		**(164)**	(222)	146
Other comprehensive (loss)/income for the year, net of tax		**(264)**	(1,082)	456
Profit for the year		**2,186**	13,159	26,289
Total comprehensive income for the year		**1,922**	**12,077**	**26,745**
Total comprehensive income attributable to:				
Owners of the parent		**1,525**	9,259	21,475
Non-controlling interests		**397**	2,818	5,270

Otor Finance – Statement of Financial Position

	Note	*2009* *€'000*	*2008* *€'000*	*2007* *€'000*
Assets				
Non-current assets				
Intangible assets	10	**68,164**	68,130	81,606
Property, plant and equipment	11	**61,206**	68,104	135,548
Deferred tax assets	12	**17,561**	19,784	17,058
Other receivables	13	**13,534**	15,691	9,475
Total non-current assets		**160,465**	171,709	243,687
Current assets				
Inventories	14	**36,526**	44,524	57,860
Income tax receivable	12	**16**	28	28
Trade and other receivables	15	**65,925**	100,424	124,827
Cash and cash equivalents	18	**1,771**	992	4,953
Derivative financial instruments	20	**26**	84	460
Assets classified as held for sale		**—**	—	543
Total current assets		**104,264**	146,052	188,671
Total assets		**264,729**	317,761	432,358
Liabilities				
Non-current liabilities				
Interest-bearing loans and borrowings	17	**31,309**	40,516	69,064
Post-retirement benefits	23	**12,590**	13,148	14,387
Other payables	16	**5,507**	6,015	6,880
Provisions	21	**280**	729	4,494
Total non-current liabilities		**49,686**	60,408	94,825
Current liabilities				
Bank overdrafts	17	**1,231**	566	2,831
Interest-bearing loans and borrowings	17	**27,186**	60,401	97,644
Trade and other payables	16	**73,819**	85,724	125,648
Provisions	21	**1,029**	806	3,722
Total current liabilities		**103,265**	147,497	229,845
Total liabilities		**152,951**	207,905	324,670
Net assets		**111,778**	109,856	107,688
Equity				
Issued capital	22	**35,002**	35,002	37,208
Share premium		**5,851**	5,851	5,851
Reserves		**48,587**	47,063	43,308
Total equity attributable to equity shareholders of the Company		**89,440**	87,916	86,367
Non-controlling interests		**22,338**	21,940	21,321
Total equity		**111,778**	109,856	107,688

Otor Finance – Statement of Changes in Equity

	Note	*Share capital €'000*	*Share premium €'000*	*Retained earnings[1] €'000*	*Total reserves attributable to equity shareholders €'000*	*Non-controlling interests €'000*	*Total equity €'000*
Balance at 1 January 2007		37,208	5,851	21,829	64,888	16,898	81,786
Profit for the period		—	—	21,068	21,068	5,221	26,289
Actuarial gains on defined pension schemes	23	—	—	320	320	—	320
Movement on deferred tax relating to actuarial gains		—	—	(110)	(110)	—	(110)
Currency translation differences (including tax)		—	—	80	80	20	100
Changes in the fair value of cash flow hedges (including tax)		—	—	117	117	29	146
Other movements		—	—	4	4	1	5
Transactions with non-controlling interests		—	—	—	—	(848)	(848)
Balance at 31 December 2007		37,208	5,851	43,308	86,367	21,321	107,688
Profit for the period		—	—	10,299	10,299	2,860	13,159
Actuarial losses on defined pension schemes	23	—	—	(1,320)	(1,320)	—	(1,320)
Movement on deferred tax relating to actuarial losses		—	—	454	454	—	454
Currency translation differences (including tax)		—	—	5	5	1	6
Changes in the fair value of cash flow hedges (including tax)		—	—	(178)	(178)	(44)	(222)
Share buy-back		(2,206)	—	(5,514)	(7,720)	—	(7,720)
Dividends paid to non-controlling interests		—	—	—	—	(2,189)	(2,189)
Other movements		—	—	9	9	(9)	—
Balance at 31 December 2008		35,002	5,851	47,063	87,916	21,940	109,856
Profit for the period		—	—	1,756	1,756	430	2,186
Actuarial losses on defined pension schemes	23	—	—	(152)	(152)	—	(152)
Movement on deferred tax relating to actuarial losses		—	—	52	52	—	52
Changes in the fair value of cash flow hedges (including tax)		—	—	(131)	(131)	(33)	(164)
Other movements		—	—	(1)	(1)	1	—
Balance at 31 December 2009		**35,002**	**5,851**	**48,587**	**89,440**	**22,338**	**111,778**

1) Retained earnings include the hedging reserve and the currency translation reserve. The balances on these reserves are not material and have not been separately disclosed.

Otor Finance – Statement of Cash Flows

	Note	*2009* *€'000*	*2008* *€'000*	*2007* *€'000*
Operating activities				
Cash generated from operations	24	**70,684**	42,457	41,882
Net interest paid		**(3,403)**	(9,609)	(8,725)
Tax paid		**477**	(8)	(320)
Cash flows from operating activities		**67,758**	32,840	32,837
Cash flows from operating activities from continuing operations		**67,758**	27,684	27,488
Cash flows from operating activities from discontinued operations		**—**	5,156	5,349
Investing activities				
Disposal of subsidiary business, net of cash and cash equivalents		**(14,509)**	58,410	11,393
Capital expenditure payments		**(13,122)**	(17,878)	(13,272)
Proceeds from the sale of property, plant and equipment and intangible assets and other divestments		**4,997**	1,243	1,562
Proceeds/(purchases) from the sale of investments		**1,938**	(7,261)	(345)
Cash flows (used in)/from investing activities from continuing operations		**(20,696)**	34,514	(662)
Cash flows (used in) investing activities of discontinued operations		**—**	(1,827)	(4,720)
Cash flows (used in)/from investing activities		**(20,696)**	32,687	(5,382)
Financing activities				
Purchase of own shares		**—**	(7,720)	—
Net repayment of borrowings (including finance lease obligations)		**(46,949)**	(57,075)	(25,566)
Dividends paid to non-controlling interests		**—**	(2,189)	—
Cash flows (used in) financing activities from continuing operations		**(46,949)**	(66,984)	(25,566)
Cash flows (used in) financing activities of discontinued operations		**—**	(241)	(896)
Cash flows used in financing activities		**(46,949)**	(67,225)	(26,462)
Increase/(decrease) in cash and cash equivalents		**113**	(1,698)	993
Net cash and cash equivalents at 1 May		**426**	2,122	1,113
Exchange gains on cash and cash equivalents		**1**	2	16
Net cash and cash equivalents at 30 April	18	**540**	426	2,122

Notes to the financial statements

1. Significant accounting policies

a) Basis of preparation

The financial information presented comprises the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows and the related accounting policies and explanatory notes of Otor Finance S.A. (**Otor Finance**) for the three years ended 31 December 2009 (the **consolidated financial information**). The financial information in this section relates to historical financial statement of Otor Finance.

The consolidated financial information has been prepared in accordance with the requirements of the Listing Rules and in accordance with the basis of preparation set out in this paragraph.

Otor Finance is the holding company which owns 80.14 per cent. of Otor S.A. (**Otor**), whose financial statements are consolidated under the Otor Group name. Consolidated financial statements presented in this document include Otor Finance, Otor and all its subsidiaries (together, the **Otor Group**).

Except where indicated otherwise, all the amounts given in the consolidated financial information are expressed in thousands of euros.

The financial information has been extracted from the audited consolidated statutory financial statements of Otor Finance for the respective years and presented in a form that is consistent with the accounting policies adopted in the audited financial statements of DS Smith for the year ended 30 April 2010. This has required an alignment of the accounting policy in respect of accounting for defined benefit pension plans. The accounting policy adopted in the statutory financial statements of the Otor Group applies the 'corridor' method under International Accounting Standard 19 'Employee Benefits'. Under this method actuarial gains and losses on defined benefit plans in excess of 10 per cent. of the gross defined benefit obligation are recognised in the Income Statement over the estimated residual or average term of activity of the plan participants. The DS Smith accounting policy does not apply the corridor approach which results in all actuarial gains and losses recognised in full, including the related deferred tax effect, in the Statement of Comprehensive Income.

The financial effect of this alignment on the consolidated financial information is as follows:

	2009	*2008*	*2007*
	€'000	*€'000*	*€'000*
Increase/(decrease) in the post-retirement benefits liability	**953**	861	(360)
Increase/(decrease) in the deferred tax assets	**396**	344	(110)
(Decrease)/increase in net assets	**(557)**	(517)	250
Increase in profit for the financial year	**60**	99	40

The financial statements for Otor Finance were approved by the board of directors on the following dates:

- Year ended 31 December 2007: 22 May 2008
- Year ended 31 December 2008: 14 May 2009
- Year ended 31 December 2009: 10 May 2010

b) Application of accounting standards

In application of the European Regulation No.1606/2002 dated 19 July 2002 on international accounting standards, the Otor Group prepared its consolidated financial statements in accordance with IAS/IFRS international accounting standards as approved by the European Union (internet source: www.eur-lex.europa.eu).

The accounting principles used to prepare the consolidated financial statements for the year ended 31 December 2009 are identical to those used for the years ended 31 December 2008 and 31 December 2007, except for the points listed below pertaining to standards, amendments and interpretations applicable to financial years that started on or after 1 January 2008 and 1 January 2009.

The paragraphs below list those standards and interpretations adopted by the European Union and of mandatory application in 2008 and give the impacts for the Otor Group:

- IFRIC 14, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: not applicable to the Otor Group; and
- IFRIC 11, Group and Treasury Share Transactions: not applicable to the Otor Group.

The paragraphs below list these standards and interpretations adopted by the European Union and of mandatory application in 2009 and give the impacts for the Otor Group:

- IAS 1 revised "Presentation of Financial Statements": This standard introduced a certain number of changes to the format and the designation of financial statements as well as to the information that must be provided. The Otor Group now presents a statement of comprehensive income in addition to the consolidated income statement.
- IFRS 8 "Operating Segments": This standard requires the presentation of information on the Otor Group's operating segments and replaced the provisions pertaining to the determination of primary and secondary segments formerly defined by IAS 14. The segments presented in compliance with IFRS 8 are now based on internal reports regularly examined by the Otor Group's chief operating decision-maker.
- IFRIC 13, "Customer Loyalty Programmes"
- Amendments to IAS 23 on borrowing costs
- IFRS 2 Amendments "Vesting Conditions and Cancellations"
- Amendments to IAS 1 and IAS 32 "Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation"
- Amendments IFRS 1 and IAS 27 "Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate in Individual Financial Statements"
- First annual project to improve IFRSs
- Amendments to IFRS 7 "Improvements to Financial Instrument Disclosures"
- Amendments to IFRIC 9 and IAS 39 "Embedded Derivatives"

Other than presentational and disclosure changes arising from the application of IAS 1 Revised, these new standards and interpretations of mandatory application from 1 January 2008 and 1 January 2009 did not have a material impact on the financial statements for either of the years presented.

The consolidated financial statements for the years presented do not take into account:

- Standards published by the IASB, adopted by the European Union but whose application is mandatory for financial years starting after 1 January 2009, specifically:
  - IFRIC 12 "Service Concession Arrangements": not applicable to the Otor Group's activities
  - IFRIC 15 "Agreements for the Construction of Real Estate": not applicable to the Otor Group's activities
  - IFRIC 16 "Hedges of a Net Investment in a Foreign Operation": not applicable to the Otor Group's activities
  - IFRS 3 revised "Business Combinations (Phase 2)" and IAS 27 revised "Consolidated and Separate Financial Statements" applicable to financial years starting after 1 July 2009
  - IFRIC 17 "Distributions of Non-cash Assets to Owners"
  - IFRIC 18 "Transfers of Assets from Customers"
  - Amendments to IAS 39 on eligible hedged items
  - IFRS 1 Revised "First-time Adoption of International Financial Reporting Standards"
  - Amendments to IAS 27 on changes in consolidation scope
- New standards, interpretations and amendments to existing standards that are not yet approved by the European Union, specifically:
  - Amendment to IFRS 1 "Additional Exemptions for First-Time Adopters"
  - IAS 32 "Financial Instruments Presentation" – amendment "Accounting for Rights Issues"
  - IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"
  - IAS 24 Revised "Related Party Disclosures" applicable to financial years starting after 1 January 2011

- ○ IFRS 9 "Financial Instruments" applicable to financial years starting after 1 January 2013
- ○ Amendment to IFRIC 14 "Early Repayment of Minimum Financing Requirements" applicable to financial years starting after 1 January 2011
- ○ Amendments to IFRS 2 "Share-based Payment for Group Transactions" of mandatory application starting 1 January 2010
- ○ Second annual project to improve IFRSs

- International Accounting Standards Board (**IASB**) standard projects that are in the exposure-draft stage.

Options chosen by the Otor Group upon first adoption of IFRS

The adjustments resulting from the change from French accounting standards to IFRS international accounting standards were recorded in equity in the balance sheet as at 1 January 2004, retroactively for all standards, except for IFRS 3 on business combinations, IFRS 2 on share-based payments, IAS 19 on employee benefits (actuarial gains and losses) and IAS 21 on changes in foreign exchange rates.

In addition, the Otor Group decided to apply IAS 32 and IAS 39 pertaining to financial instruments with effect from 1 January 2004. The Otor Group also retroactively applied IAS 39 criteria pertaining to the exclusion of financial assets from the balance sheet, in order to improve comparability of the financial statements.

IFRS 3: Business Combinations

Pursuant to the option offered in IFRS 1, the Otor Group decided not to restate retroactively business combinations performed prior to 1 January 2004.

IFRS 2: Share-based Payment

Pursuant to the option offered in IFRS 1, the Otor Group decided not to restate retroactively the share subscription warrants (*Bons de Souscription d'Actions*, (**BSA**)) granted to employees before 7 November 2002, as rights had not vested as at 31 December 2004.

IAS 19: Employee Benefits

IAS 19 on employee benefits was adopted early in the consolidated financial statements for the year ended 31 December 2004, prepared in accordance with French GAAP. In effect, the Otor Group performed a change in method in 2004 and recorded provisions covering all retirement benefit and similar employee commitments in accordance with the recommendation 2003-R.01 issued by the French National Accounting Council on 1 April 2003.

Pursuant to the option offered in IFRS 1, the Otor Group considered actuarial gains and losses to be nil as at 1 January 2004.

This option does not generate any differences compared with the current accounting standards base, as a similar principle was applied in the consolidated financial statements prepared in accordance with French GAAP.

IAS 21: The Effects of Changes in Foreign Exchange Rates

Pursuant to the option offered in IFRS 1, the Otor Group decided to reclassify in consolidated reserves of the parent company, all accumulated foreign exchange gains and losses on foreign subsidiaries as at 1 January 2004.

c) Basic assumption of going concern underlying the preparation of the financial statements

IFRS accounting principles require the basic assumptions underlying the preparation of the financial statements to be given; these basic assumptions require, among other things, management to assess the company's ability to continue operating. The financial statements must be established on a basis of business continuity, unless management has the intention or no other solution than to liquidate the company or cease operations.

To this end, in preparing the consolidated statutory financial statements of the Otor Group, management analysed the key events as follows:

Covenants/ratios Appearing in Medium-Term Financing Contracts

The covenants/ratios included in the credit contract signed between the Otor Group and a bank pool for €58.5 million on 24 February 2006 and amended on 18 September 2007, were met at 31 December 2007, 31 December 2008 and 31 December 2009.

Change in Operating Conditions

In a difficult economic climate and sector environment, the Otor Group maintained revenue and gross operating income at levels comparable with 2007.

2008 net income was specifically affected by the impairment of the assets of the hived-down paper mills in the amount of €25.2 million, reflecting in particular the marked drop in the selling price of paper.

During 2009, like the rest of the corrugated cardboard industry, Otor suffered from a very poor economic setting. The Otor Group however was able to maintain its positions overall by capitalising on its action plans for the continued improvement of productivity and on the results of its research and development efforts.

Sales dropped by 13 per cent. primarily as a result of a reduction in the price of corrugated cardboard resulting from changes in paper costs and a reduction in the selling price of paper for the portion of paper mill sales carried out with non-Otor Group customers and also the sale of Otor Papeterie Saint-Michel and Otor Papeterie du Doubs during the year.

Current operating income before depreciation, amortisation and impairment is down 12 per cent.. This reduction is primarily explained by a reduction in the price of paper, which also made it difficult to maintain the selling price of corrugated cardboard, and the sale of Otor Papeterie Saint-Michel and Otor Papeterie du Doubs, which reported substantial current operating income before depreciation, amortisation and impairment in 2008.

The Otor Group, however, greatly benefitted from its product innovation strategy and its constant efforts to adapt its production to market requirements.

Cash Flow and Indebtedness

The Statement of Cash Flows for 2008 highlights a slight decrease, on a constant group structure basis, in cash flow from operating activities of continuing operations.

Cash flows from investing activities were impacted by the cash received on the sale of Otor Papeterie de Rouen and Otor Cartonnerie de Rouen.

These funds, added to cash flows from operating activities, enabled the Otor Group to repay short- and mid-term borrowings in the amount of €57.1 million, to make a dividend distribution of €2.2 million to Otor minority interests and to buy €7.7 million company shares before cancelling them.

Purchases of property, plant and equipment and intangible assets totalled €17.9 million, up €4.6 million on 2007, at a constant scope. This increase is mainly due to the acquisition by Otor Picardie of a latest generation cutting machine.

The Statement of Cash Flows for 2009 shows an improvement in cash flow after net finance costs and income taxes, primarily due to the reduction in financial expenses.

Cash flow from operating activities rose sharply, due specifically to the positive impact of the French Economy Modernisation Act on the working capital of Otor.

Purchases of property, plant and equipment and intangible assets totalled €13.1 million, down by €4.8 million compared to 2008.

As a result, even after recapitalising Otor Papeterie du Doubs and Otor Papeterie Saint-Michel before their sale, the Otor Group was able to repay €46.9 million of its short and medium-term borrowings.

d) Critical accounting estimates and sources of uncertainty related to the estimates

The establishment of consolidated financial statements prepared in accordance with IFRS accounting standards requires the Otor Group to make a certain number of estimates and to use certain assumptions deemed realistic and reasonable. Certain facts and circumstances could result in a change to these estimates and assumptions, which would affect the value of the Otor Group's assets, liabilities, equity and income.

Impairment Tests

In accordance with IAS 36 "Impairment of Assets", any event or modification to the environment indicating an impairment or likely to generate an impairment risk to the intangible assets or property, plant and equipment of a Cash-Generating Unit (**CGU**), requires the company to carry out a detailed analysis of the CGU in order to determine if the net carrying amount of the intangible assets and property, plant and equipment of the CGU is less than the recoverable amount, which would result in the recognition of an impairment loss.

The recoverable amount is the higher of value in use and fair value less costs to sell.

The value in use is estimated by calculating the present value of future cash flows. The fair value is based on the information available deemed to be the most reliable, such as a sale price given in a sales agreement, a market price for the asset or else recent comparable transactions; sales expenses are then deducted.

The estimations made by the Otor Group's Management are described in Note 10.

Deferred Taxes

Recognised deferred tax assets result primarily from tax losses that can be carried forward and deductible temporary differences between the carrying and tax values of assets and liabilities. Assets resulting from deferred tax losses are recognised if it appears probable that the Otor Group will have future taxable income against which unused tax losses can be offset.

As at 31 December 2009, the amount of deferred tax assets, less any deferred tax liabilities, was €17.6 million, compared to €19.8 million as at 31 December 2008 and €17.1 million as at 31 December 2007.

The assessment of the Otor Group's ability to use its deferred tax losses is significantly judgement-based. The Otor Group analysed the positive and negative elements enabling it to reach a conclusion on the probability of the future use of tax loss carry-forwards.

This analysis is carried out at regular intervals. If the Otor Group's future taxable income is significantly different from that used to justify the recognition of deferred tax assets, the Otor Group would be required to revise the amount of deferred tax assets.

Post-employment Benefits

The Otor Group's determination of the provision for retirement and related benefits and the resulting expense is dependent on assumptions used by actuaries to determine actuarial values of the resulting obligations. These assumptions, specifically the discount rate and the future wage increase rate are described in Note 23. They are determined on the basis of the Otor Group's experience as well as on external data.

e) Basis of consolidation

Companies over which the Otor Group exercises exclusive control, i.e. over which it has the authority to direct the company's financial and operating policies in order to receive the benefits of their activities, authority which is generally a result of holding more than half of the voting rights, are fully consolidated. Potential voting rights are taken into account when assessing the control exercised by the Otor Group over another entity when there are instruments likely to be exercised or converted at the time the assessment is carried out.

Companies over which the Otor Group exercises joint control with a limited number of other shareholders are consolidated using the proportionate consolidation method.

Companies over which the Otor Group exercises significant influence are consolidated using the equity method. Significant influence is presumed if the Otor Group holds a percentage of voting rights greater than or equal to 20 per cent..

Subsidiaries and investments that only represent a negligible interest when compared to the assets; the financial position and the overall income constituted by the companies included in the consolidation scope are excluded from the scope and are measured at fair value in the statement of financial position as financial assets available for sale. These assets are classified as "Financial Assets" in non-current assets. Value adjustments are recognised in equity until the financial asset is sold, cashed or removed from the statement of financial position by any other means or when objective indicators exist that the financial asset has lost all or part of its value. At that date, the accumulated gain or loss, recognised until then in equity, is transferred to the income statement.

All intercompany accounts and transactions are eliminated as well as internal profits.

The changes in the consolidation scope during the financial year 2008 pertain to the sale of Otor Papeterie de Rouen and Otor Cartonnerie de Rouen (Note 27).

In accordance with IFRS 5 and in order to ensure the comparability of the financial statements, certain items of the consolidated income statement and statement of cash flows for the year ended 31 December 2007 were reclassified in order to present in a separate line, the income and cash flows of Otor Papeterie de Rouen and Otor Cartonnerie de Rouen which were sold during the first half of 2008 ("2008 discontinued operations").

The changes in the consolidation scope during the financial year 2009 pertain to the sale of Otor Papeterie Saint-Michel and Otor Papeterie du Doubs (Note 27).

All activities sold, in the course of sale or abandoned are recognised according to the provisions in IFRS 5. An activity that has been discontinued or is being sold is a component of the Otor Group that has been disposed of (by sale or another manner) or that is held with a view to sale. An activity that has been discontinued or is being sold is clearly set apart from the rest of the Otor Group's activities in the financial information; it is part of a sale or discontinuation plan.

The sale of Otor Papeterie Saint-Michel and Otor Papeterie du Doubs does not correspond to a discontinuation of operations. Therefore, the income statement and the statement of cash flows as at 31 December 2009 include the data pertaining to these companies up to their date of sale, i.e. 30 June and 31 October 2009 respectively.

f) Revenue

Sales are recorded when the products are delivered, or, in certain specific cases, when the products are made available.

g) Government grants – emission quotas

Otor received greenhouse gas emission rights free of charge. These rights are granted each year. The next year the Otor Group returns the rights it used the previous year. As there is no specific standard governing issue since IFRIC 3 was withdrawn, the Group has decided to apply the following accounting procedure. The Group assesses if it has enough rights to cover its actual emissions for a five-year period. If these rights are greater than its needs, no asset is recognised and the rights sold are recognised as revenue for the financial year. If not, a net liability is recognised.

h) Dividends

Dividends are recognised as liabilities in the period in which they were approved by the General Shareholders' Meeting.

i) Foreign currency translation

Transactions in Currencies Other than the functional Currency

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rate in effect on the transaction date.

At the closing date, monetary assets and liabilities are recorded in the functional currency using the rate of exchange in effect on the last day of the year. The resulting translation differences are recognised as income/expense, and any unrealised translation losses shown in the financial statements of the consolidated companies are immediately recognised as financial income/expenses. Non-monetary assets and liabilities that are measured at historical cost are translated using the exchange rate in effect on the transaction date.

Translation of Foreign Company Financial Statements

Assets and liabilities for subsidiaries whose functional currency is not the euro are translated using the exchange rate in effect on the closing date. Income and expense items are translated into euros at the average exchange rate for the financial year. From 1 January 2004, the transition date to IFRS, the resulting translation differences are recognised directly in a separate item in equity. On subsequent disposals of net investments denominated in other currencies, unrealised foreign exchange gains and losses included as a separate item in equity relating to this foreign operation are recorded as income/ expenses. In application of the exemption provided for in IFRS 1, translation differences accumulated before the transition date were reclassified as retained earnings at that date and are not recognised as income/expenses on the subsequent sale of the net investments denominated in foreign currencies.

j) Intangible assets

Business Combinations and Goodwill

Business combinations are recognised using the acquisition method. Using this method, assets and liabilities of companies acquired by the Otor Group are recognised at fair value, in compliance with the provisions of IFRS 3 – Business Combinations. The difference between the acquisition cost of shares and the total valuation at fair value of the assets and liabilities identified at the acquisition date is recognised as goodwill. When the Otor Group takes control of a company in just one transaction, the portion of assets and liabilities belonging to minority interests is also recognised at fair value.

When the Otor Group acquires assets and liabilities from minority interests in a controlled entity at a later date, no additional adjustment resulting from their re-measurement at fair value is recorded. The difference between the acquisition cost and the carrying amount of the assets and liabilities is recognised as goodwill.

In compliance with the provisions of IFRS 3, Business Combinations and IAS 36, Impairment of Assets, goodwill is no longer amortised with effect from 1 January 2004, but is tested at least once a year for any loss in value. Goodwill impairment test methods are detailed in Note 10.

On adoption of IFRS 3, transactions prior to 1 January 2004 were not restated retroactively.

Development costs

The Otor Group has implemented a major research and development policy for a number of years that has resulted in its filing numerous patents.

Research expenses for new packaging are expensed immediately. In compliance with IAS 38 "Intangible Assets", certain specific costs corresponding to clearly identified development projects for which expenses can be individualised in a reliable way and the existence of a potential market is proved, are capitalised and amortised over 5 or 10 years if they result in patents. These capitalised development expenses concern primarily the field of mechanisation (development of new concepts for wrapping and packaging machines).

The amounts paid to file the patents in France or abroad are capitalised. If the patents are not awarded, these expenses are not capitalised.

An impairment is recorded when the value in use of these assets is less than their net carrying amount. The analysis did not identify the need for impairment in addition to the regular amortisation charge.

Other intangible assets

The other intangible assets acquired by the Otor Group are recorded at cost, less accumulated amortisation and any loss in value.

Amortisation periods

Amortisation is calculated using the straight line method over the following useful lives:

- Software: 1 to 7 years;
- Trademarks: 5 or 10 years (see above); and
- Development costs: 5 years, as long as the criteria provided in IAS 38 are met (see above).

k) Property, plant and equipment

Measurement and depreciation periods

In compliance with IAS 16 "Property, Plant and Equipment", the gross amount of property, plant and equipment corresponds to their acquisition or production cost. It is not subject to any re-measurement. Financial expenses are not included in the cost.

Depreciation is calculated using the straight-line method over the estimated useful life of the various property, plant and equipment categories applying the component method. The estimated residual values at the end of the depreciation period are nil.

The main useful lives are as follows; they are reviewed at the end of each financial year:

- Buildings: 1 to 30 years;
- Plant, machinery and equipment: 1 to 20 years; and
- Other property, plant and equipment: 1 to 15 years.

Land is not depreciated.

Maintenance and investment expenses

Maintenance operations on machines pertaining to replacement or conversion and meeting the general definition of property, plant and equipment given by IAS 16 (future economic benefits and reliable estimate of expenses incurred) are capitalised, at their full cost (parts and labour). In the case of replacements, the net carrying amount of the replaced portion of the asset is written off as an expense.

Repair and maintenance costs that do not meet the definition of an asset are expensed in the financial year incurred.

l) Impairment

According to IAS 36 "Impairment of Assets", the value of goodwill, property, plant and equipment and intangible assets is tested as soon as there is indication of impairment, and reviewed at the end of each financial year. This test must be carried out at least once a year for assets with an indefinite life; the Otor Group limits this category to goodwill.

For the purpose of this impairment test, non-current assets are grouped under Cash Generating Units (**CGU**). CGUs constitute uniform groups of assets that generate cash inflows from continuing use largely independent of the cash inflows from other assets or groups of assets.

As at 31 December 2007, Otor Group had three CGUs:

- Otor Papeterie de Rouen CGU, consisting of Otor Papeterie de Rouen, sold in the first half of 2008 (see Note 8). This CGU is therefore no longer in the scope of consolidation as at 31 December 2008;
- Cognac Case CGU; and
- Packaging CGU, grouping together all other entities.

On 30 September 2008, the Otor Group decided to hive-down three paper mills that had previously been tied for legal purposes to box plants: Otor Papeterie de Nantes, Otor Papeterie Saint-Michel and Otor Papeterie du Doubs.

The aim of this transaction was to improve the financial and accounting understanding of each entity.

The new legal structure should enable a better comparison of the entities and better understanding and control of the strengths and weaknesses of the production units, with regard to both paper and boxes.

The independence of the paper mills and box plants should strengthen their identity and improve their individual value vis-à-vis the paper and box sectors.

This transaction highlights the greater independence of the three new entities and the individualisation of their cash flows.

Consequently, the CGUs adopted for the financial statements for the year ended 31 December 2008 are as follows:

- Packaging CGU: This is a consolidated and uniform group of box plants and paperboard plants, as well as the Otor Picardie paper mill, fully integrated with the box plants;
- Cognac Case CGU: Part of this company's production comprises laminated packaging and/or offset printing;
- Nantes paper mill CGU: This paper mill, hived-down at the end of 2008, specialises in white paper production;
- Saint-Michel paper mill CGU: This paper mill, hived-down at the end of 2008, was previously grouped with the Otor Dauphiné box plant; and
- du Doubs paper mill CGU: This paper mill, hived-down at the end of 2008, was previously grouped with the Otor Velin box plant.

Following the sales mentioned above (Note 27) the last two CGUs were no longer in use at the end of the 2009 financial year.

Goodwill does not generate cash inflows and consequently must be allocated to CGUs or groups of CGUs corresponding to the organisation's lowest level for which the Otor Group management monitors the return on investment.

The impairment test compares the net carrying amount of an asset to its recoverable amount, which is the greater of fair value (less costs to sell) and the value in use.

The value in use of these units or groups of units is determined by reference to the present value of future cash flows expected from the group of assets tested. It is determined from the present value of cash flow net of income tax generated by the group of assets over a 5-year period, corresponding to the average life cycle in this segment. These cash flows are found in business plans established by Management.

The discount rate after tax takes into consideration current market assessments by market players of the time value of money and the specific risks of the asset or group of assets. It is determined using the weighted average cost of capital and amounts to 8.7 per cent. as at 31 December 2009 for the packaging and Nantes paper mill CGUs and 9.2 per cent. for the Cognac Case CGU. The discount rate applied across all CGUs as at 31 December 2008 and 31 December 2007 was 8.73 per cent.. The application of a discount rate before tax to cash flows before tax would result in an identical result to that obtained with a discount rate after tax applied to after-tax flows.

When the value in use is less than the net carrying amount of these units or groups of units, a loss in value is recognised for the difference; any impairment is allocated first against goodwill.

The value test methods based on forecasts that are used for these tests are uncertain in nature. In addition, their basis results in sensitivity of values to changes in certain assumptions and parameters, such as the forecast change in business activity level, the discount rate or the growth rate. As a result, depending on the assumptions and parameters used, there is uncertainly that could lead to an increase or decrease in the retained value of the assets tested.

Impairments recognised for property, plant and equipment and intangible assets (excluding goodwill) can be subsequently written back, if the recoverable amount becomes greater than the net carrying amount, up to the amount of the loss in value initially recognised. Conversely, losses in value recognised for goodwill are irreversible.

m) Financial instruments

The measurement and recognition of financial instruments as well as the disclosures to be provided are defined by IAS 32 and IAS 39 "Financial Instruments". These standards require the financial instruments to be classified and then measured at the closing date according to their categories.

Classification and measurement of financial assets and liabilities (excluding 1 per cent. construction loans and derivative instruments)

Financial assets are mainly made up of receivables, cash and cash equivalents. Receivables resulting from the Otor Group's operations are initially measured at fair value, then at amortised cost using the effective interest method and including, if applicable, the estimated write-down to reflect the risk of non-recovery.

The marketable securities are evaluated at their fair value; any adjustments to their fair value are recognised as revenue/expenses.

Financial liabilities are made up of accounts payable and loans and other financial liabilities.

Accounts payable are measured initially at fair value and then at amortised cost using the effective interest method.

Loans are recognised initially at fair value less any transaction costs that are directly attributable and guarantee deposits paid. They are subsequently recognised at amortised cost. The difference between the amortised cost and the repayment value is recognised as a profit/loss depending on the effective interest rate over the loan's term.

Other financial liabilities include short term borrowings pertaining to the factoring contract and bank overdrafts.

1 per cent. construction loans

1 per cent. construction loans do not bear interest and are granted for a 20-year period. Pursuant to IAS 39, these loans must be discounted. When the 1 per cent. construction loan is first recorded, the difference between its face value and its present value is expensed in the financial year, representing an economic benefit granted to employees.

Subsequent recognition is based on the amortised cost method which consists in reconstituting, at the end of the 20 years, the face value of the loan by recording interest income.

Derivatives

Derivative instruments are valued at fair value. Except as explained below, gains and losses arising from variations in the fair value of derivative instruments are systematically recognised in the income statement.

Derivatives may be classified as fair value hedges or cash flow hedges if:

- A fair value hedge covers the risk of a change in value for any asset or liability resulting from a change in foreign exchange or interest rates;
- A cash flow hedge provides protection against changes in the value of future cash flows from existing or future assets or liabilities.

Hedge accounting is applicable if:

- At the inception of the hedge, there is formal designation and documentation of the hedging relationship;
- The effectiveness of the hedge relationship is demonstrated from inception until expiration.

The effects of applying hedge accounting are as follows:

- For fair value hedges of existing assets and liabilities, the hedged portion of the asset or liability is recognised in the statement of financial position at fair value. The gain or loss from re-measuring the hedged item at fair value is recognised in profit or loss and is offset by the effective portion of the loss or gain from re-measuring the hedging instrument at fair value.
- For cash flow hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity – as the change in the fair value of the hedged portion of the underlying item is not recognised in the statement of financial position. The ineffective portion of the gain or loss on the hedging instrument is recognised in other financial income and expenses. Amounts recognised directly in equity are subsequently released to the income statement in the same period or periods during which the hedged item affects profit or loss.

n) Inventories

Finished goods

Inventories primarily include finished goods and work in progress in the box sector. Inventories are stated at the lower of production cost and net recoverable amount.

For finished products in the box sector, the cost of production is usually an estimate, applying a margin rate to the selling price of the products.

Raw materials

Paper supplied by the Otor Group paper mills is valued at production cost according to the FIFO method. The value of the paper inventories does not exceed its net recoverable amount. Other raw materials including recycled paper are valued according to the weighted average unit price method. Raw materials such as recycled paper or other supplies held to be used in the production of inventories are not written-down to less than their cost if the finished products in which they are incorporated will be sold at their cost or above.

o) Cash and cash equivalents

Cash and cash equivalents include cash assets and short-term investments with a maturity date of less than three months after the acquisition date. Short-term investments are measured at market value on the closing date.

Cash equivalents are primarily marketable securities that are short-term investments and are easily converted to cash.

p) Treasury shares

When the Otor Group purchases treasury shares, the amount paid and directly attributable transaction costs are recognised as a change in equity. The shares purchased in this way are deducted from total equity and classified as "Treasury shares" until their cancellation or disposal.

Pursuant to Note 22, the Otor Group bought and cancelled 11,028,568 shares for a €7.72 million total amount, during the year ended 31 December 2008.

q) Employee benefits

Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Otor Group makes defined contributions to different social organisations. The contributions are made in return for services rendered by their employees during the financial year. They are recorded as expenses when they are incurred, in the same way as, for example, wages and salaries. Defined contribution plans do not generate any future commitments for the Otor Group, and do not give rise to provision allowances.

Defined benefit plans

Defined benefit plans are post-employment benefit plans which guarantee additional resources under collective bargaining agreements. This additional resources guarantee constitutes a future benefit for which the Otor Group's obligation is calculated. The provision is calculated by estimating the amount of benefits the employees will have accumulated in consideration for services rendered during the current and previous financial years.

The benefits are discounted in order to determine the present value of the defined benefit obligation. They are recognised as a provision in the statement of financial position.

Within the Otor Group, defined benefit plans include retirement termination payments (**IDR**) and long-service awards (**MDT**).

Measurement principles

In compliance with IAS 19 "Employee Benefits", the calculation is carried out annually using the projected unit credit method and prorating for seniority.

The discount rates used at the closing date correspond to the rate of return for private "AA" bonds; they are established based on the average residual term of activity left for each of the plans.

As referred to in the basis of preparation section above, in the consolidated statutory financial statements of the Otor Group, the actuarial gains and losses resulting from the measurement of retirement termination payments (**IDR**) are amortised over the estimated residual or average term of activity of plan participants. The amortisation is taken on the portion of the actuarial gains and losses that exceeds the actuarial debt by more than 10 per cent., in compliance with the "corridor" method. For purposes of this financial information, the corridor approach is not applied.

When a plan's conditions are amended, the group's share of the increase in benefits pertaining to employees' past service is deemed an expense and recognised using the straight-line method over the average period remaining until the corresponding rights vest. If the rights vest immediately, the expense is recognised directly in the income statement. Thus, for the purpose of the consolidated statutory financial statements, all amendments related to the "Fillion" Act (extension of work period and early retirement possible before 60 years for long careers) were recognised on the date the act took effect, using a straight-line method over the average number of years of service for the beneficiary employees. For the purposes of this financial information, the full value of the obligation is recognised on the balance sheet.

In compliance with the Otor Group's current practice, retirement termination payments are calculated according to the methods provided in the collective bargaining agreements applicable to voluntary retirement.

Stock Options Granted to Employees

In compliance with IFRS 2 "Share-based Payments", when stock options are granted to employees (such as stock subscription warrants or BSA), their fair value is estimated on the date they are granted and recognised as an expense at the same time as the share capital increase. When the granting of the options is subject to conditions, the expense corresponding to the value of the options is spread over the period necessary for the conditions to be lifted.

At each closing date, the entity must re-examine the number of options likely to become exercisable. If applicable, it recognises in the income statement the impact of the revision of its estimates as well as a corresponding adjustment to share capital.

r) Provisions

In compliance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", a provision is recognised when the Group has an obligation to a third party and it is probable or certain that an outflow of resources to the benefit of the said third party will be required, without counterpayment at least equivalent expected from the third party.

Provisions for restructuring costs are recognised as soon as the restructuring has been announced and a detailed formal plan has been drawn up, or execution has begun. Possible liabilities and charges are not recognised. When they are significant, disclosure is provided in the notes to the financial statements. Classification of the provisions as short or long-term is carried out:

- Using the actual due dates if they are known;
- If the actual dates are not known, based on Management's judgement.

s) Leases

In compliance with IAS 17 "Leases", leases are classified as finance leases if they transfer substantially all the risks and rewards incidental to ownership of the leased assets to the lessee. A contract is considered to be finance lease if:

- It provides for an automatic transfer of ownership at the end of the lease; or
- It offers a purchase option that will probably be exercised at the end of the lease; or
- Its term is close to the asset's economic life; or
- The present value of the minimum payments is close to the asset's fair value; or
- The asset is specialised, i.e. only the lessee can use it without substantial modifications.

Assets financed by finance lease, and the resulting obligations, appear in the consolidated statement of financial position as non-current assets and are depreciated, as well as in medium and long-term borrowings. Lease payments made are separated between the finance expense and the repayment of the debt.

The depreciation policy for assets that are subject to a finance lease is similar to that applied to property, plant and equipment and intangible assets. Leases for which substantially all the risks and rewards incidental to ownership are actually retained by the Lessor, are classified as operating leases. Payments made under this type of contract are expensed in the period incurred in the income statement.

t) Taxation

Taxes for the current year are recognised in compliance with the taxation rules in effect in each country. Deferred taxes are recognised using the statement of financial position liability method for all temporary differences that exist on the closing date between the tax basis for the assets and liabilities and their carrying amount in the statement of financial position. Deferred tax liabilities are recognised on all temporary differences subject to income tax. Deferred tax assets are recognised on all deductible temporary differences and tax losses carried forward as long as it is probable that the temporary differences will be reversed in the foreseeable future and that taxable profits will exist against which the losses can be offset. No temporary difference is recorded against goodwill.

For deductible temporary differences resulting from interests in subsidiaries, associates and joint ventures, deferred tax assets are recognised as long as it is probable that the temporary difference will be reversed in the foreseeable future and that taxable profits will exist against which the temporary difference will be able to be offset.

For taxable temporary differences resulting from interest in subsidiaries, associates and joint ventures, deferred tax liabilities are recognised unless the date when the temporary difference will be reversed can be controlled or it is probable that the temporary difference will not be reversed in the foreseeable future.

The carrying amount of the deferred tax assets is reviewed each closing date and reduced if it is no longer probable that sufficient taxable income will be available to permit the use of the deferred tax asset. Deferred tax assets and liabilities are valued at the tax rate expected to be applied for the fiscal year during which the asset will be used or the liability paid, based on the tax rates approved or almost approved on the closing date. They are thus calculated at a rate of 34.43 per cent. for the 2009 financial year. Taxes resulting from items recorded as equity are recognised in equity.

Deferred tax assets and liabilities are offset within the tax group whose parent company is Otor and that includes all the Otor Group's French companies, except Otor Finance.

Regional economic contribution

The French Finance Act for 2010, enacted on 30 December 2009, abolished the Business Tax (**BT**) on French companies with effect from 2010. This tax was replaced by:

- The Corporate Real Estate Contribution (**CFE**) based on the rental value of real estate, using a method very much like that of the BT;
- The Corporate Value-Added Contribution (**CVAE**), based on a company's value added.

Pursuant to this change, the Otor Group re-examined the accounting classification of these taxes in light of IFRS standards.

The analyses carried out led, for the Otor Group's specific situation, to the opinion that the two taxes replacing the BT have characteristics that cause them to be classified in separate categories, according to IAS 12.

The CFE is comparable to the BT in principle and operation (based on rental values, rates depend on local authorities, cap based on value added) and thus remains an operating expense.

The CVAE is a tax based on a profit concept, and management believe it meets the definition given in IAS 12 of "taxes based on taxable profits". Specifically the IFRIC, in its decision in March 2006 not to issue an opinion on IAS 12's scope of application, stated that, to be part of this scope of application, a tax must be calculated on the basis of an amount of revenue net of expenses, but that this amount may differ from the net book profit. This definition covers therefore, in Otor's case, the CVAE calculation method. In addition, the Group considered that the CVAE also had characteristics that were very close to certain foreign taxes, which are already classified in those countries as falling under IAS 12.

As a result, the Otor Group will recognise the CVAE in "income tax" from the 2010 financial year, with the recognition of the BT in the 2009 financial statements remaining in operating expenses.

The qualification of the CVAE as a tax on income as defined in IAS 12 requires nonetheless that the deferred taxes resulting from temporary differences for this tax be recognised as an "income tax" expense as at 31 December 2009.

In fact, certain asset items will generate income liable to CVAE in future financial years, while the corresponding expense, in this case depreciation, will not be deductible, therefore generating deferred tax liabilities. These are:

- Intangible assets except for goodwill (Otor does not have any indefinite life intangible assets besides goodwill);
- Property, plant and equipment, except for land, for which the basis used is the net carrying amount before depreciation.

Conversely, certain provisions, not deductible from the CVAE when they are recorded, will generate subsequent deductible expenses. The only provisions of this type taken into account by Otor are the write-down of doubtful debt, since the other elements potentially involved are not material.

The deferred tax on these items is calculated at a rate of 1.5 per cent.. Since CVAE is a deductible tax, this deferred tax liability gives rise to a deferred tax asset equal to 34.43 per cent. of its amount, which results in a net taxation of the net asset involved at a rate of 0.98 per cent..

Because of the exemption provided for in IAS 12.15 and 12.24, the recognition of these deferred taxes during subsequent financial years is only applicable on items acquired by business combination.

u) Assets held for sale and discontinued operations

All activities sold in the course of sale or abandoned are recognised according to the provisions in IFRS 5.

An activity that has been discontinued or is being sold is a component of the Otor Group that has been disposed of (by sale or another manner) or that is held with a view to sale. An activity that has been discontinued or is being sold is clearly set apart from the rest of the Otor Group's activities in the financial information; it is part of a sale or discontinuation plan.

Net income from discontinued operations or operations held for sale is reported on a separate line in the income statement. A detailed analysis of this amount pertaining to the 2008 financial year is given in Note 8 and concerns the sale of the Otor Papeterie de Rouen and Otor Cartonnerie de Rouen subsidiaries. As is stated in Note 8, the sale in 2009 of Otor Papeterie Saint-Michel and Otor Papeterie du Doubs does not represent a discontinued operation and IFRS 5 is not therefore applicable in 2009.

2. Segment reporting

Since 2006, following the discontinuation of the "recycling" activity, Otor Group has had only one activity sector: the "packaging" activity sector (which includes the vertical integration of paper production).

On 31 December 2008, three paper mills (Otor Papeterie Saint-Michel, Otor Papeterie du Doubs and Otor Papeterie de Nantes) were hived-down to enable them to be monitored individually.

For the first-time application of the new IFRS 8 standard, these paper mills, which are under the materiality thresholds requiring presentation as separate segments, are grouped in "other segments" in the consolidated financial statements for the year-ended 31 December 2009.

All other Otor Group companies constitute a single segment, the "packaging" segment, which is highly predominant:

- There is only one chief operating decision-maker for all of the establishments,
- The different establishments are located in the same economic environment;
- The reporting system used for the allocation of resources does not make any specific distinctions.

As such, the application of IFRS 8 with effect from 1 January 2009 did not have a material impact on the presentation of the financial statements for the year-ended 31 December 2009.

In addition, as the hive-down of the paper mills took place on 31 December 2008, comparative information for the year ended 31 December 2008 or 31 December 2007 for income statement items cannot be presented, the necessary information being available only after the hive-down of the paper mills. The statement of financial position items are not material and are therefore not analysed.

No geographical information is presented as the business of the Otor Group is primarily conducted (based on origin of product) in France, which is also the country of domicile.

	2009 €'000	2008 €'000		2007 €'000	
	Packaging segment	*Packaging segment – Continuing activities*	*Packaging segment – Discontinued activities*	*Packaging segment – Continuing activities*	*Packaging segment – Discontinued activities*
External sales (restated IFRS 5)	**310,020**	363,810	45,182	365,650	110,850
Inter-company sales	**2,860**	—	—	—	—
Gross operating income	**46,155**	4,344	23,697	30,802	18,138
Intangible assets and property, plant and equipment, net	**67,011**	74,157	—	84,968	56,215
Purchases of intangible assets	**2,028**	2,654	35	1,913	113
Purchases of property, plant and equipment	**9,791**	21,243	2,638	18,499	4,909
Amortisation of intangible assets	**1,966**	1,773	52	1,658	100
Depreciation of property, plant and equipment	**12,546**	16,662	3,683	16,842	8,914

The packaging segment activities correspond essentially to the production of corrugated cardboard packaging.

The segment's sales revenue can be reconciled with the Otor Group's sales revenue for 2009 as follows:

	2009 €'000
External sales: packaging segment	310,020
External sales: other segments	5,080
External sales	**315,100**

Gross operating income of the segments can be reconciled with consolidated net income for the financial year as follows:

	2009 €'000
Gross operating income: packaging segment	46,155
Gross operating income: other segments	(1,751)
Depreciation, amortisation and impairment	(15,652)
Exceptional items	(23,196)
Operating profit	**5,556**
Net financing costs	(3,209)
Income tax	(161)
Consolidated net income	**2,186**

3. Operating profit – other operating income

During the 2008 financial year, other income from operations comprised royalties for patents and licences for €210,000, capital gains on disposals of assets for a net amount of €309,000, grants for €96,000 and various other income for €1,215,000.

During the 2009 financial year, other income from operations comprised royalties for patents and licences for €178,000, grants for €117,000 and various other income for €813,000.

4. Exceptional items

The net amount of exceptional items for 2009 is €23.2 million. This amount includes:

- Impairment charges of €3.9 million discussed in Note 10;
- The loss on the sale of Otor Papeterie Saint-Michel's shares (sold for €1) of €7.2 million;

- The expense resulting from the write-off of the current account with Otor Papeterie Saint-Michel of €1.2 million;
- The loss on the sale of Otor Papeterie du Doubs's shares (sold for €1) of €6.1 million;
- The expense resulting from the write-off of the current account with Otor Papeterie du Doubs of €3 million;
- The expenses resulting from the sale of the two aforementioned paper mills of €0.5 million; and
- The expenses recorded by Otor Velin, Otor Godard and Etuis Cognac for employee restructuring of €1.2 million

For the 2008 financial year, this item represented a net expense of €27.7 million; it included essentially the following items:

- Impairment charges of €27 million discussed in Note 10;
- Restructuring expenses: €0.9 million; and
- Net income on the sale of land: €0.2 million.

For the 2007 financial year, this item represented a net income of €0.015 million; it included essentially the following items:

- Impairment reversals of €0.9 million discussed in Note 10;
- Restructuring expenses – Iteuil site (Normandie Ondulé): €0.3 million; and
- Restructuring expenses – Chateau Landon (Normandie): €0.6 million.

5. Finance income and costs

	2009	*2008*	*2007*
	€'000	*€'000*	*€'000*
Interest on loans and overdrafts	**2,115**	8,177	10,578
Interest on finance lease borrowings	**769**	1,480	1,718
Cost of early repayment of borrowings	—	1,145	—
Other finance costs	**697**	1,434	1,493
Finance costs	**3,581**	12,236	13,789
Interest income from financial assets	**1**	157	131
Other financial income	**921**	2,453	4,420
Finance income	**922**	2,610	4,551

Other finance costs and income include amounts in respect of excesses paid on credit insurance policies and claims received against such policies.

6. Personnel expenses

	2009	*2008*	*2007*
	€'000	*€'000*	*€'000*
Wages	**59,883**	61,401	69,824
Social security contributions	**25,802**	25,740	30,196
Statutory employee profit sharing	**1,675**	1,830	1,873
Incentive scheme	**728**	680	681
Total	**88,088**	89,651	102,574
Headcount	**1,720**	1,968	2,342

The above headcount is the average during the year and includes all employees with permanent contracts, fixed-term contracts and temporary employees.

The 2007 headcount included 276 employees for Otor Papeterie de Rouen and Otor Cartonnerie de Rouen.

The 2008 headcount included 182 employees for Otor Papeterie Saint-Michel and Otor Papeterie du Doubs.

Stock Options Granted to Employees (BSA)

There are no stock options granted to employees that are currently valid.

7. Income tax expense

The income tax expense breaks down as follows:

	2009	*2008*	*2007*
	€'000	*€'000*	*€'000*
Current tax – income (expense)	**465**	(8)	(321)
Deferred tax – (expense)	**(626)**	(2,661)	(3,223)
Total income tax expense for continuing operations	**(161)**	**(2,669)**	**(3,544)**

Analysis of the effective tax rate

The effective tax rate is 7 per cent., (39) per cent. and 17 per cent. in 2009, 2008 and 2007 respectively, compared with a theoretical rate of 34.43 per cent.. This rate difference can be explained as follows:

	2009	*2008*	*2007*
	€'000	*€'000*	*€'000*
Income/(loss) before tax and equity accounting of continued operations	**2,347**	(6,843)	21,004
Theoretical tax charge at 34.43 per cent.	**(808)**	2,356	(7,232)
Reconciliation			
Permanent differences	**842**	(5,016)	4,012
Income/(loss) not subject to tax at standard rate	**3**	4	(6)
Other reconciling items	**475**	(13)	(318)
Deferred tax on CVAE	**(673)**	—	—
Actual tax expense on continuing operations	**(161)**	(2,669)	(3,544)

In 2009, permanent differences include mainly the impact of the losses arising on the sale of the du Doubs and Saint-Michel paper mills.

In 2008, the permanent differences included mainly the impact of an impairment of goodwill of €12.9 million, which did not give rise to a deferred tax credit.

In 2007, the permanent differences were due to the reversal to non-taxable income of provisions previously set aside for foreign subsidiaries in the amount of €5,350,000.

Other reconciling items include adjustments in respect of prior years and movements on tax credits.

As described in accounting policy (t), the Otor Group decided to classify the CVAE contribution as income tax with effect from the 2010 financial year. Consequently, a deferred tax asset was recognised at the end of the 2009 financial year for an amount of €0.7 million.

The CVAE deferred tax was calculated as follows:

	Gross	*Depreciation and amortisation*	*Net*
	€'000	*€'000*	*€'000*
Intangible assets (excluding goodwill)	15,104	8,966	6,138
Property, plant and equipment			
Buildings	57,595	38,498	19,097
Equipment and tools	219,221	177,854	41,367
Other property, plant and equipment	10,041	7,533	2,508
Payments on account and work-in-progress	1,526		1,526
Total	**303,487**	**232,851**	**70,636**
Write-down of trade receivables			**(2,170)**
Total Net			**68,466**
Deferred tax asset			1,027
Deferred tax liability			354
Net deferred tax liability on CVAE			**673**

The net deferred tax assets are made up of the following:

	2009	*2008*	*2007*
	€'000	*€'000*	*€'000*
Financial assets – Deferred tax assets	**488**	530	624
Intangible assets and property, plant and equipment (*)	**1,478**	6,918	(4,770)
Restatements of finance leases – Deferred tax liabilities	**(2,052)**	(1,705)	(1,825)
Margin on inventories – Deferred tax assets	**16**	18	413
Employees benefits – Deferred tax assets	**4,303**	4,415	4,755
Deferred tax assets on other temporary differences	**4,401**	3,460	6,893
Deferred tax liabilities on other temporary differences	**(1,834)**	(2,661)	(3,907)
Loss carry-forward (**)	**11,434**	8,809	14,875
Deferred tax on CVAE	**(673)**	—	—
Net deferred tax assets	**17,561**	**19,784**	**17,058**

(*) Given estimated future earnings, asset impairments give rise to deferred tax for their entire amount.
Therefore, charges and reversals result in changes in deferred taxes.
(**) Similarly, all tax losses generated by the Otor tax group are capitalised. Otor Finance tax losses are not capitalised.
Tax losses carried forward and temporary differences, for which no tax asset was recognised, are not material, except for Otor Finance which has €4.7 million tax loss carry-forwards.

8. Discontinued operations

At the end of 2005, following different structural changes in the recycling and paper sectors, the Otor Group initiated a number of strategic reviews, resulting in decisions aimed at refocusing the Group on its core business, corrugated cardboard packaging in France:

- Implementation in 2006 of a reorganisation plan covering the production of paperboard for corrugated at the Rouen Otor paper mill site.
- Sale of the subsidiaries involved in recycling (Delaire Recyclage, Pinel Recyclage and Thiollet Recyclage) to Paprec in February 2007.
- Sale of foreign subsidiaries located in countries not adjoining France:
  - Otor Silesia in Poland in December 2006 (effective 30 March 2007 following the lifting of conditions precedent); and
  - Otor Pitesti in Romania in December 2006.

The results of these operations (recycling business and foreign subsidiaries) for the years ended 31 December 2006 and 31 December 2007 were presented in accordance with IFRS 5.

In May 2008, Otor sold its Otor Papeterie de Rouen and Otor Cartonnerie de Rouen subsidiaries to Europac, with Europac's commitment to assume all the liabilities of the two companies. The Group received €61,666,000 from Europac at this date, corresponding to the purchase price for the shares of Otor Papeterie de Rouen and Otor Cartonnerie de Rouen, (€300,000) and the settlement of financial receivables held by Otor on its two subsidiaries (€61,366,000). An additional amount of €1,107,000 was received by Otor on 20 June representing the residual balance on the financial receivables account determined as at the closing date. Mutual funds have been frozen until 2013 for an amount of €8.2 million in respect of vendor warranties relating to the sale.

These companies were considered discontinued operations as defined by IFRS 5 in the 2008 consolidated financial statements. The income statement and the statement of cash flows for the year ended 31 December 2007, adjusted as if Otor Papeterie de Rouen and Otor Cartonnerie de Rouen were in the course of sale are presented in the comparative columns of the consolidated income statement and the consolidated statement of cash flows.

Pursuant to a decision by the sole owner on 31 December 2008, the Group hived down the Saint-Michel, Nantes and du Doubs paper mills; these paper mills were previously included in Otor Dauphiné, Otor Normandie and Otor Velin. The companies, Otor Papeterie Saint-Michel, Otor Papeterie de Nantes and Otor Papeterie du Doubs, were created during the second half of 2008 to receive these asset transfers. The transfers were duly noted by decision of the sole shareholder on 31 December 2008.

The earnings in respect of the 2008 discontinued operations (Otor Papeterie de Rouen and Otor Cartonnerie de Rouen subsidiaries) are presented below:

	31 Dec 2008 (5 months) €'000	*31 Dec 2007 (12 months) €'000*
Sales	**45,182**	**110,850**
Cost of goods sold	(17,180)	(43,844)
Operating expenses	(28,869)	(64,400)
Operating (loss)/profit before exceptional items	**(867)**	**2,606**
Exceptional items – reversal of impairment (value tests)	—	15,469
Other exceptional operating income (1)	25,898	6,606
Other exceptional operating expenses	(1,334)	(6,543)
Operating profit	**23,697**	**18,138**
Finance income	41	223
Retirement benefit costs	(55)	(119)
Finance costs	(1,949)	(4,268)
Net financing costs	**(1,963)**	**(4,164)**
Profit before tax	**21,734**	**13,974**
Income tax	937	(7,208)
Net income	**22,671**	**6,766**
Add 2007 discontinued operations (see below)	—	2,063
Total profit for discontinued operations	**22,671**	**8,829**

(1) Including in 2008 income from the sale of shares, net of expenses: €24,884,000.

The earnings in respect of the 2007 discontinued operations (recycling business on 1 February and Otor Silesia on 30 March) are presented below:

	Earnings from recycling business €'000	*Earnings from the packaging business €'000*	*Total operations sold €'000*
Sales	3,127	7,137	10,264
Cost of goods sold	(1,263)	(2,716)	(3,979)
Operating expenses	(1,656)	(4,311)	(5,967)
Operating profit before exceptional items	208	110	318
Exceptional operating income	1,307	1,268	2,575
Exceptional operating expenses	—	(426)	(426)
Operating profit	**1,515**	**952**	**2,467**
Finance income	5	16	21
Finance costs	(73)	(160)	(233)
Net financing costs	**(68)**	**(144)**	**(213)**
Profit before tax	**1,447**	**808**	**2,255**
Income tax	123	(315)	(192)
Net income from operations sold	**1,570**	**493**	**2,063**

Two paper mills were sold in 2009 which have not been considered to be discontinued operations as discussed in the accounting policy section.

- On 22 July 2009, all Otor Papeterie Saint-Michel's shares as well as all receivables held by the Otor Group on the company were sold for a total price of €2 (€1 for shares and €1 for the receivables) to Mr. Alain Dubois, the CEO of Papeteries de Veuze in Angoulême. This transaction included a 3-year procurement contract with shortened payment conditions.

  This sale was preceded by a €7.0 million recapitalisation and resulted in a pre-tax expense of €8.4 million recorded in "other operating expenses" and explained in further detail in Note 4.

- On 29 October 2009, all Otor Papeterie du Doubs's shares as well as all receivables held by the Otor Group on the company were sold for a total price of €2 (€1 for shares and €1 for the receivables) to Mr. Louis Philippe Soenen, director of the Soenen GolfKarton paperboard mill located in Belgium. This transaction included a digressive procurement contract until 31 December 2010, and the signature of a transition agreement.

This sale was preceded by a €8.0 million recapitalisation and resulted in a pre-tax expense of €9.1 million recorded in "other operating expenses" and explained in further detail in Note 4, as well as an impairment of the site's non-current assets of €3.6 million.

9. Earnings per share

The consolidated non-diluted net earnings per share is calculated by dividing net income by the weighted average number of shares outstanding.

	2009	*2008*	*2007*
Average number of outstanding shares	**175,012,031**	175,012,031	186,040,599
Average number of diluted outstanding shares	**175,012,031**	175,012,031	186,040,599
Income from continuing operations attributable to owners of the Company (in €'000)	**1,756**	(12,372)	12,239
– earnings per share (in €)	**0.01**	(0.07)	0.06
– diluted earnings per share (in €)	**0.01**	(0.07)	0.06
Income from discontinued operations (in €'000)	—	22,671	8,829
– earnings per share (in €)	—	0.13	0.05
– diluted earnings per share (in €)	—	0.13	0.05
Net income attributable to owners of the Company (in €'000)	**1,756**	10,299	21,068
– earnings per share (in €)	**0.01**	0.06	0.11
– diluted earnings per share (in €)	**0.01**	0.06	0.11

Earnings per share amount to €0.01 in 2009 compared to €0.06 and €0.11 in 2008 and 2007, respectively.

10. Intangible assets

	Goodwill €'000	*Software and other intangible assets €'000*	*Development costs and filed patents €'000*	*Total €'000*
Carrying amount				
Balance as at 31 December 2009	**62.077**	**3,267**	**2,820**	**68,164**
Balance as at 31 December 2008	62,077	3,143	2,910	68,130
Balance as at 31 December 2007	75,971	2,490	3,145	81,606

Goodwill

Changes in the net amount of goodwill are as follows:

	€'000
1 January 2007	75,796
Acquisitions	231
Impairment	(56)
31 December 2007	75,971
Disposals of subsidiaries	(231)
Impairment	(13,663)
31 December 2008	62,077
31 December 2009	62,077

Goodwill per CGU is as follows:

	2009 *€'000*	*2008* *€'000*	*2007* *€'000*
Packaging CGU	**62,133**	62,133	62,364
Nantes paper mill CGU	**229**	229	229
Saint-Michel paper mill CGU	**—**	13,434	13,434
Impairment of packaging CGU	**(56)**	(56)	(56)
Impairment of Nantes paper mill CGU	**(229)**	(229)	—
Impairment of Saint-Michel paper mill CGU	**—**	(13,434)	—
Total net goodwill	**62,077**	62,077	75,971

As at 31 December 2009, the total net amount of goodwill is allocated to the Packaging CGU. This goodwill is subject to an annual impairment test disclosure of which is provided further below.

Other intangible assets

The gross values for intangible assets have changed as follows:

	Development costs and filed patents *€'000*	*Other intangible assets* *€'000*	*Total* *€'000*
1 January 2007	9,798	5,921	15,719
Acquisitions/additions	872	1,154	2,026
Reclassifications	(260)	345	85
Disposals	(217)	(675)	(892)
31 December 2007	10,193	6,745	16,938
Acquisitions/additions	876	1,778	2,654
Disposals	(468)	(1,498)	(1,966)
On disposal of subsidiaries	(462)	(496)	(958)
31 December 2008	10,139	6,529	16,668
Acquisitions/additions	779	1,249	2,028
Disposals	(3,301)	(231)	(3,532)
On disposal of subsidiaries	—	(60)	(60)
31 December 2009	**7,617**	**7,487**	**15,104**

Accumulated amortisation and impairment for intangible assets have changed as follows:

	Development costs and filed patents	*Other intangible assets*	*Total*
	€'000	*€'000*	*€'000*
1 January 2007	6,548	3,881	10,429
Amortisation and impairment	967	791	1,758
Disposals	(213)	(675)	(888)
Reclassifications	(254)	258	4
31 December 2007	7,048	4,255	11,303
Amortisation and impairment	896	988	1,884
Disposals	(468)	(1,498)	(1,966)
Reclassifications	—	(8)	(8)
On disposal of subsidiaries	(247)	(351)	(598)
31 December 2008	7,229	3,386	10,615
Amortisation and impairment	869	1,097	1,966
Disposals	(3,301)	(211)	(3,512)
On disposal of subsidiaries	—	(52)	(52)
31 December 2009	**4,797**	**4,220**	**9,017**

Impairment

IAS 36 provides the procedures a company must follow to ensure that the net carrying amount of its assets do not exceed their recoverable amount; this is calculated by discounting the estimated future cash flows expected from the continuous use of an asset until its planned discontinuation date.

Otor calculated the recoverable amount for all of the non-current assets of the Cash Generating Units (**CGU**s) that make up the Group, by determining the present value of the estimated future cash flows for each of the CGUs, based on a 5-year business plan.

The recoverable amount was determined solely by calculating the value in use as at 31 December 2009, 2008 and 2007.

As at 31 December 2007 and 2008

The Otor Group Management carried out the required annual impairment tests for goodwill and other indefinite life intangible assets. For property, plant and equipment, and intangible assets with finite lives, impairment tests were carried out when events or circumstances relating to the economic environment as at 31 December 2007 and 2008 resulted in modifications to economic conditions or the business plans.

Pursuant to these tests, asset impairment at the end of the financial year ended 31 December 2008 (2007 in brackets) totalled €27 million broken down as follows among the different CGUs:

- Saint-Michel paper mill CGU: impairment of €19.8 million, including goodwill impairment of €13.4 million (2007: Nil);
- Nantes paper mill CGU: impairment of €4.0 million, including goodwill impairment of €0.2 million (2007: Nil);
- du Doubs paper mill CGU: impairment of €1.4 million (2007: Nil); and
- Cognac Case CGU: impairment of €1.8 million (2007: reversal of €0.9 million).

The main assumptions used for the valuation of the various CGUs in 2007 and 2008 are as follows:

- A discount rate of 8.73 per cent.
- Perpetual growth rate of 0.50 per cent.

As at 31 December 2009

The Otor Group Management carried out the required annual impairment tests for goodwill and other indefinite life intangible assets. For property, plant and equipment, and intangible assets with finite lives, impairment tests were carried out when events or circumstances relating to the economic environment resulted in modifications to economic conditions or the business plans.

Pursuant to these tests, asset impairment at the end of the financial year totalled €6.1 million broken down as follows among the different CGUs:

- Nantes paper mill CGU: impairment of €4.3 million (€4.0 million as at 31 December 2008), including goodwill impairment of €0.2 million; and
- Cognac Case CGU: impairment of €1.8 million (identical amount as at 31 December 2008).

In addition an impairment of the Otor Papeterie du Doubs site assets of €3.6 million has been recognised.

The main assumptions used for the valuation of the Packaging and Nantes paper mill CGUs are as follows:

- A discount rate of 8.7 per cent.
- Perpetual growth rate of 0.5 per cent.

For the Cognac Case CGU, a different discount rate was used (9.2 per cent.) to take account of the greater risk of cash flows not being realised due to this CGU's change in strategy.

The market in which the Otor Group operates is subject to important variations in selling price. As selling prices are linked to variations in purchase prices, the valuation of the CGUs was carried out using standardised prices for the end value, with the attainment of these standardised prices smoothed over four years starting with the 2010 budget. This approach, representative of the economic model in this sector, limits erratic variations in the prices of raw materials and consequently takes into account, in the business plan estimations, the risk that cash flows are not realised according to schedule.

As at 31 December 2008, the sensitivity of recoverable amounts to a change in the discount or perpetual growth rates is as follows:

	Packaging €'000	*Etuis Cognac €'000*	*du Doubs paper mill €'000*	*Nantes paper mill €'000*	*Saint-Michel paper mill €'000*
Discount rate					
+ 1%	(17,193)	(472)	(547)	44	307
– 1%	21,824	604	698	(56)	(394)
Perpetual growth rate					
+ 0.5%	6,720	191	218	(18)	(129)
– 0.5%	(5,950)	(169)	(193)	16	114

As at 31 December 2009, the sensitivity of recoverable amounts to a change in the discount or perpetual growth rates is as follows:

	Packaging €'000	*Etuis Cognac €'000*	*Nantes paper mill €'000*
Discount rate			
+ 1%	(26,162)	(640)	(366)
– 1%	33,480	810	496
Perpetual growth rate			
+ 0.5%	6,720	191	(1,873)
– 0.5%	(5,950)	(169)	195

Neither a 1 per cent. increase in the discount rate, nor a 0.5 per cent. decrease in the perpetuity growth rate would result in an impairment of the Packaging CGU assets.

However, a 1 per cent. decrease would result in the Cognac Case CGU's value in use being very slightly less than the value of the assets. No impairment would be recognised given the immaterial nature of the difference.

In addition, since the property, plant and equipment and intangible assets of the Nantes paper mill CGU are impaired in full, the sensitivity analysis presented has no effect in practice.

11. Property, plant and equipment

Gross values for property, plant and equipment have changed as follows:

	Land *€'000*	*Buildings* *€'000*	*Equipment and tooling* *€'000*	*Other* *€'000*	*PP&E in the course of construction, payments on account* *€'000*	*Total* *€'000*
1 January 2007	8,422	82,302	335,702	16,433	3,251	446,110
Acquisitions	113	1,715	15,845	1,143	4,592	23,408
Disposals	(8)	(1,570)	(12,678)	(2,014)	—	(16,270)
Reclassifications	—	—	98	(98)	(85)	(85)
Translation adjustments	—	—	(4)	(1)	—	(5)
On disposal of subsidiaries	(469)	(207)	—	—	—	(676)
31 December 2007	8,058	82,240	338,963	15,463	7,758	452,482
Acquisitions	65	3,985	16,828	538	(173)	21,243
Disposals	(195)	(1,576)	(12,128)	(1,269)	(950)	(16,118)
Reclassifications	—	790	2,724	(17)	(3,497)	—
Translation adjustments	—	1	—	4	—	5
On disposal of subsidiaries	(4,421)	(22,405)	(103,284)	(1,475)	(333)	(131,918)
31 December 2008	3,507	63,035	243,103	13,244	2,805	325,694
Acquisitions	41	1,348	10,734	974	(451)	12,646
Disposals	(12)	(581)	(6,308)	(3,220)	—	(10,121)
Reclassifications	—	—	(25)	—	25	—
On disposal of subsidiaries	(882)	(6,207)	(28,283)	(957)	(853)	(37,182)
31 December 2009	**2,654**	**57,595**	**219,221**	**10,041**	**1,526**	**291,037**

Accumulated depreciation and impairments for property, plant and equipment have changed as follows:

	Land	*Building*	*Equipment and tooling*	*Other*	*Total depreciation*	*Total provision*
	€'000	*€'000*	*€'000*	*€'000*	*€'000*	*€'000*
1 January 2007	182	48,582	237,019	10,440	296,223	24,976
Depreciation and impairment	33	3,015	20,892	1,816	25,756	24
Reversal of impairment	—	—	—	—	—	(16,368)
Disposals	(4)	(1,602)	(10,541)	(1,387)	(13,534)	—
Reclassifications	—	—	18	(10)	8	—
Translation adjustments	—	—	(5)	(1)	(6)	—
On disposal of subsidiaries	—	(133)	—	—	(133)	—
31 December 2007	211	49,862	247,383	10,858	308,314	8,620
Depreciation and impairment	40	3,064	16,017	1,224	20,345	12,564
Reversal of impairment	—	—	—	—	—	(24)
Disposals	—	(1,480)	(11,556)	(965)	(14,001)	(950)
Reclassifications	—	30	226	11	267	(258)
Translation adjustments	—	—	—	4	4	—
On disposal of subsidiaries	—	(10,332)	(58,377)	(1,194)	(69,903)	(7,388)
31 December 2008	251	41,144	193,693	9,938	245,026	12,564
Depreciation and impairment	34	2,228	10,506	918	13,686	3,794
Reversal of impairment	—	—	—	—	—	—
Disposals	(10)	(578)	(6,160)	(2,902)	(9,650)	—
Reclassifications	—	—	—	—	—	599
On disposal of subsidiaries	(150)	(4,296)	(20,185)	(421)	(25,052)	(11,136)
31 December 2009	**125**	**38,498**	**177,854**	**7,533**	**224,010**	**5,821**

Net carrying amounts for property, plant and equipment have changed as follows:

	2009	2008	2007
	€'000	*€'000*	*€'000*
Land	**2,529**	3,256	7,847
Buildings	**19,097**	21,891	32,378
Equipment and tooling	**41,367**	49,410	91,580
Other	**2,508**	3,306	4,605
Total	**65,501**	**77,863**	**136,410**

Reconciliation with total non-current assets:

	2009	2008	2007
	€'000	*€'000*	*€'000*
Property, plant and equipment	**65,501**	77,863	136,410
PP&E in progress	**1,526**	2,805	7,758
Impairment	**(5,821)**	(12,564)	(8,620)
Total continuing operations	**61,206**	**68,104**	**135,548**

Leases

Property, plant and equipment and intangible assets include the assets the Group has financed using finance leases. These assets have the following net values:

	2009	2008	2007
	€'000	*€'000*	*€'000*
Other intangible assets	**1,029**	1,398	1,234
Land	**267**	256	256
Buildings	**6,467**	7,019	4,680
Plant, equipment and tooling	**11,278**	11,609	13,989
Other assets	**1,842**	2,246	4,217
Net carrying amount of finance lease assets	**20,883**	22,528	24,376

The repayment schedule for finance lease liabilities is as follows:

	2009	2008	2007
	€'000	*€'000*	*€'000*
Less than one year	**5,697**	5,295	5,570
Between one and five years	**9,056**	9,727	12,002
Over five years	**2,034**	2,336	921
Total	**16,787**	17,358	18,493

For non-cancellable operating leases, outstanding lease payments break down according to the following due dates and the reconciliation of future minimum payments under finance leases and the value of the obligation is as follows:

	2009	2008	2007
	€'000	*€'000*	*€'000*
Less than one year	**1,540**	1,303	1,396
Between one and five years	**1,468**	1,645	1,153
Over five years	**—**	—	—
Total	**3,008**	2,948	2,549

	Y+1	*Y+2 to Y+5*	*> Y+5*	*Total*
	€'000	*€'000*	*€'000*	*€'000*
Lease obligation (discounted value)	5,668	8,608	2,000	16,276
Future minimum lease payments	6,250	9,608	2,354	18,212
Difference: future finance charges	582	1,000	354	1,936

12. Deferred tax and income tax

	2009	*2008*	*2007*
	€'000	*€'000*	*€'000*
Deferred tax assets	**17,561**	19,784	17,058
Short-term income tax receivables	**16**	28	28

Details pertaining to deferred taxes are given in Note 7.

13. Other non-current receivables

	2009	*2008*	*2007*
	€'000	*€'000*	*€'000*
Non-current financial assets	**13,534**	15,691	9,475
Maturity:			
Less than five years	**12,089**	14,070	7,814
More than five years	**1,445**	1,621	1,661
Total	**13,534**	15,691	9,475

Non-current financial assets include:

- Natixis Cash Première mutual funds frozen until 2013 for a present value of €8.2 million
- Deposits for confirmed factoring of €2.8 million as at 31 December 2009 compared to €4.4 million and €5.5 million as at 31 December 2008 and 2007, respectively.
- Construction effort loans of €2.1 million as at 31 December 2009 compared to €2.3 million and €2.35 million as at 31 December 2008 and 2007, respectively.
- The balance is made up of various security deposits paid under leases.

14. Inventories

	2009	*2008*	*2007*
	€'000	*€'000*	*€'000*
Raw materials, supplies and bought-in goods	**26,544**	33,078	42,037
Finished goods and work-in-progress	**9,982**	11,446	15,823
Total	**36,526**	44,524	57,860

15. Trade and other receivables

	2009	*2008*	*2007*
	€'000	*€'000*	*€'000*
Trade receivables:			
Gross value	**60,427**	92,087	113,728
Write-down	**(2,170)**	(2,531)	(3,874)
Net carrying amount	**58,257**	89,556	109,854
Other receivables	**6,982**	9,922	14,185
Prepaid expenses	**686**	946	788
Total trade and other receivables	**65,925**	100,424	124,827

The fair value of trade and other receivables is estimated to be close to their carrying amount as at the closing date.

Since the above receivables are mainly short-term and do not bear interest, changes in interest rates do not generate material interest rate risk.

Factored receivables amount to €50.4 million as at 31 December 2009 compared to €83.6 million and €79.3 million as at 31 December 2008 and 2007, respectively. All these amounts appear in trade receivables in the statement of financial position and in borrowings in liabilities for the used portion.

As at 31 December 2009, 2008 and 2007, receivables denominated in foreign currency are not material.

The following table presents an aged analysis of trade receivables:

	2009	*2008*	*2007*
	€'000	*€'000*	*€'000*
Net trade receivables written-down	**439**	582	458
Net trade receivables overdue but not written-down (*)	**7,822**	6,756	7,948
Net trade receivables not overdue	**49,996**	82,218	101,448
Net trade receivables	**58,257**	89,556	109,854
(*) of which			
Overdue less than 30 days	6,493	5,607	6,222
Overdue between 30 days and 60 days	751	639	791
Overdue between 60 days and 90 days	115	146	333
Overdue over more than 90 days	463	364	602
Net receivables overdue but not written-down	7,822	6,756	7,948

Other receivables include specifically:

€2.9 million in VAT as at 31 December 2009 compared to €3.3 million and €5.2 million as at 31 December 2008 and 2007, respectively.

Reserve accounts for confirmed factoring of €2.8 million as at 31 December 2009 compared to €4.3 million as at 31 December 2008.

16. Trade and other payables

	2009		*2008*		*2007*	
	Non-current	*Current*	*Non-current*	*Current*	*Non-current*	*Current*
	€'000	*€'000*	*€'000*	*€'000*	*€'000*	*€'000*
Trade payables	**—**	**40,177**	—	50,521	—	81,660
Non-trade payables and accrued expenses	**5,507**	**33,702**	6.015	35,203	6,880	43,988
	5,507	**73,819**	6,015	85,724	6,880	125,648

17. Net debt

	2009	2008	2007
	€'000	€'000	€'000
Non-current liabilities	**31,309**	40,516	69,064
Current liabilities – bank overdrafts	**1,231**	566	2,831
Current liabilities – interest bearing Loans and Borrowings	**27,186**	60,401	97,644
Total debt	**59,726**	101,483	169,539
Less:			
Cash and cash equivalents	**1,771**	992	4,953
Deposits paid to factor debtors and Natixis frozen funds – included in non-current financial assets	**11,072**	12,561	5,544
Factor reserve accounts included under trade and other receivables	**2,774**	4,294	5,209
Net debt	**44,109**	**83,636**	**153,833**

18. Cash and cash equivalents

	2009	2008	2007
	€'000	€'000	€'000
Bank balances	1,771	992	4,953
Cash and cash equivalents (per statement of financial position)	**1,771**	992	4,953
Bank overdrafts	**(1,231)**	(566)	(2,831)
Net cash and cash equivalents (per statement of cash flows)	**540**	426	2,122

19. Borrowings

	2009	2008	2007
	€'000	€'000	€'000
Bank borrowings	28,501	36,861	68,690
Finance lease obligations	16,788	17,358	18,493
Confirmed factoring	13,124	46,561	79,301
Other borrowings	82	137	224
Total	**58,495**	**100,917**	**166,708**
Portion maturing in over one year	**31,309**	40,516	69,064
Portion maturing in less than a year	**27,186**	60,401	97,644

The fair value of the borrowings is estimated to be close to the carrying amount.

20. Financial instruments

Derivatives

As disclosed in the accounting policies, the Otor Group continues using interest and exchange rate derivative instruments to hedge financial risks.

In 2006, the Otor Group signed four CAP contracts guaranteeing a cap rate of 3.75 per cent. for 3 years and changing its floating-rate borrowings (Euribor 3 months) to fixed-rate borrowings. The notional amount thus hedged, as at 31 December 2008, was €50.6 million.

These CAPS were recognised as cash flow hedges.

The fair value of these derivative instruments was, on 31 December 2008, €84,000.

As these contracts expired on 3 July 2009, the Otor Group implemented in July 2009, the following new instruments:

- 2.5 per cent. CAP on Euribor 3 months for a notional amount of €7 million and a 3-year period;
- 2.5 per cent. CAP with a 4 per cent. knock-out on Euribor 3 months for a notional amount of €7 million and a 3-year period; and
- Euribor 3 months swap at 2.215 per cent. for a notional amount of €7 million and a 3-year period,

representing a total notional amount of €21 million.

Except for the knock-out CAP, these financial instruments are recognised as cash flow hedges.

The fair value of these derivative instruments as at 31 December 2009 was €26,000.

Risk identification and management

Legal risks

At the year end, Otor Finance and its subsidiaries were involved in various litigation procedures. Each subsidiary examined each of their cases individually, and after seeking legal counsel, the provisions deemed necessary were, if applicable, allocated to cover the estimated risks. Refer to Note 21 for details on provisions.

Tax risks

Otor underwent tax audits in 2004 and in 2007 covering the financial years up to and including 2006. The only adjustment point resulting from these audits was the subject of a cancellation request to the Administrative Court. The amounts involved are the following:

- for the financial years up to and including 2003, an amount of €723,000 that was the subject of collection measures. This amount has not been provided in the 2009 financial statements.
- For the 2004 and 2005 financial years, a correction of tax loss carry-forwards for €533,000, which would, if applicable, reduce capitalised tax losses by €183,000.

The Montreuil Court, in a judgment dated 7 January 2010, rejected the company's request and maintained the corresponding taxation, taking an opposing position to the "rapporteur public". Otor appealed this judgment on 10 March 2010, and given the contents of the file, considers that it is probable that its position will be upheld.

Customer risks and bad debt risk

This risk is weighted by several factors: Rather high dilution rate for our customer-base, general quality of main agri-food groups, and existence of an "excess" credit insurance policy. Trade receivables are analysed regularly and leads to a focused assessment of receivables presenting bad debt risk.

Doubtful receivables (customer failure) are 100 per cent. impaired, except in the cases where there is a strong possibility of partial collection.

Risks resulting from changes in the price of raw materials and energy

These risks were quantified by an Otor internal source.

Concerning sales, a 1 per cent. change in the price of corrugated cardboard packaging with a constant sales mix, results in a €2.75 million change in consolidated sales revenue.

The main purchases by order of importance are: recycled paper, energy, logistics and starch matter.

– *Paperboard for corrugated (PPO):*

The price of paperboard for corrugated has undergone significant changes both up and down. A 1 per cent. change in the price of paperboard for corrugated with a constant sales mix results in a €580,000 change in consolidated purchases.

– *Energy:*

A 1 per cent. change in the price of energy has an impact of approximately €150,000 on Otor Group earnings before non-recurring items.

– *Logistics:*

A 1 per cent. change in logistics costs has an impact of approximately €200,000 on Otor Group earnings before non-recurring items.

Environmental and safety risks

The Otor Group's business activities represent an environmental risk, specifically for the paper mills and the use of industrial equipment. These risks, even if it is impossible to totally eliminate them, can be controlled by complying with the standards in effect and by the Otor Group's risk management policy.

Investment in these fields is one of the Otor Group's priorities and totalled approximately €2 million over the last 3 years.

Risks related to the defence of industrial property

The Otor Group holds numerous patents that are partly responsible for the technological advance it has in certain segments (packaging, mechanisation); defending these patents is carried out by an organised technological watch and by counterfeiting suits, when necessary.

Risks related to the Otor Group financial structure

– *Liquidity risk*

The Otor Group's financial structure relies partly on indebtedness; this dependence can create liquidity risk, specifically during low cycle periods, when cash flows can decrease substantially because of the reduction in operating margins. However, certain financing operations or the sale of companies by the Otor Group and improvements in operating cash flow limit this liquidity risk. As at 31 December 2009, the ratios included in the loan contracts are met.

– *Risk of early repayment of bank loans*

The financing contract implemented in February 2006, as well as the factoring contract, provide for the possibility that financial institutions could request early repayment of the financing in question if certain financial ratios are not met. As at the end of the 2009 fiscal year, all of the ratios were met.

– *Interest rate risk*

Pursuant to the commitment undertaken by the Otor Group in the loan contract concluded in February 2006 in the amount of €58.6 million (see above) and in order to reduce its interest rate risk exposure, Otor signed four CAP contracts on 23 May 2006.

These contracts hedge the Otor Group against an increase in the Euribor 3-month rate above 3.75 per cent. over the period from 3 July 2006 to 3 July 2009. They cover a notional amount of €60 million, of which €20 million is allocated to the cash flows generated by the confirmed factoring contract (see above) and €40 million to those cash flows generated by the €58.5 million loan contract.

These CAP contracts were recognised as hedges at inception. The effectiveness tests carried out as at 31 December 2008 did not call into question this classification.

The time value is not taken into account in the hedging relationship. The change in its fair value is recognised in income or loss.

In order to reduce its exposure to interest rate risks, Otor signed three contracts in July 2009 hedging €21 million for a 3-year period. These contracts are described above.

Exchange rate risk

Almost all the Group's exports from France are invoiced in euros. This activity therefore does not generate any exchange rate risk. Similarly, almost all the Otor Group's purchases are invoiced in euros.

Exceptional circumstances and litigation

2008

A litigation, which arose in 2005 involving certain fees paid by the Otor, is currently the subject of legal proceedings. The conclusion of these proceedings may result in the reimbursement of these fees to Otor.

2009

To the best of the Otor Group's knowledge, there are no exceptional events or disputes that could have (or have had in the past) a material impact on Otor Finance's business, assets, financial position, earnings or outlook or that of its subsidiaries.

21. Provisions

The change in provisions for liabilities and charges for the 2009 financial year breaks down as follows:

	31 Dec 2007	*Increase*	*Reversal*	*Unused provision*	*Disposal of subsidiaries*	*31 Dec 2008*
	€'000	*€'000*	*€'000*	*€'000*	*€'000*	*€'000*
Total	8,216	704	2,075	484	(4,826)	**1,535**

	31 Dec 2008	*Increase*	*Reversal*	*Unused provision*	*Disposal of subsidiaries*	*31 Dec 2009*
	€'000	*€'000*	*€'000*	*€'000*	*€'000*	*€'000*
Total	1,535	402	431	197	0	**1,309**

As at 31 December 2009 and 31 December 2008, the provisions for liabilities and charges mainly include amounts provided for various litigations and other operating risks.

As at 31 December 2007, the provisions for liabilities and charges mainly include the remaining costs of the redundancy plan at Otor Papeterie de Rouen for €5.8 million.

Other provisions are made up of amounts that are individually immaterial.

These provisions break down as follows:

	2009	*2008*	*2007*
	€'000	*€'000*	*€'000*
Long-term provisions	280	729	4,494
Short-term provisions	1,029	806	3,722
Total	**1,309**	**1,535**	**8,216**

22. Share capital

All the shares making up Otor Finance's share capital have been called and are fully paid. The par value of the shares is €0.20. The number of shares making up Otor's capital has changed as follows:

	2009	*2008*	*2007*
Shares outstanding at the start of the financial year	**175,012,031**	186,040,599	186,040,599
Capital reduction	—	(11,028,568)	—
Shares outstanding at the end of the financial year	**175,012,031**	175,012,031	180,040,599

23. Post retirement benefits

Employee benefits break down as follows:

	2009	*2008*	*2007*
	€'000	*€'000*	*€'000*
Post-employment benefits	**12,119**	12,686	13,771
Long-term employee benefits	**471**	462	616
Total	**12,590**	13,148	14,387

Post-employment benefits

The post-employment defined benefit plan granted to employees corresponds to retirement termination payments (IDR) due by French companies.

The sensitivity of the 2009 IDR to a change in the discount rate is as follows:

Discount rate	4.00%	4.50%	5.00%
Obligation	12,909	12,119	11,396
% change in obligation at end of the year	6.5%	0.0%	(6.0%)

The net expense recognised in the income statement for post-employment defined benefit plans break down as follows:

	2009	*2008*	*2007*
	€'000	*€'000*	*€'000*
Current service cost	**659**	850	946
Finance cost	**550**	310	555
Net charge of the year	**1,209**	1,160	1,501

The change in net amounts recognised in the statement of financial position breaks down as follows:

	2009	*2008*	*2007*
	€'000	*€'000*	*€'000*
Net obligation at the beginning of the year	**12,686**	13,771	14,033
Net charge for the year – income statement	**1,209**	1,160	1,501
Net charge/(credit) for the year – statement of comprehensive income	**152**	1,320	(320)
Amounts paid to employees	**(590)**	(1,023)	(1,443)
On disposal of subsidiaries	**(1,338)**	(2,542)	—
Net obligation at the end of the year	**12,119**	12,686	13,771

Long-term benefits

The long-term benefits plan granted to employees corresponds to long-service awards (**MDT**). The change in the obligation and the expense is as follows:

	2009	*2008*	*2007*
	€'000	*€'000*	*€'000*
Discounted obligation	471	462	616
Net liability at the end of the year	**471**	462	616

	2009	*2008*	*2007*
	€'000	*€'000*	*€'000*
Current service cost	**32**	33	47
Finance cost	**24**	23	29
Actuarial gains/(losses)	**34**	3	n/a
Net charge for the year	**90**	59	n/a

As at 31 December, the actuarial assumptions used to evaluate the IDRs and MDTs were the following:

Assumptions

	2009	*2008*	*2007*
Turnover rate			
20 to 29 years	**3%**	3%	3%
30 to 39 years	**2%**	2%	2%
40 to 49 years	**1%**	1%	1%
Thereafter	**0%**	0%	0%
Average rate of increase for payroll expense	**3.50%**	3.50%	3.50%
Discount rate – IDR	**4.50%**	4.50%	5.21%
Discount rate – Long-service awards	**4.00%**	5.22%	5.21%
Voluntary retirement age			
Management: less than 56 years old (2008 & 2007: 55 years old)	**65 years**	65 years	65 years
Management: 56 years and older (2008 & 2007: 55 years old)	**61 years**	61 years	61 years
Non-management: less than 56 years old (2008: 55 years; 2007: 54 years)	**62 years**	62 years	63 years
Non-management: 56 years and older 2008: 55 years; 2007: 54 years)	**60 years**	60 years	60 years

The discount rates are determined based on the average residual length of activity for each of the plans. The effect of the unwinding of the discount on the provision is recognised in ''retirement benefit cost''.

The mortality table used is the INSEE 2004-2006 table for women for 2009 and TV 99-01 for 2008 and 2007.

Social security contributions break down as follows:

	2009	*2008*	*2007*
	€'000	*€'000*	*€'000*
Medical care, provident scheme and other social security contributions	**14,201**	13,602	16,017
Retirement and unemployment contributions	**11,601**	12,138	14,179
Total social security contributions	**25,802**	25,740	30,196

24. Cash generated from operations

	2009	*2009*	*2008*	*2008*	*2007*	*2007*
	€'000	*€'000*	*€'000*	*€'000*	*€'000*	*€'000*
Profit for the financial year	**2,186**		13,159		26,289	
Profit from discontinued operations	**—**		22,671		8,829	
Profit/(loss) before discontinued operations		**2,186**		9,512		17,460
Adjustments for						
Exceptional items charged to income statement	**23,196**		27,699		(15)	
Cash outflow for exceptional items	**(1,977)**		(921)		(1,146)	
Depreciation and amortisation	**15,658**		18,424		18,582	
(Profit) on sale of non-current assets	**(6)**		(517)		(198)	
Employment benefit net finance (charge)	**550**		310		555	
Finance income	**(922)**		(2,610)		(4,551)	
Finance costs	**3,581**		12,236		13,789	
Other non-cash items	**(127)**		175		(173)	
Income tax expense	**161**		2,669		3,544	
	40,114		57,465		30,387	
Changes in						
Working capital requirement for operations	**28,513**		(8,874)		(11,257)	
Employee benefits	**(129)**		(1,778)		(57)	
		28,384		(10,652)		(11,314)
Cash flows from discontinued operations		**—**		5,156		5,349
Cash generated from operations		**70,684**		42,457		41,882

As they do not impact the Otor Group's cash, the following flows do not appear in the statement of cash flows:

	2009	*2008*	*2007*
	€'000	*€'000*	*€'000*
Acquisition of assets under finance lease:			
Acquisition cost and corresponding liability	**1,676**	5,627	4,919

Acquisitions for the 2009 financial year do not include the two lease back contracts for an amount of €4,921,000, because they gave rise to a cash inflow. The increase in finance lease debt includes this amount, however, representing a total of €6,597,000.

25. Commitments and contingencies

	2009	*2008*	*2007*
	€'000	*€'000*	*€'000*
Mortgages, securities and other commitments recorded in consolidated liabilities	**34,736**	47,316	80,555
Of which:			
– securities	**7,778**	12,656	27,975
– pledges	**26,958**	34,660	52,580
Other off-balance sheet commitments	**—**	—	2,670

Mortgages, pledges, deposits and other off-balance sheet commitments involve commitments for loans recorded in liabilities in the statement of financial position and mainly the pledge of shares of Otor's subsidiaries in favour of credit institutions for an amount of €26,958,000 covering the loan principal secured in February 2006 by Otor.

Commitments resulting from the factoring agreement

The confirmed factoring agreement provides for the possibility for the factors to terminate the contract in the event of a deterioration, after the agreement signature date, in the financial position shown by a reduction in equity of more than 20 per cent. or by an increase in indebtedness by more than 20 per cent..

Vendor warranties

Pursuant to the sale of Otor Papeterie de Rouen and Otor Cartonnerie de Rouen, Otor granted vendor warranties limited to 5 years (until May 2013) and €8 million. At the buyer's request, these vendor warranties were under-written by a bank guarantee. To cover this guarantee, Otor froze an amount of €8 million for 5 years in a cash collateral account.

Otor decided to insure these vendor warranties. To this end, the Otor Group subscribed a vendor warranties policy that covers all risks arising under the vendor warranties.

This was secured by the signing of a specific contract on 1 August 2008 and the payment of an amount of €1 million in settlement of a sole, firm and final premium.

Procurement contracts

The Otor Group subscribed procurement contracts on the sale of Otor Papeterie Saint-Michel and Otor Papeterie du Doubs as disclosed in Note 8.

26. Related parties

The Otor Group's relations with related parties give rise to transactions that are carried out under normal market conditions.

The Otor Group's main key managers, as well as any companies that directly or indirectly hold an interest in Otor Finance's share capital are considered to be related parties.

There were no other balances on inter-company account as at 31 December 2007, 31 December 2008 and 31 December 2009.

	2009	*2008*	*2007*
	€'000	*€'000*	*€'000*
Services and recharge Otor Participations	—	—	34
Management fees (Carlyle)	—	603	—

Otor Finance, the majority shareholder in Otor, prepares consolidated financial statements.

As at 31 December 2007, the present value of retirement commitments concerning Otor corporate officers amounted to €62,867.

Total remuneration paid to Otor corporate officers during the 2007 financial year amounted to €848,402.

As at 31 December 2008, the present value of retirement commitments concerning Otor corporate officers amounted to €84,586.

Total remuneration paid to Otor corporate officers during the 2008 financial year amounted to €945,283.

As at 31 December 2009, the present value of retirement commitments concerning Otor corporate officers amounted to €92,000.

Total remuneration paid to Otor corporate officers during the 2009 financial year amounted to €627,000.

27. Otor Group Companies

As at 31 December 2008, 20 companies were fully consolidated in the consolidated financial statements of the Otor Group (19 in 2007).

Otor Papeterie de Rouen and Otor Cartonnerie de Rouen, fully consolidated as at 31 December 2007, were sold in 2008.

Otor Papeterie Saint-Michel, Otor Papeterie de Nantes and Otor Papeterie du Doubs were created during the second half of 2008, pursuant to the hive-down of the paper mills.

As at 31 December 2009, 18 companies were fully consolidated in the consolidated financial statements of the Otor Group (20 in 2008).

Otor Papeterie Saint-Michel and Otor Papeterie du Doubs which were fully consolidated as at 31 December 2008 were sold in 2009.

There are no material investments, jointly controlled entities, associates or special purpose entities that were not included in the consolidation scope.

	Country	*Currency*	*31 Dec 2009*	*31 Dec 2008*	*31 Dec 2007*
			%	*%*	*%*
Otor Finance	France	Euro	Parent company		
Otor	France	Euro	80.14	80.14	80.14
Otor Bretagne	France	Euro	80.14	80.14	80.14
Otor Dauphiné	France	Euro	80.14	80.14	80.14
Otor GmbH	Germany	Euro	80.14	80.14	80.14
Otor Godard	France	Euro	80.14	80.14	80.14
Otor Normandie	France	Euro	80.14	80.14	80.14
Otor Papeterie de Rouen	France	Euro	n/a	n/a	80.14
Societe Rouennaise de Participations	France	Euro	80.14	80.14	80.14
Otor Picardie	France	Euro	80.13	80.13	80.13
Otor Services	France	Euro	80.14	80.14	80.14
Otor Lease	France	Euro	80.14	80.14	80.14
Otor Suisse	Switzerland	CHF	79.66	79.66	79.66
Otor Systems	France	Euro	80.14	80.14	80.14
Otor Velin	France	Euro	80.14	80.14	80.14
Etuis Cognac	France	Euro	80.14	80.14	80.14
Normandie Ondulé	France	Euro	80.14	80.14	80.14
Gie Otor Investissement	France	Euro	80.14	80.14	80.14
Otor Papeterie Saint-Michel	France	Euro	n/a	80.14	n/a
Otor Papeterie de Nantes	France	Euro	80.14	80.14	n/a
Otor Papeterie du Doubs	France	Euro	n/a	80.14	n/a

There are no companies consolidated according to the equity method.

SECTION B: ACCOUNTANTS' REPORT ON THE FINANCIAL INFORMATION ON THE OTOR GROUP

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9 August 2010

Dear Sirs

Otor Finance S.A. ("Otor" and, with its subsidiaries, the "Otor Group")

We report on the financial information set out in Part IV of the Class 1 Circular relating to the acquisition of Otor dated 9 August 2010 of DS Smith Plc (the "Company") (the "Circular"). This financial information has been prepared for inclusion in the Circular on the basis of the accounting policies set out in Note 1 to the financial information. This report is required by Listing Rule 13.5.21R and is given for the purpose of complying with that requirement and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in Note 1 to the financial information and in accordance with IFRS as adopted by the EU.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the Circular, and to report our opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to Ordinary Shareholders as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R(6), consenting to its inclusion in the Circular.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of

America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion, the financial information gives, for the purposes of the Circular, a true and fair view of the state of affairs of the Otor Group as at the dates stated and of its profits, cash flows and changes in equity for the periods then ended in accordance with the basis of preparation set out in Note 1 and in accordance with IFRS as adopted by the EU, and has been prepared in a form that is consistent with the accounting policies adopted in the Company's latest annual accounts.

Yours faithfully

Deloitte LLP
Chartered Accountants

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PART V

UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

SECTION A: UNAUDITED PRO FORMA INFORMATION ON THE ENLARGED GROUP

The unaudited *pro forma* statement of net assets of the Enlarged Group in this Part V has been based on the net assets of DS Smith Plc as at 30 April 2010 and the net assets of the Otor Group as at 31 December 2009 and prepared in accordance with Annex II of the Prospectus Rules and on the basis of the notes set out below. The unaudited *pro forma* statement of net assets has been prepared to illustrate the effect on the consolidated net assets of the Enlarged Group of the Acquisition and the Placing as if they had been completed on 30 April 2010. As indicated above, the unaudited *pro forma* statement of net assets has been prepared for illustrative purposes only and because of its nature the *pro forma* statement addresses a hypothetical situation and does not, therefore, represent the Enlarged Group's actual financial position and results.

Basis of preparation of the *pro forma* combined assets and liabilities statement at 30 April 2010

The *pro forma* combined assets and liabilities statement set out below is based on information which has been extracted without material adjustment from the audited balance sheet of the Company as at 30 April 2010 as incorporated by reference in Part VI of this document and the audited balance sheet of the Otor Group as restated under the Company's accounting policies as at 31 December 2009 as set out in Part IV of this document. Further adjustments have been made in accordance with Annex II item 6 of Appendix 3 to the Prospectus Rules.

Note	DS Smith Plc audited as at 30 April 2010 £ million 1	Otor Group audited as at 31 December 2009 £ million 2	Adjustments Acquisition accounting 3	Cash consideration, expenses and debt repayment 3	Facility drawdown 4	Equity placement adjustment 5	Proforma 6
Assets							
Non-current assets							
Intangible assets	221.2	59.2	68.5	—	—	—	348.9
Property, plant and equipment	590.8	53.2	—	—	—	—	644.0
Other investments	0.8	—	—	—	—	—	0.8
Deferred tax assets	81.4	15.3	—	—	—	—	96.7
Other receivables	0.8	11.8	—	—	—	—	12.6
Derivative financial instruments	11.9	—	—	—	—	—	11.9
Total non-current assets	906.9	139.5	68.5	—	—	—	1,114.9
Current assets							
Inventories	174.8	31.7	—	—	—	—	206.5
Other investments	0.2	—	—	—	—	—	0.2
Income tax receivable	2.3	0.0	—	—	—	—	2.3
Trade and other receivables	380.5	57.3	—	—	—	—	437.8
Cash and cash equivalents	55.1	1.5	—	(214.3)	167.1	46.0	55.4
Derivative financial instruments	6.3	0.0	—	—	—	—	6.3
Assets classified as held for sale	8.1	—	—	—	—	—	8.1
Total current assets	627.3	90.5	—	(214.3)	167.1	46.0	716.6
Total assets	1,534.2	230.0	68.5	(214.3)	167.1	46.0	1,831.5
Liabilities							
Non-current liabilities							
Interest-bearing loans and borrowings	(256.4)	(27.2)	—	27.2	(167.1)	—	(423.5)
Post-retirement benefits	(203.1)	(10.9)	—	—	—	—	(214.0)
Other payables	(3.9)	(4.8)	—	—	—	—	(8.7)
Provisions	(7.9)	(0.2)	—	—	—	—	(8.1)
Deferred tax liabilities	(60.5)	—	—	—	—	—	(60.5)
Derivative financial instruments	(26.0)	—	—	—	—	—	(26.0)
Total non-current liabilities	(557.8)	(43.1)	—	27.2	(167.1)	—	(740.8)
Current liabilities							
Bank overdrafts	(22.3)	(1.1)	—	—	—	—	(23.4)
Interest-bearing loans and borrowings	(5.7)	(23.6)	—	13.1	—	—	(16.2)
Trade and other payables	(430.4)	(64.1)	—	—	—	—	(494.5)
Income tax liabilities	(17.1)	—	—	—	—	—	(17.1)
Provisions	(12.9)	(0.9)	—	—	—	—	(13.8)
Derivative financial instruments	(8.7)	—	—	—	—	—	(8.7)
Liabilities classified as held for sale	(6.1)	—	—	—	—	—	(6.1)
Total current liabilities	(503.2)	(89.7)	—	13.1	—	—	(579.8)
Total liabilities	(1,061.0)	(132.8)	—	40.3	(167.1)	—	(1,320.6)
Net assets	473.2	97.2	68.5	(174.0)	—	46.0	510.9

Notes:

(1) The consolidated net assets of DS Smith Plc at 30 April 2010 have been extracted without material adjustment from the audited financial statements of DS Smith Plc, which are incorporated by reference in Part VI of this document.

(2) The consolidated net assets of Otor Finance S.A. at 31 December 2009 as restated in accordance with DS Smith Plc accounting policies, as set out in Part IV of this document, translated into sterling at £1.00: €1.151 being the closing rate of exchange at 30 April 2010.

(3) The unaudited *pro forma* statement of net assets has been prepared on the basis that the acquisition of Otor Finance S.A. will be accounted for using the acquisition method. The excess of consideration over the book value of assets acquired has been reflected as goodwill. No account has been taken of any fair value adjustments which may arise on the Acquisition or the consequential impact of amortisation.

The goodwill arising on this basis has been calculated as follows

	£ millions
Purchase consideration	206.0
Comprising	
Cash consideration for Otor Finance S.A. shares	165.7
Repayment of Otor Group debt	40.3
Goodwill	
Cash consideration for Otor Finance S.A. shares	165.7
Net assets of Otor Group as at 31 December 2009 (Note 2)	97.2
Goodwill	**68.5**

The cash consideration is in respect of 22,167,792 Otor Finance S.A. shares at €8.97 per share, amounting to £165.7 million (€198.8 million translated into sterling at £1.00: €1.2 being the closing rate of exchange on 7 July 2010, the date of announcement of the Acquisition).

The cash outflow of £214.3 million reflects the transaction costs and fees of approximately £8.3 million in addition to the purchase consideration of £206 million.

(4) The adjustment to cash reflects the drawing down under new bank facilities of £167.1 million.

(5) The adjustment to cash reflects the equity Placing by DS Smith Plc of 39,296,253 new Ordinary Shares of 10 pence each on 7 July 2010 with institutions (representing approximately 9.99 per cent. of DS Smith's issued ordinary share capital prior to the Placing) for gross proceeds of £47.2 million (a price of 120 pence per placing share) less associated cost of £1.2 million.

(6) No adjustment has been made to the unaudited *pro forma* statement of net assets to reflect the trading results of DS Smith Plc and Otor Finance S.A. since the balance sheet dates shown.

SECTION B: ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA INFORMATION ON THE ENLARGED GROUP

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125 London Wall
London
EC2Y 5AJ

9 August 2010

Dear Sirs,

DS Smith Plc (the "Company")

We report on the *pro forma* financial information (the "Pro forma financial information") set out in Part V of the Class 1 circular dated 9 August 2010 (the "Circular"), which has been prepared on the basis described in the notes, for illustrative purposes only, to provide information about how the acquisition of Otor Finance S.A. might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ended 30 April 2010. This report is required by Annex I item 20.2 of Commission Regulation (EC) No 809/2004 (the "Prospectus Directive Regulation") as applied by Listing Rule 13.3.3R and is given for the purpose of complying with that requirement and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company the ("Directors") to prepare the Pro forma financial information in accordance with Annex II items 1 to 6 of the Prospectus Directive Regulation as applied by Listing Rule 13.3.3R.

It is our responsibility to form an opinion, in accordance with Annex I item 20.2 of the Prospectus Directive Regulation, as to the proper compilation of the Pro forma financial information and to report that opinion to you in accordance with Annex II item 7 of the Prospectus Directive Regulation as applied by Listing Rule 13.3.3R.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to Ordinary Shareholders as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R (6), consenting to its inclusion in the Circular.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the Directors.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards or practices.

Opinion

In our opinion:

(a) the Pro forma financial information has been properly compiled on the basis stated; and

(b) such basis is consistent with the accounting policies of the Company.

Yours faithfully

Deloitte LLP
Chartered Accountants

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Deloitte LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu Limited ('DTTL'), a UK private company limited by guarantee, whose member firms are legally separate and independent entities. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

Member of Deloitte Touche Tohmatsu Limited

PART VI

ADDITIONAL INFORMATION

1. Responsibility

The Directors, whose names appear below, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Directors and their principal functions are as follows:

Peter Michael Johnson	*Chairman*
Miles William Roberts	*Group Chief Executive*
Stephen William Dryden	*Group Finance Director*
Robert Geoffrey Beeston	*Non-Executive Director*
Christopher Jonathan Bunker	*Senior Non-Executive Director*
Gareth Davis	*Non-Executive Director*
Philippe Jean-Claude Mellier	*Non-Executive Director*
Jonathan Clive Nicholls	*Non-Executive Director*

2. Registered Office

2.1 The Company was incorporated and registered in England and Wales on 7 July 1978 under the Companies Acts 1948 to 1976 as a private company limited by shares with the name David S. Smith (Packaging) Limited and registered number 1377658. Its name was changed to David S. Smith (Holdings) Limited on 11 August 1978. On 28 June 1992, the Company re-registered as a public company limited by shares with the name David S. Smith (Holdings) Public Limited Company. Its name was changed to DS Smith Plc on 17 September 2001. The Ordinary Shares are quoted on the London Stock Exchange under the designation SMDS.

2.2 DS Smith is domiciled in the UK. The registered office of DS Smith is Beech House, Whitebrook Park, 68 Lower Cookham Road, Maidenhead, Berkshire SL6 8XY (telephone +44 (0)1628 583 400).

2.3 The principal legislation under which the Company operates and under which the Ordinary Shares have been created, is the Act and the regulations made thereunder.

3. Share capital

3.1 The issued share capital of the Company as at 6 August 2010 (being the latest practicable date prior to publication of this document) was as follows:

	Number	*Amount (£)*
Ordinary Shares of £0.10 each	432,652,146	£43,265,214.60

4. Directors' interests in the Company

4.1 *Directors' interests in share capital.*

As at 6 August 2010 (being the latest practicable date prior to publication of this document) the interests of the Directors in the share capital of the Company (all of which are beneficial unless otherwise stated), which have been notified to DS Smith pursuant to the Disclosure and Transparency Rules, are set out below:

Director	*Number of Ordinary Shares*	*Percentage of Issued Ordinary Share Capital*
Peter Johnson	255,000	0.059%
Miles Roberts	Nil	Nil
Steve Dryden	55,481	0.013%
Bob Beeston	50,000	0.012%
Christopher Bunker	20,000	0.005%
Gareth Davis	Nil	Nil
Philippe Mellier	20,000	0.005%
Jonathan Nicholls	19,130	0.004%

4.2 *Directors' interests in Ordinary Shares pursuant to the DS Smith Share-based Incentive Schemes*

As at 6 August 2010 (being the latest practicable date prior to the publication of this document), the following options over Ordinary Shares have been granted to the Directors under the DS Smith Share-based Incentive Schemes.

Awards made to Mr Roberts

In order to facilitate the recruitment of Mr Roberts in unusual circumstances and to ensure that his interests are directly and immediately aligned with those of the Shareholders, the Company agreed with him that he would be granted several conditional share awards as detailed below, principally for lost entitlement to bonus, deferred share awards and long-term share incentive awards relating to his previous employer.

Scheme	*Interest in Scheme*	*Award date*	*Vesting date*
Replacement 2007 LTIP	224,039	16 July 2010	10 October 2010
Replacement 2008 LTIP	432,432	16 July 2010	17 October 2011
Replacement Deferred Shares Award	106,685	16 July 2010	1 September 2012
Recruitment Award	570,768	16 July 2010	19 October 2012
Substitute Share Bonus Award	80,014	16 July 2010	1 September 2013

DS Smith Deferred Share Bonus Plan

The DS Smith Deferred Share Bonus Plan was introduced in 2007. Details of awards are as follows:

Director	*Interest in Plan*	*Award date*	*Vesting date*
S W Dryden	58,710	16 July 2010	16 July 2013

DS Smith Performance Share Plan

The DS Smith Performance Share Plan was approved by Shareholders in September 2008. Details of awards are as follows:

Director	*Interest in Plan*	*Award date*	*Vesting date*
M W Roberts	570,768	16 July 2010	16 July 2013
S W Dryden	370,786	17 September 2008	17 September 2011
	464,788	22 July 2009	22 July 2012
	352,062	16 July 2010	16 July 2013

DS Smith Replacement Deferred Share Bonus Plan

In recognition of the loss of his entitlement to deferred share bonus awards relating to his previous employment, Mr Dryden was made an award of 143,404 Ordinary Shares (which is neither pensionable nor transferable) on 1 April 2008, the date on which he joined DS Smith. Two tranches of shares have already vested. Details of the outstanding tranche are as follows:

Director	*Interest in Plan*	*Award date*	*Vesting date*
S W Dryden	74,674	1 April 2008	1 March 2011

4.3 Save as disclosed in this paragraph 4, no Director, nor any person connected to any Director, has any interest in the issued share capital or any options over unissued shares of DS Smith or any of its subsidiaries as at 6 August 2010 (being the latest practicable date prior to the publication of this document).

5. Significant shareholdings

5.1 As at 6 August 2010 (the latest practicable date prior to the publication of this document), so far as the Directors are aware, the following persons (other than the Directors) held directly or indirectly 3 per cent. or more of DS Smith's voting rights:

Shareholder	*Number of Ordinary Shares*	*Percentage of voting rights*
Schroder Investment Management Ltd	68,743,772	15.89%
Standard Life Investments Ltd	60,089,094	13.89%
J.P. Morgan Asset Management Holdings Inc	23,137,290	5.35%
Sparinvest Holdings A/S	20,349,831	4.70%
AXA S.A.	16,561,204	3.83%
Legal & General Group plc	15,314,233	3.54%

5.2 Save as disclosed in this paragraph 5, the Company is not aware of any interest (within the meaning of the Disclosure and Transparency Rules) which represents 3 per cent. or more of the voting rights in the Company. The Company is not aware of any person who, directly or indirectly, owns or controls the Company.

6. Related party transactions

DS Smith has not entered into any related party transactions during the period covered by the historical financial information contained in Part IV of this document and in the current financial year to 6 August 2010 (being the latest practicable date prior to publication of this document).

7. Service contracts and benefits upon termination of employment of Directors

Details of the terms of executive Directors' service contracts appear in section (K) of the section entitled Remuneration Report on pages 49 to 50 of the Company's 2010 Annual Report. As at the date of this document there have been no changes to the terms of these contracts since the publication of the 2010 Annual Report.

Save as set out in the 2010 Annual Report, the service contracts of the executive Directors do not contain any provision for compensation in the event of early termination of their employment or appointment.

8. Material contracts

8.1 *DS Smith*

The following is a summary of each contract (not being a contract entered into in the ordinary course of business): (a) to which the Company or any member of the Group is or has been a party within the two years immediately preceding the date of this document which is, or may be, material; or (b) that has been entered into by the Company or any member of the Group and which contains any provision under which any member of the Group has any obligation or entitlement which is material to the Group as at the date of this document.

(a) Acquisition Agreement

A summary of the principal terms of the Acquisition Agreement is set out in Part III of this document.

(b) Placing

(i) On 7 July 2010, DS Smith entered into a placing agreement (the **Placing Agreement**) with J.P. Morgan Cazenove in connection with the Placing. Pursuant to the Placing Agreement, J.P. Morgan Cazenove agreed, subject to the satisfaction of certain conditions and the agreement not having been terminated, to use reasonable endeavours to procure placees to subscribe for up to 39,296,253 new Ordinary Shares (the **Placing Shares**) and, to the extent that any placees procured by it failed to subscribe for any or all of the Placing Shares which they had agreed to subscribe for, to subscribe itself for such Placing Shares. The Placing completed on 7 July 2010 and the Placing Shares were issued and admitted to the Official List and to trading on the London Stock Exchange's main market for listed securities on 12 July 2010 (**Admission**).

In consideration for J.P. Morgan Cazenove's agreement to procure placees for the Placing Shares (or to otherwise subscribe for the Placing Shares themselves) and their services in connection with the Placing, DS Smith agreed to pay J.P. Morgan Cazenove a commission of an amount equal to 2 per cent. of the gross proceeds of the Placing and a discretionary fee of £200,000. DS Smith also agreed to pay certain costs and expenses in connection with the Placing including, but not limited to DS Smith's own costs and expenses, advisers' fees and certain of J.P. Morgan Cazenove's costs and expenses.

The Placing Agreement contained customary warranties and indemnities for placing agreements of this nature given by DS Smith to J.P. Morgan Cazenove.

(ii) On 7 July 2010, DS Smith entered into a subscription and transfer agreement with Whitebeech Limited (**JerseyCo**) and J.P. Morgan Cazenove (the **Transfer Agreement**) whereby J.P. Morgan Cazenove agreed to subscribe for 100 redeemable preference shares of no par value (**Preference Shares**) in JerseyCo and, subject to the Placing Agreement having become unconditional in all respects, J.P. Morgan Cazenove agreed to transfer the Preference Shares and the JerseyCo Shares (as defined below) to DS Smith in consideration for the issue and allotment of the Placing Shares. Under the Transfer Agreement, DS Smith and JerseyCo gave certain warranties to J.P. Morgan Cazenove in relation to the activities of JerseyCo, DS Smith and the status of the Preference Shares, and DS Smith provided an indemnity in favour of J.P. Morgan Cazenove regarding taxation and as regards losses and expenses incurred by J.P. Morgan Cazenove in the performance of the Transfer Agreement.

(iii) On 7 July 2010, DS Smith entered into an initial subscription and put and call option agreement with JerseyCo and J.P. Morgan Cazenove (the **Option Agreement**) whereby J.P. Morgan Cazenove agreed to subscribe for 11 ordinary shares of no par value (the **JerseyCo Shares**) in JerseyCo. In certain circumstances, J.P. Morgan Cazenove had the right to require DS Smith to purchase, and DS Smith had the right to require J.P. Morgan Cazenove to sell, all the JerseyCo Shares, in each case for £1 per JerseyCo Share; these rights expired on Admission. Under the Option Agreement, DS Smith and JerseyCo gave certain warranties to J.P. Morgan Cazenove in relation to the activities of JerseyCo, DS Smith and the status of the JerseyCo Shares and DS Smith provided an indemnity in favour of J.P. Morgan Cazenove regarding taxation and as regards losses and expenses incurred by J.P. Morgan Cazenove in the performance of the Option Agreement.

(c) On 3 March 2005, DS Smith, St Regis Paper Company Limited (**St Regis**) and BPB United Kingdom Limited (now part of the Saint-Gobain Group) (**Saint-Gobain**) entered into a long-term supply agreement for the manufacture and supply of plasterboard liner paper to Saint-Gobain. The agreement guarantees St Regis a minimum annual volume of plasterboard liner paper and contains a number of customary provisions for such long-term supply agreements. The agreement is expected to continue (subject to usual rights of early termination) until at least 2015, when the volumes to be supplied will then reduce down to zero over a four year period.

(d) Banking Facilities

(i) On 29 August 2008 DS Smith entered into a syndicated revolving credit facility of £287.5 million which expires on 29 August 2013. The banks in the syndicate are: Lloyds TSB Bank plc, The Royal Bank of Scotland plc, West LB AG London Branch, Abbey National Treasury Services Plc, The Governor and Company of the Bank of Ireland, BNP Paribas and Landesbank Baden-Württemberg London Branch. Advances drawn under the facility bear interest at a margin over LIBOR or EURIBOR.

(ii) On 4 August 2010, DS Smith entered into a term loan facility of €81 million which expires on 29 August 2013. The banks in the syndicate are Lloyds TSB Bank plc, The Royal Bank of Scotland plc and BNP Paribas. Advances drawn under the facility bear interest at a margin over LIBOR or EURIBOR. The availability and utilisation of the facility is dependent upon Closing.

(iii) Both facility agreements contain customary covenants, representations and events of default including restrictions on disposals, subsidiary indebtedness and creation of security. The agreement covenants stipulate that DS Smith must have a minimum level of consolidated net assets, not exceed a maximum level of consolidated net borrowings with reference to the EBITDA of the DS Smith Group and a minimum interest cover ratio.

(e) Private Placements

(i) On 14 November 2002 DS Smith issued US$105,000,000 6.24 per cent. series A senior notes due 14 November 2012 and £25,000,000 6.85 per cent. series B senior notes due 14 November 2012 by way of a private placement.

In connection with this private placement DS Smith entered into three swap transactions on 14 November 2002 to hedge the associated interest and currency exposures. The Royal Bank of Scotland plc made payment of US$80,000,000 in return for proceeds of €81,591,025. The swap counterparty also agreed to pay fixed US dollar interest of 6.24 per cent. in exchange for floating euro rate interest at rates linked to EURIBOR until 14 November 2012. In another swap The Royal Bank of Scotland plc agreed to pay fixed rate US dollar interest rate of 6.24 per cent. on a principal amount of US$25,000,000 in exchange for floating US dollar interest linked to US dollar LIBOR until 14 November 2012. Bayerische Landesbank agreed to pay fixed rate sterling interest of 6.85 per cent. on a principal amount of £25,000,000 in exchange for floating sterling interest linked to LIBOR until 14 November 2012.

(ii) On 25 August 2004 DS Smith issued US$105,000,000 5.66 per cent. senior notes due 25 August 2014 and US$95,000,000 5.80 per cent. senior notes due 25 August 2016 by way of a private placement.

In connection with this private placement DS Smith entered into three swap transactions with Lloyds TSB Bank plc on 25 August 2004 to hedge the associated interest and currency exposures. Lloyds TSB Bank plc made a payment of US$105,000,000 in return for proceeds of €86,498,064. The swap counterparty also agreed to pay fixed US dollar interest of 5.66 per cent. in exchange for floating euro rate interest at rates linked to EURIBOR until 25 August 2014. Lloyds TSB Bank plc made a payment of US$20,000,000 in return for proceeds of €14,475,822. The swap counterparty also agreed to pay fixed US dollar interest of 5.80 per cent. in exchange for floating euro interest at rates linked to EURIBOR until 25 August 2016. Lloyds TSB Bank plc made a payment of €75,000,000 in return for proceeds of £40,847,448. The swap counterparty also agreed to pay fixed US dollar interest of 5.80 per cent. in exchange for fixed sterling interest of 6.213 per cent. until 25 August 2016.

(iii) On 11 August 2010 DS Smith intends issuing €59,000,000 4.395 per cent. senior notes due 13 August 2018 and €59,000,000 4.825 per cent. senior notes due 11 August 2020 by way of a private shelf facility.

All the private placement agreements contain customary covenants, representations and events of default including restrictions on disposals, subsidiary indebtedness and creation of security. The covenants stipulate that DS Smith must have a minimum level of consolidated net assets, not exceed a maximum level of consolidated net borrowings with reference to the EBITDA of the DS Smith Group and a minimum interest cover ratio.

(f) On 23 September 2009, Demes Logistics GmbH & Co. KG and DS Smith Plastics Limited entered into an agreement with Cartonplast Trading GmbH, Diskus Dreihundertzweiundvierzigste Beteiligungs-und Verwaltungs GmbH and Cartonplast UK Limited for the sale of the business and assets of Demes Logistics. The sale completed on 5 January 2010. Demes had gross assets of €11.2 million as at 31 October 2009.

(g) On 28 May 2010, DS Smith (Luxembourg) SARL entered into an agreement with Olmuksa International Paper – Sabanci Ambalaj Sanayi Ve Ticaret AS for the sale of DS Smith Copikas Kagit Ve Oluklu Mukavva Kutu Sanayi AS for an initial consideration of €5.5 million. Completion is currently expected to take place at the end of August 2010.

8.2 *Otor*

The following is a summary of each contract (not being a contract entered into in the ordinary course of business): (a) to which Otor or any member of the Otor Group is or has been a party within the two years immediately preceding the date of this document which is, or may be, material; or (b) that has been entered into by Otor or any member of the Otor Group and which contains any provision under which any member of the Otor Group has any obligation or entitlement which is material to the Otor Group as at the date of this document.

(a) Sale of Otor Papeterie Saint-Michel

In July 2009, Otor Dauphiné transferred to Mr Alain Dubois 100 per cent. of the shares representing the entire share capital of Otor Papeterie Saint-Michel as well as its shareholder loan amounting to €1,212,586 for a purchase price of €2 (€1 in respect of the shares and €1 in respect of the loan). As a condition to this agreement, Otor Dauphiné undertook to subscribe to a share capital increase of Otor Papeterie Saint-Michel for an amount of €7 million to restore the net equity of the company. Limited representations and warranties have been granted by the seller, save with respect to the ownership of the shares. In addition, a paper supply agreement was entered into whereby Otor Dauphiné undertook to purchase from Otor Papeterie Saint-Michel and its subsidiaries for a three year period, 80,000 tonnes of paper in the first year, 56,000 tonnes in the second year and 32,000 tonnes in the third year. The agreement may be terminated early by either party in case of material breach of the other party, upon three months' prior notice. Otor is not entitled under this agreement to reduce the quantities of paper it has committed to purchase.

(b) Sale of Otor Papeterie du Doubs

In December 2009, Otor Velin transferred to Mr Louis-Philippe Soenen 100 per cent. of the shares of its subsidiary Otor Papeterie du Doubs as well as its shareholder loan amounting to €3,192,081 for a purchase price of €2 (€1 in respect of the shares and €1 in respect of the loan). As a condition to this agreement, Otor Velin undertook to subscribe to a share capital increase of Otor Papeterie du Doubs for an amount of €8 million to restore the net equity of the company. Limited representations and warranties have been granted by the seller, save with respect to the ownership of the shares. In addition, a paper supply agreement was entered into whereby Otor undertook to purchase from Otor Papeterie du Doubs 3,500 tonnes of paper per month until 30 June 2010 and 2,000 tonnes of paper per month for the period from 1 July 2010 to 31 December 2010. This agreement may not be terminated early and does not provide for the possibility of purchasing a lower volume of paper.

9. Litigation

9.1 *DS Smith*

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which DS Smith is aware), during a period covering at least the previous 12 months preceding the date of this document which may have, or have had in the recent past significant effects on DS Smith and/or the Group's financial position or profitability.

9.2 *Otor*

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which DS Smith is aware), during a period covering at least the previous 12 months preceding the date of this document which may have, or have had in the recent past significant effects on Otor and/or the Otor Group's financial position or profitability.

10. Working capital

DS Smith is of the opinion that, taking into account the bank and other facilities available to the Enlarged Group, the Enlarged Group has sufficient working capital for its present requirements, that is, for at least the 12 months following the date of publication of this document.

11. Significant change

11.1 *DS Smith*

There has been no significant change in the financial or trading position of the Group since 30 April 2010, being the date to which the last audited financial statements of the Group were prepared.

11.2 *Otor*

There has been no significant change in the financial or trading position of the Otor Group since 31 December 2009, being the date to which the historical financial information of the Otor Group, as set out in Part IV of this document, was prepared.

12. Consents

12.1 J.P. Morgan Cazenove has given and has not withdrawn its written consent to the inclusion in this document of its name and the references to it in the form and context in which they appear.

12.2 Deloitte LLP is a member of the Institute of Chartered Accountants in England and Wales and has given and has not withdrawn its written consent to the inclusion of the Accountants' Report on the Financial Information on the Otor Group in Section B of Part IV of this document and the Accountants' Report on the Unaudited Pro Forma Information on the Enlarged Group in Section B of Part V of this document, each in the form and context in which they appear.

13. Incorporation by reference

Your attention is drawn to the following information which is incorporated by reference into this document:

(a) the information shown in section (K) of the Remuneration Report for the period ended 30 April 2010, as published in the Company's Annual Report for the year ended 30 April 2010 at pages 49 to 50; and

(b) the Consolidated Statement of Financial Position as at 30 April 2010, as published in the Company's Annual Report for the year ended 30 April 2010 at page 62.

Copies of the documents listed above have been filed with the FSA and are also available for inspection in accordance with paragraph 14 below.

14. Documents available for inspection

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of the Company at Beech House, Whitebrook Park, 68 Lower Cookham Road, Maidenhead, Berkshire SL6 8XY and at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD, from the date of this document up to and including the date of the General Meeting and for the duration of the General Meeting:

(a) the Articles;

(b) the audited consolidated accounts of the DS Smith Group for each of the periods ended 30 April 2010, 30 April 2009 and 30 April 2008;

(c) the Acquisition Agreement;

(d) the Accountants' Report on the Financial Information on the Otor Group set out in Part IV of this document;

(e) the Accountants' Report on the Unaudited Pro Forma Information on the Enlarged Group set out in Part V of this document;

(f) the letters of consent referred to in paragraph 12 above; and

(g) a copy of this document and the Form of Proxy.

PART VII

DEFINITIONS AND INTERPRETATION

The following definitions apply throughout this document, unless the context requires otherwise:

Acquisition	the proposed acquisition by DS Smith of Otor Finance and the majority of the shares of Otor under the terms of the Acquisition Agreement;
Acquisition Agreement	the share purchase agreement dated 13 July 2010 between DS Smith and the Sellers;
Act	the Companies Act 2006;
AMF	the French *Autorité des marchés financiers*;
Articles	the articles of association of the Company in force at the date of this document;
Business Day	any day on which banks are generally open in London for the transaction of normal business other than a Saturday or Sunday or public holiday in England and Wales;
Carlyle	The Carlyle Group;
CHP	combined heat and power;
Closing	closing of the Acquisition;
CREST	the relevant system (as defined in the Regulations) in respect of which Euroclear is the operator (as defined in the Regulations);
CREST Proxy Instruction	the form of appointment of proxy to vote through the Euroclear system;
Directors or **Board**	the directors of DS Smith as listed on page 72 of this document;
Disclosure and Transparency Rules	the Disclosure and Transparency Rules of the FSA made under Part VI of FSMA, as amended from time to time;
DS Smith or the **Company**	DS Smith Plc;
DS Smith Share-based Incentive Schemes	The DS Smith Substitute Share Bonus Award, Replacement Deferred Shares Award, Replacement 2007 LTIP, Replacement 2008 LTIP, Recruitment Award, Performance Share Plan, Deferred Share Bonus Plan, Replacement Deferred Share Bonus Plan and Executive Share Option Scheme;
EEA or **European Economic Area**	the European Union, Iceland, Liechtenstein and Norway;
Enlarged Group	the DS Smith Group as enlarged by the Acquisition;
EU or **European Union**	the European Union;
Euroclear	Euroclear UK & Ireland Limited;
FMCG	fast moving consumer goods;
Form of Proxy	the proxy form relating to the General Meeting;
FSA	the Financial Services Authority;
FSMA	the Financial Services and Markets Act 2000, as amended;
General Meeting	the general meeting of the Company convened for 9.00 a.m. on 26 August 2010 (or any adjournment thereof), notice of which is set out at the end of this document;
Group or **DS Smith Group**	DS Smith Plc and its subsidiary undertakings;
IFRS	International Financial Reporting Standards;

J.P. Morgan Cazenove	J.P. Morgan plc (which conducts its UK investment banking business as J.P. Morgan Cazenove);
LCL	Crédit Lyonnais;
Listing Rules	the Listing Rules of the FSA made under Part VI of FSMA, as amended from time to time;
London Stock Exchange	London Stock Exchange plc;
Minority Offer	the mandatory offer for the shares of Otor not controlled by the Company following Closing, in accordance with French stock exchange regulations, to be followed by a squeeze out (*retrait obligatoire*);
Ordinary Shares	the ordinary shares of 10p each in the capital of DS Smith;
Otor	Otor S.A.;
Otor Finance	Otor Finance S.A.;
Otor Group	Otor Finance and its subsidiary undertakings;
Packaging Investment	Packaging Investment I SARL and Packaging Investment II SARL;
Placing	the placing of 39,296,253 new Ordinary Shares announced by DS Smith on 7 July 2010;
Registrar	Equiniti Limited of Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA;
Regulations	the Uncertificated Securities Regulations 2001 (SI 2001 No 3755);
Regulatory Information Service or **RIS**	any of the services set out in Schedule 12 of the Listing Rules;
Resolution	the ordinary resolution to be proposed at the General Meeting, notice of which is set out at the end of this document;
Sellers	Packaging Investment and LCL;
Shareholder or **Shareholders**	a holder or holders of an Ordinary Share;
SRP	shelf-ready packaging;
UK or **United Kingdom**	the United Kingdom of Great Britain and Northern Ireland; and
US or **United States**	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia.

- All references to "pounds", "pounds sterling", "sterling", "£", "pence", "penny" and "p" are to the lawful currency of the United Kingdom.
- All references to "euros", "EUR" and "€" are to the lawful currency of the European Union.
- All references to "US$", "$" and "US Dollars" are to the lawful currency of the United States.
- All references in this document to times are, unless the context requires otherwise, references to the time in London, United Kingdom.

NOTICE OF GENERAL MEETING

DS SMITH PLC

(incorporated under the Companies Act 1985 in England and Wales with registered number 1377658)

NOTICE IS HEREBY GIVEN that a general meeting of DS Smith Plc (the **Company**) will be held at 9.00 a.m. on 26 August 2010 at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as an ordinary resolution.

ORDINARY RESOLUTION

THAT the proposed acquisition by the Company or another member of the Company's group of 94.99 per cent. of the issued share capital of Otor S.A. (both directly, and indirectly through the purchase of 100 per cent. of the issued share capital of Otor Finance S.A.) pursuant to the terms and subject to the conditions contained in the conditional share purchase agreement dated 13 July 2010 between the Company, Packaging Investment I S.A.R.L, Packaging Investment II S.A.R.L. and Crédit Lyonnais (the **Agreement**), and the proposed subsequent compulsory tender offer (*offre publique d'achat simplifiée*) by the Company or another member of the Company's group for the remaining shares of Otor S.A. listed on NYSE Alternext Paris in accordance with French stock exchange regulations (the **Compulsory Tender Offer**) to be followed by a squeeze out (*retrait obligatoire*), each as described in the circular to the shareholders of the Company dated 9 August 2010 of which this Notice forms part, be and are hereby approved and that the Directors of the Company (the **Directors**) (or a duly authorised committee of the Directors) be and are hereby authorised to take all steps as may be necessary or desirable to execute, complete and give effect to (i) the Agreement in accordance with such terms and conditions and the documents referred to in the Agreement with such non-material modifications, variations, amendments or revisions as they consider, in their absolute discretion, to be in the best interests of the Company; and (ii) the Compulsory Tender Offer and subsequent squeeze out.

By order of the Board

Registered office:
Beech House
Whitebrook Park
68 Lower Cookham Road
Maidenhead
Berkshire SL6 8XY

Carolyn Cattermole
Company Secretary

9 August 2010

Notes:

(1) Only persons entered on the register of members of the Company at 6.00 p.m. on the date which is two days prior to the meeting or any adjournment of it shall be entitled to attend and vote at the meeting or any adjourned meeting either in person or by proxy. The number of Ordinary Shares then registered in their respective names shall determine the number of votes such persons are entitled to cast on a poll at the meeting. Changes to entries on the register after this time shall be disregarded in determining the rights of persons to attend or vote (and the number of votes they may cast) at the meeting or adjourned meeting.

(2) A member entitled to attend and vote is entitled to appoint a proxy or proxies to exercise all or any of his rights to attend and to speak and vote instead of him/her. A member may appoint more than one proxy in relation to a meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him. A proxy need not be a member of the Company. A Form of Proxy is enclosed with this document and instructions for completion are shown on the form.

(3) Forms of Proxy, and any power of attorney or other authority under which they are signed or a notorially certified or office copy thereof, need to be deposited with the Registrar at Aspect House, Lancing Road, West Sussex BN99 6DA not less than 48 hours before the start of the meeting or any adjournment thereof. A member must inform the Registrar in writing of any termination of the authority of a proxy. Completing and returning a Form of Proxy will not preclude a Shareholder from attending the General Meeting in person and voting should he or she wish to do so and is so entitled. A vote withheld option is provided on the Form of Proxy to enable you to instruct your proxy not to vote on any particular resolution. However, it should be noted that a vote withheld in this way is not a "vote" in law and will not be counted in the calculation of the proportion of the votes "For" and "Against" a resolution.

(4) As an alternative to completing and returning the Form of Proxy, you may submit your proxy electronically by logging onto www.sharevote.co.uk using the Voting ID, Task ID and Shareholder Reference Number given on the Form of Proxy. Shareholders are advised to read the terms and conditions shown on the website relating to this facility before appointing a proxy. To be valid, any electronic appointment of proxy must be received by the Registrar not less than 48 hours before the time appointed for the meeting. The facilities to appoint proxies electronically are available to all Shareholders, and those who use them instead of returning a Form of Proxy will not be disadvantaged in any way.

(5) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the General Meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual (available at www.euroclear.com/CREST). 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.

(6) In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a **CREST Proxy Instruction**) must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or any 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 RA 19 by the latest time(s) for receipt of proxy appointments specified in the notice of the meeting. 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.

(7) CREST members and, where applicable, their CREST Sponsors or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

(8) 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.

(9) A person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a **Nominated Person**) may, under an agreement between him/her and the Shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights. The statement of the rights of members in relation to the appointment of proxies in paragraphs (2), (3) and (4) above does not apply to a Nominated Person. The rights described in these paragraphs can only be exercised by registered members of the Company. Nominated Persons are reminded that they should contact the registered holder of their shares (and not the Company) on matters relating to their investments in the Company.

(10) As at 6 August 2010 (being the latest practicable date prior to publication of this notice) the Company's issued share capital consists of 432,652,146 Ordinary Shares carrying one vote each of which nil shares are held in treasury. Therefore, the total exercisable voting rights in the Company as at 6 August 2010 are 432,652,146.

(11) Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

(12) A member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need to be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

(13) A copy of this notice, and other information required by section 311A of the Companies Act 2006 can be found at www.dssmith.uk.com.