DS Smith Plc

Annual Report and Accounts 2013

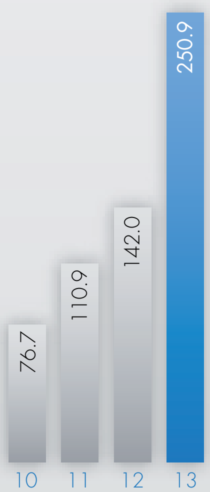
KEY HIGHLIGHTS

2012/13 has been a transformational year for DS Smith with the acquisition of SCA Packaging resulting in a doubling in size of the Group. Over the year we have delivered sales growth of 86 per cent, operating profit growth of 77 per cent and earnings per share growth of 36 per cent and have increased our dividend per share by 36 per cent. The decline in return on average capital employed reflects the dilutive impact of the acquisition of SCA Packaging, and we expect returns to improve as we deliver efficiencies and synergies across the Group.

Operating profit*

£250.9m

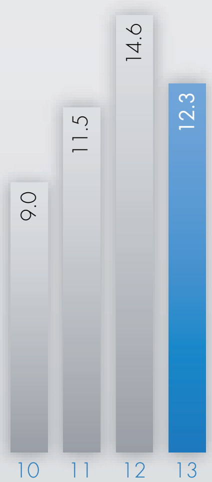
2012: £142.0m



Return on average capital employed*

12.3%

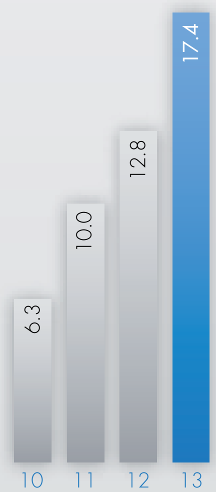
2012: 14.6%



Earning per share*

17.4p

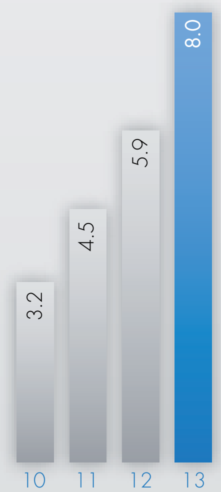
2012: 12.8p



Dividend per share

8.0p

2012: 5.9p



* Continuing operations, before amortisation and exceptional items.

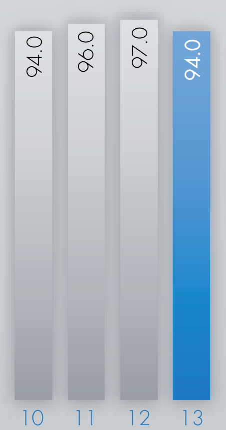
We are committed to all our stakeholders, including our customers, our employees and the environment. Following the acquisition of SCA Packaging, we see a great opportunity to improve our service standards across the wider Group. Our accident frequency rate is down 13 per cent, whilst our carbon emissions are down 7.7 per cent.

Customer service

Target

97%

On-time, in-full delivery

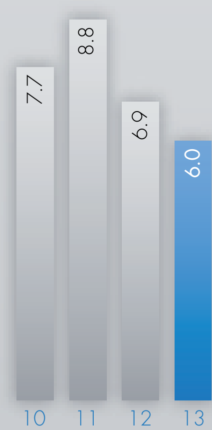


Employees

Target

nil

Accident frequency rate



Environmental

Target

-20% **in 10 years**

CO_2/revenue (kg/tonnes*)

* Change to methodology of data collection and unit of measurement (see pages 37-38 for more detail).

DS Smith is a leading packaging company providing corrugated packaging solutions throughout Europe as well as plastic packaging solutions worldwide.

MORE INSIDE

EXPECT MORE

BUSINESS REVIEW

GOVERNANCE

FINANCIAL STATEMENTS

MORE ONLINE

Explore our website to learn more about DS Smith
www.dssmith.uk.com.

OUR VISION

is to become the leader in recycled packaging for consumer goods.

WHO WE ARE

Our story can be traced back to the hand-made rigid box making business started in 1940 by the Smith brothers in East London. Since then, the company has grown continuously, through a series of acquisitions including St Regis (now DS Smith Paper) in 1986 and Kaysersberg (now DS Smith Kaysersberg) in 1991. DS Smith originally listed on the London Stock Exchange in 1960. We are a leading provider of corrugated packaging in Europe and are present in 25 countries employing around 20,000 people.

OUR VALUES

Be caring

We take pride in what we do and care about our customers, our people and the world around us.

Be challenging

We are not afraid to constructively challenge each other and ourselves to find a better way forward.

Be trusted

We can always be trusted to deliver on our promises.

Be responsive

We seek new ideas and understanding and are quick to react to opportunities.

Be tenacious

We get things done.

See more on page 40

STRATEGIC GOALS

To delight our customers

- By delivering on all our commitments.
- By providing innovative packaging solutions.

To realise the potential of our people

- By creating a place where people are proud to give their best.
- By living our values through everything we do.

To consistently deliver shareholder value

- By building a resilient and sustainable business model.
- By winning market share and expanding into new markets.

To lead the way in recycling

- By setting the standard for recycling packaging.
- By building sustainability into our decisions.

See more on page 20

We now have

20,000

employees operating in

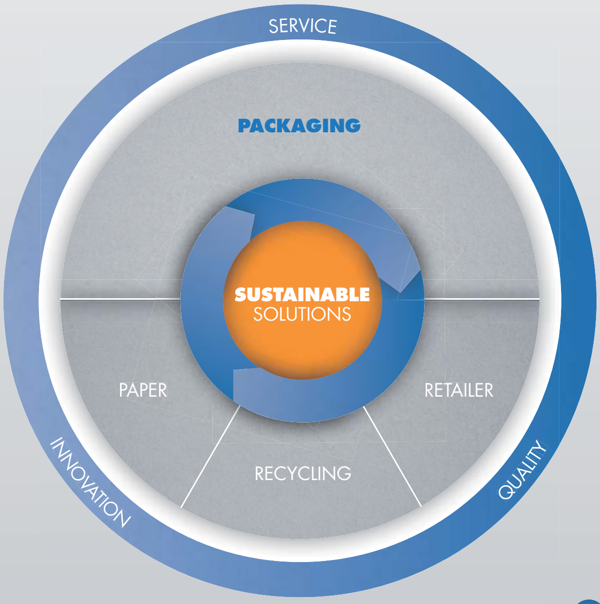
25

countries

BUSINESS MODEL

Our business model is designed to deliver, consistently, a return on capital above our cost of capital.

We have built a resilient and sustainable business model where our long position in corrugated packaging and the collection of fibres through recycling, and our short position in paper manufacturing, help to insulate us from the volatility of the paper cycle. We operate through our closed loop recycling model which is also an important differentiator as consumer goods companies and retailers seek to fulfil their environmental commitments.



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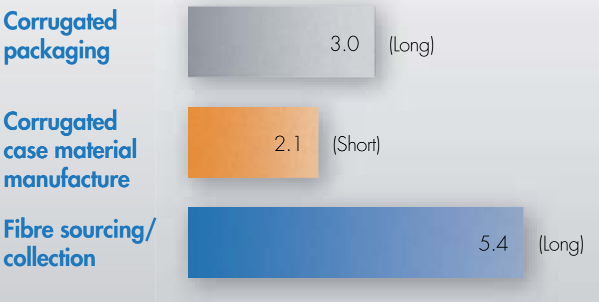
BALANCE OF OUR BUSINESS

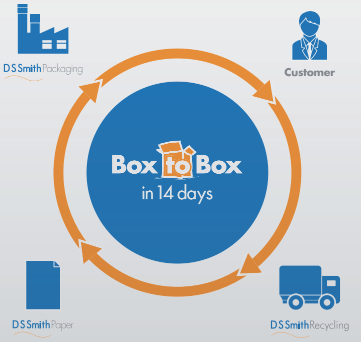
Balance of our combined businesses (million tonnes)*



* Pro forma totals.

CORPORATE RESPONSIBILITY

At DS Smith we are committed to conducting our business in a responsible and sustainable manner, delighting our customers, creating value for our shareholders, and providing our employees with a safe and productive work place. Our corporate responsibility approach covers health and safety, the environment, our employees and the community.



See more on page 34

WHERE WE OPERATE

View more online at
www.dssmith.uk.com

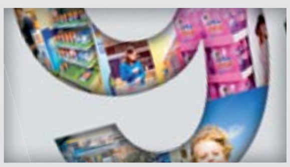
See more on page 24

2012/13 was a year of transformation for DS Smith

On 30 June 2012, SCA Packaging was acquired for €1.6 billion. We have doubled in size to form a leading corrugated packaging business in Europe. Our strengthened business model and focused strategy are creating an exciting future for the Group with more growth opportunities ahead.

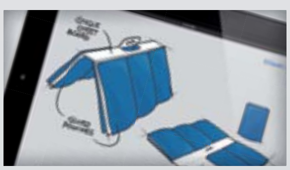
Miles Roberts
Group Chief Executive

EXPECT MORE...



MORE FOCUS

See more on page 6



MORE IDEAS

See more on page 8

MORE EFFICIENCY

See more on page 10

MORE GROWTH

See more on page 12

MORE SUSTAINABLE VALUE

See more on page 14

MORE
FOCUS

%

ON-TIME, IN-FULL DELIVERY

Through on-going focus on service, quality and innovation

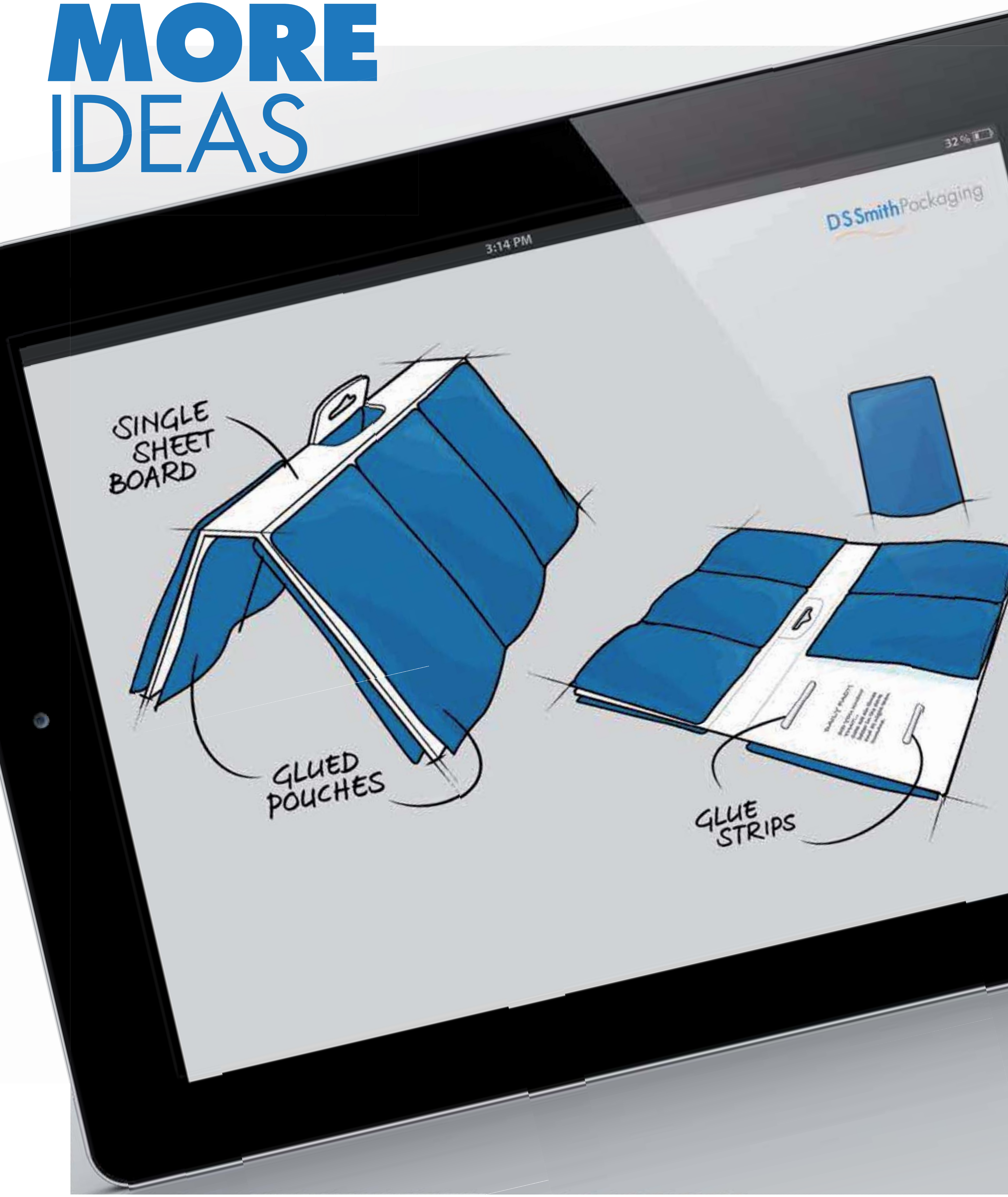
Working with our customers to meet their needs

With our enlarged geographic footprint, DS Smith can offer pan-European coverage to our largest customers, whilst also ensuring that our local customers receive high levels of service, quality and innovation. We work closely with our customers to understand their needs, helping them to improve production efficiencies throughout the entire supply chain, and reducing costs through the use of innovative products which use less paper, helping to reduce logistics costs and matching customers' requirements for a reduced carbon footprint. For our FMCG customers, high service levels are essential with the need for a more reliable and consistent source of supply, enabling customers to reduce their inventory levels. Our quality standards are very high with a defects rate of 0.2 per cent.

With the integration of SCA Packaging, we have an opportunity to improve our service offering across Europe, with a real focus on getting it right for the customer. Whilst our on-time, in-full (OTIF) delivery rates are high, we are focused on further improving our standards across the wider Group as we continue to build on the very high levels of service achieved in our legacy DS Smith business.

Aviko, Barilla, Canon, Carlsberg, Danish Crown, Danone, Ferrero, Heineken, Henkel, Intersnack, Kraft foods, Lactalis, L'Oréal, McCain, Mondelēz International, Nestlé, P&G, Unilever, UB United Biscuits, VELUX

MORE
IDEAS



3:14 PM
32 %
DS Smith Packaging
SINGLE SHEET BOARD
GLUED POUCHES
GLUE STRIPS

DESIGNING FOR THE FUTURE

Our Innovation Centre is the European inspiration "lab" for DS Smith Packaging

We create value for our customers by developing innovative packaging solutions that meet their needs, helping to increase their sales and reduce their costs

Based in Brussels, our Innovation Centre is a strategic resource within DS Smith to develop sustainable profitable growth with our pan-European customers. It also acts as the think-tank for developing the next generation of retail packaging, anticipating future trends in the industry, inspiring both our customers and our own network of design centres located across Europe.

The Innovation Centre is complementary to our network of 17 design centres.

In addition, our three Impact and Innovation Centres in the UK, France and Poland allow us to demonstrate to our customers and their end customers, the major retailers, the many benefits of Retail Ready Packaging in terms of brand promotion as the trend towards Point of Sale advertising continues. For the retailer there are also significant productivity efficiencies, with less time spent on stocking shelves and more time for customer-facing roles.

MORE EFFICIENCY

WE AIM TO OPERATE AS ONE BUSINESS

By working together effectively we can add value across the Group

Not just bigger, but better

With the acquisition of SCA Packaging, we have doubled the size of the Group. However, the real value is in what we can achieve as an enlarged business, with strengthened management structures and scale efficiencies.

We have built a new marketing, sales and design network, where our teams are able to support our pan-European customers more effectively. Our central Procurement team is realising significant savings through the scale benefits of the enlarged Group, with improved buying terms and greater discipline applied throughout the procurement process. We have also created a new management structure to improve our sourcing, supply and management of paper within the business to serve our packaging businesses in the most efficient way.

In addition, we have made significant progress with our target synergies, realising €40 million of cost savings and €120 million of cash savings in the first year. The cash savings are reflected in the Group's working capital, where we have seen a further reduction in the working capital to revenue ratio, despite historically higher levels of working capital in the former SCA Packaging business. This allows us to re-deploy capital elsewhere in the business, helping to create further growth and efficiencies across the Group.

2008/09 2009/10 2010/11


TOTAL TARGET SYNERGIES THROUGH TO 2014/15
€120m
Total cost savings
TOTAL TARGET SYNERGIES THROUGH TO 2014/15
€150m
Total cash savings
Working capital to revenue has fallen to
4.5%
2011/12
2012/13

MORE GROWTH

Extending the reach of our innovative products

Trayzer was initially designed for one large customer, but we are now winning business with other large pan-European customers, such as Nestlé, through our innovative shelf-ready packaging solutions.

OPENING UP NEW MARKETS

We have the scale to invest and grow in new markets with a clear focus on packaging

Expanded capability in key areas to reflect significant growth opportunities

Following the acquisition of SCA Packaging, we are now fully operational in 15 countries across Europe, with limited operations in a further 10 countries. This is enabling us to offer our innovative products and services on a pan-European basis to our largest customers, whilst simultaneously extending our reach to new customers in new markets. We are now operating in both the largest markets and the fastest growing markets across Europe, and we see further opportunities to grow our market share in the future.

25 countries

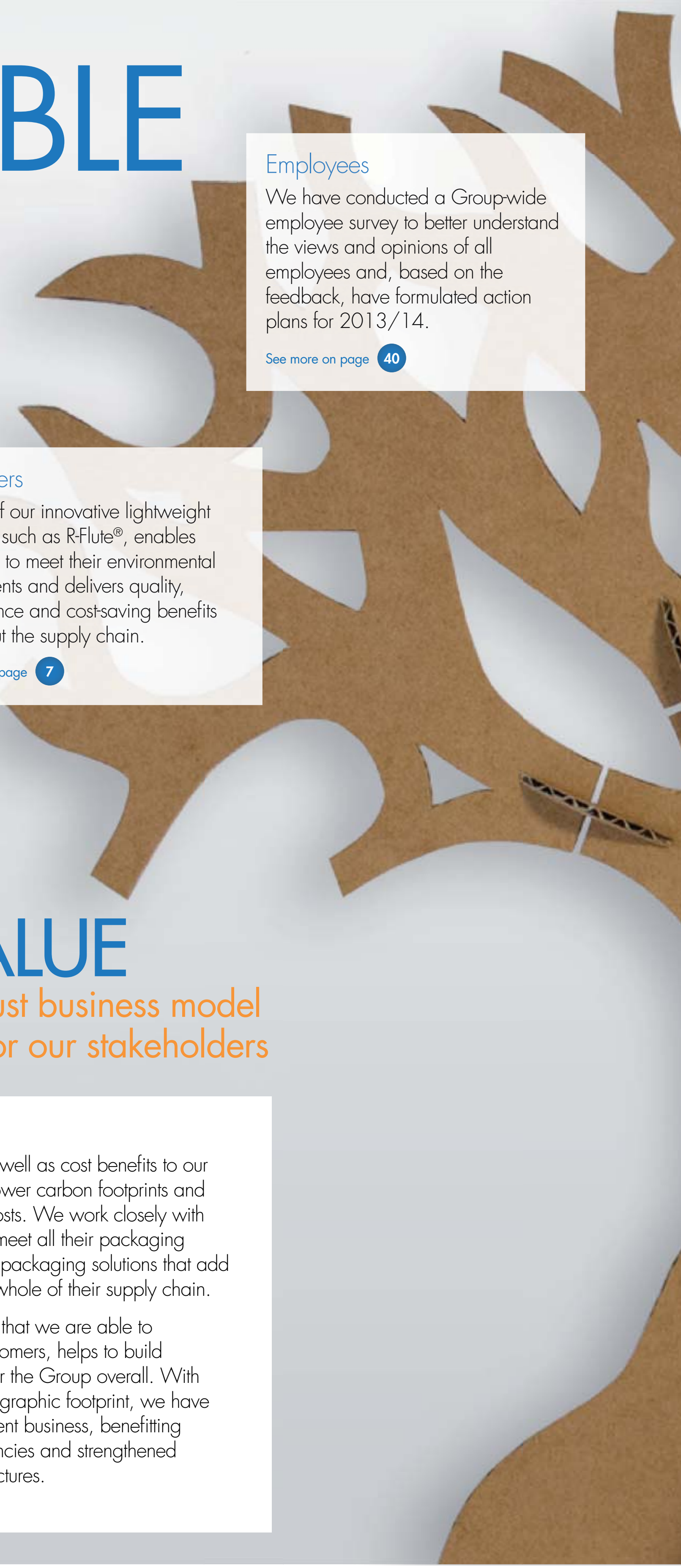
Winning new business with existing customers

We have recently won new business in Poland with Danone, with our innovative product, R-Flute®, rolling out across Europe.

Strengthened central structure to support future growth

We have created a new central marketing and sales centre in Brussels together with a design network across Europe.

MORE SUSTAINABLE VALUE



Employees

We have conducted a Group-wide employee survey to better understand the views and opinions of all employees and, based on the feedback, have formulated action plans for 2013/14.

See more on page 40

Customers

The use of our innovative lightweight products, such as R-Flute®, enables customers to meet their environmental requirements and delivers quality, performance and cost-saving benefits throughout the supply chain.

See more on page 7

GROWING STAKEHOLDER VALUE

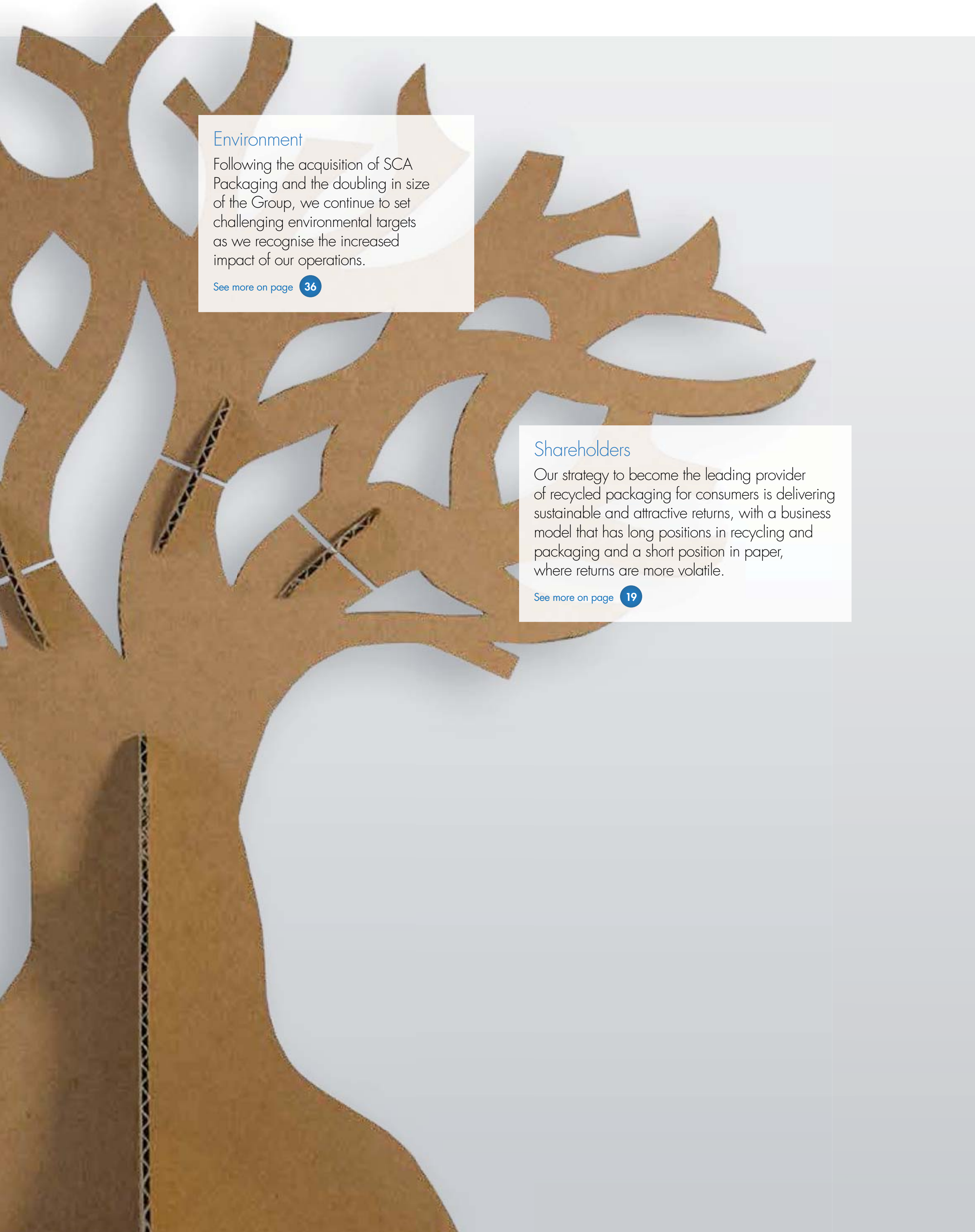
We recognise the need to have a robust business model which provides sustainable solutions for our stakeholders

Adding value through innovative products and services

At DS Smith we are committed to conducting our business in a responsible and sustainable manner, delighting our customers, creating value for our shareholders and providing employees with a safe and productive environment.

Our closed loop recycling model enables FMCG companies and retailers to fulfil their environmental commitments, through the collection of used corrugated boxes, typically from the retailer. This provides the raw materials to manufacture corrugated case material, the paper used to make our corrugated packaging. In addition, the use of lightweight and space-saving packaging solutions delivers significant environmental as well as cost benefits to our customers, with lower carbon footprints and lower transport costs. We work closely with our customers to meet all their packaging needs, providing packaging solutions that add value across the whole of their supply chain.

The added value that we are able to deliver to our customers, helps to build stronger returns for the Group overall. With our enlarged geographic footprint, we have built a more resilient business, benefitting from scale efficiencies and strengthened management structures.



Environment

Following the acquisition of SCA Packaging and the doubling in size of the Group, we continue to set challenging environmental targets as we recognise the increased impact of our operations.

See more on page 36

Shareholders

Our strategy to become the leading provider of recycled packaging for consumers is delivering sustainable and attractive returns, with a business model that has long positions in recycling and packaging and a short position in paper, where returns are more volatile.

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A YEAR OF TRANSFORMATION

I am delighted to report that 2012/13 has been another year of substantial progress in what has been a transformational period for the Group. During the year the Group has made further strides towards our strategic aim of becoming the leading supplier of recycled packaging for consumer goods in Europe and we are now a leading player, with very strong market positions across the largest and fastest growing markets in Europe. This has been achieved through a combination of organic growth in our core packaging businesses, together with the acquisition of SCA Packaging which has doubled the size of our business.

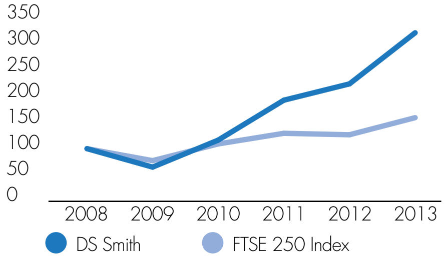
DS Smith has gone through a great deal of change in the last three years and particularly in the last 12 months. Managing that change has been a fundamental part of the good governance of this Company and the responsibilities of addressing the interests of all of our various stakeholders – shareholders, employees, customers and the environment – are at the forefront of our decision making processes. With good governance in mind, the Group has augmented and strengthened the Board with two additional members who bring further expertise.

Corporate developments and strategy

In December 2010 we set out a clear strategy to investors, accompanied by key performance indicators and the actions that we would seek to take. A key part of our strategy was to build a packaging and recycling business in existing

Total shareholder return*

(Value £)



Source: Thomson Reuters

* This graph shows the value, at 30 April 2013, of £100 invested in DS Smith over the last five financial years compared with that of £100 invested in the FTSE 250 Index.

Dividend per share

8.0p

2012:5.9p

markets and new markets, and in January 2012, we announced our intention to acquire SCA Packaging, the second largest corrugated packaging group in Europe. This transaction significantly extended our footprint across Europe, enabling us to offer pan-European coverage to our largest customers whilst continuing to support our local customers. The acquisition was completed on 30 June 2012, and we have been delighted with the progress made on the integration of the two businesses, as a result of the clear planning which was put into effect on day one of our ownership of SCA Packaging. We have strengthened the organisational and management structures to reflect the doubling in size of the Group and to accord with the greater scope of the enlarged business. Substantial progress has been made with regard to the delivery of synergies identified in the original announcement of the acquisition, and we have significantly upgraded these synergy targets over the course of the year.

Trading performance

Throughout this transformational period, our core packaging businesses have continued to deliver a solid performance, despite the challenging economic headwinds and we have delivered an 86 per cent increase in revenue and a 77 per cent increase in operating profit. The performance of the legacy DS Smith packaging business has been particularly pleasing and we are also encouraged by the improving trend in the former SCA Packaging business, giving us confidence for further improvements over the course of the next year. SCA Packaging has delivered a return above our cost of capital in the first year of the acquisition, a full year earlier than originally anticipated, and the Group as a whole, has delivered a return on average capital employed of 12.3 per cent. Earnings per share from continuing operations increased 36 per cent to 17.4 pence (2011/12: 12.8 pence).

Dividend

The Board considers the dividend to be an important component of shareholder returns. In December 2010 we set out our dividend policy for a progressive dividend where dividend cover is expected to average between 2.0 and 2.5 times through the cycle.

Accordingly, the Board recommends a final dividend for 2012/13 of 5.5 pence per share, which together with the interim dividend of 2.5 pence per share gives a total dividend for the year of 8.0 pence per share (2011/12: 5.9 pence per share). This represents an increase of 36 per cent over the prior year and a cover of 2.2 times in relation to adjusted earnings per share, in line with our policy.

Board changes

DS Smith has a very strong Board. This reflects the exciting potential for growth for the Group over the coming years.

In order to reflect the size of the enlarged Group, we have sought to further augment the strength of our Board and have conducted a thorough search with the following newly appointed additional members. Kathleen O'Donovan joined the Board on 5 December 2012, having previously been Chief Financial Officer of BTR plc and Invensys plc, together with a number of non-Executive Directorships for a variety of high profile companies, thereby bringing a breadth of experience across numerous industry sectors. Chris Britton joined the Board on 6 March 2013, having previously been Chief Executive of the Findus Group and Global Marketing Director of Diageo, and is currently a non-Executive Director of Alliance Boots GmbH and brings a wealth of experience in the consumer goods sector.

In January 2013 Steve Dryden, Group Finance Director, announced his intention to step down from the Board to take up a role in a private equity backed business. Steve joined the Board in April 2008 and stepped down on 28 June 2013. I would like to thank him for his significant contribution to DS Smith over the last five years, where he has played an instrumental part in considerably re-shaping the Group, and the Board wishes him well in his future career.

We conducted an extensive search for a new Group Finance Director and recently announced the appointment of Adrian Marsh, who will take up his position with DS Smith in late September, at which time he will also join the Board. Adrian is currently the Group Director of Tax, Treasury and Corporate Finance at Tesco PLC, and was previously the European Chief Financial Officer at AstraZeneca plc and Chief Financial Officer for the Global Building Products division at Pilkington plc and brings a wealth of international experience together with knowledge of the manufacturing, consumer and retail sectors.

OUR VALUES

We believe that a clear set of values and behaviours, owned and lived by all our employees, can make a fundamental difference to how they feel and go about their work.

DS Smith is founded on the following values:

BE CARING
We take pride in what we do and care about our customers, our people and the world around us.

BE CHALLENGING
We are not afraid to constructively challenge each other and ourselves to find a better way forward.

BE TRUSTED
We can always be trusted to deliver on our promises.

BE RESPONSIVE
We seek new ideas and understanding and are quick to react to opportunities.

BE TENACIOUS
We get things done.

Finally, on behalf of the Board, I would like to thank all our colleagues throughout DS Smith for the substantial efforts made by everyone to deliver these results this year, in what has been a very exciting period for the Group. It is the continuing commitment and focus on the part of our colleagues to deliver great service, quality and innovation to our customers, which enables the delivery of ongoing substantial progress for the Group as a whole.

In 2013/14, we look forward to delivering further substantial progress.

Gareth Davis
Chairman

Miles Roberts
Group Chief Executive

MORE GROWTH OPPORTUNITIES AHEAD

Overview

2012/13 has been a hugely transformational period, as we continue on the journey to achieve our strategic goal: to become the leading supplier of recycled packaging for consumer goods. We are doing this, together with a continued focus on medium-term financial performance, by growing our packaging and recycling businesses, reducing our exposure to paper manufacturing and disposing of non-core businesses and assets.

On 30 June 2012, we completed the acquisition of SCA Packaging for €1.6 billion, which has doubled the size of our business, making us a leading provider of corrugated packaging across Europe. In September 2012, we announced a licensing agreement with RockTenn (one of North America's leading integrated manufacturers of corrugated packaging) giving them exclusive rights to manufacture and distribute our patented mechanisation technology and associated pack designs in the US. This has enabled DS Smith to gain wider access to a very large and well developed market, whilst at the same time establishing another route for offering our largest customers global support to their brands. We have also signed further licensing agreements in other geographical markets and are excited about the opportunities in these new areas. Notwithstanding this period of considerable change, I am delighted to report that overall our operations have performed well against a challenging macro-economic and market environment.

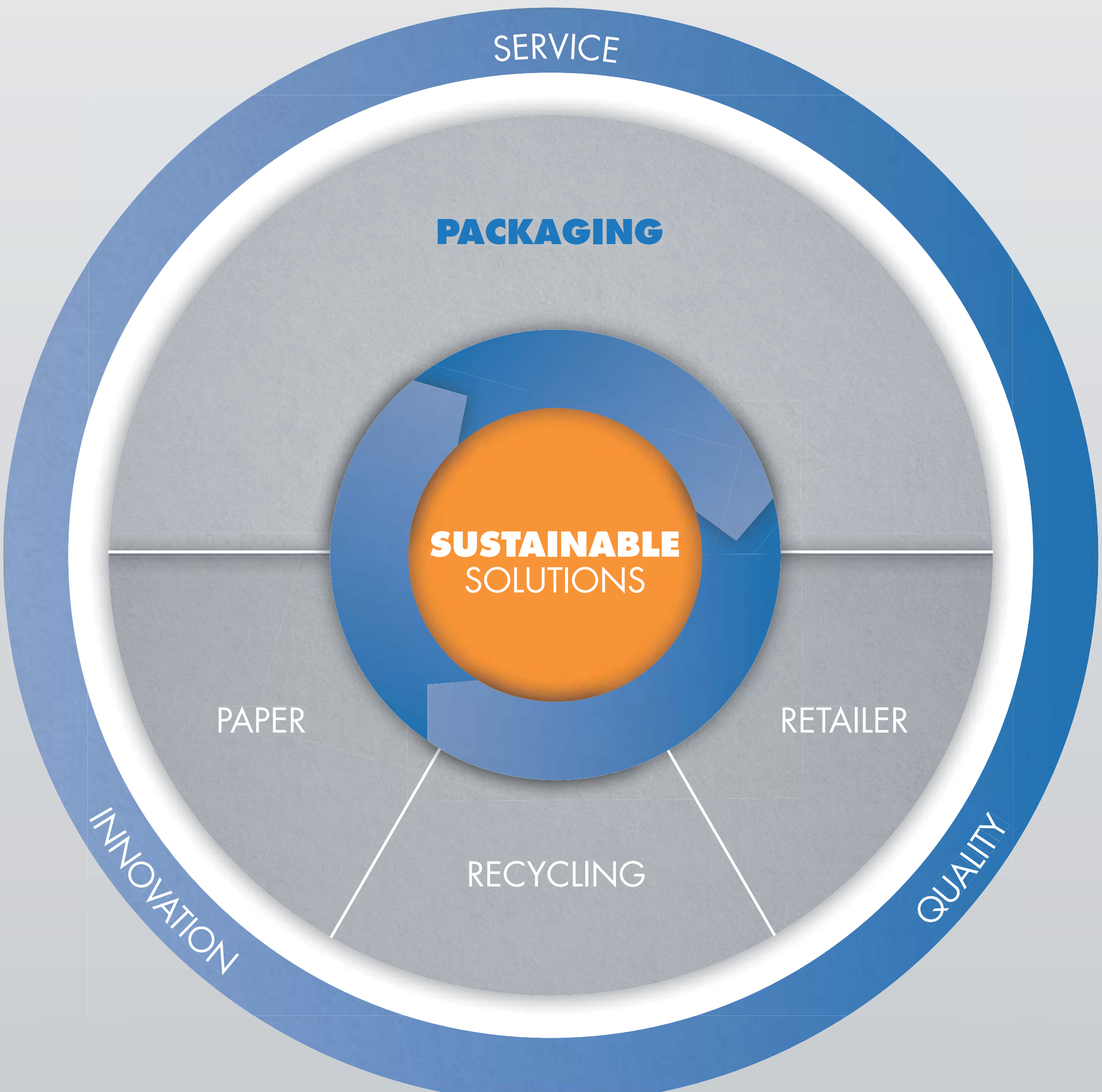
In 2012/13, the Group's revenues grew by 86 per cent to £3.7 billion predominantly due to the acquisition of SCA Packaging, accompanied by underlying volume growth in corrugated box sales. Operating profit increased 77 per cent to £250.9 million (2011/12: £142.0 million) and includes €40 million of cost synergies. EPS increased 36 per cent and follows a strong result in the prior year where EPS increased 28 per cent.

BUSINESS MODEL

DS Smith is one of the largest pan-European suppliers of corrugated packaging, with the aim of becoming the leader in recycled packaging for consumer goods. Our business model is to be long in recycling, in order to ensure the security of supply of recycled fibres used in our packaging. We are short in paper manufacturing where returns are more volatile and are lower across the business cycle than in other areas of our business. We are long in recycled corrugated packaging which is the main focus of our operation and innovation, with some complementary plastic packaging businesses where we see attractive growth opportunities.

This business mix is optimised to leverage our scale and geographic footprint in order to supply our customers, whether it is our large pan-European customers or our smaller local customers, with innovative packaging solutions that are aligned with our quality and service standards. In what is a fragmented market place, we are one of only two suppliers who can provide a truly pan-European offering and we see further opportunities to consolidate and grow our market share in Europe.

Our closed loop recycling model is also an important differentiator as consumer goods companies and retailers seek to fulfil their environmental commitments. The closed loop involves the collection of used corrugated boxes, typically from the retailer, which are then used to manufacture corrugated case material, the paper used to make corrugated packaging. We design, manufacture and deliver corrugated packaging to our customers, the majority of which are FMCG companies, who in turn will deliver their product to the retailers, thereby completing the closed loop. The closed loop model addresses the growing demand for recycled products, driven by increasing awareness across the supply chain. It also provides an opportunity to engage with retailers about the benefits of corrugated packaging in improving the efficiency of their operations.



View more online at
www.dssmith.uk.com

We are very encouraged with the progress made in our core packaging businesses to improve service, quality and innovation to our customers.

Integration of SCA Packaging

We have made considerable progress with the integration of the two businesses, with a clear integration plan and management team in place on the first day of ownership of SCA Packaging. That detailed level of focus and planning has enabled us to deliver synergies much earlier than originally anticipated, with €40 million of cost synergies and €120 million of cash synergies delivered in the first year. In addition, with the strong commitment and engagement of our people across the Group, we have identified further synergy targets and increased our overall target for cost synergies to €120 million, with the target for cash synergies increasing to €150 million.

The level of working capital within the former SCA Packaging business has more than halved under our ownership. We have also driven operating efficiencies by strengthening our processes around procurement and creating a management structure to improve our sourcing, supply and management of paper within the business to serve our packaging business in the most efficient way. Our customer proposition is substantially enhanced through the enlarged geographic footprint across Europe, therefore better able to serve our pan-European customers, where we are seeing stronger volume growth in our legacy DS Smith business and an improving trend in the former SCA Packaging business. As we have previously said, culture is a key element to achieving our strategic aims. In the prior year, we introduced our corporate values which we communicated via the OWN IT! programme to all colleagues, and this programme is now being rolled out to our former SCA Packaging colleagues, helping all our people to understand what it means to work for DS Smith.

Delivering against our synergies targets

When we originally announced the acquisition of SCA Packaging in January 2012, we identified a number of synergies in terms of both cost and cash savings which we believed were achievable through improved efficiencies and scale benefits throughout the combined Group. Over the course of the past 12 months,

STRATEGY & VISION DRIVING OUR GROWTH

STRATEGIC GOALS

DS Smith aims to be the leading supplier of recycled packaging for consumer goods. We want to become a trusted and strategic partner to our customers, providing innovative packaging solutions for all their needs. By focusing on our strategic aims we will deliver attractive, sustainable returns to our shareholders and meet the needs of all our stakeholders. This matrix sets out the building blocks for how we intend to achieve this.

Our vision	Aim	How we will succeed
To become the leader in recycled packaging for consumer goods.	To delight our customers.	By delivering on all our commitments. By becoming trusted and strategic partners through providing innovative packaging solutions.
	To realise the potential of our people.	By creating a place where people are proud to work and give their best. By living our values through everything we do.
	To consistently deliver shareholder value.	By winning market share and expanding into new markets. By building a resilient and sustainable business model.
	To lead the way in recycling.	By setting the standard for recycling packaging. By building sustainability into our decisions.

KEY PERFORMANCE MEASURES KPI

We have set testing medium-term targets. We aim to satisfy our four key stakeholders – customers, employees, shareholders and the environment – because we believe that this is the way to build a sustainable business.

What we measure	Definition	FY 2011/12	FY 2012/13	Target
Customer Service				
On-time, in-full delivery	The proportion of customer orders that are delivered within the required time-slot, in-full.	97%	94%	97%
Employee				
Accident frequency rate	The number of lost time accidents per million hours worked.	6.88	6.01	nil
Financial				
Like-for-like corrugated volume growth	Volume growth of our corrugated box products, excluding the effect of acquisitions and disposals.	+2%	+0.6%[1]	GDP +1%
Return on sales	Earnings before interest, tax and amortisation, as a percentage of revenue.	7.2%	6.8%	7 – 9%
Return on average capital employed	Earnings before interest, tax and amortisation, as a percentage of the average capital employed[2] over the 12 month period.	14.6%	12.3%	12 – 15%
Net debt/EBITDA	Net debt at the period end over earnings before interest, tax, depreciation and amortisation for the preceeding 12 month period.	net cash	1.97x	≤2.0x
Cash conversion	Free cash flow before tax, net interest, growth capital expenditure and pension deficit reduction payments, as a percentage of earnings before interest, tax, amortisation and exceptional items.	139%	171%	>120%
Environmental				
Reduction of CO_2 emissions by 20 per cent relative to production over the next 10 years	Total CO_2 emissions (Scope 1 and 2) related to production (kg/tonnes).	308.1	284.4	-20% in 10 years

All KPIs are calculated in respect of the Group's continuing operations, excluding amortisation and exceptional items for the period.

1. Average gross domestic product (GDP) growth for the countries in which we operate was (0.5%) – GDP +1% target = 0.5%.
2. Average capital employed is the average monthly capital employed for the last 12 months. Capital employed is made up of property, plant and equipment, goodwill and intangible assets, working capital, capital debtors/creditors, provisions and assets/liabilities held for sale.

Cost and cash synergies upgraded to

€120m

and

€150m

€40m cost and €120m cash synergies delivered in 2012/13

Average working capital to revenue

4.5%

2011/12: 4.9%

Free cash flow

£270.4m

2011/12: £94.5m

we have made substantial progress towards achieving those targets which we upgraded from €75 million to €100 million for cost synergies and from €40 million to €130 million for cash synergies in October 2012. In addition, we have also identified €100 million of surplus assets for disposal over the course of three years to 2015. In 2012/13 we have delivered €40 million of cost savings and €120 million of cash savings, together with net proceeds of €60 million from the disposal of surplus assets. These savings have been achieved well ahead of the original timetable.

In addition to this, and as a result of the strong commitment and engagement of our people across the Group, we have now identified further synergy targets and have again increased our overall target for cost synergies to €120 million and for cash synergies to €150 million.

Delivering against our Key Performance Indicators

Notwithstanding the considerable changes over the past year, we have delivered results substantially within our previously stated target range for our Key Performance Indicators in relation to our financial metrics, customer service, employees and environmental performance.

Volume in our corrugated box business grew at 0.6 per cent, in line with our target GDP +1 per cent for the markets in which we operate. Return on sales declined by 40 basis points to 6.8 per cent (2011/12: 7.2 per cent) (up 20 basis points on a pro forma basis, with pro forma defined as like-for-like including SCA Packaging results from July 2011 to April 2012), just below our target range of 7-9 per cent and reflects the anticipated impact of the acquisition of SCA Packaging together with the poor performance in paper. However we would expect the level of return to improve over time as we continue to drive efficiencies and synergy savings through the business.

Return on average capital employed declined by 230 basis points to 12.3 per cent (2011/12: 14.6 per cent) (up 30 basis points on a pro forma basis) but is within the target range of 12-15 per cent and well above our estimated cost of capital of c. 9.5 per cent. The decline reflects both the lower margin and the lower level of asset utilisation historically achieved within SCA Packaging. We have made great progress over the past year in reducing the level of working capital within the former SCA Packaging business and we expect to see an increase in asset utilisation together with greater operating efficiencies over the coming years. Return on average capital employed is our primary financial measure of success, as it underpins the sustainability of both our investment strategy and our dividend policy and we are delighted to have achieved a return above our cost of capital for SCA Packaging in the first year, a full year earlier than originally anticipated. All senior management have a return on capital target included within their incentivisation arrangements. The majority of capital expenditure during the year has been on packaging or recycling, our strategic priority areas.

Average monthly working capital, as a proportion of revenue, fell to 4.5 per cent (2011/12: 4.9 per cent). Historically, levels in the former SCA Packaging business were closer to 10 per cent. This overall improvement has been driven by focused attention on all three areas of inventory, debtors and creditors.

The Group was highly cash generative in the year with free cash flow of £270.4 million (2011/12: £94.5 million). Cash conversion was 171 per cent, substantially exceeding our target of maintaining this ratio above 120 per cent, with the outperformance primarily driven by the working capital inflow over the year.

At 30 April 2013, the Group had a net debt position of £817.0 million (2011/12: net cash £321.7 million) reflecting the gross consideration of £1.3 billion for the acquisition of SCA Packaging which was funded through a combination of equity and debt. Cash flow in the year has also benefitted from the remedy disposals required by the European competition authorities relating to the acquisition of SCA Packaging, together with some minor asset disposals with net proceeds amounting to £50.8 million. Despite increasing our investment in the business, our net debt/EBITDA ratio was below our target of 2 times or below, and has been achieved a full year earlier than expected.

Since we acquired SCA Packaging, we have improved the levels of customer service within that business. For the Group as a whole our key measure of on-time, in-full delivery remains strong at 94 per cent, although this is below our target of 97 per cent and reflects a lower level of service delivery in some of the former SCA Packaging businesses; we are working hard to improve these delivery standards as we recognise the importance of this metric in underpinning our aim to become a trusted strategic business partner. We continue to develop innovative products and services, providing customers with packaging that uses less fibre, with less carbon and less cost, through technology. Examples are the continued roll-out of R-Flute® which is gaining traction with our customers across our enlarged geographic footprint, the use of our "PackRight" supply-chain tools and software, and the ongoing development of unique mechanisation solutions, all of which improve the value that we are able to deliver to our customers via bespoke packaging solutions.

DS Smith has a commitment to provide every employee with a safe and productive working environment. I am delighted to report that our accident frequency rate for the Group has improved by 13 per cent year-on-year. This rate of improvement is particularly pleasing given the substantial changes in the business over the past year and reflects the leadership shown by the Group's managers across the enlarged business together with the ongoing commitment of our colleagues to working safely. Our target is a zero accident rate and we continue to strive to achieve this.

Summary and outlook

We are delighted with the progress made over the year where we have seen good performances across our core packaging businesses, and we are particularly pleased with the integration of the two businesses.

The current year has started well and in line with our expectations. Continued market share gains, together with the delivery of further synergies underpin our confidence for the future, despite the market backdrop remaining challenging and the expected impact of input cost pressures. Our strengthened customer proposition will be further enhanced by increased investment in capital expenditure, R&D and new business development. Looking ahead we remain excited about the further growth opportunities for the Group.

Miles Roberts
Group Chief Executive

NEW MARKETS NEW OPPORTUNITIES

Following the acquisition of SCA Packaging, we have doubled the size of the business to form a leading corrugated packaging business in Europe. We have refocused and reshaped our business, building a Group which is not only bigger but stronger, and we see further growth opportunities ahead. We are now operating in 25 countries across Europe, with a significantly enlarged geographic footprint, entering many markets for the first time with new and existing customers. We see great opportunities to roll out our innovative products and services with our larger customers in new territories, and with new customers in new markets.

United Kingdom

- Includes our corrugated packaging, recycling and paper manufacturing operations in the UK
- Very strong market positions – continuing to roll out our innovative products and services

Western Europe

- Includes our operations in France, Belgium, the Netherlands and Spain
- Strong market position in France and opportunities to grow market share in other markets

DACH and Northern Europe

- Includes our operations in Germany, Austria, Switzerland, Denmark, Sweden and Finland
- Newly formed region for DS Smith, extending our reach into new markets, with Germany being the largest market in Europe

Central Europe and Italy

- Includes our operations in Poland, Czech Republic, Romania, Hungary, Slovakia, the Baltics and Italy
- Newly formed region for DS Smith with access to high growth markets

Plastics

- Includes our liquid packaging and dispensing and returnable transit packaging businesses
- Number two player in the world with operations in the US, Europe, Asia and New Zealand and seeking further opportunities to expand into new applications and new territories

EXPECT MORE

Processes

We have strengthened our management and business processes to support our enlarged geographic footprint and to enable us to maximise the new market opportunities in our core packaging businesses. We have formed new geographic reporting divisions to better reflect the way we do business. Our regional teams work closely to ensure we deliver products and services of the highest quality and using innovative solutions that meet our customers' needs, supported by our central marketing, sales and design platform.

Culture

We aim to engage and excite our employees in what we want to achieve as a business, encouraging our employees through our OWN IT! programme to realise their potential through owning parts of the DS Smith story. We are building a culture of ambition and accountability, the chance for employees to feel fully aligned with our core values of being caring, being challenging, being trusted, being responsive and being tenacious. Together this will enable us to achieve our strategic goals and meet the needs of all of our stakeholders.

UNITED KINGDOM

In the UK, we hold very strong market positions in each of the three business areas. Following the acquisition of SCA Packaging our operations comprise 31 packaging manufacturing sites, two paper mills and 13 recycling depots, and we have extended our Integrated Recycling and Waste Management model outside the UK.

	2012/13	2011/12
Revenue – £m	**961.2**	960.2
Operating profit* – £m	**47.6**	64.4
Return on sales* – %	**5.0**	6.7

* Before amortisation and exceptional items.

Our Tiltmaster pack has recently won a WorldStar Packaging award.

This innovative packaging solution helps to maximise sales through optimising on-shelf visibility, whilst also reducing storage and distribution costs for our customers.

The UK division comprises our UK corrugated packaging business together with our recycling operations and UK paper manufacturing facilities. Total revenues in the UK are up 0.1 per cent at £961.2 million (2011/12: £960.2 million), with operating profit down 26 per cent to £47.6 million (2011/12: £64.4 million). Return on sales has fallen 170 basis points to 5.0 per cent.

Whilst our core UK corrugated packaging business has delivered a robust performance, revenues for the overall UK division have been impacted by continuing weakness in the paper market, as a result of which prices and demand have remained subdued.

We have seen good volume growth in our UK corrugated packaging business, with the legacy DS Smith business outperforming the former SCA Packaging business. This growth has been delivered despite a relatively flat market and with an ongoing focus on driving higher margin, value added business. We have been working closely with customers to optimise their sales through more effective Retail Ready Packaging and also looking at new uses for corrugated packaging, in particular the replacement of various plastic-based materials with more customised and sustainable fibre-based products. In addition, our continuing focus and discipline on costs and working capital have helped to drive a strong underlying performance, driving higher returns in our packaging business.

Our recycling business now includes recycling operations outside the UK and has increased its overall volumes from 1.8 million tonnes to 5.5 million tonnes per annum. Customer retention remains high, helping us to both grow market share and develop new geographical markets organically. For example, as a result of Tesco's proactive approach to environmental best practice and our ability to deliver market leading services, we have extended our Integrated Recycling and Waste Management model outside the UK. After initially entering the Polish market with Tesco, we subsequently rolled out our services into the Republic of Ireland in July 2012 and are currently in the process of deploying our services in additional locations in Europe. Looking ahead, we are also committed to further growing our business in Central Europe. In addition in Germany, we are operating for two major retailers, whilst also developing direct services for retailers in France and Italy, building on a solid base established by the former SCA Packaging recycling business.

In the paper business, as expected, prices and demand have remained subdued over the past year, whilst energy costs have increased, with the result that the operating performance has been significantly impacted and has driven a lower return on sales for the UK as a whole.

WESTERN EUROPE

In Western Europe, we are the second largest player in France and the Netherlands, with opportunities to grow our market share in each of the markets in this region. Following the acquisition of SCA Packaging our operations comprise 35 packaging manufacturing sites and four paper mills.

	2012/13	2011/12
Revenue – £m	**966.3**	569.4
Operating profit* – £m	**73.4**	38.9
Return on sales* – %	**7.6**	6.8

* Before amortisation and exceptional items.

Our packaging business in France has worked closely with Danone to support the launch of their new yoghurt pots with lighter, more ergonomic and more environmentally friendly packaging.

Western Europe consists of our corrugated packaging businesses in France, Belgium, the Netherlands and Spain, together with our paper manufacturing operations in France and the Netherlands. The region has delivered a strong performance with revenue up 70 per cent to £966.3 million (2011/12: £569.4 million). Operating profit has increased 89 per cent to £73.4 million (2011/12: £38.9 million) and return on sales has improved 80 basis points to 7.6 per cent.

This strong performance has been driven by a first time contribution from SCA Packaging, and a solid performance from our French packaging business despite a difficult market environment. In France we have seen continued volume growth with our FMCG customers and an increasing penetration of R-Flute® and performance packaging within the sales mix. Over the past year we have grown our network of licensees with corrugated packaging companies, most notably with RockTenn in the US, and have further licensing agreements with companies in the Far East, Australia and South Africa. Our packaging businesses in the Benelux region have also shown strong growth with our top FMCG customers despite a flat market, and are working closely with our business in France to offer our innovative machine systems to our customers in the Benelux region.

As in the UK, the performance of our paper manufacturing facilities in France and the Netherlands has been impacted by the poor demand environment and lower paper prices together with higher energy prices.

DACH (GERMANY, AUSTRIA AND SWITZERLAND) AND NORTHERN EUROPE

This region includes Germany, which is the single largest market for corrugated packaging in Europe, representing 22 per cent of the total market. We see significant opportunities to grow our market share in Germany and to maintain our strong market positions in Northern Europe. Following the acquisition of SCA Packaging our operations comprise 47 packaging manufacturing sites across the region and two paper mills in Germany.

	2012/13	2011/12
Revenue – £m	**835.7**	7.3
Operating profit* – £m	**62.4**	0.3
Return on sales* – %	**7.5**	3.8

* Before amortisation and exceptional items.

We are finding new applications and new markets for our products, entering into the market for pet food packaging in Germany in 2013, where we are working with Fressnapf, the largest pet food company in Europe.

The DACH and Northern Europe region is newly formed with nearly all of the revenues and operating profit being delivered through the acquisition of SCA Packaging. This division comprises our corrugated packaging business across the region (Germany, Austria, Switzerland, Denmark, Sweden and Finland) together with our German paper manufacturing operation.

Overall, the region has delivered a good result, with a decline in the German paper business being offset by a more resilient performance in our packaging businesses. The increase in return on sales of 370 basis points reflects the benefit of scale, where previously we had a very small business in this region. This has been accompanied by an improving sales mix, where we have seen continued business wins in the Display sector with our FMCG customers, together with synergies arising from the integration. We are growing our business with our larger customers and are also entering new market areas, such as the market for pet food packaging in Germany. In Northern Europe our Packaging businesses have maintained their strong market positions, increasing the proportion of performance packaging within the sales mix and have improved operational efficiencies and productivity.

CENTRAL EUROPE AND ITALY

In Central Europe, we have access to some of the fastest growing markets in Europe. Following the acquisition of SCA Packaging our operations comprise 52 packaging manufacturing sites across the region and one paper mill in Italy.

	2012/13	2011/12
Revenue – £m	**601.1**	167.2
Operating profit* – £m	**41.3**	16.4
Return on sales* – %	**6.9**	9.8

* Before amortisation and exceptional items.

Our innovative Ice Pack product, which enables the pack to act as an ice bucket, has recently won a WorldStar Packaging award.

Central Europe and Italy is a newly formed region which comprises our packaging businesses in Poland, Czech Republic, Romania, Hungary, Slovakia, Italy and the Baltics, together with our paper manufacturing operation in Italy. As a new region, the revenue and operating growth has been driven predominantly by the acquisition of SCA Packaging together with strong performances in our packaging businesses in Central Europe. As in the UK, financial returns in paper have been disappointing, affecting the overall Central Europe and Italy operating result, with return on sales declining by 290 basis points.

We have seen strong growth in our packaging businesses in Poland, Hungary and the Baltics, where the underlying markets are growing much faster than in the rest of Europe, and we are growing our business with our largest pan-European customers. We will be adding further capacity in Poland over the next 12 months where we continue to see attractive returns. In Italy, we are repositioning our offer with a greater focus on innovation, and will be opening an Impact and Innovation centre in the next 12 months.

The strong growth in our packaging businesses has been partially offset by weakness in the Italian paper and sheet businesses where, in line with other markets, demand for paper has been weak and where in Sheet we have made the strategic decision to exit low margin business.

PLASTICS

Our Plastics business comprises liquid packaging and dispensing (LP&D), returnable transit packaging (RTP) and a foams products business which we acquired through the acquisition of SCA Packaging. We are the second largest player in the global market for LP&D, with a particularly strong position in the US. Our operations comprise 29 manufacturing operations in the US, Europe, Asia and New Zealand.

	2012/13	2011/12
Revenue – £m	**305.0**	265.3
Operating profit* – £m	**26.2**	22.0
Return on sales* – %	**8.6**	8.3

* Before amortisation and exceptional items.

Our new TruTap® wine tap is winning business with the largest bag-in-box producer in the US.

The Plastics business has delivered strong growth with revenue up 15 per cent to £305.0 million (2011/12: £265.3 million). Operating profit increased 19 per cent to £26.2 million, while return on sales increased 30 basis points.

In the LP&D business, we have seen another strong year of growth in the US, driven by our bag-in-box business (BIB), where there is continuing success in products for tea urns serving the quick serve restaurant market and taps to the liquid laundry detergent dispensing market. We continue to grow market share and introduce new products such as our new TruTap® wine tap which has been highly successful, winning business with the largest BIB wine producer in the US.

We continue to invest in capacity and our new plant in Thailand is now fully operational, enabling further growth in the region as well as improving the efficiency and service offering to our customers. We see further opportunities to grow our market share in LP&D in Europe and have invested in further capacity in our facilities in Bulgaria, where we are looking to enter a number of new market segments.

We are also seeing growth in our RTP business where we see applications for our products in new markets such as the pharmaceuticals and cosmetics sectors.

Operating performance, with return on sales up by 30 basis points, has benefitted from improvements in business mix and lower operating costs as a result of the restructuring and rationalisation of the operational structure in Europe.

STRONG FINANCIAL PERFORMANCE

Overview

The Group achieved another strong financial performance in 2012/13, despite an economic environment which continues to be challenging. This year has been a transformational one for the business, with the acquisition of SCA Packaging enabling us to serve customers on a pan-European basis. However, we have continued to maintain a rigorous focus on our core business and are delivering on the strategic, medium-term financial targets we have set ourselves.

Our success this year has been driven by the following:

- Volume growth in line with the GDP +1 per cent target we set ourselves, supported by the resilience of our FMCG customer base and our focus on quality and customer service.
- Our pricing strategy which enables us to pass on changes in input costs on a timely basis.
- Strong cash conversion, driven by our efforts to reduce working capital, particularly in the acquired SCA Packaging business. This has enabled us to reduce our net debt levels to below 2 times EBITDA, a year ahead of the target set before acquisition, whilst still incurring capital expenditure well ahead of depreciation.
- The realisation of a greater level of synergies than was initially determined, following the successful integration of the SCA Packaging business.
- An ongoing focus on controlling costs.

As a result of the above, for continuing operations, revenue for the year increased by 86 per cent, operating profit rose by 77 per cent, free cash flow was up 186 per cent and adjusted earnings per share increased 36 per cent.

Trading results

All numbers within this review are based on continuing operations before amortisation and exceptional items, unless otherwise stated.

Revenue for 2012/13 of £3,669.3 million represents an increase of 86 per cent, while operating profit rose by 77 per cent to £250.9 million. Included within operating profit are £33 million (€40 million) of cost synergies arising from the integration of the SCA Packaging business which have been delivered earlier than originally anticipated. We have also increased our overall target for cost synergies to £98 million (€120 million).

Return on sales of 6.8 per cent was just below our medium-term target of 7-9 per cent and reflects the anticipated impact of the acquisition of SCA Packaging together with the poor performance in paper. However, on a pro forma basis (like-for-like, including SCA Packaging results for July 2011–April 2012), return on sales rose 20 basis points.

The Group's return on average capital employed of 12.3 per cent in 2012/13 remained within our medium-term target range of 12-15 per cent and was significantly above the Group's cost of capital of 9.5 per cent. The decrease in the Group's return on average capital employed compared to 2011/12 (14.6 per cent) reflects the comparatively high level of capital employed in the acquired SCA Packaging business, although significant work has been done to reduce the level of capital employed since acquisition. On a pro forma basis (like-for-like, including SCA Packaging results for July 2011–April 2012), return on average capital employed was up 30 basis points.

Exceptional items

Acquisition costs in respect of SCA Packaging of £11.8 million were recognised as an exceptional cost, principally relating to professional fees. SCA Packaging integration costs during the year were £57.8 million (€70 million) and primarily relate to the implementation of synergy programmes. The post-tax cost, net of a £16.7 million tax credit, was £52.9 million (2011/12: £16.5 million).

Table 1 – Cash flow

	2012/13 £m	2011/12 £m
Operating profit	**250.9**	142.0
Depreciation	**112.4**	63.9
EBITDA	**363.3**	205.9
Working capital	**157.9**	43.7
Pensions/other	**(17.9)**	(24.1)
Cash generated from operations	**503.3**	225.5
Capital expenditure	**(161.0)**	(94.2)
Disposal of fixed assets	**4.4**	8.3
Tax paid	**(41.7)**	(25.3)
Net interest paid	**(34.6)**	(19.8)
Free cash flow	**270.4**	94.5
SCA Packaging acquisition costs	**(31.6)**	(7.0)
SCA Packaging integration costs	**(52.9)**	–
Other exceptional cash costs	**(27.8)**	(19.5)
Dividends	**(36.8)**	(31.5)
Acquisition of subsidiary businesses	**(1,281.0)**	(2.3)
Divestment of subsidiary businesses	**50.8**	184.5
Net cash flow	**(1,108.9)**	218.7
Shares issued/purchased	**(1.6)**	449.9
Net debt acquired	**(7.9)**	(14.2)
Foreign exchange and fair value	**(27.5)**	24.7
Continuing operations	**(1,145.9)**	679.1
Discontinued operations	**7.2**	(6.4)
Change in net debt	**(1,138.7)**	672.7

Other pre-tax exceptional items (including discontinued operations) comprise a £15.3 million (2011/12: £58.0 million) exceptional gain on disposals, offset by other exceptional costs of £18.1 million (2011/12: £70.1 million), primarily relating to the ongoing implementation of the UK shared service centre and other restructuring projects. Other post-tax exceptional items (including discontinued operations), incorporating the benefit of a £3.3 million tax credit, result in a £0.5 million profit (2011/12: £3.3 million profit).

Interest, tax and earnings per share

Net interest expense increased from £18.4 million in 2011/12 to £36.4 million in 2012/13, principally due to the interest payable on the financing of the SCA Packaging acquisition. The employment benefit net finance expense was £4.6 million (2011/12: £4.8 million).

Profit before tax (excluding amortisation, exceptional items and share of profit of associates) was £209.9 million (2011/12: £118.8 million), an increase of 77 per cent.

The Group's effective tax rate from continuing operations, excluding amortisation, exceptional items and associates was 23.6 per cent, significantly lower than the previous year's rate of 27.6 per cent. The reduction in the effective tax rate reflects a change in the mix of taxable profits and tax rates across the regions in which the enlarged Group holds its subsidiaries and operates its businesses, following the SCA Packaging acquisition in June 2012. The reduction in the effective tax rate is also partially due to a further reduction in the UK rate of corporate income tax (2012/13: 23.9 per cent; 2011/12: 25.8 per cent). The tax credit on exceptional items (including discontinued operations) of £20.0 million resulted from the tax allowances for SCA Packaging acquisition costs of £0.9 million, SCA Packaging integration costs of £15.8 million and a tax credit of £3.3 million on other exceptional items.

Reported profit after tax from continuing operations after amortisation and exceptional items was £70.3 million (2011/12: £8.4 million).

Adjusted earnings per share were 17.4 pence (2011/12: 12.8 pence), an increase of 36 per cent, despite the dilutive effect arising from the rights issue proceeds (£466.2 million) being raised ahead of the completion of the SCA Packaging acquisition in June 2012.

Dividend

The proposed final dividend is 5.5 pence (2011/12: 4.0 pence), giving a total dividend for the year of 8.0 pence (2011/12: 5.9 pence). Dividend cover before amortisation and exceptional items was 2.2 times in 2012/13 (2011/12: 2.2 times).

Cash flow

The Group's cash flow is shown in Table 1.

The Group generated free cash flow of £270.4 million (2011/12: £94.5 million), a 186 per cent improvement, reflecting an increase in operating profit and strong working capital management.

Despite increased volumes and higher input costs, strong control of working capital resulted in an inflow of £157.9 million (2011/12: £43.7 million). Our original target was to reduce average working capital to revenue to 5 per cent by 30 April 2014; we achieved this in the 2011/12 financial year by delivering 4.9 per cent (two years ahead of schedule), and we have showed further improvement in 2012/13 by delivering 4.5 per cent.

Cash contributions into the Group's pension schemes were £23.2 million in 2012/13 (2011/12: £31.2 million), principally comprising £15.1 million in respect of the agreed contributions to the UK pension scheme deficit.

Cash generated from operations was £503.3 million (2011/12: £225.5 million), a 123 per cent improvement.

Capital expenditure of £161.0 million (2011/12: £94.2 million) reflects our commitment to invest in processes and technologies to deliver future growth. Growth capital expenditure was £66.3 million (2011/12: £33.0 million) and capital expenditure was 143 per cent of depreciation.

Tax payments were £41.7 million (2011/12: £25.3 million), the increased payments resulting from the enlarged Group. Net interest paid of £34.6 million was £14.8 million higher than 2011/12, due to the financing of the SCA Packaging acquisition.

Cash dividend cover, defined as free cash flow divided by dividends declared for the year, was 3.7 times (2011/12: 1.9 times).

SCA Packaging acquisition costs of £31.6 million and integration costs of £52.9 million were paid during the year. The cash outflow in respect of other exceptional costs was £27.8 million (2011/12: £19.5 million).

The SCA Packaging acquisition in 2012/13 resulted in an outflow of £1,281.0 million. A cash inflow of £50.8 million was generated from the remedy and other site disposals during the year (2011/12: £184.5 million principally relating to the Office Products Wholesaling division disposal).

Group net debt increased by £1,138.7 million, principally due to the SCA Packaging acquisition.

Financial position

Shareholders' funds of £1,084.9 million at 30 April 2013 have increased from £1,057.5 million at 30 April 2012, principally due to retained profit for the year. Profit attributable to shareholders (including discontinued operations) was £77.1 million (2011/12: £75.3 million) and dividends of £36.8 million (2011/12: £31.5 million) were paid during the year. In addition, actuarial losses of £72.8 million from the Group's employee benefit schemes were charged to reserves. Other items recognised directly in reserves include currency translation gains of £54.0 million, adverse movements on cash flow hedges of £20.1 million and a related tax charge of £25.6 million.

At 30 April 2013, the Group's net debt was £817.0 million (2011/12: net cash of £321.7 million) principally due to the acquisition of SCA Packaging during the year. We expected to achieve a net debt to EBITDA ratio of less than 2 times by April 2014 and by delivering 1.97 times at 30 April 2013, we met our target a year early whilst still incurring capital expenditure well ahead of depreciation.

The Group complied with the covenants in its banking agreements. The Group's financial covenants for the syndicated committed bank facilities specify an EBITDA to net interest payable ratio of not less than 4.5 times, a maximum ratio of net debt to EBITDA of 3.25 times and net assets to exceed £360 million. The covenant calculations exclude from the income statement exceptional items and any interest arising from the defined benefit pension schemes. The calculation of net assets excludes the net asset or liability arising from the defined benefit pension schemes. At 30 April 2013, the Group had substantial headroom under its covenants; the most sensitive covenant is net debt to EBITDA and this had an EBITDA headroom of £158.2 million at 30 April 2013.

Energy costs

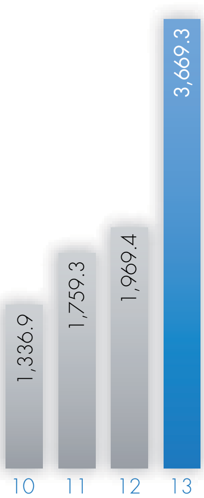
Energy continued to be a significant cost for the Group in 2012/13. The Group's expenditure on gas, electricity and diesel increased from c. £126 million in 2011/12 to c. £248 million in 2012/13. This 97 per cent increase is principally the result of the SCA Packaging acquisition. The Group manages the risks associated with its purchases of energy through its Energy Procurement Group, which operates under the oversight of the Treasury Committee. The purpose of hedging energy costs with suppliers and financial institutions is to reduce the volatility of energy costs and to provide the Group with a degree of certainty over future energy costs.

Capital structure and treasury management

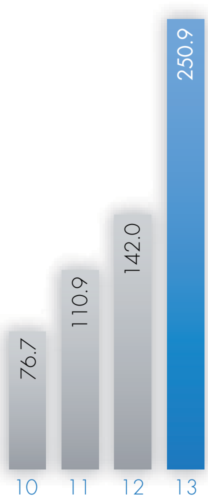
The Group funds its operations from the following sources of capital: operating cash flow, borrowing, shareholders' equity and, where appropriate, disposals of non-core assets and businesses. The Group's objective is to achieve a capital structure that results in an appropriate cost of capital whilst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

The Group's overall treasury objectives are to ensure sufficient funds are available for the Group to carry out its strategy and to manage certain financial risks to which the Group is exposed, details of which are provided in note 20 to the accounts. The Group's treasury strategy is controlled through the Treasury Committee, which meets regularly and includes the Group Chief Executive, the Group Finance Director, the Group Financial Controller, the Group Treasurer and the Group Tax Manager.

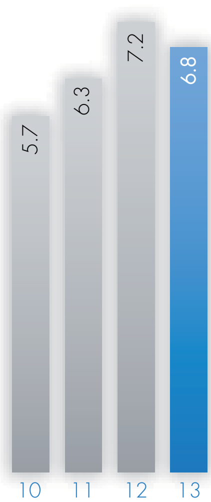
Revenue
£3,669.3m
2012: £1,969.4m



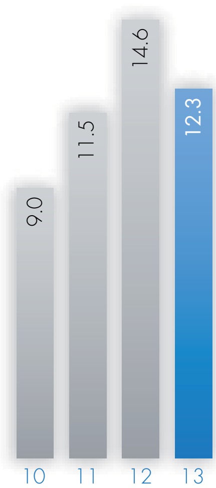
Operating profit*
£250.9m
2012: £142.0m



Return on sales*
6.8%
2012: 7.2%



Return on average capital employed*
12.3%
2012: 14.6%



* Continuing operations, before amortisation and exceptional items.

Table 2 – Borrowing facilities at 30 April 2013

Facility	Committed funds million	Maturity	£ million equivalent
Private placement	US$105	2014	69
Syndicated bank loan facility – Term Loan B	€400	2016	339
Syndicated revolving credit facility	£610	2016	610
Private placement	US$95	2016	61
Private placement	€59	2018	50
Private placement	€59	2020	50
Private placement	US$400	2022	257
Total			**1,436**

The Group Treasury function operates in accordance with policies and procedures approved by the Board and controlled by the Group Treasurer. The function arranges funding for the Group, provides a service to operations and implements strategies for financial risk management.

The Group regularly reviews the level of cash and debt facilities required to fund its activities. This involves preparing a business plan, determining the level of debt facilities required to fund the business, planning for repayments of debt at maturity and identifying an appropriate amount of headroom to provide a reserve against unexpected funding requirements. The Group's borrowing facilities are shown in Table 2. At 30 April 2013, the Group's committed borrowing facilities totalled c. £1.4 billion of which £517 million were undrawn. Total gross borrowings at 30 April 2013 were £924.1 million. At 30 April 2013, the Group's committed borrowing facilities had a weighted-average maturity of 4.4 years (30 April 2012: 4.6 years).

In August 2012, the Group refinanced a €300 million bank term loan (due to mature in 2015) with the proceeds from a $400 million private placement of debt to US institutions with an average maturity of nine years. In addition, in November 2012, the Group repaid $105 million and £25 million of the private placement debt issued in 2002 at its maturity.

Following the acquisition of SCA Packaging, the Group has substantial investments in foreign currency assets of its subsidiary companies based overseas, in particular those whose functional currency is the euro. In addition, the Group's financial covenant ratios are exposed to the extent that earnings in foreign currency contribute to the Group's total EBITDA. In order to hedge these exposures, the Group's policy is to hedge EBITDA with a proportionate amount of net debt held in foreign currencies.

The Group's foreign currency debt may be held either in the currency itself or through the use of cross-currency swaps. The Group applies hedge accounting under IAS 39, 'Financial Instruments: Recognition and Measurement', to hedges of net investments in foreign currency subsidiaries and records exchange differences arising on net investments and the related foreign currency borrowing directly in equity.

Impairment

When applying IAS 36, 'Impairment of Assets', the Group compares the carrying amounts of goodwill and intangible assets with the higher of their net realisable value and their value in use to determine whether an impairment exists. The value in use is calculated by discounting the future cash flows expected to be generated by the assets or group of assets being tested for impairment. During April 2013 tests were undertaken to determine whether there had been any impairment to the balance sheet carrying values of goodwill and other intangible assets. The key assumptions behind the calculations are based on the regional long-term growth rates and a pre-tax discount rate of 9.5 per cent combined with the appropriate country risk premiums. No impairments were identified as a result of the testing.

The net book value of goodwill and other intangibles at 30 April 2013 was £1,044.3 million (30 April 2012: £309.7 million).

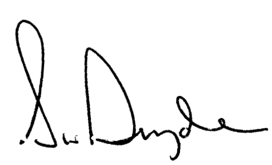
Pensions

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

The Group's principal funded, defined benefit pension scheme is in the UK and is now closed to future accrual. The Group also operates various local post-retirement and other employee benefit arrangements for overseas operations, as well as a small UK unfunded scheme. The aggregate gross assets of the schemes at 30 April 2013 were £931.5 million and the gross liabilities at 30 April 2013 were £1,145.5 million, resulting in the recognition of a gross balance sheet deficit of £214.0 million (30 April 2012: £104.2 million), a net deficit of £157.9 million (30 April 2012: £77.1 million) after a deferred tax asset of £56.1 million (30 April 2012: £27.1 million).

A triennial valuation of the main UK scheme was carried out at 30 April 2010 at which point the Group agreed that cash contributions would be £14.8 million per annum, rising by 2 per cent per annum for the remaining 10 years, with a view to closing the deficit within a 10 year recovery period. Cash contributions into the Group pension schemes were £23.2 million in 2012/13 (2011/12: £31.2 million), principally comprising £15.1 million in respect of the agreed contributions to the pension scheme deficit (for the future financing of the pension scheme).

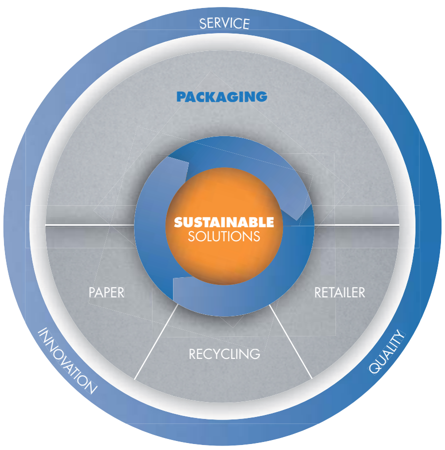
The increase in the gross balance sheet deficit of £109.8 million is principally attributable to a decrease in the discount rate. The main factor behind this reduction is the decline in corporate bond yields over the period, with investors seeking higher yields than those available on lower risk assets such as government bonds (which have been at all-time historic lows). This increase in demand has led to a narrowing of credit spreads which has reduced the overall yield available from corporate bonds, hence increased deficits have been a common theme for all companies over the last 12 months.



Steve Dryden
Group Finance Director

A SUSTAINABLE APPROACH

Our vision is to become the leader in recycled packaging for consumer goods. The DS Smith business model is based on providing sustainable solutions for our stakeholders.



See more on page 19

Our principles and approach to corporate responsibility

At DS Smith we are committed to conducting our business in a responsible and sustainable manner, delighting our customers, creating value for our shareholders, and providing our employees with a safe and productive work place.

Our core business is the design and manufacture of recycled packaging for consumer goods. We recognise that our businesses have a direct environmental impact through the running of our operations and also an indirect impact through our sourcing activities, and how our customers use and dispose of our products.

Our corporate responsibility (CR) approach covers health and safety, the environment, our employees, and our communities.

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

The Group has a Workplace Malpractice Policy, under which employees may report in confidence any perceived wrongdoing within the Group on matters relating to safety, the environment, unethical business conduct or breaches of Group policies, the law or other regulations. This policy is reinforced by a confidential Employee Concern Helpline and e-mail facility. Any concerns reported are appropriately investigated.

How DS Smith plays its part in a sustainable economy

Corrugated packaging produced by DS Smith has attractive environmental characteristics, being made from recycled raw material and being recyclable.

We work closely with our customers to reduce the carbon footprint of the packaging they require – and at the same time to save costs. We look at the cost and carbon impact of the whole supply chain, taking into consideration the transportation, wastage on the packing line, and the materials used in the packaging. DS Smith has been developing lightweight packaging solutions for some time. For example, we have developed a type of corrugated board, R-Flute®, which significantly improves the carbon footprint in the supply chain. While it has similar strength properties to alternative types of corrugated board, it is 20 per cent thinner. That means that 20 per cent more boxes can be fitted in one lorry from our factory to that of our customer, so fewer lorry journeys are needed. This is a simple example of saving our customers cash and carbon in their supply chain.

DS Smith Recycling is the largest collector and recycler of used paper and cardboard in the UK. We are different from our main competitors in the UK as, unlike them, we do not own landfill sites. Therefore customers of our recycling services know that our commitment lies in landfill diversion.

Corrugated packaging has good environmental characteristics and we see substantial opportunities to continue the expansion of its use as a substitute for other forms of packaging material.

Our bag-in-box technology is used for a wide range of products in substitution for rigid plastic containers, bottles, or other packaging formats for liquids. The cardboard box is readily recyclable, while the plastic content in the bag and tap is often significantly less than the amount of material used in the production of an alternative plastic bottle. The benefits continue through the supply chain as boxes of liquids can be packed in a more space-efficient manner and the weight of the packaging is less – often making it cheaper and less energy intensive to transport. These benefits of bag-in-box packaging have been independently verified by PIRA (the Paper and Board, Printing and Packaging Association) and are promoted to customers by our Plastics business.

FTSE Group confirms that DS Smith Plc has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index company FTSE Group, FTSE4Good is an equity index series that is designed to facilitate investment in companies that meet globally recognised corporate responsibility standards. Companies in the FTSE4Good Index Series have met stringent social and environmental criteria, and are positioned to capitalise on the benefits of responsible business practice.

FTSE4Good

KEY CORPORATE RESPONSIBILITY PERFORMANCE MEASURES

This has been a transformational year for the Group following the acquisition and integration of SCA Packaging. We have made good progress across the Group in our four target categories which we see as fundamental to operating as a sustainable business.

Vision	Key performance measures	2012/13 actions & progress
Environmental: **We aim to optimise our resource efficiency and minimise our environmental impact.**	Each of our businesses has targets as part of their business plans to achieve the following: Reducing CO_2, water and landfill usage, relative to production, by 20 per cent over the 10 years to 2020.	• CO_2 emissions per kg/tonnes down 7.7 per cent. KPI • Water usage per m^3/tonnes down 3.4 per cent. • Waste being sent to landfill per kg/tonnes down 6.8 per cent.
Employees: **We seek to develop our employees to fulfil their potential.**	We promote the alignment of our talent with our corporate strategy through communications, engagement and effective people management.	• Continued roll-out of the OWN IT! programme to new colleagues and to former SCA Packaging colleagues. • Conducted an employee survey with 87 per cent response rate. • Appointment of Employee Communications Manager.
Health and Safety: **We seek to ensure the safety of our staff and others affected by our operations.**	Health and safety is our top priority and is the first item on the agenda in all senior operational meetings. Reduction in Lost Time Accidents (LTAs). Reduction in Accident Frequency Rates (AFR). Reduction in accident severity rate.	• LTAs down 23 per cent in legacy DS Smith, with Group (including SCA Packaging) up 29 per cent with a 48 per cent increase in the hours worked. • AFR down 22 per cent in legacy DS Smith, with Group (including SCA Packaging) down 13 per cent. KPI • Accident severity rate down 8 per cent.
Community Involvement: **We seek to develop and maintain good relations with our local communities.**	Charitable Foundation partnering with charities aligned with our activities and values.	• DS Smith seeks to focus its charitable activity on projects local to our operations that foster engagement with and between our employees and our communities. • During the year the Foundation: – Supported an organisation in Bristol providing work placements for disadvantaged young people. – Supported an organisation in Yorkshire providing practical skills for young wheelchair users.

ENVIRONMENT

Sustainable development is at the heart of DS Smith's business model, with our production of paper and corrugated packaging largely based on recycled material, and we continuously strive to improve our environmental performance. It is also vital for us to be able to offer packaging solutions that are not only commercially attractive, but also contribute to a sustainable development, and we place great emphasis on innovation and close co-operation with our customers.

Environmental management and regulation

The environmental performance and activities of the divisions are reviewed at the Group Environment Committee, which is chaired by the Group Chief Executive.

During 2012, the environmental governance structure was reviewed in the light of the acquisition of SCA Packaging. In order to reflect the changes in organisational structure, a Sustainability Governance structure has been proposed, to cover the three pillars of Sustainability: Social, Economic and Environmental performance.

We have a policy that each of our sites implements an environmental management system (EMS) which is appropriate to its activity. For those sites where we have assessed the activity as material, we have pursued external certification to the ISO 14001 standard. For lower impact sites, we adopt a simplified EMS, appropriate to their lower level of potential environmental impact.

No major environmental incidents or incidents reportable to local or national authorities, or incidents potentially resulting in legal prosecution have been reported for the period of this report.

A new baseline

With the acquisition of SCA Packaging we have doubled the size of our business. Following this major transformation, we have examined how we can leverage our new found size and scope, and operate in the most efficient way, not just financially, but also from an environmental and social perspective.

In the past year, we have learnt a lot from each other and the combined expertise and knowledge of DS Smith and SCA Packaging have already made us a stronger company. As the Group grows, this is accompanied by an increased responsibility towards the environment and over the past year we have established common goals and a common reporting structure, in order to effectively manage and follow up on our environmental commitments in a fact-based and verifiable manner.

Three environment targets

Our environmental targets are clear and concise. Related to production, we aim to:

- Reduce our CO_2 emissions from fossil fuels by 20 per cent over the 10 years to 2020.
- Reduce our water usage in our paper mills by 20 per cent over the 10 years to 2020.
- Reduce the amount of production rejects sent to landfill by 20 per cent over the 10 years to 2020.

For each of these targets, we have established an action plan to deliver the stated objectives:

- Our CO_2 emissions will be reduced by a combination of increased energy efficiency, and a switch from oil to gas and, in a second step, to renewable fuels.
- Our water use targets will be met by moving towards more closed water systems at some of our paper mills.
- A greater proportion of production rejects will be retrieved as materials and energy recovery, rather than be sent to landfill.

The fulfilment of each individual target will have a positive impact on our energy use, and will make a tangible contribution to our profitability.

Activities in 2012/13

Although 2012/13 was dominated by the integration projects to forge the enlarged Group, a number of environmental projects were completed, including projects relating to energy efficiency, reductions to landfill, conversion to renewable energy resources and reduction in water usage.

Energy efficiency

Over the past year we have conducted 30 pump audits at our paper mills and have identified a number of opportunities for improving efficiencies, which we are currently evaluating. Another example of an energy efficiency project is from our plant in Aschaffenburg, in Germany, where we are using recovered energy from cooling water to heat the building. One area which has great potential for the future is LED lighting, and we are evaluating opportunities to install

INNOVATION DRIVES SUSTAINABILITY

One great example of how our innovative solutions have environmental as well as commercial benefits, is the KAYPAL®MR project in France. This is a system which re-uses corrugated pallets that have been optimised for multi-layer picking operations, and connects the picking centres of our FMCG customers and the distribution centres of their retailers.

This innovative solution enables our customers to reduce their carbon footprint as KAYPAL®MR replaces a traditional wooden pallet weighing 25 kilos with a corrugated pallet weighing only 3.5 kilos – a reduction of around 85 per cent; and space optimising features within the stackable pallets result in a reduction of up to 50 per cent in the number of truck loads required for reverse logistics.

Based on average delivery routes, this system has been shown to reduce Scope 3 carbon emissions by 31 per cent per pallet compared to wooden pallets.

The environmental benefits of KAYPAL®MR have been extremely well received by our customers in France and include key FMCG customers such as Unilever, P&G and Nestlé.

LED lights in both office and warehouse environments. At our corrugated plant in Mariestad, Sweden, substantial energy savings have been achieved through a new bridge enclosure, which maintains the temperature around the paperboard throughout the entire production process. This investment has not only achieved a much more efficient use of energy, it has also enhanced the product quality, reduced waste and improved the working environment.

Switching to non-fossil fuels

In 2012/13, we connected our plant in Värnamo, Sweden, to the local district heating, which uses renewable biomass energy. At our plant in Gent in Belgium, we are in the process of replacing oil with natural gas for steam generation.

Reducing water usage

Over the past year there have been several initiatives to reduce water use. At the De Hoop mill in the Netherlands, new flow meters were installed to improve monitoring of water use in the production process. The new meters provide exact control of the water volumes, and give immediate feedback if they deviate from expected levels, making it possible to take corrective action as soon as a problem occurs. As a result, water use has been reduced by 11 per cent.

At our paper mill in Kemsley, UK, we are also working on ways of reducing water use. During 2012/13, the paper machines were audited to make sure that leakages were identified and stopped, and machine operators were provided with training to ensure swift corrective measures are taken when leakage is identified. In 2013/14, we are planning to install a new pump system which will recycle effluent water back into the production process. Both these measures will contribute to a substantial reduction of water use in 2013/14.

Our paper mill in Lucca, Italy, is situated in an area with a limited supply of fresh water. This has driven extremely effective water use: for brown paper production, the mill uses 3.8 cubic meters of water per tonne of paper compared to the European industry average of 7 cubic meters. We are looking at ways to transfer this expertise across all of our mills.

Minimising production rejects to landfill

As a result of a series of trials conducted at our paper mill at Kemsley, UK, last year we have identified measures to separate rejects in order to divert discarded plastics for RDF (refuse-derived fuel), and to recover metals for recycling. Implementation is now planned on a broader scale in 2013/14.

Our paper mill in Lucca, Italy, generates 30,000 tonnes of rejects each year, mainly consisting of plastics and unusable fibre. The mill had previously invested in a dryer to extract moisture in the fibre in order to prepare the rejects for incineration. As a result, no production rejects are now sent to landfill, and as much as 95 per cent of the rejected volumes are used for energy production at external incineration plants.

The way forward: resource efficiency in all aspects

The synergies and knowledge transfer that accompanied the integration of DS Smith and SCA Packaging have provided the impetus for a Group-wide continuous excellence programme which seeks to transfer best practice throughout all of our operations.

This approach extends to our suppliers, and we have put in place measures to ensure responsible sourcing of raw materials by placing the same demands on our suppliers as we place on ourselves.

Looking ahead

Over the next two years, we will concentrate our efforts on three areas to ensure that we continue to deliver on our environmental, social, and commercial ambitions:

- More efficient use of energy in our manufacturing and at our facilities.
- More efficient transport solutions.
- An enhanced supplier standard to ensure that all our suppliers meet our strict environmental, safety and social standards.

Environmental performance indicators

Our operations have grown significantly in size as a result of the acquisition of SCA Packaging leading the Group to review how we operate in the environmental area.

Changes have been made as a result of recommendations made by Bureau Veritas during last year's process. We have started to collect environmental data on a calendar year basis to align with external stakeholders' requests for benchmarking purposes. A new data collection system has been introduced and has been utilised for the first time to collect 2012 calendar year data.

The 2012 calendar year environmental data will form the new baseline for our environmental performance targets on CO_2 emissions, water management and waste sent to landfill in relation to production levels.

The data for calendar year 2011 has been estimated and shows an aggregation for the legacy DS Smith and SCA Packaging businesses. This has been done in order to give an indication of performance, relative to our targets, over the past year.

Our Paper and Packaging businesses account for more than 95 per cent of the environmental impact relating to the three target areas; CO_2 emissions, water management and waste to landfill.

The table of environmental data displays the data for calendar year 2012 together with the estimated data for calendar year 2011 (see page 38). The reduction numbers should be seen as directional indicators and not as absolute reduction numbers. On this basis the total CO_2 emissions in relation to production decreased by 7.7 per cent which partly reflects the higher proportion of energy produced internally in our own combined heat and power plants.

Water discharges decreased by 3.4 per cent supported by activities mainly in the paper mills.

Waste to landfill decreased by 6.8 per cent, predominantly through activities in our paper mills which have been re-using and recovering more of the material previously sent to landfill and more material being used for energy production.

During the year, we again employed independent consultants, Bureau Veritas, to review our environmental data collection and reporting process in order to ensure the robustness and accuracy of the Group's environmental performance indicators. This review concluded that overall there was a good level of process control and reporting at the sites but identified some areas for improvement which are being considered and, as appropriate, implemented (see page 38 for the Verification Statement from Bureau Veritas).

ENVIRONMENT continued

Verification Statement from Bureau Veritas UK Ltd

Bureau Veritas has been commissioned by DS Smith for the fifth year to provide independent verification of the environmental performance indicators presented on this page of its 2013 Annual Report. The objective of the verification is to reassure DS Smith's stakeholders that the data is accurate, reliable and a fair representation of the environmental performance of the DS Smith Group.

DS Smith has provided access to the documentation and data required to undertake the verification and Bureau Veritas is confident that no material of relevance has been withheld. The verification is to a limited level of assurance. For the CO_2 emissions data, verification was undertaken in accordance with the main requirements of ISO 14064:2006.

The verification involved document review, and inspection of internal and external records, interrogation of databases and associated management and reporting systems. This process included visits to representative operational sites.

Based on our verification activities it is our opinion that:

- The reported data provides a fair and accurate representation of environmental performance across the DS Smith Group for the defined period.
- There are no significant omissions which could affect stakeholders' ability to make informed judgements on DS Smith's environmental performance.
- There is no evidence that the GHG assertions made by DS Smith in its 2013 Carbon Disclosure Project Investor Response:
  - are not reliable and free from material error, mis-statement or bias; and
  - are not a fair representation of the GHG data and information.

A full verification statement including the methodology, basis for the opinion, additional recommendations, limitations and a statement of Bureau Veritas's independence can be found on the DS Smith Plc website at www.dssmith.uk.com/corporate-responsibility/verification-statement

ENVIRONMENTAL PERFORMANCE INDICATORS

	2012	2011*
Production – ktonnes	**5,322**	5,482
Energy consumption[1]		
Fuels (biogen) – Tjfuel	**1,843**	1,841
Fuels (fossil) – Tjfuel	**20,272**	23,420
Electricity grid supply – GWhr	**855**	967
Carbon dioxide (CO_2) emissions[2]		
Scope 1 (direct) emissions – ktonnes	**1,231**	1,370
Scope 2 (indirect) emissions – ktonnes	**283**	320
Total Scopes 1 and 2 emissions – ktonnes	**1,514**	1,689
Water usage		
Million cubic metres – (mm^3)	**16.0**	17.0
Waste management[3]		
Waste landfill – tonnes	**67,889**	74,990
Waste recovery – tonnes	**193,609**	269,042
Waste hazardous – tonnes	**1,194**	659

	2012	2011
Specific measure		
CO_2 fossil – kg/tonnes	**231.2**	250.0
CO_2 fossil grid – kg/tonnes	**53.2**	58.4
Total CO_2 fossil – kg/tonnes	**284.4**	308.1
Water discharge – m^3/tonnes	**3.0**	3.1
Waste to landfill – kg/tonnes	**12.8**	13.7

Methodology:

The Group aims to collect and report its environmental data in accordance with the guidelines specified by the Global Reporting Initiative and the Greenhouse Gas Protocol (GHGP), to the extent that this is currently practicable. The figures reported above include data from the Group's wholly-owned or majority-owned operations. The methodology used is new to reflect the enlarged Group.

* The data for calendar year 2011 has been estimated and shown as an aggregation for the legacy DS Smith and SCA Packaging businesses.

1. The energy figures relate to the usage of all fuels used in fixed installations on the Group's sites.
2. The CO_2 emissions calculated using the energy data, as defined above are:

Fossil fuels	kg/GJ (LHV)
Natural gas (NG)	56
Liquified natural gas (LNG)	56
Liquified petroleum gas (LPG)	65
Light fuel oil (LFO)	74
Medium fuel oil (MFO)	76
Heavy fuel oil (HFO)	78

The factors used for converting electricity usage are the national figures for each country in which the Group operates, and are sourced from the IEA (International Energy Agency). These factors therefore reflect the mix of fuels used for electricity generation in each country.

As required by the GHGP, Scope 1 and Scope 2 CO_2 emissions are reported separately.

Scope 1 (direct) emissions are those arising from combustion of fuel in installations.

Scope 2 (indirect) emissions are those arising from bought-in energy (i.e. electricity or steam) where the combustion has been carried out by another company.

Scope 3 emissions, from sources external to DS Smith but involved in the supply chains for the Group's products and services, are not included.

3. The waste figures relate to waste generated by our operations; they do not include waste that is collected from external sources for recycling within our paper and plastic packaging operations.

HEALTH AND SAFETY

Safety is our highest priority. In 2012/13, we have made further strong progress in what has been a transformational year, where we have doubled the size of our business with the acquisition of SCA Packaging. Over this period we have improved our safety performance in each of our three Key Performance Indicators (KPIs).

HEALTH AND SAFETY KEY PERFORMANCE INDICATORS

	2012/13	2011/12
Lost time accidents for the Group (number of accidents resulting in lost time of any one shift or more)	**164**	127
Lost time accidents for legacy DS Smith (number of accidents resulting in lost time of any one shift or more)	**98**	127
Accident frequency rate for the Group (number of lost time accidents per million hours worked)	**6.01**	6.88
Accident frequency rate for legacy DS Smith (number of lost time accidents per million hours worked)	**5.39**	6.88
Accident severity rate (working hours lost as a result of accidents as a percentage of total hours worked)	**0.19**	0.21

Activities

The safety of our staff and those affected by our operations is our highest priority. In 2012/13 the Group continued to improve its safety performance. Our businesses benchmark their safety performance internally and through the use of external data. Information on safety performance, including statistics related to our key performance indicators (KPIs), is reported to the Board quarterly. The overall goal is to achieve zero accidents and our divisions set interim targets against their KPIs, which reflect the nature of their business and their previous performance.

On 30 June 2012, the Group acquired SCA Packaging, whose historic health and safety record has been broadly in line with that of the legacy DS Smith business in both approach and results. However, their smaller operations, employing around a third of their total workforce, were not included in their statistics and we have worked very hard to gain full visibility of the health and safety performance across the whole of SCA Packaging. This enables effective deployment of resources to drive further improvements, through training and the roll-out of common safety practices in each of their sites, along with making improvements throughout the Group as part of our continuing programme. The statistics below include SCA Packaging from November 2012 onwards, once common reporting definitions had been introduced and full reporting achieved across all SCA Packaging sites. We also show the statistics for the legacy DS Smith business which demonstrate the significant improvement in the underlying performance.

Health and Safety performance

In 2012/13, the inclusion of SCA Packaging led to an increase of 29 per cent in Lost Time Accidents (LTAs) against a 48 per cent increase in hours worked. However, for the legacy DS Smith business we achieved a reduction of 23 per cent in LTAs (with LTAs defined as accidents that result in one shift or more of working time being lost). With regard to the accident frequency rate (AFR), which measures LTAs in proportion to the number of hours worked, for the Group as a whole there was a 13 per cent reduction in the AFR, and for the legacy DS Smith business, we saw a reduction of 22 per cent. For the Group as a whole there was an 8 per cent improvement in the severity rate, which measures the hours lost as a result of accidents as a percentage of the total hours worked, although for the legacy DS Smith business there was a marginal increase of 2 per cent. The improvements in the Group's safety record reflect the leadership shown by the Group's managers across the enlarged business and the ongoing commitment of our employees to working safely. As a Group we remain resolute in our determination to realise a zero accident culture and to continue to build on the progress we have made to date.

The Group's progress towards a zero accident culture is evidenced by the improving trend in our legacy DS Smith sites with 51 per cent having no LTAs in 2012/13 (44 per cent in 2011/12). For the six month period from 1 November 2012, where we have full reporting across all the former SCA Packaging sites, 65 per cent of sites had no LTAs whilst 77 per cent of legacy DS Smith sites had no LTAs over the same period. In the Group's employee engagement survey, 85 per cent of respondents agreed that health and safety was taken seriously at their workplace.

Management systems

The Group has a well-established safety audit programme conducted by internal specialists and external consultants. These audits are used to ensure sites' consistent adherence to safety standards and to investigate possible areas of concern. The resulting action plans set a clear pathway for improvement.

All accidents are investigated to ensure we learn from these incidents and take steps to prevent a recurrence. The benefits of also investigating situations that might have resulted in an accident (near misses) is clearly proven and the practice is well established within the DS Smith business. Embedding this approach within all areas of SCA Packaging is a priority for 2013/14. In addition to focusing on specific risks, through techniques of risk assessment and root cause analysis, the Group also undertakes extensive safety training programmes at all levels of the organisation.

All accidents and situations that might have resulted in an accident are investigated to ensure we learn from these incidents and take steps to prevent a recurrence. In addition to focusing on specific risks, through techniques of risk assessment and root cause analysis, the Group also undertakes extensive safety training programmes at all levels of the organisation.

ACHIEVING TARGETS

Our paper mill in Lucca, Italy, which was formerly part of SCA Packaging, has successfully achieved the Group's ultimate target of zero Lost Time Accidents in the past year. This is particularly significant as it is the first time Lucca Mill has achieved this target in its 43 year history. This is testament to the level of communication, engagement and training across all employees at the mill, where workers and management are actively involved in discussions to assess potential Health and Safety risks.

EMPLOYEES

DS Smith employees are skilled, dedicated and hardworking. We are engaging with our employees to deliver the Group strategy and realise their true potential. Following the acquisition of SCA Packaging, we now have around 20,000 employees across the Group.

OUR VALUES

We believe that a clear set of values and behaviours, owned and lived by all our employees, can make a fundamental difference to how they feel and go about their work.

DS Smith is founded on the following values:

BE CARING
We take pride in what we do and care about our customers, our people and the world around us.

BE CHALLENGING
We are not afraid to constructively challenge each other and ourselves to find a better way forward.

BE TRUSTED
We can always be trusted to deliver on our promises.

BE RESPONSIVE
We seek new ideas and understanding and are quick to react to opportunities.

BE TENACIOUS
We get things done.

Our culture

DS Smith believes that open two-way communication within the Group, engagement of all employees in the business, and the alignment of management behaviours to our values are critical to the overall success of the business. In the last year, we have seen a huge transformation across the Group, as we welcome our colleagues from SCA Packaging and introduce them to DS Smith and our shared culture and values.

We have been running our DS Smith OWN IT! programme for some time now with the aim of achieving a common culture across the Group. Our OWN IT! programme provides a framework for a shared vocabulary and way of working between all DS Smith colleagues. These expected behaviours are communicated through our five common values: DS Smith employees are caring, challenging, trusted, responsive and tenacious. These values clearly draw on the strengths that are already present within DS Smith but also represent the common standards required of each employee in order to realise our vision. The DS Smith Story, embedded within OWN IT!, is an aid for communicating the vision, values and strategic goals of the business to all employees. OWN IT! is designed to engage our colleagues, realise their potential, and enable everyone to take responsibility for their contribution to the business. The programme has continued to develop following the completion of the acquisition of SCA Packaging and has subsequently been rolled out to all new DS Smith businesses.

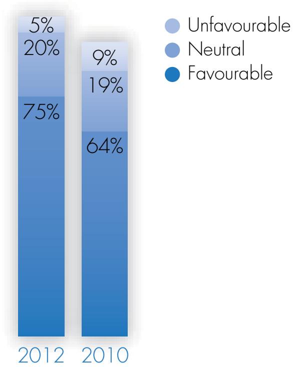
Integration of the EWCs

Also as part of the integration of SCA Packaging, the European Works Councils (EWC) of SCA Packaging and DS Smith were brought together under one agreement in March 2013. The single combined EWC now forms a vital channel for open two-way communication within the Group. The purpose of the EWC is to engage the employees of DS Smith and provide a forum for pan-European information and consultation regarding DS Smith's strategy and policy.

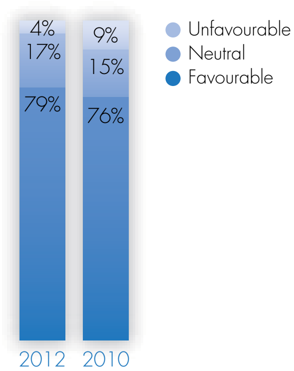
Employee engagement survey

Following the acquisition of SCA Packaging, and in order to continue to improve two-way communications, we ran our second Group-wide employee survey in October 2012 and achieved a response rate of 87 per cent (up from the 79 per cent response rate achieved in the first survey in 2010). The purpose of the survey was to understand better the views and opinions of all employees regarding the business, their role, their manager, and their working environment. As a result of the OWN IT! programme, 75 per cent of respondents in the 2012 survey now say that the values have been clearly communicated and 79 per cent feel that they provide clear direction for their behaviour.

Leadership



75 per cent of our colleagues around the Group believe our values are clearly communicated.



79 per cent have told us that the Group's values provide guidance for their behaviour.

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

DELIVERING THE DS SMITH STORY

The OWN IT! programme has enabled newly combined teams to establish their leadership, connect with new colleagues, and to define how disparate divisions and locations connect to Group strategic goals. As part of OWN IT!, delivery of the DS Smith story has been accompanied by illustrative stories that recognise and celebrate the achievements of individuals and teams. These success stories help to build pride and belief in the Group and identify examples of best practice. Whilst the DS Smith story aims to engage and excite employees in what we want to achieve as a business, the wider OWN IT! programme also acts to realise the potential of our people by enabling them to own their part of the story.

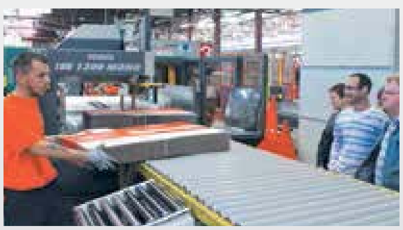
Each and every team in DS Smith will be engaged in interactive meetings focused on a local goal that links to one of the strategic goals. These meetings seek small yet significant steps to work more efficiently, collaborate more effectively, use or develop latent potential or learn from our past success to improve the business. Many of these interactive meetings have already begun and have yielded some significant results in their early stages. The following are a sample of case studies from around the Group:

- At our Packaging site in Bristol, UK, management looked to improve quality by focusing attention on Defect Parts Per Million (DPPM); the entire workforce was engaged in discussions around what action or behaviour each individual could own in the effort to reduce defects. As a result, the DPPM rate has gone from over 2,000 DPPM to a year-to-date average of less than 600 DPPM.
- In our Packaging site in Sud-Est France, the installation of new equipment that would replace two different machines would historically have been met with uncertainty and fear. By using OWN IT! to connect the change to Group strategy, employees have been involved in the process and it has been well accepted.
- At our Packaging site in Louth, UK, active discussions on working capital and inventory reductions with a wider group of employees have resulted in savings based on transport and inventory of £100,000.
- OWN IT! is resulting in a more committed workforce. At our Recycling depot in Keynsham, UK, an operational crisis was averted when a major piece of equipment broke down: although the depot was only running at 50 per cent capacity, the fact that colleagues volunteered to do extra shifts resulted in no detrimental impact on customers.

COMMUNITY INVOLVEMENT

DS Smith has established a charitable foundation to support the work of charities aligned with our activities and values.

OPEN DAYS



As part of our community relations and building engagement of employees, DS Smith operating sites have begun to open their doors through a series of Open Days. A typical Open Day will see the community, family and friends of employees being invited to visit a DS Smith site to learn about our products and innovations, and make new connections with DS Smith colleagues, families and friends. The Open Days are an opportunity to inspire the next generation of engineers and innovators. They also allow us to educate and share DS Smith's commitment to the environment and to creating sustainable products and energy-friendly supply chains.

DS Smith seeks to make a positive contribution to our communities and build a reputation as a good neighbour and employer.

Developing and maintaining good relations in the local communities in which we operate is important to us. Our businesses work closely with local schools and colleges to give opportunities for training, mentoring and work experience placements helping pupils to learn about industry and business. The Group is involved in a wide range of other community activities ranging from encouraging staff fundraising for local and national charities, sponsorship of local community projects or sports teams and provision of adult skills training.

We are committed to making a positive difference in our communities, working with local partners and supporting the active involvement of our employees. Our community engagement strategy is closely aligned to our CR areas and tailored to the needs of our local communities.

Each year we contribute to the local communities in which we operate through:

- Direct investment in community projects and partnerships.
- Time volunteered by our employees.
- Giving in kind.

To make the greatest impact on our communities we focus our charitable giving in two areas aligned with the activities and values of the business, through the DS Smith Charitable Foundation. These are to provide support to charities involved in either (1) issues related to the environment and conservation or (2) opportunities to support people into work.

Application forms for organisations seeking funding are available on our corporate website (www.dssmith.uk.com/corporate-responsibility/ds-smith-charitable-foundation). During the year, the Foundation has helped to support, among others, an organisation in Bristol providing work placements for disadvantaged young people and an organisation in Yorkshire providing practical skills to enable young wheelchair users to gain independence.

The Foundation is seeking to partner with a charity (or charities) in one or both of the two areas outlined above. Last summer employees were asked to recommend charities whose work supported one of the areas of focus. Applications are being reviewed to select the organisation most closely aligned with DS Smith's objectives for giving and which will give DS Smith employees an opportunity to get directly involved and donate their time. The selected charity will also receive multi-year financial support provided by the DS Smith Charitable Foundation.

RISK MANAGEMENT

The Group maintains rigorous procedures for understanding and managing its risks.

How risk is managed at DS Smith

The Board
Overall responsibility

The Group Management Team
Responsible for making recommendations to the Board and for proposing risk mitigation plans

The Risk Committee
Responsible for the detailed analysis of risks and the implementation of proposed plans

2012/13 has been a transformational period for the Group, in which we have doubled the size of the business with the acquisition of SCA Packaging. During this period we have continued to monitor closely the various risks we face, taking the appropriate steps to mitigate these risks. A Group Head of Risk has been appointed to ensure full consideration is given to this critical process.

The Group has various risks, both external and internal, which could have a material impact on its performance. The Group's exposure is mitigated to some extent by the range of geographies and markets served that constitute the business of the Group, and by the broad customer base. The principal Group-wide risks, their impact on the Group and how we mitigate those risks, are set out below.

There are further references to risks faced by the Group in the Financial Review, Corporate Governance section and in the Notes to the Consolidated Financial Statements of this report. The Group seeks to mitigate insurable risks through an insurance programme that covers property and liability risks where it is relevant and cost-effective to do so.

KEY RISKS

Dependence on the UK, continental European and other global economic conditions

Impact	Mitigation
The demand for packaging will vary according to the economic climate in which the Group operates, in particular the UK and continental Europe. This is particularly true of customers outside the FMCG sector, where purchases are more discretionary in nature. The impact of the ongoing slow-down in these regions on the operations of the business is difficult to predict and could potentially lead to a decline in demand for packaging products. There is no visibility on when the current uncertain economic outlook will improve.	DS Smith seeks to focus on supplying packaging to FMCG customers who, because they supply the consumer with grocery and home care products, tend to show more resilient volumes compared to discretionary purchases. In the event of a sustained fall in demand, the Group would take mitigating action to protect its profitability, as set out on page 45.

Availability and volatile pricing of raw materials

Impact	Mitigation
In 2012/13 the Group spent c. £1.7 billion on purchasing paper, plastics and other raw materials. The Group also spent c. £248 million on energy. These costs have increased substantially over the prior year, predominantly as a result of the acquisition of SCA Packaging, but do also reflect underlying price increases. To date the Group has largely recovered these costs in pricing, typically with the usual three to six-month delay depending on the business. For the former SCA Packaging business, the contract lengths vary between three and 12 months and consequently it could take a little longer to recover price increases. In the event that, due to competitor behaviour or other factors, DS Smith were unable to recover further price increases on a similar time-scale, the profitability of the Group would be reduced.	The Group is seeking to improve the speed with which we are contractually able to recover input costs, by bringing the UK and the former SCA Packaging contract structures, typically with six-month price-review periods, in line with our legacy DS Smith continental Europe operations which operate on a three-month price review structure. We also seek to differentiate our packaging through a focus on adding value to our customers' supply chains by focusing on service, quality and innovation. A description of our exposure to energy costs specifically is given later in this Risk Management section.

KEY RISKS continued

Strategy implementation and acquisition risk

Impact	Mitigation
The Group has a strategy to become the leading supplier of recycled packaging in consumer goods. It aims to achieve this through a combination of cost control, improved procurement processes and through organic investment and acquisition. On 30 June 2012 DS Smith completed the acquisition of SCA Packaging, where we originally identified targeted cost synergies of €75 million and capital savings of €40 million, both to be achieved over three years. We have successfully delivered €40 million of cost synergies and €120 million of cash synergies in the first year, and we have subsequently increased our targets to €120 million for cost synergies and €150 million for cash synergies. Were the Group not able to implement its savings in full or were the Group not able to find further suitable acquisition targets available at prices that enable the Group to achieve its strategic return on capital targets, or were the Group unable to fund such acquisition or investment on acceptable terms or to integrate the acquired businesses effectively, this could curtail the delivery of the Group's strategy and negatively impact the Group's financial returns.	The management team of DS Smith has been strengthened with additional resource, both from within the Group and externally, dedicated to operational efficiency, procurement, acquisition and integration activities. There is considerable experience of this work within the senior team, gained both within the Group and from their previous roles. The Group also receives advice from external parties. In addition, the bank facility headroom has increased and the Group is also considering alternative financing sources.

Restrictions due to level of indebtedness

Impact	Mitigation
During the year, the Group completed the acquisition of SCA Packaging, substantially increasing the level of net debt. At 30 April 2013, the Group had net debt of £817 million. Were events, either specific to DS Smith, or to the financial systems externally, to mean that capital was not available at competitive rates, this could have a material impact on the profitability of the Group. A one percentage point change in the interest paid by the Group could increase interest costs by c. £8 million. The Group's debt financing arrangements require the Group to dedicate a substantial proportion of operating cash flow to make payments on the debt, and contain certain restrictions on the Group, including among other things the ability to take on further borrowings or make disposals.	The average term of committed borrowing facilities is 4.4 years and 72 per cent of the Group's debt is held at fixed rates of interest for a period of 12 months or more. The Group sources its debt finance from a mixture of private placements provided by institutional debt investors and bank debt from a syndicate of 15 banks. The counterparty risk is carefully monitored such that the failure of one lender would not materially impact on the Group's access to capital. Cash deposits are placed with institutions with a Standard and Poor's credit rating of A-minus or above. In countries where this is not possible, deposits are held with strong local banks. Please refer to the Financial Review section of this Annual Report for a description of our financing arrangements.

The funding position of the Group's defined benefit pension schemes

Impact	Mitigation
The Group's defined benefit pension schemes' valuations are sensitive to a number of key factors: the value of the assets, inflation, the discount rate used to calculate the schemes' liabilities (based on corporate bond yields) and the mortality assumptions for the members of the scheme. The valuation of the Group's various pension schemes at 30 April 2013, which now also includes responsibility for the defined benefit pension obligations arising from the acquisition of SCA Packaging, was a deficit of £202.4 million, for which the UK scheme makes up the largest proportion. While the UK scheme is now closed to future accrual, changes in these assumptions could mean that the deficit increases further.	On 30 April 2011 the Group's UK defined benefit pension scheme closed to future accrual. This decision was taken by the trustees in light of the growing deficit of the scheme and the trustees' responsibility to safeguard the accrued benefits to existing members. The Group also reached agreement with the trustees for a profile of future payments to repay the deficit, being annual payments of £14.8 million starting in 2011/12, increasing by 2 per cent per annum, for 10 years.

Environmental risks

Impact	Mitigation
Were a material environmental incident to occur at a DS Smith site, this could result in material financial costs and reputational damage that could undermine our commercial position as a provider of environmental solutions. New regulations relating to environmental standards and to climate change and CO_2 emissions can give rise to significant additional costs of compliance.	As set out in the Corporate Responsibility review section of this Annual Report, the Group has detailed processes in place at all sites to ensure that, as a minimum, we comply with all relevant environmental rules and regulations.

Fall in demand

Impact	Mitigation
The profitability of the Group is sensitive to volume, the mix of sales and product pricing. A fall in demand could arise due to competitive action, product substitution, changes in consumer preferences or overall decline in the macroeconomic environment. A 5 per cent reduction in corrugated packaging volumes across the Group would theoretically result in a fall in Group operating profit by around £50 million, to the extent not mitigated by cost control.	In the event of falling demand, the Group would take prompt action to address its cost base. Further, the strategy of the Group is to focus on developing packaging for FMCG as this sector has historically shown substantially less volatility in demand during periods of economic downturn than industrial users of packaging.

OTHER RISKS

Competition in the paper market and the corrugated packaging market

Impact	Mitigation
DS Smith is the largest producer of corrugated case material (CCM) in the UK, and also the largest producer of corrugated packaging. Following the acquisition of SCA Packaging we are now one of the largest manufacturers of CCM in Europe and the second largest supplier of corrugated packaging in Europe. In the event of material new paper production capacity being installed by our competitors, this could impact the market for CCM, which is largely a commoditised product, both directly or through the impact of imports, which could in turn influence pricing in the corrugated packaging market.	We aim to develop long-standing relationships with our corrugated packaging customers based on the value that we add to their supply chain, and to differentiate DS Smith by the service, quality and innovation that we offer. We have also put in place a new structure to improve the procurement and supply processes across the Group, in order to ensure our corrugated packaging businesses have access to all grades of paper at competitive rates.

OTHER RISKS continued

Energy costs

Impact	Mitigation
The Group's exposure to energy costs is set out in the Financial Review in this Annual Report. The acquisition of SCA Packaging during the year has doubled the Group's energy costs. A 10 per cent increase in energy prices would represent an increase in operating costs of c. £25 million.	The Group aims to mitigate its exposure to energy costs by using indexed supply contracts and by entering into hedging contracts with utilities and financial institutions. The Group monitors its portfolio of hedging contracts to ensure that it is not overly reliant upon any single counterparty. The Group is also looking to supplement external providers of energy with in-house energy generation from its combined heat and power plants.

Operational failure such as IT systems and controls or facilities failure

Impact	Mitigation
Like most businesses, the Group depends on its IT systems and controls for the management of its operations. Were these to fail for a material length of time, this could disrupt the Group from transacting its business. Were an incident such as a fire to happen at a major site, this could impact on the operations and financial performance of the Group.	The Group manages its IT through a combination of experienced staff and contracted-out teams. The Group has back-up arrangements in place at all its major sites and operates to the highest standards of safety at its facilities. The Group has a large network of sites such that manufacturing of some products could be transferred between sites. The Group is also insured against losses arising from certain incidents that might impact on the operations of our facilities. Note, however, that certain losses are either not insurable or not economically insurable, such as losses due to natural disasters, riots, acts of war or terrorism.

Competition

Impact	Mitigation
The Group operates in a market controlled by laws governing competitive behaviour. Penalties for breaching competition laws could result in substantial fines and reputational damage to the Group.	The Group has a rigorous programme of training for all relevant employees, to ensure that they fully understand the applicable laws and the high standards to which they are expected to operate. Furthermore, the Group operates a Workplace Malpractice helpline in those jurisdictions where this is permissible, providing a confidential route for employees to report perceived malpractice of any type.

Industrial relations breakdown

Impact	Mitigation
The Group employs around 20,000 people. Were an issue to arise that caused a material breakdown in industrial relations, such that there was a prolonged strike or other industrial action within a part of the business, this could have a material impact on the financial performance of the Group.	The Group maintains good relationships with all significant organisations that seek to represent its employees. Furthermore, the Group aims to provide employees with a safe working environment and a culture that fosters excellent performance and encourages self-development. Through being an employer of choice, we aim to avoid material industrial relations issues arising.

Employee safety

Impact	Mitigation
Employee safety is the Group's top priority. Were an incident to arise where unsafe practice was found to be taking place, this could potentially result in the interruption of some of our operations for a period of time and the Group could incur financial penalties and reputational damage.	The Group has a very detailed and extensive health and safety programme, which is embedded in all its operations. Further details of this programme are set out in the section on Corporate Responsibility in this Annual Report.

Product liability

Impact	Mitigation
The Group's products are used, amongst other things, for packaging food and drink products and accordingly are manufactured to conform to the relevant standards. Were any products to be defective, or were the applicable standards to become significantly more onerous, this could give rise to both financial and reputational damage to the Group.	The Group has not been held liable in any material product liability claims in recent years. The Group observes all applicable safety standards and engages with industry bodies in their research on the use of packaging for food and drink products.

Taxation

Impact	Mitigation
As the majority of the Group's subsidiaries are outside the UK, the Group's effective rate of tax depends on corporate tax rates in other countries, which may be both higher and lower than the rate of corporate income tax in the UK. Accordingly, the Group's overall tax rate and total tax payments may change depending on the geographical mix of the business and on changes in tax legislation both within and outside the UK. Tax is a complex area and from time to time fiscal authorities may interpret tax legislation differently from the Group. This may result in challenges to the tax treatment adopted by the Group and reflected in its tax charge, tax balances and tax payments.	The Group actively manages its tax affairs in order to be consistent with its commercial objectives whilst fully complying with all relevant tax legislation.

Foreign exchange rate movements

Impact	Mitigation
Following the acquisition of SCA Packaging, the Group has substantial investments in foreign currency assets of its subsidiary companies based overseas, in particular those whose functional currency is the euro. In addition, approximately 80 per cent of the Group's operating profit will be derived from currencies other than sterling, principally the euro. The Group's financial covenant ratios within its financing arrangements are exposed to the extent that earnings in foreign currency contribute to the Group's total EBITDA.	In order to hedge these exposures, the Group's policy is to hedge its EBITDA with a proportionate amount of debt held in foreign currencies. The Group's foreign currency debt may be held either in the currency itself or through the use of cross-currency swaps.

Other social and environmental matters

Impact	Mitigation
The Group's management of other social and environmental risks is described in the section on Corporate Responsibility in this Annual Report.	As described in the section on Corporate Responsibility.

Gareth Davis

Chairman

Appointment: Appointed to the Board on 1 June 2010 as a non-Executive Director. He became Chairman of the Board on 4 January 2012 and is Chairman of the Nomination Committee.

Skills and experience: He is Chairman of both William Hill PLC and Wolseley plc. He was previously Group Chief Executive of Imperial Tobacco Group PLC. Age 63.

Miles Roberts

Group Chief Executive

Appointment: Appointed to the Board on 4 May 2010 as Group Chief Executive.

Skills and experience: He was previously Chief Executive of McBride plc from July 2005 until April 2010, having originally joined as its Group Finance Director in January 2002. He was a non-Executive Director of Care UK plc until May 2010. Age 49.

Steve Dryden

Group Finance Director

Appointment: Appointed to the Board on 1 April 2008 as Group Finance Director. He resigned from the Company on 8 January 2013 and will stand down from the Board on 28 June 2013.

Skills and experience: He was until recently a non-Executive Director of Fiberweb plc. He held the position of Finance Director of Filtrona plc following its demerger from Bunzl plc in 2005. Prior to that he was divisional Finance Director of the Filtrona businesses and held other senior finance positions within Bunzl plc. He began his career at Price Waterhouse and has also held various finance roles within Rolls-Royce plc. Age 45.

COMMITTED TO OUR STAKEHOLDERS

- Nomination Committee
- Remuneration Committee
- General Purposes Committee
- Audit Committee

Jonathan Nicholls

Senior Independent Director

Appointment: Appointed to the Board on 1 December 2009 as a non-Executive Director. He is the Senior Independent Director and is the Chairman of the Audit Committee.

Skills and experience: He was previously Group Finance Director of Hanson Plc and, most recently, Group Finance Director of Old Mutual Plc. He is a non-Executive Director and Chairman of the Audit Committees of Great Portland Estates plc and SIG plc and was a non-Executive Director of Man Group Plc. Age 55.

Chris Britton

Non-Executive Director ● ■ ◆

Appointment: Appointed to the Board on 6 March 2013 as a non-Executive Director.

Skills and experience: He is a non-Executive Director of Alliance Boots GmbH. Until the end of 2012 he was Chief Executive Officer of the Findus Group, a privately-owned frozen and chilled food company, having previously been an Executive Board member and President of the Baby Division of Royal Numico until its acquisition by Danone in November 2007. Before that he worked for Diageo for 20 years in various marketing and general management positions, including his final role as Global Marketing Director of Diageo. Age 55.

Chris Bunker

Non-Executive Director ● ■ ◆

Appointment: Appointed to the Board on 9 December 2003 as a non-Executive Director. He is the Chairman of the Remuneration Committee and was previously Senior Independent Director.

Skills and experience: He was previously Group Finance Director of Thames Water Plc, Tarmac Plc and Westland Group Plc. He is a non-Executive Director of Travis Perkins plc and was a non-Executive Director of Mowlem Plc, Baltimore Technologies plc and Xansa plc. Age 66.

Philippe Mellier

Non-Executive Director ● ■ ◆

Appointment: Appointed to the Board on 7 September 2006 as a non-Executive Director.

Skills and experience: He is Group Chief Executive Officer of De Beers Group. He was President of Alstom Transport and an Executive Vice-President of Alstom Group, was previously Chairman and Chief Executive Officer of Renault Trucks and a Member of the Executive Committee of AB Volvo, and prior to that held senior management positions with Renault S.A. and Ford Motor Company. Age 57.

Kathleen O'Donovan

Non-Executive Director ● ■ ◆

Appointment: Appointed to the Board as a non-Executive Director on 5 December 2012.

Skills and experience: Kathleen is currently Senior Independent Director of ARM Holdings plc and chairs the Audit Committee. She was previously a non-Executive Director of Prudential plc, EMI Group plc, O2 plc and Trinity Mirror plc, and Senior Independent Director of Great Portland Estates plc. She has served as a Director on the Court of the Bank of England from 1998 to 2004 and was Chief Financial Officer of BTR plc and Invensys plc from 1991 to 2002. Age 56.

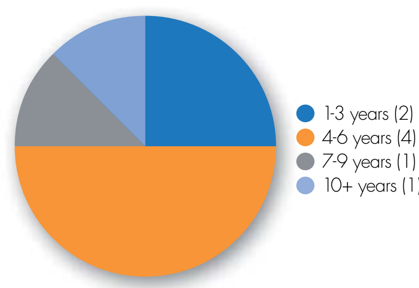
Matt Jowett

Group General Counsel and Company Secretary

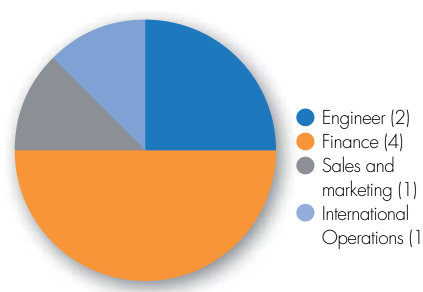
Appointment: Appointed Group General Counsel and Company Secretary on 21 June 2011.

Skills and experience: He was previously Group General Counsel and Company Secretary of VT Group plc and prior to that he was Group General Counsel of RMC Group plc. He began his career at law firm Linklaters. Age 45.

Board tenure



Board background

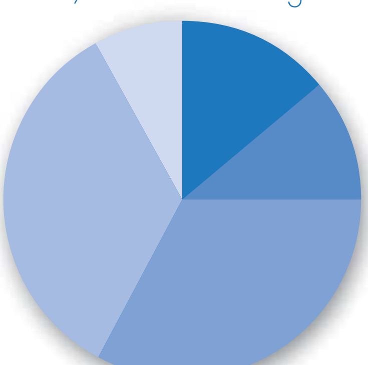


CORPORATE GOVERNANCE

Key highlights from the year

- The successful integration of SCA Packaging into DS Smith.
- Embedded key management team and new management structure to ensure that organisational design is fit for purpose.
- Focused on the composition, balance and effectiveness of the Board.
- Carried out an evaluation of the Board and its Committees.

Topics discussed at 2012/13 Board meetings



Governance	14%
Strategy	11%
Financial Management	33%
Operations	34%
Health & Safety/Environment	8%

"The protection of our reputation and application of our values, as set out in our business principles, is the responsibility of all employees."

Dear Shareholders

It has been said that major strategic actions test the true effectiveness of boards and, following the acquisition of SCA Packaging last year, DS Smith has successfully re-shaped itself in line with our strategic aim to become the leader in recycled packaging for consumer goods.

I believe that your Board is both engaged and committed. The period ahead will bring many new challenges. The Company continues to build organisational capacity and improve our management processes and procedures, which are all underpinned by reference to the principle and application of sound corporate governance. The Board provides leadership to the business in order to create long-term value for stakeholders.

The protection of our reputation and application of our values is the responsibility of all employees. These principles differentiate our products and services. Trust is earned from others as a result of our commitment to these values and the ethical manner in which we behave.

Diversity on boards of directors and elsewhere in corporate life continues to be a significant theme in corporate governance. There have been some changes to the Board and its Committees during the year, and we welcome our two new non-Executive Directors and look forward to our new Group Finance Director, Adrian Marsh, joining the Company later in the year. When shown as a percentage, at the date of this report, your small Board of eight Directors has a 12.5% female membership, 12.5% of the Directors are French (with the remaining 87.5% being British) and 75% of the Board is under the age of 60. More helpfully, perhaps, we have shown the backgrounds and length of service for the Board on pages 48 and 49. Below Board level women are under-represented on our senior management team and ways of addressing this have been the subject of debate at various levels from the Board down.

This report covers the Board's activities during the year and the activities of the Board Committees. The key governance issues addressed during the year were diversity, remuneration and stakeholder relations. These remain hot topics and will continue to form part of the discussions for the year ahead.

As part of our annual Board performance evaluation process, we have reviewed our performance in 2012/13 and how we stood up to the test of our effectiveness. Whilst as a Board and as a Company we will always look at ways to improve our performance, I believe this report shows that our Board governance was, and remains, robust and effective.

Gareth Davis
Chairman

Committee structure

Key activities of the Board during 2012/13 and key priorities in 2013/14

	Key activities in 2012/13	Key priorities in 2013/14
Strategy	• The acquisition of SCA Packaging and its successful integration into DS Smith formed a large part of the strategic discussion during the year. • There was a focus on resource allocation and the Board received a briefing on this at each meeting. • The strategy review in December determined that the Company's medium-term targets are to remain focused on recycled packaging to consumer companies, reducing cyclicality of returns and reducing non-integrated paper production. • The Group's dividend policy was debated and approved.	• Approve and keep under review the corporate plan. • Appoint a new Group Finance Director. • Keep the Group's dividend policy under review.
Risk and risk management	• The Board reviewed key risks (see pages 43 to 47) and the internal controls process, and assessed the Group risk profile by identifying where the business's key risks lay, aligning them with the risk appetite of the business and highlighting how to target effectively and mitigate those risks. • The Board monitored compliance with the anti-bribery and anti-corruption policy. • The Board monitored compliance with the competition law policy.	• Appoint a Group Risk Officer and further strengthen the Group's risk management framework. • Approve a Code of Conduct. • Approve an updated Data Protection policy.
Governance and values	**Leadership and employees:** • Continued to focus on the composition, balance and effectiveness of the Board. The appointment of two new non-Executive Directors and the recruitment of a new Group Finance Director has helped to bring new perspectives, experience and skills to the table, further strengthening the Board debate. • Reviewed the key operational roles and identified gaps in experience needed to deliver the strategy. • Continued to enhance employee engagement through the annual employee survey, the OWN IT! programme and the roll-out of the business principles. • Sought shareholder approval for our remuneration policy. **Relations with shareholders:** • Independent investor audit undertaken by Makinson Cowell. • Engaged with our retail shareholders at the AGM. • Actively engaged with institutional shareholders, investors and other stakeholders throughout the year.	• Ensure that the Company remains at the forefront of developing and embedding best practice in responsible business behaviour. • Maintain and enhance DS Smith's culture and values. • Reinforce compliance with DS Smith's Code of Conduct. • Continue to strengthen internal controls and reporting. • Approve an operating framework which sets out the Group's culture and values, as well as its key policies and procedures, all in accordance with the principles of good corporate governance. • Review level of institutional holdings and consider actions to broaden further the Group's shareholder base.
Organisational capacity	• Embedded new management team and management structure post the SCA Packaging acquisition; ensured organisational design is fit for purpose and can evolve to reflect the growth in size and complexity of the business. • Reviewed the health and safety lessons learned, ensuring the safety of our employees and others affected by our operations is protected. Appointed a new Head of Health and Safety. • Undertook an evaluation of the Board and its Committees with the aim of becoming the best Board we can be. • Reviewed the governance framework and launched comprehensive competition law, anti-bribery and anti-corruption policies, training and awareness drives.	• Continue to monitor senior executive talent management and development plans to provide succession for all key positions. • Continue to increase the diversity of the Board and management team. • Arrange more meetings between the Board and senior talent pipeline.
Board development	• Board composition was reviewed and the recommendations of the Nomination Committee were discussed and acted on. • Board evaluation and the Chairman's evaluation were carried out and an action plan developed.	• Enhance the Board's strategic understanding of geo-political and economic risks in international markets. Use Board visits to promote understanding of markets and the business development opportunities they offer. • Consider appointment of an additional non-Executive Director to improve Board diversity further. • Annual evaluation of Board performance – to be carried out by questionnaire.

The Company has complied throughout the financial year with all the provisions of the UK Corporate Governance Code (the 'Code'), the main principles being Leadership, Effectiveness, Accountability, Remuneration and Relations with Shareholders. In September 2012, a number of changes were made to the Code. Whilst compliance with this revised code was not required in respect of the 2012/13 financial year, the Board accepts that it represents an authoritative statement of best practice and, as such, it has reviewed its practices relative to it and this is reflected, where possible, in additional information included within this report. The Board has regard to corporate governance issues in all of its decision-making. Further explanation of how the principles and supporting principles of the Code have been applied is set out below and in the Directors' Remuneration Report. The Company's Auditor has reviewed the compliance with those provisions of the Code specified for their review.

Leadership

Board and Board Committees

	Independent	Board	Nomination Committee	Audit Committee	Remuneration Committee	Annual General Meeting
Total number of meetings in 2012/13		7	5	4	5	1
Number of meetings attended in 2012/13						
Executive Directors						
Miles Roberts	No	7 (7)	5 (5)	–	–	1 (1)
Steve Dryden	No	7 (7)	–	–	–	1 (1)
Non-Executive Directors						
Gareth Davis	On appointment	7 (7)	5 (5)	–	5 (5)	1 (1)
Chris Britton[1]	Yes	2 (2)	1 (1)	1 (1)	1 (1)	0 (0)
Chris Bunker[2]	Yes	7 (7)	5 (5)	4 (4)	5 (5)	1 (1)
Philippe Mellier	Yes	7 (7)	5 (5)	4 (4)	5 (5)	1 (1)
Jonathan Nicholls	Yes	7 (7)	5 (5)	4 (4)	5 (5)	1 (1)
Kathleen O'Donovan[3]	Yes	4 (4)	3 (3)	1 (1)	3 (3)	0 (0)

The Board held seven scheduled meetings during the year. Figures in brackets denote the maximum number of meetings that could have been attended.

1. Chris Britton was appointed to the Board and as a member of the Audit, Remuneration and Nomination Committees in March 2013.

2. Chris Bunker completed his third consecutive term on 8 December 2012, but the Board concluded that he remains independent (see page 53).

3. Kathleen O'Donovan was appointed to the Board and as a member of the Audit, Remuneration and Nomination Committees in December 2012.

Effectiveness

The Board carried out an appraisal of its performance and that of the Committees and the individual Directors between January and March 2013. Last year the review was carried out by an external facilitator. The Board's policy is to go to an external facilitator every three years. In accordance with that policy, this year the review was carried out by the Chairman. A detailed questionnaire was completed by each Director, with the opportunity for separate discussions with each Director about the feedback. The review investigated a variety of aspects associated with Board effectiveness. The feedback was collated into a report and presented to the Board. All Directors and the Group General Counsel and Company Secretary ('Company Secretary') participated in the exercise.

The review concluded as follows:

- The appointment of the two new non-Executive Directors has improved the diversity of the Board.
- There is a frank and open culture and the dynamics between the Executive Directors and non-Executive Directors are such that issues can be raised easily, discussed openly and resolved efficiently. At present the size and make-up of the Board is suitable and the dynamics between non-Executive and Executive Directors work well. Challenge is offered and accepted in the spirit intended and debate is good.
- The responsibilities of the Board and its Committees are appropriately drawn. The Board continues to demonstrate a methodical and thorough approach to its work with a high level of strategic clarity and strong executional skills. Information is presented in a timely and accurate manner and agendas are carefully planned and well supported by the Company Secretary. The review concluded that the Board is generally well informed and meetings are focused and effective.

Three areas were identified for further Board discussion:

- There is still scope for further developing the Board's diversity, in view of the broad international nature and aspirations of the business. In particular, the need for more continental European experience was highlighted. This will be taken into account in future non-Executive Director appointments.
- The understanding of the Board and its visibility of risk and executive succession planning needs to be further developed and the Board would benefit from exposure to more members of the senior talent pipeline.
- There is a need to develop further the Board's understanding of the Group's markets, customer relationships and competitive landscape.

A separate review of the Chairman, also by means of a questionnaire, was carried out by the Senior Independent Director. The review concluded that the Chairman had performed well. The Board considered whether, in view of his two other chairmanships, the Chairman was able to devote sufficient time to the role. The Board concluded this was the case, but that the position should be monitored regularly.

The Board has discussed the findings of the review in detail and an action plan has been developed by the Chairman, with the assistance of the Company Secretary, to address the areas identified.

Following this evaluation the Board recommends the election or re-election of Directors standing for election or re-election at the 2013 Annual General Meeting ('AGM').

On appointment, new Directors are given appropriate induction training, tailored to their specific needs, taking into account their individual qualifications and experience, which includes the provision of information on the Group's strategy, key risks and policies and procedures, individual time with the Chairman, Group Chief Executive and Company Secretary and site visits to major business units.

In addition to formal Board meetings, the Chairman and Group Chief Executive maintain regular contact with all Directors and hold informal meetings with non-Executive Directors to discuss issues affecting the Company. Individual Directors are encouraged to make site visits during the year. The Chairman and a number of the non-Executive Directors attended the Day One integration conference held in July 2012. The Board visited the Innovation Centre in Belgium in April 2013. A number of non-Executive Directors attended the Group Management Conference at Farnborough in June 2013.

The Board reviews the performance of the Group and undertakes a corporate planning process on an annual basis. There is a formal schedule of matters reserved for consideration and approval by the Board. These include the annual budget, substantial acquisitions and disposals, the approval of the full-year and half-year results and a review of the overall system of internal control and risk management.

The principal Committees of the Board are the Audit, Remuneration and Nomination Committees. All Board Committees have written terms of reference agreed by the Board. These are available on the Company's website at www.dssmith.uk.com/aboutus/corporate-governance and on request to the Company Secretary.

Each Director has access to all information relating to the Group and to the advice and services of the Company Secretary (who is responsible for ensuring that Board procedures are followed) and, as required, external advice at the expense of the Group. The Directors are provided with opportunities for training to ensure that they are kept up-to-date on relevant new legislation and regulatory changes, corporate governance developments and changing commercial risks.

The offices of Chairman and Group Chief Executive are held separately. During the year, each of the non-Executive Directors has at all times acted independently of management and has no relationships which would materially interfere with the exercise of their independent judgement and decision-making. Gareth Davis was regarded as independent when appointed Chairman. All Board members attend all Board and relevant Committee meetings unless exceptional circumstances prevent them from attending.

In 2012, having served as a Director for nine years, Chris Bunker's term of office was extended for a period of 10 months to the Company's AGM on 3 September 2013. Consequently, the Board has considered whether in respect of the period 9 December 2012 to 3 September 2013 he continues to be independent notwithstanding his length of service. The Board concluded that he remains independent and, in reaching this decision, the Board noted that his period of office had not coincided to any significant degree with that of any of the current Executive Directors.

Summary of Board and Committee changes in the year

Month	Change
December 2012	Kathleen O'Donovan appointed as an independent non-Executive Director. She was also appointed as a member of the Audit, Remuneration and Nomination Committees.
March 2013	Chris Britton appointed as an independent non-Executive Director. He was also appointed as a member of the Audit, Remuneration and Nomination Committees.

Accountability

Through this report and, as required, through other periodic financial statements, the Board is committed to providing shareholders with a clear assessment of the Company's position and prospects. The arrangements established by the Board for the application of risk management and internal control principles are detailed on page 57. The Board has delegated to the Audit Committee oversight of the management of the relationship with the Company's auditors, further details of which can be found in the Audit Committee report on pages 54 to 55.

Relations with shareholders

The Company has a programme of regular meetings (which sometimes include the Chairman and the Senior Independent Director), site visits and results briefings with its major institutional shareholders, which provide opportunities to discuss the progress of the business. The Board also receives feedback from major shareholders following the full and half-year results. Together, the Chairman, Group Chief Executive, Group Finance Director and Head of Investor Relations ensure the Board is briefed on shareholders' views such that any issues or concerns are fully understood and considered by the Board. In order to assist in developing an understanding of the views of major shareholders, periodically the Company commissions a survey of investors undertaken by external consultants. The results of the survey are presented to the Board. The Senior Independent Director is available to discuss with shareholders any major issues that cannot be resolved through normal channels.

The AGM is used as an opportunity to communicate with private shareholders, including a short presentation on the business and current trading position, as well as an opportunity for questions from investors to the Chairman of the Board and the chairmen of the Audit and Remuneration Committees. All Directors who attend the AGM make themselves available to meet shareholders after the formal business of the meeting. To ensure compliance with the Code, separate resolutions are proposed on each discrete subject. All Directors will retire and stand for election or re-election this year (except for Chris Bunker, who is standing down from the Board at the conclusion of the 2013 AGM).

To reflect the voting preferences of all shareholders wishing to vote at the AGM, the Company will take a poll on all resolutions put to shareholders. The final results are published through a Regulatory Information Service and on the Company's website following the AGM.

Regular communication with shareholders also takes place through the Annual Report and via the Company's website, www.dssmith.uk.com. In addition, the Company provides Interim Management Statements and trading updates.

Remuneration

The Board has delegated to the Remuneration Committee responsibility for agreeing remuneration policy, and the individual remuneration of the Executive Directors, the Chairman, members of the senior management team and the Company Secretary (see Remuneration Report on pages 58 to 70).

AUDIT COMMITTEE

Key responsibilities

- The accounting principles, policies and practices adopted in the Group's accounts.
- External financial reporting and associated announcements.
- The appointment, independence, effectiveness and remuneration of the Group's Auditor.
- The resourcing, plans and effectiveness of Internal Audit performed on behalf of the Company by a major accountancy firm (currently KPMG), which is independent from the Group's Auditor.
- The adequacy and effectiveness of the financial control environment.
- The Group's compliance with the Code.

Audit Committee Membership

Total number of meetings		4
	Maximum could have attended	Attendance
Jonathan Nicholls	4	4
Chris Britton[1]	1	1
Chris Bunker[2]	4	4
Philippe Mellier	4	4
Kathleen O'Donovan[3]	1	1

1. Chris Britton was appointed to the Board and as a member of the Audit Committee in March 2013.
2. Chris Bunker continues to be considered independent.
3. Kathleen O'Donovan was appointed to the Board and as a member of the Audit Committee in December 2012.

"The Audit Committee has supported the Group through its transformational year, working with the Board to ensure our new wider business is brought into our financial reporting and controls framework, while ensuring focus on the core business remains strong."

Dear Shareholders

The Audit Committee has had a number of challenges in the year under review. The Group has doubled in size with the acquisition of SCA Packaging, and ensuring that the proper policies and procedures were correctly implemented as part of the integration of the two businesses has been an important and comprehensive process. The Audit Committee has supported the Group through its transformational year, working with the Board to bring our new wider business into our financial reporting and controls framework, while ensuring focus on the core business remains strong.

The Committee has also been reviewing the changes in reporting that will be required under the UK Corporate Governance Code. Although these changes do not formally come into effect until our next financial year, the Committee has decided to adopt early where it considers it appropriate.

During the year under review, the Committee has conducted the usual review of our financial results and controls, our business operations across the world and their management of risk and the consideration of emerging risks.

Jonathan Nicholls
Chairman of the Audit Committee

The terms of reference of the Audit Committee include all the matters indicated by the Code, except the oversight of business risks which is the direct responsibility of the Board (with the risk management framework and processes overseen by the Committee).

During 2013/14, the Committee will have additional priorities in response to the revisions in the UK Corporate Governance Code effective for periods beginning on or after 1 October 2012. The Committee will review the arrangements in place which enable them to provide advice to the Board on whether the annual financial statements, taken as a whole, are fair, balanced and understandable and provide all information necessary to assess the Group's performance, business model and strategy.

The performance of the Committee was evaluated as part of the Board performance evaluation process described on page 52.

The Committee receives and reviews regular reports from the external Auditor, Internal Audit and the Group Finance Director. Under its terms of reference the Committee is empowered to seek independent external advice but did not do so during the year.

External Audit

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

In order to ensure the independence and objectivity of the Auditor, the Committee maintains and regularly reviews the Auditor Independence Policy which covers services which may be provided by, and fees paid to, auditors. Audit fees are negotiated with the

Key activities in 2012/13

- During the run up to and period after the acquisition of SCA Packaging, the Committee considered reporting and internal controls relating to the newly acquired business, including discussion of how to prioritise Internal Audit visits to new locations acquired, and roll-out of financial policies and procedures.
- The Committee discussed reports during the year about the progress of SCA Packaging fair value accounting completion accounts claim, including consideration of the associated accounting.
- The Committee considered the effectiveness of systems for monitoring and reporting on risks faced by the Group, and reviewed the Group's Key Risk paper.
- Reviewed the Group's exceptional items policy in order to ensure appropriateness and consistency of approach towards exceptionals.
- Internal Audit strategy, findings and management responses to proposals made in the audit reports issued by the function during the year were reported, debated and management actions monitored for timely completion.
- Pension assumptions and valuation results were reported to the Committee and reviewed.
- At the year-end a series of tests were undertaken to determine whether there had been any impairment to the balance sheet carrying values of goodwill and other intangible assets to update a process of impairment monitoring that is ongoing throughout the year. The Committee discussed the new operating segment grouping used for testing and were able to challenge management's underlying assumptions. The key assumptions behind these calculations can be found in note 10 to the financial statements.
- The Committee reviewed evaluations of going concern and sensitivity analysis and recommended to the Board that the preparation of the year-end financial statements on a going concern basis was appropriate.
- The Committee received reports from Internal Audit on internal control matters and from the external Auditor on the conduct of their audit, their review of accounting policies, areas of judgement and the financial statements and their comments on statements concerning risk and internal control.
- The Committee carried out an appraisal of the external Auditor and Internal Audit function, the results of which were reported to the Board. The Committee concluded that each area operated satisfactorily during the year. The annual audit fee, with regard to the split between audit and non-audit fees, was approved.
- Working capital, cash flow and covenant headroom were reviewed.
- Terms of Reference for the Committee were reviewed and a revised set was recommended to the Board for approval.

Key priorities in 2013/14

- Carry out tender process for external audit service.
- Review of provision of non-audit services.
- Implementation of the revisions to the UK Corporate Governance Code.
- Carry out an assessment of the external Auditor's effectiveness.
- Test whether there has been any impairment to the balance sheet and review going concern.
- Review the Group's Key Risks and the reporting thereon.
- Review and approve the half-year and full-year results.
- Review the Internal Audit report on internal control matters and review management response.
- Evaluate systems of internal control across the Group, including IT controls.

Group Finance Director and approved by the Audit Committee. The policy on the supply of non-audit services by external auditors is as follows: The Group should not employ the Auditor to provide non-audit services where either the nature of the work or the extent of such services might impair the Auditor's independence or objectivity. The external Auditor is permitted to undertake some non-audit services, providing it has the skill, competence and integrity to carry out the work in the best interests of the Group, on, for example, advisory services and due diligence activities associated with potential acquisitions and disposals and major changes in accounting regulations.

Non-audit services and fees are reported to the Audit Committee twice a year. For guidance, annual non-audit fees payable to the external Auditor should not exceed 75% of the annual Group audit fee without prior formal approval of the Committee. During 2012/13, total non-audit fees were 131% of the annual Group audit fee. The most significant element related to the acquisition of SCA Packaging, where the use of external auditors was necessary and approved by the Audit Committee. Approval for permitted non-audit services is sought as required by this policy which specifies that individual projects which would cost over £100,000 must be referred to the Chairman of the Committee for prior approval. The outcome of these reviews was not only that performance of the relevant non-audit work by the Auditor was the most cost-effective way of conducting business, but also that no conflicts of interest existed between such audit and non-audit work. In addition, £2.2 million was paid to other accounting firms for non-audit work, including £0.9 million for work relating to Internal Audit.

Deloitte LLP, a leading international audit partnership, was first appointed as Auditor to the Group companies in 2006. The Committee is satisfied with Deloitte's independence and effectiveness and their fees are regularly compared with peer companies by the Committee. In accordance with professional standards, the partner responsible for the audit is changed every five years, with the last rotation made for the 2011/12 financial year. There are no contractual restrictions on the Group with regard to Deloitte's appointment.

The Committee has reviewed the external audit provision and considers it an appropriate time to undertake a full tender process for external audit services. The Committee has therefore approved a tender process which will be carried out during 2013.

Operation of the Committee

During the year, the Committee met four times and met privately with the external Auditor after each meeting. The Chairman of the Audit Committee also held separate private meetings during the year with the external Auditor, representatives from Internal Audit and the Group Finance Director and his team. The Committee received sufficient, reliable and timely information from management to enable it to fulfil its responsibilities. The Committee is satisfied that the Group's executive compensation arrangements do not prejudice robust controls and good stewardship.

In addition to the Committee members, the Chairman, the Group Chief Executive, the Group Finance Director, representatives from Internal Audit and the Group Financial Controller attend parts of these meetings by invitation. The Board is satisfied that Jonathan Nicholls and the members of the Audit Committee have both current and relevant financial experience (as set out on pages 48 to 49).

"The Nomination Committee has overseen a number of important changes to the composition of the Board."

Dear Shareholders

The Nomination Committee has the responsibility to ensure that the make up of the Board reflects the best that the Company can be, by identifying the skills required of future Directors and making recommendations to the Board as a whole. The Nomination Committee has overseen a number of important changes to the composition of the Board. The Committee ensures that a rigorous process is in place for the appointment of new Directors, using a number of external recruitment consultants (who have no other connection with the Company), followed by meetings with the Committee and then with the Board. The Committee also takes into account the Company's strategy as part of the succession planning process and, as a consequence, identifies areas of knowledge and experience required in the senior management team that will assist the Company in strategic development and delivery.

Gareth Davis
Chairman

NOMINATION COMMITTEE

Key responsibilities

- Evaluates the balance of skills, knowledge and experience, diversity of the Board and the length of service of each Director.
- Develops role specifications.
- Reviews succession planning and diversity at Board and senior management level.

Nomination Committee Membership

Total number of meetings		5
	Maximum could have attended	Attendance
Gareth Davis	5	5
Chris Britton[1]	1	1
Chris Bunker[2]	5	5
Philippe Mellier	5	5
Jonathan Nicholls	5	5
Kathleen O'Donovan[3]	3	3
Miles Roberts	5	5

1. Chris Britton was appointed to the Board and as a member of the Nomination Committee in March 2013.
2. Chris Bunker continues to be considered independent.
3. Kathleen O'Donovan was appointed to the Board and as a member of the Nomination Committee in December 2012.

	Key activities in 2012/13	Key priorities in 2013/14
Succession planning	• Candidates for appointment as non-Executive Directors were reviewed and nominations were made, based on merit against objective criteria (with diversity, as set out below, an important consideration), for the Board's approval. • The process of appointing a new Group Finance Director was begun.	• Concluded the appointment of a new Group Finance Director. • Considering candidates for appointment of an additional non-Executive Director to further strengthen the Board.
Diversity	• Diversity is an important part of the considerations for any appointment. Different aspects, including professional background and experience, geographic/cultural diversity and gender diversity were taken into consideration. • Kathleen O'Donovan's appointment went part of the way to addressing the gender balance on the Board. • Chris Britton's appointment strengthened the Board's retail and marketing experience.	• Further reinforcing the cultural and expertise diversity in the Board's composition. • Considering ways to improve diversity in the pipeline for senior management roles.
Strategy	• The Company's strategy is taken into consideration as part of the succession planning process. The senior management team was reviewed and areas of knowledge and experience identified that would assist the Company in strategic development and delivery.	• Further strengthening of the senior management team. • Reviewing the Group's talent management process.
Governance	• The performance of the Committee was evaluated as part of the Board performance evaluation process described on page 52. • The Committee reviewed the Terms of Reference and recommended a revised set to the Board for approval.	• Annual evaluation of the Committee in the first quarter of 2014.

Other Board Committees

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

Conflicts of interest

The Company's Articles of Association permit the Board of Directors to authorise a conflict of interest or potential conflict of interest notified by a Director (subject to conditions if appropriate), provided that the Board considers this to be in the best interests of the Company.

Each of the Directors in office reviews their individual position regularly and new Directors review their individual positions prior to joining the Board. As a routine item Directors are asked, at the start of each Board meeting, to declare any interests that might conflict with the agenda items under discussion. The Company has also put procedures in place via the Company Secretary whereby the Directors can notify any future conflicts or potential conflicts of interest that may arise so that the Board can consider whether authorisation is appropriate. Any such notifications are reviewed at the next Board meeting and, if considered appropriate, authorised. Directors do not participate in the discussion, or vote regarding their own conflicts. If authorised, any conflicts are entered in the Conflicts Register.

An annual review of conflicts is carried out and this is incorporated into the year-end process of verifying Directors' interests. The procedures continue to operate effectively.

Internal control

The Board has overall responsibility for the Group's system of internal control, including financial, operational and compliance controls, and risk management systems, and for reviewing its effectiveness. Such a system, however, can only be designed to manage rather than to eliminate risk and therefore can provide only reasonable and not absolute assurance against material misstatement or loss. In accordance with the Turnbull guidance, the Company has in place the procedures necessary to ensure that there is an ongoing process for identifying, evaluating and managing the significant risks to the Group. These procedures have been in place throughout the year under review and up to the date of the approval of these financial statements and have been reviewed by the Board during the year. A Group Risk Committee, comprising the Group Management Team (Group Chief Executive, Group Finance Director, Company Secretary, Group Human Resources Director, Chief Procurement Officer and Divisional Chief Executives) meets regularly. The Group Risk Committee discusses the key risks facing the Group and whether there are any material new risks, and the adequacy and suitability of the mitigation arrangements in place to manage those risks.

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

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

The Group's Internal Audit function undertakes regular reviews of the individual businesses' operations and their systems of internal control, makes recommendations to improve controls and follows up to ensure that management implement the recommendations made. The Internal Audit plan is determined on a risk assessment basis and is reviewed and approved by the Audit Committee. Internal Audit's findings are reported to Group and divisional business management as well as to the Audit Committee.

The Board can confirm that it has carried out an annual review of the overall effectiveness of the Group's system of internal control and risk management procedures, during the year and up to the date of approval of this Annual Report. This included a process of self-certification by senior divisional management in which they were asked to confirm that their divisions have complied with Group policies and procedures and to report any significant control weaknesses identified during the past year. In addition, it involved reviewing the results of the work of the Group's Internal Audit function and the risk identification and management processes identified above.

Going concern

In considering the going concern basis for preparing the financial statements, the Directors have considered the Company's objectives and strategy, risks and uncertainties in achieving its objectives and its review of business performance, which are all set out in the Strategic summary, Operating Review and Financial Review sections of this Annual Report and Accounts. The Group's liquidity and funding arrangements are described in notes 17 and 19 to the financial statements, as well as in the capital structure and treasury management section of the Financial review, and the Directors consider that the Group has significant covenant and liquidity headroom in its borrowing facilities for the foreseeable future.

After reviewing the Company's expenditure commitments, current financial projections and expected future cash flows (with appropriate sensitivities applied), together with the available cash resources and undrawn committed borrowing facilities (and including consideration of the impact from the acquisition of SCA Packaging), the Directors have considered that adequate resources exist for the Company to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

REMUNERATION COMMITTEE

Key highlights from the year

- Considered the impact of revised legislation on Directors' Report on Remuneration.
- Carried out the 2012/13 Remuneration Policy investor consultation.
- Reviewed benchmarking procedures in light of feedback from 2011/12 investor consultation.
- Considered the approach to 2013 remuneration policy.

Remuneration Committee Membership

Total number of meetings		5
Name	Maximum could have attended	Attendance
Chris Bunker[1]	5	5
Chris Britton[2]	1	1
Gareth Davis	5	5
Philippe Mellier	5	5
Jonathan Nicholls	5	5
Kathleen O'Donovan[3]	3	3

1. Chris Bunker continues to be considered independent.
2. Chris Britton was appointed to the Board and as a member of the Remuneration Committee in March 2013.
3. Kathleen O'Donovan was appointed to the Board and as a member of the Remuneration Committee in December 2012.

"Within an increasingly demanding, competitive and international environment we want our employees to be fairly compensated and incentivised to deliver our strategic vision."

Dear Shareholders

Senior executive remuneration has continued to be the subject of much comment, both in the media and within Government. This year the Remuneration Report (the 'Report') has been designed to move towards the new requirements for remuneration reporting, as proposed by the Department for Business, Innovation and Skills ('BIS') as part of their consultation process, and also to comply with existing requirements. As we move towards separate votes on remuneration policy and the implementation of that policy, as required by the proposed new rules, we have split the report to help identify which sections will be subject to advisory or binding votes by shareholders in future.

The Committee aims to provide clear, transparent reporting of performance and resulting remuneration and believes that this report meets that objective. The Report is designed to provide you with the necessary information to understand the link between our Group's strategy, its performance, and the remuneration outcomes for its senior executives. It is also intended to deliver the remuneration disclosures required by UK regulation.

Last year, the Committee engaged in an extensive consultation with our major shareholders and their representative bodies over the changes to the 2012/13 executive remuneration policy resulting from the transformational acquisition of SCA Packaging and we have continued that good practice this year. The Committee actively considered feedback received from shareholders prior to and following the 2012 AGM and also closely monitored guidance and directional themes emerging from institutional shareholder bodies and the UK government during the year on the subject of executive remuneration.

Our remuneration strategy remains to ensure that we continue to attract, reward and retain the key people needed to drive the business forward whilst retaining our 'pay for performance' culture. Within an increasingly demanding, competitive and international environment we want our employees to be fairly compensated and incentivised to deliver our strategic vision.

We seek, through a substantial proportion of performance-related variable remuneration, to ensure that outstanding performance is well rewarded and that underperformance is addressed through a structured process of executive development and performance appraisal. The Committee is firmly of the view that payment for failure is totally unacceptable, whilst executives should be well rewarded for outstanding performance. It will exercise the powers it has at its disposal to achieve these goals.

No fundamental changes are planned to our remuneration policy this year. However, we will be conducting a review of our Remuneration Policy for next year. In particular, we will be considering whether the quantum, three-year term and types of long-term incentive plan we have in place remain appropriate going forward. Any changes to our current policy will be consulted on with shareholders before being the subject of the first binding policy vote at our 2014 AGM.

As explained in last year's report, we increased the salary levels of both Executive Directors as part of a two-year realignment to the market following the acquisition of SCA Packaging. The second increase will only apply to the Group Chief Executive and will be 8.1% with effect from 1 August 2013. As the Group Finance Director tendered his resignation on 8 January this year and will stand down from the Board on 28 June 2013, he will forego his entitlements under the Company's long-term incentive plans and other Company bonus plans. His successor, Adrian Marsh, will be joining the Group later in the year.

Finally, as announced last year, I will be stepping down from the Board at the AGM in September 2013. Kathleen O'Donovan will become Chairman of the Remuneration Committee from then. I would like to confirm that Kathleen, the Committee and I continue to be committed to the principles of good governance and best practice. The Directors' Remuneration Report will be subject to an advisory vote at our AGM on 3 September 2013 and we hope that you will be supportive of our ongoing remuneration policy.

Chris Bunker

Chris Bunker
Chairman of the Remuneration Committee
26 June 2013

How the Remuneration Committee sets remuneration

The Committee's overall policy is to ensure that the remuneration packages are competitive and enable the Company to attract, retain and motivate Executive Directors and other senior managers of sufficient calibre to meet the Company's needs. The Committee regards remuneration policy as an essential tool to underpin the performance culture of the Group and the remuneration packages are designed to align the interests of executives with those of our shareholders. We seek, through a substantial proportion of performance-related variable remuneration, to ensure that outstanding performance is well rewarded and that underperformance is addressed through a structured process of executive development and performance appraisal.

Last year, the Committee engaged in an extensive consultation with our major shareholders and their representative bodies over the changes to the 2012/13 executive remuneration policy resulting from the transformational acquisition of SCA Packaging. The Committee has considered all of the comments and feedback received and addressed the concerns raised by those we consulted. No fundamental changes are planned to our remuneration policy this year.

The Committee is firmly of the view that payment for failure is totally unacceptable, whilst executives should be well rewarded for outstanding performance. It will exercise the powers it has at its disposal to achieve these goals. In particular, it is worth noting the following safeguards that exist in the Company's remuneration policy:

- Executive Directors have 12 month notice periods, with instalments payable for leavers rather than a lump sum.
- Bonus and long-term plans include clawback provisions to recover payments if there is a material misstatement of results or if there is serious misconduct.
- Bonuses are not contractual and also not payable to 'bad leavers' if an executive has left (or is under notice) at the time of payment.
- Deferred bonuses (half of the annual bonus) and long-term incentives will lapse in the case of 'bad leavers'.

Basic salary

The Committee has reviewed salaries in the context of the roles, experience and responsibilities of the Executive Directors and senior executives. It is cognisant of the current environment for executive pay and understands investors' view that Executive Director salaries should not normally increase faster than those of the general workforce. It is also fully aware of the duty it has to shareholders to ensure that the right remuneration arrangements are in place. Last year the Committee looked at similar sized UK listed companies across different sectors as part of the review of the Executive Directors' salaries. Following this review, and in line with the policy disclosed, the basic salary was increased over a two-year period with an 8.8% increase for the Group Chief Executive on 1 August 2012 followed by an 8.1% increase which will take effect on 1 August 2013. The Group Finance Director's basic salary was increased by 9.2% on 1 August 2012 but will not increase in 2013 as he leaves the Company on 28 June 2013. These increases would have left the Executive Directors below the mid-market level of the benchmark group that was considered when setting the policy. Other senior executives' basic salaries will be increased in the range of 0% to 2.5% from 1 August 2013. This compares to an average increase of 2.5% for the rest of the workforce. Whilst there is no overall policy on the relationship between Executive Directors' pay and that of the workforce, the Company aims to pay fairly across the business.

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

Pension and benefits

Benefits include provision of a company car, free fuel, income protection insurance, life cover and private medical cover.

Miles Roberts receives an annual pension allowance of 30% of salary, in lieu of pension benefits, plus life cover equal to four times basic salary. This payment is not considered to be salary for the purpose of calculating any bonus payment.

Steve Dryden participates in the Group's Registered Defined Contribution Scheme with life cover equal to four times basic salary. Members of this scheme are required to contribute a minimum of 3% of their basic salary to qualify for matching Company contributions, with higher levels of Company contributions payable if the members pay a higher contribution.

Steve Dryden has elected to pay contributions at a level that qualifies for a Company contribution of 6%. He also receives a cash supplement of £65,000 per annum. This payment is not pensionable and is not considered to be salary for the purpose of calculating any bonus payment.

Bonus

The annual bonus is designed to drive the achievement of the Company's annual financial and strategic business targets. The annual bonus opportunity is based on a formal review of performance against stretching financial targets. The Deferred Share Bonus Plan ('DSBP') is operated for the Executive Directors and senior executives and is designed to encourage long-term shareholding, discourage excessive risk-taking and help focus on the Company's key strategic priorities. 50% of any annual bonus earned is deferred into shares for three years. The payment of any bonus is determined by the Committee after the year-end, based on performance against targets. The deferred share element of the bonus vests after three years.

Share Matching Plan

Under the Share Matching Plan ('SMP'), which was approved by shareholders in 2011, the Executive Directors and a small number of senior executives receive awards of matching shares. The 2012 award to the Executive Directors was 75% of salary (calculated based on the maximum matching ratio of 1.5:1 on the first 50% of salary worth of shares awarded under the DSBP). It is intended to award at the same level in 2013.

Under the SMP the Committee has the power to review the specific targets for each award to ensure that they remain appropriate, but the new targets must be at least as challenging in the circumstances as the original targets were when they were set.

Matching awards normally vest three years after grant, to the extent that the applicable performance conditions have been satisfied, the related DSBP award has not lapsed and provided the participant is still employed within the Group. If a DSBP award lapses before the vesting of the related matching award then that matching award will lapse at the same time.

Performance Share Plan

The Company operates a Performance Share Plan ('PSP') which was approved by shareholders in 2008. The 2012 award to Executive Directors was 150% of salary. Award levels for the other most senior executives were generally at the 100% of salary level. It is intended to award at the same levels in 2013. Under the PSP, the Committee has the power to vary the metrics used each year and their relative weightings. It also has the power to review the specific targets for each award to ensure that they remain appropriate, but the new targets must be at least as challenging in the circumstances as the original targets were when they were set.

Following the completion of the SCA Packaging acquisition and Spicers disposal, the Committee has reviewed the targets of the PSP awards that 'straddle' the pre and post-acquisition period. As a result of this review, it has been decided to revise only one metric in one of the awards, namely the three-year average adjusted return on average capital employed ('ROACE') for the PSP award maturing in 2013/14. This target, as shown in the table below, has been adjusted from a range of 12.5% – 15.0% to a range of 11.0% – 13.5% to reflect the substantial structural change in the nature of the capital employed in the enlarged business. It was recognised that the disposal of Spicers, a business which had a higher ROACE than the Group average, and the acquisition of SCA Packaging, which had a lower ROACE than the Group average, had a significant impact on the Group's ability to meet the original targets. These targets were set before the impact of the changes in the Group were known. The Committee considers the revised target range at least as stretching as the original target range had the disposal and acquisition not taken place.

Targets

Due to commercial sensitivity the Company does not disclose bonus targets, however the Company does publish targets for the long-term schemes it operates, being the PSP and the SMP, and these targets are set out below:

Scheme	Year	ROACE	EPS
Performance Share Plan	2010	11.1% – 12.2%	10.2p – 12.1p
	2011	11.0% – 13.5%*	15.2p – 17.2p
	2012	11.6% – 13.3%	19.2p – 23.0p
Share Matching Plan	2012	11.6% – 13.3%	19.2p – 23.0p

* Adjusted – see explanatory note above.

Service contracts

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

	Date of contract	Notice period[1]
Group Chief Executive Miles Roberts	4 May 2010	The service contract may be terminated by 12 months' notice by the Company, and by the Executive Director. The Company may terminate the contract with immediate effect by making a payment equal to basic salary and pensions allowance for any unexpired period of notice.
Group Finance Director[2] Steve Dryden	1 April 2008	The service contract may be terminated by 12 months' notice by the Company, and by the Executive Director. The Company may terminate the contract with immediate effect by making a payment equal to basic salary for any unexpired period of notice.

1. The Company may terminate the contract with immediate effect by making a payment equal to basic salary and pensions allowance for any unexpired period of notice. Such payment may be made in a lump sum or in monthly instalments from the termination date. These monthly payments will be reduced to take account of any alternative employment or consultancy income during the period over which such instalments are payable.
2. Steve Dryden gave 12 months' notice to the Company on 8 January 2013 that he intended to step down from the Board to take up a role in a private equity backed business and will leave the Board on 28 June 2013.

Pay for performance safeguards

The annual bonus scheme is not contractual and bonuses under the scheme are not eligible for inclusion in the calculation of the participating executives' pension scheme benefits. No bonus payments are made to 'bad leavers' if an executive has left (or is under notice) at the time of payment and the deferred element will also lapse. Clawback provisions have been introduced into the annual bonus scheme and the DSBP so that individuals are liable to repay/forfeit some or all of their bonus if there is a material misstatement of results or if there is serious misconduct.

The annual bonus targets were also demanding and included an additional performance underpin requiring integration and synergy savings to be substantially as indicated in the SCA Packaging acquisition prospectus for the 2012/13 bonus to pay out. This underpin further supports the Committee's objective to reward executives for delivering the benefits of, and not just the signing of, a transaction which is in the long-term interests of our shareholders.

Clawback provisions have also been introduced into the PSP and the SMP schemes (described above) so that individuals are liable to repay/forfeit some or all of their awards if there is a material misstatement of results or if there is serious misconduct. Awards lapse in the case of 'bad leavers'. PSP and SMP awards for good leavers will normally vest at the end of the original vesting period, rather than in the year of departure. This ensures continued alignment with shareholders' interests following cessation of employment.

Share Ownership

All-employee share plan

In the UK a Sharesave Plan was introduced in January 2011. Executive Directors are eligible (along with all UK employees of the Company and participating subsidiaries of the Group) to participate in this Plan. Under this HMRC approved Plan options are granted to participants who have contracted to save up to £250 per month over a period of three years at a discount of up to 20% to the average closing mid-market price of the Group's shares on the three dealing days prior to invitation. Options cannot normally be exercised until a minimum of three years has elapsed. In common with most plans of this type there are no performance conditions applicable to options granted under this Plan. The Company is committed to providing opportunities for employees to become shareholders and intends to roll out a plan on similar lines to all regions. Details of Directors' interests in the Sharesave Plan are as follows:

Executive Directors	Options held at 30 April 2012	Options granted during year	Options exercised in year	Options lapsed in year	**Options held at 30 April 2013**	Exercise price (p)	Dates from which exercisable	Expiry date
Miles Roberts	7,551	–	–	–	**7,551**	119.2	1 Apr 14	30 Sep 14
Steve Dryden	7,551	–	–	–	**7,551**	119.2	1 Apr 14	30 Sep 14

Guidelines

The shareholding guidelines are set out in the policy table on page 64. The beneficial interests of the Directors and their families in the ordinary shares of the Company were as shown below:

	30 April 2012*			**30 April 2013**			
Name of Director	Beneficial	Non-beneficial	Total vested and exercisable awards	**Beneficial**	**Non-beneficial**	**Total vested and exercisable awards**	**Total expressed as a % of salary**
Gareth Davis	85,000	–	–	**106,900**	**–**	**–**	**113%**
Miles Roberts	232,791	–	627,718	**232,791**	**–**	**1,611,107**	**694%**
Steve Dryden	195,487	–	–	**615,755**	**–**	**–**	**368%**
Chris Britton	–	–	–	**10,550**	**–**	**–**	**49%**
Chris Bunker	42,500	–	–	**42,500**	**–**	**–**	**165%**
Philippe Mellier	42,500	–	–	**42,500**	**–**	**–**	**198%**
Jonathan Nicholls	109,307	–	–	**109,307**	**–**	**–**	**378%**
Kathleen O'Donovan	–	–	–	**–**	**–**	**–**	**–**

* Or at date of appointment.

Kathleen O'Donovan and Chris Britton have both joined the Board in the last 12 months and, under the non-Executive Directors' shareholding guidelines, have up to two years from their date of appointment to build up a shareholding that is equivalent to 50% of their annual fee from the Company. Subject to the above, all Directors complied with the shareholding guidelines.

There have been no changes to the shareholdings set out above between the financial year-end and the date of the Report. It is currently intended that any ordinary shares required to fulfil entitlements under the DSBP, the Substitute Share Bonus Award, the Replacement Deferred Share Award, the Replacement 2008 LTIP and the Recruitment Award will be provided by the David S. Smith Group General Employee Benefit Trust (the 'Trust'), which buys shares on the market to do so. The Trust may also be used to fulfil certain entitlements under the PSP, Executive Share Option Scheme and the Sharesave Plan (along with new issue shares for other entitlements).

Policy on external appointments

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

Miles Roberts has no external appointments. Steve Dryden was a non-Executive Director of Fiberweb plc until 28 February 2013 and received fees of £31,666 for the year ended 30 April 2013 (2011/12: £38,000).

Non-Executive Directors and the Chairman

The remuneration for non-Executive Directors consists of annual fees for their services as members of the Board and, where relevant, for their work on selected Committees. Non-Executive Directors have letters of appointment for a term of three years whereupon they are normally renewed, but generally for no more than three terms in aggregate. In each case the notice period is one month by the Company or the Director.

		Date of contract	Unexpired period
Gareth Davis	Chairman	22 April 2013	Two years and eight months
Chris Britton[1]		22 January 2013	Two years and seven months
Chris Bunker		3 September 2012	One month
Philippe Mellier		3 September 2012	Two years and two months
Jonathan Nicholls	Senior Independent Director	3 September 2012	Two years and four months
Kathleen O'Donovan[2]		10 September 2012	Two years and four months

1. Date of appointment as a Director was 6 March 2013.
2. Date of appointment as a Director was 5 December 2012.

The letters of appointment detail the time commitment expected of each non-Executive Director and are available for viewing at the registered office during normal business hours and prior to and at the AGM.

The fees for the Chairman and the non-Executive Directors were increased, following a comprehensive review, with effect from 1 August 2012. The review took into account market practice with reference to the comparator group. The Chairman's fee was increased from £190,000 to £220,000. The base fee for the non-Executive Directors was increased from £47,000 to £50,000. The Audit Committee Chairman's fee was increased from £8,000 to £10,000 and the Remuneration Committee Chairman's fee was increased from £7,500 to £10,000. Neither the non-Executive Directors nor the Chairman are eligible for pension scheme membership and they do not participate in any of the Group's annual bonus or other incentive arrangements.

The rates for the Chairman's and non-Executive Directors' fees are:

Chairman's and non-Executive Directors' fees	Base fee (£)	Senior Independent non-Executive Director fee (£)	Chairman of Audit Committee fee (£)	Chairman of Remuneration Committee fee (£)	**Total (£)**
Gareth Davis	220,000	–	–	–	**220,000**
Chris Britton	50,000	–	–	–	**50,000**
Chris Bunker	50,000	–	–	10,000	**60,000**
Philippe Mellier	50,000	–	–	–	**50,000**
Jonathan Nicholls	50,000	7,500	10,000	–	**67,500**
Kathleen O'Donovan	50,000	–	–	–	**50,000**

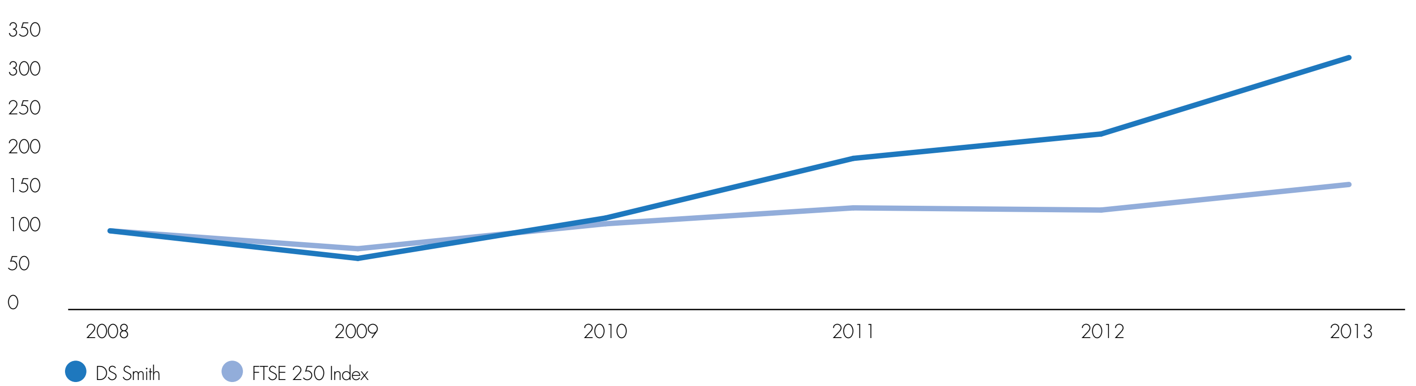
The Company's Articles of Association enable the Board to set the remuneration of non-Executive Directors within the limits set by shareholders. The current aggregate limit is £750,000 and the aggregate amount paid in the financial year to the non-Executive Directors was £416,292. Executive Directors are remunerated in respect of their executive appointments, under the terms of their service contracts, and receive no additional fees for serving as Directors.

Total shareholder return performance

The following graph illustrates the Company's Total Shareholder Return ('TSR') performance since 1 May 2008, relative to the FTSE 250 Index. The Company is a member of the FTSE 250 Index and, accordingly, this index is considered to be the most appropriate comparator group for this purpose.

This graph looks at the value, by 30 April 2013, of £100 invested in DS Smith over the last five financial years compared with that of £100 invested in the FTSE 250 Index. The other points plotted are the values at intervening financial year-ends.

Total shareholder return
(Value £)



Source: Thomson Reuters

New Group Finance Director

On 20 June 2013 the Company announced the appointment of Adrian Marsh as Group Finance Director of the Company, succeeding Steve Dryden who will leave the Company on 28 June 2013. Adrian will join the Company later this year. The key elements of his remuneration will be:

Basic Salary:	£400,000
Benefits:	Car allowance, income protection insurance, life cover and medical insurance
Bonus:	Maximum 125% of basic salary with 50% deferred in shares
PSP:	Maximum 125% of basic salary
SMP:	Maximum of 1.5:1 on first 50% salary worth of shares awarded under the DSBP
Pension:	The Company will contribute into the Defined Contribution scheme up to 20% of basic salary, or he can take an equivalent non-pensionable cash supplement of 20% of salary which will not contribute towards bonus or PSP awards

REMUNERATION POLICY FOR 2013/14

The Committee regards remuneration policy as an essential tool to underpin the performance culture of the Group.

Key elements of remuneration

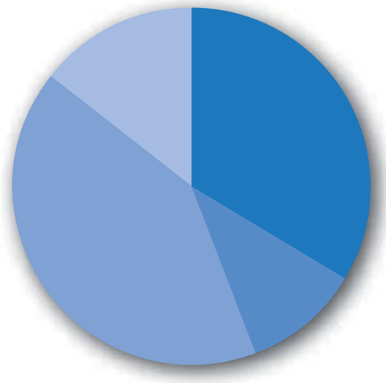
Vision, Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics	Changes in year
Basic salary To help recruit and retain key senior executives. To provide a mid-market salary relative to comparable companies, in terms of size and complexity.	Normally reviewed by the Committee annually and fixed for the 12 months commencing 1 August. The Committee takes into account: • role, experience and performance; • average change in broader workforce salary; and • total organisational salary budgets. Salaries are benchmarked against similar roles within a selected group of UK businesses of similar size with substantial overseas operations.	1 August 2013: Group Chief Executive's salary of £670,000.	Reflect the individual's experience and role within the Group.	Group Chief Executive's salary to increase by 8.1% effective from 1 August 2013.
Benefits To help retain employees and remain competitive in the marketplace.	Directors receive a car allowance, income protection insurance, life cover and medical insurance.	Full cost of annual policy c.£20,565 for Group Chief Executive.	None.	None.
Annual bonus To incentivise executives to achieve specific, predetermined goals during a one-year period. To reward ongoing delivery and contribution to strategic initiatives. Deferred proportion of bonus, awarded in shares, provides a retention element and additional alignment of interests with shareholders.	Targets are set annually and relate to areas of the business over which the executive has particular control. In 2012/13 there was a requirement for the integration and synergy savings to be substantially as indicated in the SCA Packaging acquisition prospectus. Bonus payouts are determined by the Committee after the year-end, based on performance against targets. 50% of the bonus is paid in cash and 50% is deferred in shares. The deferred bonus shares vest after three years and are paid together with an amount equal to the value of dividends payable on the vested shares during the deferral period. The deferred element is subject to forfeiture for 'bad leavers' who depart prior to vesting. The annual bonus schemes are not contractual and bonuses under the schemes are not eligible for inclusion in the calculation of the participating executives' pension scheme benefits. Clawback provisions apply to the annual bonus plan and the deferred bonus shares so that individuals are liable to repay/forfeit some or all of their bonus if there is a material misstatement of results or if there is serious misconduct.	Maximum for the Executive Director: 150% of salary.	The bonus is based on achievement of challenging financial objectives related to PBTA and ROACE.	No change has been made to measures, weighting, or bonus opportunity.
Performance Share Plan (PSP) To incentivise Directors to achieve returns for shareholders over a longer time-frame. To help retain executives and align their interests with shareholders through building a shareholding.	Awards of nil-cost options are made annually with vesting dependent on the achievement of performance conditions over the three subsequent years. The Committee reviews the quantum of awards annually to ensure that they are in line with market rates and appropriate given the performance of the individual and the Company. Clawback provisions apply to the PSP so that individuals are liable to repay/forfeit some or all of their shares if there is a material misstatement of results or if there is serious misconduct.	Maximum: 150% of salary (200% of salary in exceptional circumstances).	50% of awards are based on relative TSR performance measured over three years against a group of 45 companies within the Industrial Goods & Services Supersector within the FTSE 250 as at the start of the performance period. The vesting scale is median to upper quartile of the group of companies. 25% of awards are based on average Earnings Per Share ('EPS') over a period of three financial years. 25% of awards are based on average adjusted ROACE over a period of three financial years. 25% of the relevant part of the award vests at threshold performance, rising to 100% for achieving or exceeding the maximum performance target.	No change has been made to measures, weighting, or potential awards.

Key elements of remuneration continued

Vision, Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics	Changes in year
Share Matching Plan ('SMP') To incentivise Directors to achieve returns for shareholders over a longer time-frame. To help retain executives and align their interests with shareholders through building a shareholding.	Awards of nil-cost options are made based on the number of shares awarded under the deferred bonus plan, with vesting dependent on the achievement of performance conditions over the three subsequent years. Clawback provisions apply to the SMP so that individuals are liable to repay/forfeit some or all of their shares if there is a material misstatement of results or if there is serious misconduct.	Maximum: 75% of salary (calculated based on the maximum matching ratio of 1.5:1 on the first 50% of salary worth of shares awarded under the DSBP).	50% of awards are based on average EPS. 50% of awards are based on average adjusted ROACE. 25% of the maximum match (i.e. a matching ratio of 0.375:1) will apply for achieving threshold performance, rising to the maximum match (i.e. a matching ratio of 1.5:1) for maximum performance.	No change has been made to measures, weighting, or potential awards.
Pension To remain competitive in the marketplace.	Executive Directors can elect to either: • participate in the Group's Registered Defined Contribution Scheme ('DC Scheme'), with life cover equal to four times basic salary; or • receive a salary supplement; or • a combination of the above. Members of the DC Scheme are required to contribute a minimum of 3% of their basic salary to qualify for matching Company contributions, with higher levels of Company contributions payable if members pay a higher contribution.	Maximum: 30% of salary (including a maximum DC Scheme contribution).	None.	None.
Share ownership guidelines To further align the interests of executives with those of shareholders.	The Group Chief Executive is expected to maintain a shareholding in the Company's shares of 150% of salary and, when appointed, the Group Finance Director will be expected to build up a shareholding of 100% of salary within four years of appointment. Executives are expected to retain at least 50% of shares (net of tax) which vest under the PSP, SMP, and DSBP until the share ownership guidelines are met. If the guidelines are not met, the Committee reserves the right not to make, or to scale back, further awards. Non-Executive Directors are expected to build up and then maintain a shareholding that is equivalent to 50% of their annual fee from the Company within two years of their date of appointment.	None.	None.	No change.
Leavers To strike a balance between the interests of executives and those of shareholders.	The Committee's general policy is that service contracts may be terminated by 12 months' notice by the Company, and by the Executive Director. The Company may terminate the contract with immediate effect by making a payment equal, in the Group Chief Executive's case, to basic salary and pensions allowance for any unexpired period of notice. These payments will be reduced to take account of any alternative employment or consultancy income during the period over which such instalments are payable. In the case of a 'good leaver': • annual cash bonus will be paid out, subject to performance, on the normal payment date unless the Committee determines that the payment will be made early on the date of cessation of employment. The payout will be reduced on a pro-rata basis to reflect the proportion of the performance period served; • deferred bonus shares will vest in full on the date of cessation of employment; and • PSP and SMP awards will vest, subject to performance, on the normal vesting date unless the Committee determines that the awards will vest early on the date of cessation of employment (in exceptional circumstances only). Awards will be reduced on a pro-rata basis. In the case of a 'bad leaver': • all performance-related elements of pay will lapse immediately.	–	Not applicable.	No change.

Total Remuneration for 2012/13

Miles Roberts



The Group Chief Executive's percentage of fixed and variable remuneration for 2012/13 is illustrated in the chart above. This is based on a number of assumptions: (1) base salary is annual salary; (2) pension represents the annual service cost to the Company as disclosed in accordance with IAS19; (3) benefits are core benefits such as car allowance, free fuel, income protection insurance, life cover and private medical insurance; (4) bonus is the amount received for performance in 2012/13 delivered in cash and deferred shares; and (5) share-based incentives are the annualised expected value at 'target' performance of the PSP and SMP granted in 2012 expressed as a percentage of base salary. Fixed remuneration comprises: salary, pension and benefits. Variable remuneration comprises: bonus (cash and deferred shares) and share-based incentives. Variable performance-related remuneration for Miles Roberts for 2013/14 will account for approximately 65% (2012/13: 54%) of total target remuneration (excluding pensions and benefits). Steve Dryden tendered his resignation in January 2013. Accordingly, he will not receive a bonus for 2012/13 and his deferred bonuses and long-term incentives will lapse.

Directors' emoluments (auditable)

	Salary/fees £'000	Annual bonus £'000	Deferred bonus £'000	Benefits £'000	Pensions supplement £'000	**2013 total £'000**	2012 total £'000
Chairman Gareth Davis	213	–	–	–	–	**213**	133
Group Chief Executive Miles Roberts	608	381	381	21	174	**1,565**	1,320
Group Finance Director Steve Dryden	379	–	–	19	65	**463**	808
Non-Executive Directors Chris Bunker	60	–	–	–	–	**60**	56
Chris Britton	8	–	–	–	–	**8**	–
Philippe Mellier	49	–	–	–	–	**49**	48
Jonathan Nicholls	65	–	–	–	–	**65**	53
Kathleen O'Donovan	21	–	–	–	–	**21**	–
Total	**1,403**	**381**	**381**	**40**	**239**	**2,444**	**2,418**

Included in the pension supplement figure for Steve Dryden is the non-pensionable cash supplement of £65,000 paid during the year, as detailed on page 59.

More detail on the separate elements of the Executive Directors' emoluments, split between fixed and variable elements, can be found in the policy table on pages 63 and 64. Details of the non-Executive Directors fees can be found on page 62.

Annual bonus (audited)

The Executive Directors participate in an annual bonus scheme which has been approved by the Committee.

Annual bonus

2012/13		2013/14	
Miles Roberts	**Steve Dryden**	**Miles Roberts**	**Adrian Marsh**
Maximum potential bonus is 150% of basic annual salary, of which half will be deferred in shares. Targets PBTA growth and improved ROACE and requirement for the integration and synergy savings to be substantially as indicated in the SCA Packaging acquisition prospectus.	No bonus being paid.	Maximum potential bonus for 2012/13 is 150% of basic annual salary, of which half will be deferred in shares. Targets PBTA growth and improved ROACE. At target 50% of maximum bonus will be payable.	Not applicable.
Bonus earned 123% – £762,600	Bonus earned – £Nil		

The annual bonus plan for the Executive Directors and other senior executives is operated as shown in the policy table on page 63. Bonus results are determined by the Committee after the year-end, based on performance against targets. Bonus awards will be measured against the achievement of Group objectives. At target 50% of maximum bonus will be payable. Maximum bonus is up to 150% of salary for the Executive Directors and generally 100% for the other most senior executives.

Deferred Share Bonus Plan (audited)

Executive Directors	Interests under the DSBP at 30 April 2012	Awards granted/ commitments made during year	Awards crystallised in year	Awards lapsed in year	Date of award	Market price on date of award (p)	Market price at date of exercise (p)	**Interests under the DSBP at 30 April 2013**	Vesting date if performance conditions met	Expiry date
Miles Roberts	109,029	–	–	–	8 Jul 11	267.1	–	**109,029**	8 Jul 14	8 Jul 21
	–	192,502	–	–	16 Jul 12	148.1	–	**192,502**	16 Jul 15	16 Jul 22
Steve Dryden	85,223	–	–	–	16 Jul 10	140.5	–	**85,223**	16 Jul 13	16 Jul 20
	68,596	–	–	–	8 Jul 11	267.1	–	**68,596**	8 Jul 14	8 Jul 21
	–	120,567	–	–	16 Jul 12	148.1	–	**120,567**	16 Jul 15	16 Jul 22

Steve Dryden tendered his resignation in January 2013. Accordingly his deferred share bonuses will lapse when he leaves the Group on 28 June 2013.

Performance Share Plan (audited)

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

Executive Directors	Interests under the PSP at 30 April 2012	Awards granted/ commitments made during year	Awards crystallised in year	Dividend equivalent	Awards lapsed in year	Date of award	Market price on date of award (p)	Market price at date of exercise (p)	**Interests under the PSP at 30 April 2013**	Vesting date if performance conditions met	Expiry date
Miles Roberts	828,526	–	–	–	–	16 Jul 10	140.6	–	**828,526**	16 Jul 13	16 Jul 20
	438,595	–	–	–	–	8 Jul 11	265.6	–	**438,595**	8 Jul 14	8 Jul 21
	–	577,507	–	–	–	16 Jul 12	148.0	–	**577,507**	16 Jul 15	16 Jul 22
Steve Dryden	110,076	–	110,076	–	–	17 Sep 08	133.5	210.0	**–**	17 Sep 11	17 Sep 18
	674,686	–	674,686	94,141	–	22 Jul 09	71.0	210.0	**–**	22 Jul 12	22 Jul 19
	511,053	–	–	–	–	16 Jul 10	140.6	–	**511,053**	16 Jul 13	16 Jul 20
	275,944	–	–	–	–	8 Jul 11	265.6	–	**275,944**	8 Jul 14	8 Jul 21
	–	361,702	–	–	–	16 Jul 12	148.0	–	**361,702**	16 Jul 15	16 Jul 22

Steve Dryden tendered his resignation in January 2013. Accordingly his PSP will lapse when he leaves the Group on 28 June 2013.

The vesting of each award granted in 2010 is split 50% based on the Company's TSR compared to the constituents of the FTSE 250 Industrial Goods and Services Supersector, 25% based on average adjusted EPS and 25% based on the average ROACE. 25% of the TSR part vests if the Company is ranked at median, rising to full vesting of this element if the Company is ranked in the top quartile. The threshold (at which 25% vests) and maximum targets are 10.2p and 12.1p for EPS and 11.1% and 12.2% for ROACE respectively. The EPS targets were adjusted in 2012 to reflect the increase in the number of shares in issue following the Rights Issue.

The vesting of each award granted in 2011 is split 50% based on the Company's TSR compared to the constituents of the FTSE 250 Industrial Goods and Services Supersector, 25% based on average adjusted EPS and 25% based on the average ROACE. 25% of the TSR part vests if the Company is ranked at median, rising to full vesting of this element if the Company is ranked in the top quartile. The threshold (at which 25% vests) and maximum targets are 15.2p and 17.2p for EPS. The original threshold (at which 25% vests) and the maximum target for ROACE were 12.5% and 15.0%. The EPS targets were adjusted in 2012 to reflect the increase in the number of shares in issue following the Rights Issue. In addition, following the completion of the SCA Packaging acquisition and Spicers disposal, the Committee has reviewed the targets of the PSP awards that 'straddle' the pre and post-acquisition period. As a result of this review, it has been decided to revise the three-year average ROACE for the PSP award maturing in 2013/14. This target has been adjusted to a range of 11.0% to 13.5% to reflect the substantial structural change in the nature of the capital employed in the enlarged business. It was recognised that the disposal of Spicers, a business which had a higher ROACE than the Group average, and the acquisition of SCA Packaging, which had a lower ROACE than the Group average, had a significant impact on the Group's ability to meet the original targets. The Committee considers the revised target range at least as stretching as the original target range had the disposal and acquisition not taken place.

The vesting of each award granted in 2012 is split 50% based on the Company's TSR compared to the constituents of the FTSE 250 Industrial Goods and Services Supersector, 25% based on average adjusted EPS and 25% based on the average ROACE. 25% of the TSR part vests if the Company is ranked at median, rising to full vesting for this element if the Company is ranked in the upper quartile. The threshold (at which 25% vests) and maximum targets are 19.2p and 23.0p for EPS and 11.6% and 13.3% for ROACE.

It is proposed that the same balance of metrics is used for the 2013 awards as for the 2012 awards. The TSR targets will remain the same and these, together with the EPS and ROACE targets, are set out in the table below:

Percentage vesting as a proportion	Relative TSR[1] (50% of award)	Average EPS[2] (25% of award)	Average adjusted ROACE[3] (25% of award)
100%	Upper quartile	25.3p	14.6%
Between 25% and 100%	Between median and upper quartile	19.9p – 25.3p	12.6% – 14.6%
25%	Median	19.9p	12.6%

1. The Industrial Goods and Services Supersector within the FTSE 250 currently contains 45 companies and is considered to provide a better basis for comparison than the FTSE 250 as a whole. The Committee considers there are too few publicly quoted competitors to DS Smith to form a more bespoke group.
2. Average adjusted EPS as disclosed in the Annual Report.
3. Average adjusted Group operating profit divided by the monthly average of capital employed in each year.
4. The EPS and ROACE calculations will be based on the average figures for the forthcoming three financial years, commencing with the financial year starting immediately prior to the award. Targets may be adjusted by the Committee (for example, to reflect the impact of acquisitions and disposals) to ensure that the conditions achieve their original purpose.

Each element operates independently and is capable of vesting regardless of the Company's performance in respect of the other elements. The Committee considers that the targets are significantly more demanding than those set in previous years and achieving significant vesting will require performance which is better than anything achieved previously.

For all of the above awards the TSR calculations have been prepared on the standard Datastream basis for rights issues.

Share Matching Plan (audited)

Executive Directors	Interests under the SMP at 30 April 2012	Awards granted/ commitments made during year	Awards crystallised in year	Dividend equivalent	Awards lapsed in year	Date of award	Market price on date of award (p)	Market price at date of exercise (p)	**Interests under the SMP at 30 April 2013**	Vesting date if performance conditions met	Expiry date
Miles Roberts	–	288,753	–	–	–	16 Jul 12	148.0	–	**288,753**	16 Jul 15	16 Jul 22
Steve Dryden	–	180,850	–	–	–	16 Jul 12	148.0	–	**180,850**	16 Jul 15	16 Jul 22

Steve Dryden tendered his resignation in January 2013. Accordingly his SMP award will lapse when he leaves the Group on 28 June 2013.

In addition to the awards made to the Executive Directors described in the policy table, a small number of other senior executives receive SMP grants to a maximum of 50% of salary.

Replacement 2008 LTIP, Replacement Deferred Shares Award, Recruitment Award and Substitute Share Bonus Award (audited)

Executive Directors	Scheme	Interests under the scheme at 30 April 2012	Awards crystallised in year	Awards lapsed in year	Date of award	Market price on date of award (p)	Market price at date of exercise (p)	**Interests under the scheme at 30 April 2013**	Vesting date if performance conditions met	Expiry date
Miles Roberts	Replacement 2008 LTIP	627,718	–	–	16 Jul 10	140.52	–	**627,718**	17 Oct 11	16 Jul 20
	Replacement Deferred Shares Award	154,863	–	–	16 Jul 10	140.52	–	**154,863**	1 Sep 12	16 Jul 20
	Recruitment Award	828,526	–	–	16 Jul 10	140.52	–	**828,526**	19 Oct 12	16 Jul 20
	Substitute Share Bonus Award	116,148	–	–	16 Jul 10	140.52	–	**116,148**	1 Sep 13	16 Jul 20

As disclosed previously, in order to facilitate the recruitment of Miles Roberts in unusual circumstances, and to ensure that his interests were directly and immediately aligned with those of the Company's shareholders, the Company granted several conditional share awards as detailed below principally as compensation for lost entitlements to bonus, deferred share awards and long-term share incentive awards relating to his previous employer, McBride plc.

The awards made to him were as follows:

- Substitute Share Bonus Award as compensation for loss of his share bonus entitlement with his previous employer for the year 2009/10 as a result of his recruitment by the Company. The value of shares awarded reflects the proportion of the period of 12 calendar months beginning on 1 July 2009 during which Miles Roberts was actively employed by McBride plc and was based on an assessment of the likely bonus which would have become payable to him had he remained employed by McBride plc.
- Replacement Deferred Shares Award. This award reflects the value of shares as at October 2009 which Miles Roberts forfeited as a result of his recruitment by the Company. As this award replaces an award with vesting dependent only on continued employment, the vesting of the Replacement Deferred Shares Award is not subject to performance conditions. The award vested in full and became exercisable on 1 September 2012.
- The Replacement 2008 LTIP (subject to performance conditions as detailed below) was awarded in respect of an award made by his previous employer and forfeited as a result of his recruitment. The value of this award was based on the value of shares under award at October 2009. The award is subject to a performance condition measuring the TSR of McBride plc up to the date Miles Roberts joined the Company and thereafter the Company's TSR against a comparator group of companies comprising the FTSE 250 Index (excluding investment trusts) constituted as at the date of grant of the award over a three-year performance period commencing on 1 July 2008. The award vested in full and became exercisable on 17 October 2011.
- The Recruitment Award (subject to the 2010 PSP performance conditions as described on page 67 of this Report) was made to facilitate his recruitment and in lieu of the 2009 LTIP award which he would have been granted at McBride plc if he had remained in employment. The value of the award was based on the normal grant policy of 150% of his basic salary. The award vested in full and became exercisable on 19 October 2012.

Key activities of the Remuneration Committee in 2012/13

The Board is ultimately accountable for executive remuneration but delegates responsibility to the Committee. The Committee addressed the following main issues during the year:

June 2012	September 2012	January 2013	March 2013	April 2013
Key agenda item	**Key agenda item**	**Key agenda item**	**Key agenda item**	**Key agenda item**
• Authorised 2012 bonus payments. • Approved targets for 2013 bonus plan. • Approved 2012 Directors' Remuneration Report. • Reviewed the Executive Directors' and senior executives' pay/incentive arrangements. • Oversight of remuneration policy for senior management and employees. • Review of the Chairman's fees. • 2012 PSP award – TSR, EPS and ROACE range proposals. • Approved changes to the rules of Deferred Share Bonus Plan regarding 'good leavers'. • Considered a proposal for the hedging of shares to satisfy Executive share awards.	• Received an update on the 2012/13 Remuneration Policy investor consultation. • Confirmed performance outcome for Miles Roberts' Replacement Deferred Share Bonus Plan and Recruitment Award which vested in September and October 2012 respectively. • Reviewed proposed incentive arrangements for former SCA senior executives.	• Consideration of impact of revised legislation on Directors' Report on Remuneration. • Update on 2012/13 annual Bonus Scheme. • Considered the approach to 2013 share incentive awards.	• Reviewed the targets for existing awards. • Discussed the impact of revised legislation on presentation of Directors' Report on Remuneration. • Reviewed composition of the Committee.	• Received a further update on the 2012/13 Remuneration Policy investor consultation.

At the Company's AGM in 2012 the 2011/12 Directors' Remuneration Report received a majority 'for' vote of 66.8% (2011 – 78.5%).

The Committee actively considered feedback received from shareholders prior to and following the 2012 AGM and also closely monitored guidance and directional themes emerging from institutional shareholder bodies and the United Kingdom government during the year on the subject of executive remuneration. On the basis of this, the Committee has taken the following actions:

Benchmarking: the Committee uses market comparisons with caution. They assist in informing on the market rate for a role but are only one factor to consider. Since the SCA Packaging acquisition, the Group has now nearly doubled in terms of employees to around 20,000 and in turnover to circa £4 billion (includes two months of pre-acquisition SCA Packaging revenue). The complexity of the business has also increased with the addition of operations in 15 more countries, making it significantly more international than many other companies of its size. The Committee used enterprise value (i.e. market capitalisation plus debt) as an appropriate measure of size in 2012. This caused concern for some shareholders and, for 2013/14, the Committee will be using a comparator group constructed on the basis of similar market capitalisations, revenues and level of internationality to DS Smith.

To facilitate clearer narrative reporting, the Committee has reviewed the structure and content of the Directors' Remuneration Report with a view to improving clarity and understanding. The Committee expects this to be an ongoing evolving process, as more details become available from the United Kingdom government on any changes to remuneration disclosure requirements and legislative changes to shareholder voting rights in the United Kingdom, following their consultations during the year on these topics.

The Committee also provided the opportunity for some of the Company's major shareholders and their representative bodies to meet with the Committee Chairman during the year to discuss remuneration matters generally. Further opportunities for consultation will be made in the year ahead.

The Committee has been considering how to ensure that key management performance and remuneration is aligned with the interests of our investors. The Committee believes this can best be achieved by having key management well rewarded for achieving truly stretching objectives, and furthermore that the shape of this reward should emphasise the development of a significant shareholding in the Company by those key managers.

The Company has consulted with its major shareholders, the Association of British Insurers and ISS/RREV about the details of the remuneration arrangements summarised in the policy table.

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

In the year to come, the Remuneration Committee expects to focus on:

- Preparing for legislative changes in reporting requirements and shareholder voting rights to be implemented by the United Kingdom government.
- Reviewing and assessing the ongoing appropriateness of current executive remuneration plan design and target stretch.
- Ensuring that remuneration arrangements continue to attract and retain talent, and reward company performance with a focus on maintaining the link between performance and reward.
- Understanding and responding to shareholder feedback and fostering more continuous open dialogue.

The Board, in conjunction with the Committee, has taken the necessary steps to ensure that the Company complies with the provisions of the Code which relate to Directors' remuneration.

This Report has been prepared in accordance with the Companies Act 2006, Schedule 8 of the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 (Schedule 8) and the Listing Rules of the UK Listing Authority. The Committee confirms that throughout the year it has complied with governance rules and best practice provisions.

The Regulations require the Auditor to report to shareholders on the audited information within this Report and to state whether, in their opinion, the relevant sections have been prepared in accordance with the Act. The Auditor's opinion is set out in the Auditor's Report and we have clearly marked the audited sections of the Report.

The members of the Committee have no personal financial interest, other than as shareholders of the Company, in the matters to be decided by the Committee, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in running the business.

New Bridge Street (a brand of Aon Hewitt Limited) has been appointed by the Committee to provide advice on the remuneration of Executive Directors and other senior executives. New Bridge Street also provides advice to the Company in connection with the operation of the Company's share-based incentive schemes. The Committee consults with the Chairman of the Company and with the Group Chief Executive, who may attend meetings of the Committee, although they are not involved in deciding their own remuneration. The Committee is assisted by the Company Secretary and the Group Human Resources Director. New Bridge Street is a signatory to the Code of Conduct for remuneration consultants and a member of the Remuneration Consultants Group. Neither New Bridge Street nor any other part of Aon Hewitt provided any other services to the Company during the year.

Chris Bunker

On behalf of the Board
Chris Bunker
Chairman of the Remuneration Committee
26 June 2013

DIRECTORS' REPORT

The Directors submit their Annual Report and the audited financial statements for the financial year ended 30 April 2013. The Directors' statement as to disclosure of information to auditors, as required by Section 418(2) of the Companies Act 2006, is on page 73.

	Ordinary shares disclosed as at 30 April 2013	%	Ordinary shares disclosed as at 26 June 2013	%
Standard Life Investments Ltd	140,223,806	15.1%	139,169,233	15.0%
Scottish Widows Investment Partnership	54,485,140	5.9%	45,477,111	4.9%

Notifiable interests in the Company's issued ordinary share capital in accordance with the Disclosure and Transparency Rules of the Financial Services Authority.

Principal activities

The Company acts as the holding company of a group, which, during 2012/13, was engaged in the international supply of recycled packaging for consumer goods.

A full review of the activities during the financial year ended 30 April 2013 is set out on pages 1 to 47. The principal risks and uncertainties facing the Group are discussed on pages 43 to 47. A discussion of future developments and key performance indicators that management use is set out in the Business Review on page 21. Financial information, including financial instruments, is shown on pages 30 to 33. The principal subsidiary undertakings are listed in note 32 on page 122.

Business Review

The information that fulfils the requirements of the Business Review can be found in the Business Review on pages 1 to 47, which are incorporated in this Report by reference.

Corporate Governance statement

The information that fulfils the requirements of the Corporate Governance statement can be found in the Corporate Governance section on pages 50 to 57 (and is incorporated into this report by reference) with the exception of the information referred to in the United Kingdom Listing Authority Disclosure and Transparency Rules 7.2.6, which is shown in this Directors' Report.

Cautionary statement

The purpose of the Annual Report is to provide information to the members of the Company, as a body, and no-one else. The Company, its Directors, employees, agents and advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed.

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

Results for the year

The financial results are shown on pages 76 to 122.

Dividends

An interim dividend of 2.5 pence net per ordinary share was paid on 1 May 2013 and the Directors recommend a final dividend of 5.5 pence net per ordinary share which, together with the interim dividend, increases the total dividend for the year to 8.0 pence (2011/12: 5.9 pence). Subject to approval of shareholders at the AGM to be held on 3 September 2013, the final dividend will be paid on 1 November 2013 to shareholders on the register at the close of business on 4 October 2013. The dividends per ordinary share stated above are those actually paid or to be paid. Historic dividends per share have been restated in the five-year summary on page 128.

Share capital

Details of the issued share capital and the rights and restrictions attached to the shares, together with details of movements in the Company's issued share capital during the year, are shown in note 23. Pursuant to the Company's employee share option schemes, 1,652,485 ordinary shares of 10 pence each were issued during the year and 74,957 shares pursuant to the Company's employee share option schemes were issued between 1 May 2013 and 26 June 2013 inclusive. The Company has not utilised its authority to make market purchases of shares granted to it at the 2012 AGM, but will be seeking to renew such authority at this year's Meeting.

Acquisitions and divestments

SCA Packaging Acquisition

On 30 June 2012, the Group acquired the packaging division of Svenska Cellulosa Aktiebolaget SCA (publ) excluding its kraftliner assets ('SCA Packaging'). The acquisition was effected by the purchase of equity of 100% of SCA Packaging Holding BV and SCA Packaging Nicollet SAS for €1.6 billion on a cash, debt and, to the extent legally possible and commercially practicable, pension free basis.

SCA Packaging was the second largest packaging business in Europe and the acquisition represents a significant opportunity for the Group to achieve its stated strategic aim of becoming the leading supplier of recycled packaging for consumer goods in Europe.

Disposals

On 25 May 2012, the European Commission granted competition clearance for the SCA Packaging acquisition. The clearance required the Group to divest three sites after the acquisition, which represent approximately 1% of the enlarged Group profit. All three remedy disposal sites were divested during the year for total proceeds of £42.6 million.

The Group made additional minor disposals for proceeds of £8.2 million, net of cash and cash equivalents. These include the Group's associate GAE Smith, UK packaging disposals and the sale of the Group's Norwegian subsidiary.

In April 2013, DS Smith received £7.2 million in relation to final settlement of the disposal of its Office Products Wholesaling Division in 2011/12 to Unipapel SA, which was recorded in discontinued operations in exceptional items.

Research and development

One of the key ways in which the Group seeks to differentiate itself is the use of sophisticated design tools to ensure that the best packaging designs are offered, in order to optimise packaging in our customers' supply chain and bring reductions in carbon footprint. Research is conducted into design tool development, new types of corrugated packaging and innovative applications of it, such as R-Flute®, which is then rolled out through the organisation. The Group has a number of patented designs that are offered to customers across the business.

Directors

The biographies of the present Directors are on pages 48 and 49. All the Directors served throughout the year except as follows: Kathleen O'Donovan joined the Board as a non-Executive Director on 5 December 2012 and Chris Britton joined the Board as a non-Executive Director on 6 March 2013. As announced on 4 July 2012, Chris Bunker will step down after the AGM in September. Steve Dryden informed the Company on 8 January 2013 that he intends to step down from the Board. On 20 June 2013, the Company announced the appointment of Adrian Marsh as Group Finance Director, joining the Board later this year, currently expected to be in September 2013. Steve Dryden will leave the Company on 28 June 2013. During the short interim period, David Matthews, the Group's Financial Controller, will perform the role of Group Finance Director, but will not be appointed to the Board. Other than as previously disclosed in this Report and in respect of existing service agreements, no Director, either during or at the end of the financial year, has been materially interested in any significant contract or arrangement in relation to the Group's business.

The rules regarding the appointment and replacement of Directors are contained in the Company's Articles of Association ('Articles'), which may only be amended with shareholder approval in accordance with relevant legislation. The powers of the Directors are contained in the Company's Articles. The Articles give the Directors powers, subject to relevant legislation, to authorise the issue and buy-back of the Company's shares by the Company, subject to authority being given to the Directors by shareholders in general meeting. The Company annually seeks the authority of shareholders to authorise the exercise by Directors of these powers.

Re-election of Directors

The Articles require that all Directors who have either been appointed by the Board since the last AGM, or for whom the forthcoming AGM is the third AGM since they were elected or last re-elected by the Company in general meeting, retire from office but they are eligible to submit themselves for re-election by the shareholders. However, in accordance with the UK Corporate Governance Code, which recommends that all directors of FTSE 350 companies be subject to annual re-election, the Board has agreed that each Director shall stand for re-appointment at each AGM.

Formal performance evaluation, as described in detail on page 52, has confirmed that the individual performance of the Directors offering themselves for election or re-election has been effective and they have demonstrated commitment to the role.

Directors' interests in shares

The interests of the Directors and their immediate families in the ordinary shares of 10 pence each of the Company (in terms of shares, options and conditional share awards), were as shown in the tables in the Remuneration Report on pages 58 to 70.

Directors' indemnities

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

Employee involvement and communications

The Group's strategic goals are to realise the potential of all employees by creating an environment where people are proud to give their best and by encouraging all employees to live the Group's values through everything they do. More information can be found in the Corporate Responsibilities section on pages 34 to 42.

Equal opportunities

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

Pension fund

The Group had, in the year under review, three UK pension arrangements: one defined benefit scheme (which closed to future service benefits with effect from 30 April 2011 and all affected members of the defined benefit scheme were offered membership of the Group's defined contribution scheme for future service); one defined contribution scheme, which was introduced for new employees joining the Group on or after 1 May 2005; and a statutory Stakeholder arrangement.

The defined benefit scheme is a trust-based arrangement and the investments of the assets are managed on a discretionary basis by a number of investment managers, in either segregated or pooled arrangements.

The defined contribution scheme is a trust-based arrangement offering members a range of investments. The trustees have selected Friends Life as the preferred provider and the Stakeholder arrangement is provided through Investment Solutions Limited. All such assets are held independently from the Group. The trustees of the defined benefit scheme and the defined contribution scheme send an Annual Report to all members of the respective schemes. The Trustee Company of the defined benefit scheme has an Investment Sub-Committee, established in line with the recommended guidelines of the Myners Report. Peter Murray of AllenbridgeEpic Investment Advisers is appointed as an independent adviser to the Investment Sub-Committee of the defined benefit scheme.

Health and safety

The Group recognises its responsibilities and continues to promote all aspects of health and safety in the interests of its employees and members of the public. A Health and Safety Policy Statement has been approved by the Board. More information can be found in the Corporate Responsibility section on page 39.

Significant agreements

The Company is required to disclose any significant agreements that take effect, alter or terminate on a change of control of the Company. The Company has a number of borrowing facilities and related derivative contracts provided by various lenders. These agreements generally include change of control provisions which, in the event of a change of ownership of the Company, could result in renegotiation or withdrawal of these facilities. These significant agreements are as set out in note 19.

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

Payment to suppliers

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

Charitable and political donations

The Group contributed £76,000 (2011/12: £78,000) to charities. No payments were made to political parties. Donations were made by operating divisions to support their local communities. The Group also supported a number of other charities across a range of causes.

The DS Smith Charitable Foundation was established in 2011 to provide support to charities in areas aligned with the activities and values of the business. More information about the work of the Foundation can be found on page 42.

Registered office

The Group Head Office is relocating to central London later in the calendar year, at which time the registered office will change to the new address.

Annual General Meeting

The notice of the AGM of the Company to be held on 3 September 2013, together with explanatory notes, is given in the booklet which accompanies this report.

Members are entitled to appoint a proxy to exercise any or all of their rights to attend and speak and vote on their behalf at the AGM. Please note all proxy appointments must be received by the Registrars no later than 48 hours before the start of the AGM.

Disclosure of information to the Auditor

Each Director confirms that:

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

(b) they have taken all the steps they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

Resolutions to re-appoint Deloitte LLP as Auditor of the Company and to authorise the Directors to determine the remuneration will be put to the AGM.

By Order of the Board

Matt Jowett
Group General Counsel and
Company Secretary
26 June 2013

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have chosen to prepare the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

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

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

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

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By Order of the Board

Miles Roberts
Group Chief Executive
26 June 2013

Steve Dryden
Group Finance Director
26 June 2013

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DS SMITH PLC

We have audited the financial statements of DS Smith Plc for the year ended 30 April 2013 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Parent Company Balance Sheet, the related notes 1 to 32 to the Consolidated Financial Statements and the related notes 1 to 12 to the Parent Company Balance Sheet. The financial reporting framework that has been applied in the preparation of the Consolidated Financial Statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs at 30 April 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1(a) to the Group financial statements, the Group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Standards Board (IASB).

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement contained within Corporate Governance in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Peter O'Donoghue FCA
(Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

26 June 2013

CONSOLIDATED INCOME STATEMENT

Year ended 30 April 2013

Continuing operations	Note	Before exceptional items 2013 £m	Exceptional items (note 4) SCA Packaging 2013 £m	Exceptional items (note 4) Other 2013 £m	After exceptional items 2013 £m	Before exceptional items 2012 £m	Exceptional items (note 4) SCA Packaging 2012 £m	Exceptional items (note 4) Other 2012 £m	After exceptional items 2012 £m
Revenue	2	**3,669.3**	**–**	**–**	**3,669.3**	1,969.4	–	–	1,969.4
Cost of sales		**(1,945.6)**	**–**	**–**	**(1,945.6)**	(1,505.4)	–	–	(1,505.4)
Gross profit		**1,723.7**	**–**	**–**	**1,723.7**	464.0	–	–	464.0
Operating expenses	3, 4	**(1,472.8)**	**–**	**(10.0)**	**(1,482.8)**	(322.0)	–	(70.1)	(392.1)
Operating profit before amortisation and acquisition and integration related costs	2	**250.9**	**–**	**(10.0)**	**240.9**	142.0	–	(70.1)	71.9
Amortisation of intangible assets and acquisition related costs	4, 10	**(44.9)**	**(11.8)**	**–**	**(56.7)**	(8.1)	(18.4)	–	(26.5)
SCA Packaging integration costs	4	**–**	**(57.8)**	**–**	**(57.8)**	–	–	–	–
Operating profit		**206.0**	**(69.6)**	**(10.0)**	**126.4**	133.9	(18.4)	(70.1)	45.4
Finance income	5	**3.1**	**–**	**–**	**3.1**	2.1	–	–	2.1
Finance costs	5	**(39.5)**	**–**	**–**	**(39.5)**	(20.5)	–	–	(20.5)
Employment benefit net finance expense	24	**(4.6)**	**–**	**–**	**(4.6)**	(4.8)	–	–	(4.8)
Net financing costs		**(41.0)**	**–**	**–**	**(41.0)**	(23.2)	–	–	(23.2)
Profit after financing costs		**165.0**	**(69.6)**	**(10.0)**	**85.4**	110.7	(18.4)	(70.1)	22.2
Share of profit/(loss) of associates	12	**1.2**	**–**	**–**	**1.2**	(0.5)	–	–	(0.5)
Profit before income tax, amortisation and acquisition and integration related costs		**211.1**	**–**	**(10.0)**	**201.1**	118.3	–	(70.1)	48.2
Amortisation of intangible assets and acquisition related costs	4, 10	**(44.9)**	**(11.8)**	**–**	**(56.7)**	(8.1)	(18.4)	–	(26.5)
SCA Packaging integration costs	4	**–**	**(57.8)**	**–**	**(57.8)**	–	–	–	–
Profit before income tax		**166.2**	**(69.6)**	**(10.0)**	**86.6**	110.2	(18.4)	(70.1)	21.7
Income tax (expense)/credit	7	**(36.3)**	**16.7**	**3.3**	**(16.3)**	(30.6)	1.9	15.4	(13.3)
Profit for the year from continuing operations		**129.9**	**(52.9)**	**(6.7)**	**70.3**	79.6	(16.5)	(54.7)	8.4
Discontinued operations									
Profit for the year from discontinued operations	30	**–**	**–**	**7.2**	**7.2**	9.3	–	58.0	67.3
Profit for the year		**129.9**	**(52.9)**	**0.5**	**77.5**	88.9	(16.5)	3.3	75.7
Profit for the year attributable to:									
Owners of the parent		**129.5**	**(52.9)**	**0.5**	**77.1**	88.5	(16.5)	3.3	75.3
Non-controlling interests		**0.4**	**–**	**–**	**0.4**	0.4	–	–	0.4

Earnings per share	Note	**2013**	2012
Adjusted from continuing operations*			
Basic	8	**17.4p**	12.8p
Diluted	8	**17.3p**	12.7p
From continuing operations			
Basic	8	**7.6p**	1.2p
Diluted	8	**7.5p**	1.2p
From continuing and discontinued operations			
Basic		**8.4p**	11.1p
Diluted		**8.3p**	10.9p

* Adjusted for amortisation and exceptional items.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 30 April 2013

	Note	2013 £m	2012 £m
Actuarial (losses)/gains on employee benefits	24	**(72.8)**	16.1
Foreign currency translation differences		**54.0**	(14.2)
Reclassification from translation reserve to income statement arising on divestment		**–**	(9.8)
Movements in cash flow hedges		**(20.1)**	(6.6)
Income tax on other comprehensive income	7	**25.6**	(14.3)
Other comprehensive expense for the year, net of tax		**(13.3)**	(28.8)
Profit for the year		**77.5**	75.7
Total comprehensive income for the year		**64.2**	46.9
Total comprehensive income attributable to:			
Owners of the parent		**63.7**	47.0
Non-controlling interests		**0.5**	(0.1)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 April 2013

	Note	2013 £m	2012 £m
Assets			
Non-current assets			
Intangible assets	10	**1,044.3**	309.7
Property, plant and equipment	11	**1,371.2**	598.3
Investment in associates	12	**24.3**	9.5
Other investments	13	**5.6**	–
Deferred tax assets	21	**78.6**	46.1
Other receivables	15	**2.8**	2.4
Derivative financial instruments	20	**9.4**	7.6
Total non-current assets		**2,536.2**	973.6
Current assets			
Inventories	14	**284.8**	146.8
Other investments	13	**16.8**	0.1
Income tax receivable		**5.5**	0.7
Trade and other receivables	15	**643.7**	291.7
Cash and cash equivalents	18	**116.4**	664.5
Derivative financial instruments	20	**1.4**	3.1
Assets classified as held for sale		**1.5**	–
Total current assets		**1,070.1**	1,106.9
Total assets		**3,606.3**	2,080.5
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	19	**(903.9)**	(227.6)
Employee benefits	24	**(214.0)**	(104.2)
Other payables	16	**(9.7)**	(9.9)
Provisions	22	**(39.2)**	(7.4)
Deferred tax liabilities	21	**(155.7)**	(51.9)
Derivative financial instruments	20	**(20.8)**	(3.4)
Total non-current liabilities		**(1,343.3)**	(404.4)
Current liabilities			
Bank overdrafts	18	**(37.9)**	(11.3)
Interest-bearing loans and borrowings	19	**(20.2)**	(93.4)
Trade and other payables	16	**(955.8)**	(431.6)
Income tax liabilities		**(107.8)**	(25.4)
Provisions	22	**(54.5)**	(36.7)
Derivative financial instruments	20	**(1.9)**	(20.2)
Total current liabilities		**(1,178.1)**	(618.6)
Total liabilities		**(2,521.4)**	(1,023.0)
Net assets		**1,084.9**	1,057.5
Equity			
Issued capital	23	**92.9**	92.7
Share premium		**710.0**	710.2
Reserves		**283.9**	256.6
Total equity attributable to equity shareholders of the Company		**1,086.8**	1,059.5
Non-controlling interests		**(1.9)**	(2.0)
Total equity		**1,084.9**	1,057.5

Approved by the Board of Directors of DS Smith Plc, (company registered number 1377658) on 26 June 2013 and signed on its behalf by

M W Roberts, Director **S W Dryden**, Director

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 April 2013

	Note	Share capital £m	Share premium £m	Hedging reserve £m	Translation reserve £m	Own shares £m	Retained earnings £m	Total reserves attributable to equity shareholders £m	Non-controlling interests £m	Total equity £m
At 1 May 2011		**43.6**	**309.1**	**3.0**	**37.8**	**(9.4)**	**202.2**	**586.3**	**(2.1)**	**584.2**
Profit for the year		–	–	–	–	–	75.3	75.3	0.4	75.7
Actuarial gains on employee benefits	24	–	–	–	–	–	16.1	16.1	–	16.1
Foreign currency translation differences		–	–	–	(13.7)	–	–	(13.7)	(0.5)	(14.2)
Reclassification from translation reserve to income statement arising on divestment		–	–	–	(9.8)	–	–	(9.8)	–	(9.8)
Cash flow hedges fair value changes		–	–	(10.0)	–	–		(10.0)	–	(10.0)
Movement from cash flow hedge reserve to income statement		–	–	3.4	–	–	–	3.4	–	3.4
Income tax on other comprehensive income	7	–	–	1.7	(7.9)	–	(8.1)	(14.3)	–	(14.3)
Total comprehensive (expense)/income		**–**	**–**	**(4.9)**	**(31.4)**	**–**	**83.3**	**47.0**	**(0.1)**	**46.9**
Issue of share capital		49.1	401.1	–	–	–	–	450.2	–	450.2
Ordinary shares purchased		–	–	–	–	(0.3)	–	(0.3)	–	(0.3)
Employee share trust		–	–	–	–	1.8	–	1.8	–	1.8
Share-based payment expense (net of tax)		–	–	–	–	–	6.2	6.2	–	6.2
Dividends paid	9	–	–	–	–	–	(31.5)	(31.5)	–	(31.5)
Transactions with non-controlling interests	23	–	–	–	–	–	(0.2)	(0.2)	0.2	–
Other changes in equity in the year		**49.1**	**401.1**	**–**	**–**	**1.5**	**(25.5)**	**426.2**	**0.2**	**426.4**
At 30 April 2012		**92.7**	**710.2**	**(1.9)**	**6.4**	**(7.9)**	**260.0**	**1,059.5**	**(2.0)**	**1,057.5**
Profit for the year		–	–	–	–	–	77.1	77.1	0.4	77.5
Actuarial losses on employee benefits	24	–	–	–	–	–	(72.8)	(72.8)	–	(72.8)
Foreign currency translation differences		–	–	–	53.9	–	–	53.9	0.1	54.0
Cash flow hedges fair value changes		–	–	(18.9)	–	–	–	(18.9)	–	(18.9)
Movement from cash flow hedge reserve to income statement		–	–	(1.2)	–	–	–	(1.2)	–	(1.2)
Income tax on other comprehensive income	7	–	–	4.6	5.0	–	16.0	25.6	–	25.6
Total comprehensive (expense)/income		**–**	**–**	**(15.5)**	**58.9**	**–**	**20.3**	**63.7**	**0.5**	**64.2**
Issue of share capital		0.2	(0.2)	–	–	–	–	–	–	–
Ordinary shares purchased		–	–	–	–	(1.2)	–	(1.2)	–	(1.2)
Employee share trust		–	–	–	–	7.4	(7.4)	–	–	–
Share-based payment expense (net of tax)		–	–	–	–	–	1.2	1.2	–	1.2
Dividends paid	9	–	–	–	–	–	(36.8)	(36.8)	–	(36.8)
Transactions with non-controlling interests	23	–	–	–	–	–	0.4	0.4	(0.4)	–
Other changes in equity in the year		**0.2**	**(0.2)**	**–**	**–**	**6.2**	**(42.6)**	**(36.4)**	**(0.4)**	**(36.8)**
At 30 April 2013		**92.9**	**710.0**	**(17.4)**	**65.3**	**(1.7)**	**237.7**	**1,086.8**	**(1.9)**	**1,084.9**

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 30 April 2013

Continuing operations	Note	**2013 £m**	2012 £m
Operating activities			
Cash generated from operations	26	**373.6**	199.0
Interest received		**0.2**	0.4
Interest paid		**(34.8)**	(20.2)
Tax paid		**(41.7)**	(25.3)
Cash flows from operating activities		**297.3**	153.9
Investing activities			
Acquisition of subsidiary businesses, net of cash and cash equivalents	30	**(1,281.0)**	(2.3)
Divestment of subsidiary and associate businesses, net of cash and cash equivalents	30	**50.8**	184.5
Capital expenditure		**(161.0)**	(94.2)
Proceeds from sale of property, plant and equipment and intangible assets		**4.3**	8.0
Proceeds from sale of other investments		**0.1**	0.3
Increase in restricted cash		**(21.7)**	–
Cash flows (used in)/from investing activities		**(1,408.5)**	96.3
Financing activities			
(Transaction costs)/proceeds from issue of share capital		**(0.4)**	450.2
Purchase of own shares		**(1.2)**	(0.3)
Increase in/(repayment of) borrowings		**552.4**	(72.0)
Increase in/(repayment of) finance lease obligations		**0.4**	(2.7)
Dividends paid to Group shareholders	9	**(36.8)**	(31.5)
Cash flows from financing activities		**514.4**	343.7
(Decrease)/increase in cash and cash equivalents from continuing operations		**(596.8)**	593.9
Discontinued operations			
Cash from/(used in) discontinued operations	30	**7.2**	(29.0)
(Decrease)/increase in cash and cash equivalents		**(589.6)**	564.9
Net cash and cash equivalents at 1 May		**653.2**	88.2
Exchange gains on cash and cash equivalents		**14.9**	0.1
Net cash and cash equivalents at 30 April	18	**78.5**	653.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Significant accounting policies

(a) Basis of preparation

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('adopted IFRSs'), and have also applied IFRSs as issued by the International Accounting Standards Board (IASB). The Company has elected to prepare its parent Company financial statements in accordance with UK Generally Accepted Accounting Practice (UK GAAP); these are presented on pages 123 to 127.

The consolidated financial statements are prepared on the historical cost basis except that assets and liabilities of certain financial instruments, defined benefit pension plans and share-based payments are stated at their fair value.

The consolidated financial statements have been prepared on a going concern basis as set out on page 57 of the Corporate Governance section.

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

No changes have been made to the Group's accounting policies in the year ended 30 April 2013. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The accounting policies have been applied consistently by all Group entities.

(b) Basis of consolidation

(i) Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

(ii) Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

(iii) Non-controlling interests

Non-controlling interests are shown as a component of equity in the statement of financial position net of the value of options over interests held by minorities in the Group's subsidiaries.

(c) Revenue

Revenue comprises the fair value of the sale of goods and services, net of value added tax, rebates and discounts and after eliminating sales within the Group.

Revenue from the sale of goods is recognised when:

- the Group has transferred the significant risks and rewards of ownership to the buyer;
- all significant performance obligations have been met;
- the Group retains neither continuing managerial involvement nor effective control over the goods sold;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the amount of revenue can be measured reliably.

This is typically when either the goods are loaded onto the collection vehicle if the buyer is collecting them, or when the goods are unloaded at the delivery address if the Group is responsible for delivery.

(d) Government grants

(i) Emission quotas

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

(ii) Other

Other government grants are recognised in the statement of financial position initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are offset against the expenses in the same periods in which the expenses are incurred. Grants relating to assets are released to the income statement over the expected useful life of the asset to which it relates on a basis consistent with the depreciation policy. Depreciation is provided on the full cost of the assets before deducting grants.

(e) Dividends

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

1. Significant accounting policies continued

(f) Foreign currency translation

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

The assets and liabilities of all the Group entities that have a functional currency other than sterling are translated at the closing exchange rate at the balance sheet date. Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transactions).

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings, and other financial instruments designated as hedges of such investments, are recognised in the translation reserve. On the disposal of foreign currency entities, the cumulative exchange difference recorded in the translation reserve is taken to the income statement as part of the gain or loss on disposal.

(g) Intangible assets

(i) Goodwill

The recognition of business combinations requires the excess of the purchase price of acquisitions over the net book value of identifiable assets acquired to be allocated to the assets and liabilities of the acquired entity. The Group makes judgements and estimates in relation to the fair value allocation of the purchase price.

Goodwill is stated at cost less accumulated impairment losses. The useful life of goodwill is considered to be indefinite. Goodwill is allocated to the cash generating units (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the combination and is tested annually for impairment; or more frequently if impairment is indicated.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss recognised in the income statement.

(ii) Intellectual property

Intellectual property is stated at cost less accumulated amortisation and impairment losses.

(iii) Computer software

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

(iv) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development.

The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

(v) Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

(vi) Amortisation

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

The estimated useful lives are as follows:

Intellectual property	Up to 20 years
Computer software	3 – 5 years
Customer relationships	5 – 15 years

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

(h) Property, plant and equipment and other investments

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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

The estimated useful lives are as follows:

Freehold and long leasehold properties	10 – 50 years
Plant and equipment, fixtures and fittings (including IT hardware)	2 – 25 years
Motor vehicles	3 – 5 years

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

1. Significant accounting policies continued

(i) Impairment

The carrying amounts of the Group's assets, including tangible and intangible non-current assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Goodwill is tested for impairment annually at the same time, regardless of the presence of an impairment indicator. An impairment loss is recognised whenever the carrying amount of an asset, collection of assets or its CGU exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Cash generating units

For the purposes of impairment testing, each region, split by process, is a separate CGU. Impairment testing of property, plant and equipment and other intangibles is carried out at an individual CGU level. Goodwill impairment testing is carried out based on regional groupings of CGUs as illustrated in note 10, as this is the lowest level at which goodwill is monitored for internal management purposes.

(ii) Calculation of recoverable amount

The recoverable amount of the Group's assets is calculated as the value-in-use of the CGU to which the assets are attributed. Value-in-use is calculated by discounting the cash flows expected to be generated by the CGU/group of CGUs being tested for evidence of impairment. This is done using a pre-tax discount rate that reflects the current assessment of the time value of money or the net selling price, if greater, and the country specific risks for which the cash flows have not been adjusted. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

(iii) Reversals of impairment

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

(j) Derivative financial instruments

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

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

Derivative financial instruments are accounted for as hedges when designated as hedges at the inception of the contract and when the financial instruments provide an effective hedge of the underlying risk.

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

1. Significant accounting policies continued

(k) Treasury shares

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

(l) Trade and other receivables

Trade and other receivables are stated at their cost less impairment provisions.

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(n) Cash and cash equivalents and restricted cash

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

Cash subject to contractual restrictions on use by the Group is excluded from cash and cash equivalents in the consolidated financial statements and presented within other investments in the statement of financial position. Restricted cash is stated at amortised cost.

(o) Borrowings

Borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with borrowing costs being accounted for on an accruals basis in the income statement using the effective interest method.

At the reporting date, accrued interest is recorded separately from the associated borrowings within current liabilities.

(p) Employee benefits

(i) Defined contribution schemes

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

(ii) Defined benefit schemes

The Group's net obligation in respect of defined benefit pension schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to its present value amount and recognised in the income statement as personnel expense; a corresponding liability for all future benefits is established on the statement of financial position and the fair value of any schemes' assets is deducted.

The discount rate is the yield at the reporting date on AA credit rated bonds that have maturity dates approximating to the duration of the schemes' obligations. The calculation is performed by a qualified actuary using the projected unit method. Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

(iii) Share-based payment transactions

The Group operates equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as personnel expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The fair value of the options granted is measured using a stochastic model, taking into account the terms and conditions upon which the options were granted. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions.

At each reporting date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

(q) Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, a reliable estimate can be made of the amount of the obligation, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are discounted to present value where the effect is material.

(r) Trade and other payables

Trade and other payables are stated at their cost.

(s) Leases

(i) Finance leases

Assets held under finance leases are recognised as assets of the Group at the inception of the lease at the lower of their fair value and the present value of the minimum lease payments. Depreciation on leased assets is charged to the consolidated income statement on the same basis as owned assets. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the consolidated income statement so that a constant periodic rate of interest is recognised on the outstanding balance of the liability.

(ii) Operating leases

Operating lease rentals are charged to the consolidated income statement on a straight-line basis over the lease term. Any premium or discount on the acquisition of a lease is spread over the life of the lease on a straight-line basis.

1. Significant accounting policies continued

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

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

Deferred tax is provided for using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The tax effect of certain temporary differences is not recognised, principally with respect to goodwill; temporary differences arising on the initial recognition of assets or liabilities (other than those arising in a business combination or in a manner that initially impacts accounting or taxable profit); and temporary differences relating to investment in subsidiaries and associates to the extent that they will probably not reverse in the foreseeable future and the Group is able to control the reversal of such temporary differences. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

(u) Assets held for sale
Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

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

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

(i) Impairments
When applying IAS 36, 'Impairment of Assets', the Group compares the carrying value of tangible and intangible non-current assets with the higher of their net realisable value and value-in-use to determine whether an impairment exists. Impairment testing is an area requiring management judgement.

To determine the present value of expected future cash flows, certain assumptions have to be made in respect of highly uncertain matters including management's expectations of (a) the discount rates reflecting the risks involved, (b) the timing and quantum of capital expenditure, (c) long-term growth rates and (d) the future development of the business. Whilst the Directors consider their assumptions to be realistic, if actual results differ from expectations the Group's impairment evaluation could be significantly affected. In addition, the use of different estimates, assumptions and judgements, in particular those involved in (a) determining a value based on our current expectations of future conditions and the associated cash flows from the Group's operations, (b) our determination of the level at which groups of assets can be reasonably tested for impairment separately from other parts of the business and (c) our treatment of centrally held assets, could each result in material differences in the carrying values of assets and assessments of impairment. See note 10 for additional information.

(ii) Acquisitions
Acquisitions are accounted for using the acquisition method based on the fair value of the consideration paid. Assets and liabilities are measured at fair value and the purchase price is allocated to assets and liabilities based on these fair values. Determining fair values involves the use of significant estimates and assumptions (including discount rates, asset lives, customer attrition rates and recoverability), and the value of intangible assets and property, plant and equipment on acquisition is typically determined by qualified valuers.

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

(iv) Provisions
The Group measures provisions at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. These estimates are made, taking account of information available and different possible outcomes, and reviewed on a regular basis.

(v) Taxation
The Group's tax payable on profits is determined based on tax laws and regulations that apply in each of the numerous jurisdictions in which the Group operates. The Group is required to exercise judgement in determining income tax provisions, along with the recognition of deferred tax assets/liabilities. While the Group aims to ensure that estimates recorded are accurate, the actual amounts could be different from those expected.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

1. Significant accounting policies continued

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

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued new standards and interpretations with an effective date after the date of these financial statements.

International Financial Reporting Standards (IFRS/IAS)		Effective date – financial year ending
IAS 19	Amendments to IAS 19 'Employee Benefits'	30 April 2014
IFRS 10	Consolidated Financial Statements	30 April 2014
IFRS 11	Joint Arrangements	30 April 2014
IFRS 12	Disclosure of Interests in Other Entities	30 April 2014
IFRS 13	Fair Value Measurements and Disclosures	30 April 2014
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income	30 April 2014
IAS 27	Separate Financial Statements	30 April 2014
IAS 28	Investments in Associates and Joint Ventures	30 April 2014
IFRS 9	Financial Instruments	30 April 2016

IAS 19 (revised 2011) 'Employee Benefits' is considered to be the most significant of the forthcoming changes which is effective for the year ended 30 April 2014 and requires the replacement of the expected rate of return on assets and interest charge on pension scheme liabilities with a net financing cost based on the discount rate. The impact on the employment benefit net finance expense for 2013/14 is expected to be an increase of c.£6m.

The Group does not anticipate that the adoption of the remaining standards and interpretations that are effective for the year ending 30 April 2014 will have a material effect on its financial statements. None of these standards have currently been endorsed by the EU.

2. Segment reporting

Operating segments

IFRS 8 'Operating Segments' requires operating segments to be identified on the same basis as is used internally for the review of performance and allocation of resources by the Group Chief Executive (who is the Chief Operating Decision Maker as defined by IFRS 8). Further details of these business segments are given in the Business Review.

Following the acquisition of SCA Packaging during the year ended 30 April 2013, the Group changed its internal reporting structure and consequently the composition of its operating segments. Therefore, as required by IFRS 8 'Operating Segments', the operating segment analysis for the comparative year ended 30 April 2012 has been restated.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Central administration costs are allocated to the individual segments on a consistent basis year-on-year. Assets and liabilities have been analysed by segment at a capital employed level, which excludes items of a financing nature, taxation balances, employee benefit liabilities and non-current asset investments. Debt and associated interest is managed at a Group level and therefore has not been allocated across the business areas.

Year ended 30 April 2013	Note	UK £m	Western Europe £m	DACH and Northern Europe £m	Central Europe and Italy £m	Plastics £m	Total Continuing Operations £m
External revenue		961.2	966.3	835.7	601.1	305.0	3,669.3
EBITDA		75.2	104.2	89.7	58.1	36.1	363.3
Depreciation	11	(27.6)	(30.8)	(27.3)	(16.8)	(9.9)	(112.4)
Operating profit*		47.6	73.4	62.4	41.3	26.2	250.9
Other exceptional items	4	(4.6)	2.2	(5.4)	(2.0)	(0.2)	(10.0)
Segment result		43.0	75.6	57.0	39.3	26.0	240.9
Unallocated items:							
Amortisation	10						(44.9)
Exceptional items – SCA Packaging acquisition costs	4						(11.8)
– SCA Packaging integration costs	4						(57.8)
Total operating profit (continuing operations)							126.4
Analysis of total assets and total liabilities							
Segment assets		691.8	855.9	1,034.2	590.0	176.4	3,348.3
Unallocated items:							
Investment in associates and other assets							46.7
Derivative financial instruments							10.8
Cash and cash equivalents							116.4
Tax							84.1
Total assets							3,606.3
Segment liabilities		(283.6)	(354.7)	(191.1)	(206.5)	(23.3)	(1,059.2)
Unallocated items:							
Borrowings and accrued interest							(962.0)
Derivative financial instruments							(22.7)
Tax							(263.5)
Employee benefits							(214.0)
Total liabilities							(2,521.4)

* Adjusted for amortisation and exceptional items.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

2. Segment reporting continued

Operating segments continued

Year ended 30 April 2012	Note	UK £m	Western Europe £m	DACH and Northern Europe £m	Central Europe and Italy £m	Plastics £m	Total Continuing Operations £m
External revenue		960.2	569.4	7.3	167.2	265.3	1,969.4
EBITDA		96.0	56.8	0.4	22.4	30.3	205.9
Depreciation	11	(31.6)	(17.9)	(0.1)	(6.0)	(8.3)	(63.9)
Operating profit*		64.4	38.9	0.3	16.4	22.0	142.0
Other exceptional items	4	(67.5)	(6.0)	–	(0.3)	(6.3)	(80.1)
Segment result		(3.1)	32.9	0.3	16.1	15.7	61.9
Unallocated items:							
Amortisation	10						(8.1)
Exceptional items – investment in associate	4						10.0
– SCA Packaging acquisition costs	4						(18.4)
Total operating profit (continuing operations)							45.4
Analysis of total assets and total liabilities							
Segment assets		513.7	526.0	1.8	169.1	138.3	1,348.9
Unallocated items:							
Investment in associates and other assets							9.6
Derivative financial instruments							10.7
Cash and cash equivalents							664.5
Tax							46.8
Total assets							2,080.5
Segment liabilities		(239.2)	(175.8)	(0.3)	(44.8)	(16.6)	(476.7)
Unallocated items:							
Borrowings and accrued interest							(341.2)
Derivative financial instruments							(23.6)
Tax							(77.3)
Employee benefits							(104.2)
Total liabilities							(1,023.0)

* Adjusted for amortisation and exceptional items.

2. Segment reporting continued

Geographical areas

In presenting information by geographical area, external revenue is based on the geographical location of customers. Non-current assets are based on the geographical location of assets and exclude investments, deferred tax assets, derivative financial instruments and intangible assets (which are monitored at the operating segment level, not at a country level).

	External revenue		Non-current assets		Capital expenditure	
Continuing operations	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
UK	**1,027.0**	988.4	**352.0**	327.8	**57.5**	44.7
France	**742.9**	606.6	**248.9**	164.8	**33.8**	30.8
Germany	**524.9**	27.9	**259.9**	2.9	**21.6**	0.4
Italy	**369.7**	69.1	**147.8**	29.2	**13.8**	3.0
Rest of the World	**1,004.8**	277.4	**365.4**	76.0	**34.3**	15.3
	3,669.3	1,969.4	**1,374.0**	600.7	**161.0**	94.2

3. Operating profit

Continuing operations	**2013 £m**	2012 £m
Operating expenses		
Distribution	**284.9**	156.1
Administrative	**1,197.9**	236.0
	1,482.8	392.1

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

Operating profit is stated after charging the following:

Continuing operations	**2013 £m**	2012 £m
Depreciation – owned assets	**110.5**	62.3
– leased assets	**1.9**	1.6
Amortisation of intangible assets	**44.9**	8.1
Hire of plant and machinery	**15.3**	12.0
Other operating lease rentals	**17.3**	8.3
Research and development	**6.4**	3.8

A description of the work of the Audit Committee is set out in the Corporate Governance section on pages 54 to 55 and includes an explanation of how the Auditor's objectivity and independence are safeguarded when non-audit services are provided by the Auditor.

	2013			2012		
Auditor's remuneration	**UK £m**	**Overseas £m**	**Total £m**	UK £m	Overseas £m	Total £m
Fees payable to the Company's auditor for audit of the Company's annual accounts	**0.1**	**–**	**0.1**	0.1	–	0.1
Fees payable to the Company's auditor and their associates for other services:						
Audit of the Company's subsidiaries, pursuant to legislation	**0.6**	**0.4**	**1.0**	0.3	0.5	0.8
Corporate finance services	**0.5**	**–**	**0.5**	1.2	–	1.2
Tax and other services	**0.1**	**0.1**	**0.2**	0.1	–	0.1
	1.3	**0.5**	**1.8**	1.7	0.5	2.2

Auditor's remuneration includes continuing and discontinued operations. Total non-audit fees were £0.7m (2011/12: £1.3m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

4. Exceptional items

Items are presented as 'exceptional' in the financial statements where they are significant items of financial performance that the Directors consider should be separately disclosed to assist in the understanding of the trading and financial results of the Group.

Continuing operations	SCA Packaging acquisition costs 2013 £m	SCA Packaging integration costs 2013 £m	Other exceptional items 2013 £m	Total exceptional items 2013 £m	SCA Packaging acquisition costs 2012 £m	Other exceptional items 2012 £m	Total exceptional items 2012 £m
Restructuring costs	–	–	(14.3)	(14.3)	–	(42.3)	(42.3)
Acquisition related costs	(11.8)	(57.8)	–	(69.6)	(18.4)	–	(18.4)
Pension settlement	–	–	(2.2)	(2.2)	–	–	–
Impairment of assets	–	–	(1.6)	(1.6)	–	(36.5)	(36.5)
Investment in associate	–	–	–	–	–	10.0	10.0
Gain on divestment	–	–	8.1	8.1	–	–	–
Other	–	–	–	–	–	(1.3)	(1.3)
Total pre-tax exceptional items (recognised in operating profit)	(11.8)	(57.8)	(10.0)	(79.6)	(18.4)	(70.1)	(88.5)
Income tax credit on exceptional items	0.9	15.8	3.3	20.0	1.9	15.4	17.3
Total post-tax exceptional items	(10.9)	(42.0)	(6.7)	(59.6)	(16.5)	(54.7)	(71.2)

2012/13

SCA Packaging acquisition costs of £11.8m relate to professional advisory fees, due diligence costs and other acquisition costs relating to the acquisition of the packaging division of Svenska Cellulosa Aktiebolaget SCA (publ), ('SCA Packaging').

SCA Packaging integration costs primarily relate to costs associated with achieving cost synergies.

Of the £14.3m restructuring costs, £7.7m relates to restructuring in the UK paper business and central services, £2.8m relates to reorganisations in Sweden, and the remainder is primarily attributable to restructuring in Germany and Poland.

The gain on divestment primarily relates to the sale of the Group's investment in the associate GAE Smith, the sale of European Commission remedy disposal sites (see note 30), and disposal of the Group's Norwegian operations.

2011/12

SCA Packaging acquisition costs of £18.4m relate to the planned acquisition of the packaging division of SCA Packaging and consist of professional advisory fees, due diligence costs and other acquisition related costs.

Of the £42.3m restructuring costs, £30.6m primarily relate to the restructuring of the UK packaging business and the exit costs from the closure and sale of two paper mills. Costs of £6.3m relate to restructuring in France and costs of £5.4m primarily relate to restructuring in Plastics in the UK and Germany.

Total intangible asset, tangible fixed asset and inventory impairment charges are £36.5m and primarily relate to property, plant and equipment within the UK, principally paper assets.

The exceptional gain of £10.0m relates to the Group's associate investment in OJSC Rubezhansk Paper and Packaging Mill (Rubezhansk). In 2008/09 an exceptional loss of £18.1m was incurred when the carrying value of the Group's investment was written down to £nil due to the uncertainty in the financial position of the business, following a breach of its banking covenants caused by exchange rate movements. In November 2011, revised facilities were agreed with the banks and hence it was considered appropriate to re-instate the investment in associate at fair value.

5. Finance income and costs

Continuing operations	2013 £m	2012 £m
Interest on loans and overdrafts	**37.9**	19.6
Finance lease interest	**0.2**	0.3
Other	**1.4**	0.6
Finance costs	**39.5**	20.5
Interest income from financial assets	**(1.1)**	(1.6)
Other	**(2.0)**	(0.5)
Finance income	**(3.1)**	(2.1)

Included within other finance income is £1.8m (2011/12: £nil) of hedge ineffectiveness on net investment hedges and fair value hedges.

6. Personnel expenses

Continuing operations	2013 £m	2012 £m
Wages and salaries	**448.8**	294.4
Social security costs	**91.5**	34.8
Contributions to defined contribution pension plans	**20.3**	6.5
Service costs for defined benefit schemes (note 24)	**2.9**	0.9
Share-based payment expense (note 25)	**3.8**	4.0
Personnel expenses	**567.3**	340.6

Average number of employees

	2013 Number	2012 Number
UK	**5,542**	5,216
Western Europe	**4,360**	2,897
DACH and Northern Europe	**4,911**	45
Central Europe and Italy	**4,365**	1,459
Rest of the World	**558**	533
Average number of employees	**19,736**	10,150

7. Income tax expense

Continuing operations	2013 £m	2012 £m
Current tax expense		
Current year	**(74.0)**	(36.6)
Adjustment in respect of prior years	**10.8**	5.4
	(63.2)	(31.2)
Deferred tax expense		
Origination and reversal of temporary differences	**25.4**	(1.8)
Reduction in UK tax rate	**1.8**	3.0
Adjustment in respect of prior years	**(0.3)**	(0.6)
Total income tax expense before exceptional items	**(36.3)**	(30.6)
Tax relating to SCA Packaging acquisition costs (note 4)	**0.9**	1.9
Tax relating to SCA Packaging integration costs (note 4)	**15.8**	–
Tax relating to other exceptional items (note 4)	**3.3**	15.4
Total income tax expense in the income statement from continuing operations	**(16.3)**	(13.3)
Discontinued operations		
Total income tax expense before exceptional items	**–**	(4.8)
Tax relating to other exceptional items	**–**	(9.1)
Total income tax expense in the income statement from discontinued operations	**–**	(13.9)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

7. Income tax expense continued

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

	2013 £m	2012 £m
Profit before income tax –		
Continuing operations	**86.6**	21.7
Discontinued operations	**7.2**	81.2
Share of (profit)/loss of associates	**(1.2)**	0.5
Profit before tax and share of (profit)/loss of associates	**92.6**	103.4
Income tax at the domestic corporation tax rate of 23.92% (2011/12: 25.83%)	**(22.1)**	(26.7)
Effect of tax rates in overseas jurisdictions	**(14.9)**	(7.0)
Additional items deductible for tax purposes	**13.7**	–
Non-deductible expenses	**(7.2)**	(9.1)
Gain on disposal of Office Products Wholesaling division	**1.7**	8.2
Utilisation of tax losses not recognised	**0.2**	0.1
Adjustment in respect of prior years	**10.5**	3.2
Effect of change in UK corporation tax rate	**1.8**	3.1
Other	**–**	1.0
Income tax expense – total Group	**(16.3)**	(27.2)
Income tax expense from continuing operations	**(16.3)**	(13.3)
Income tax expense from discontinued operations	**–**	(13.9)

The Finance Act 2012 includes a 1% reduction to the main UK Corporation tax rate to 23% effective 1 April 2013. Accordingly, the rate applying to UK assets and liabilities has been reduced from 24% to 23%, creating a rate adjustment, which is partly reflected in the consolidated income statement, and partly in the consolidated statement of comprehensive income.

Further changes to reduce the main rate of UK corporation tax have been announced, with a further 2% reduction to 21% at 1 April 2014, and a further fall to 20% at 1 April 2015 to be included in the Finance Bill 2013. The rate reduction from 23% to 20% has not yet been substantively enacted; had it been, the effect would have been to reduce the net deferred tax asset in the UK by £8.3m, of which it is estimated that £3.1m would have been credited to the consolidated income statement and £11.4m would have been charged to the consolidated statement of comprehensive income.

Tax on other comprehensive income and equity

	Gross 2013 £m	Tax credit/ (charge) 2013 £m	Net 2013 £m	Gross 2012 £m	Tax credit/ (charge) 2012 £m	Net 2012 £m
Actuarial (losses)/gains on employee benefits	**(72.8)**	**16.0**	**(56.8)**	16.1	(8.1)	8.0
Foreign currency translation differences and reclassification from translation reserve to income statement arising on divestment	**54.0**	**5.0**	**59.0**	(24.0)	(7.9)	(31.9)
Movements in cash flow hedges	**(20.1)**	**4.6**	**(15.5)**	(6.6)	1.7	(4.9)
Other comprehensive (expense)/income	**(38.9)**	**25.6**	**(13.3)**	(14.5)	(14.3)	(28.8)
Issue of share capital	**–**	**–**	**–**	450.2	–	450.2
Ordinary shares purchased	**(1.2)**	**–**	**(1.2)**	(0.3)	–	(0.3)
Employee share trust	**–**	**–**	**–**	1.8	–	1.8
Share-based payment expense	**3.8**	**(2.6)**	**1.2**	4.0	2.2	6.2
Dividends paid to Group shareholders	**(36.8)**	**–**	**(36.8)**	(31.5)	–	(31.5)
Other comprehensive (expense)/income and equity	**(73.1)**	**23.0**	**(50.1)**	409.7	(12.1)	397.6

8. Earnings per share

Basic earnings per share from continuing operations

	2013	2012
Profit from continuing operations attributable to ordinary shareholders	**£69.9m**	£8.0m
Weighted average number of ordinary shares	**923.5m**	680.6m
Basic earnings per share	**7.6p**	1.2p

Diluted earnings per share from continuing operations

	2013	2012
Profit from continuing operations attributable to ordinary shareholders	**£69.9m**	£8.0m
Weighted average number of ordinary shares	**923.5m**	680.6m
Potentially dilutive shares issuable under share-based payment arrangements	**7.9m**	13.5m
Weighted average number of ordinary shares (diluted)	**931.4m**	694.1m
Diluted earnings per share	**7.5p**	1.2p

Basic earnings per share from discontinued operations

	2013	2012
Profit attributable to ordinary shareholders	**£7.2m**	£67.3m
Weighted average number of ordinary shares	**923.5m**	680.6m
Basic earnings per share	**0.8p**	9.9p

Diluted earnings per share from discontinued operations

	2013	2012
Profit attributable to ordinary shareholders	**£7.2m**	£67.3m
Weighted average number of ordinary shares	**923.5m**	680.6m
Potentially dilutive shares issuable under share-based payment arrangements	**7.9m**	13.5m
Weighted average number of ordinary shares (diluted)	**931.4m**	694.1m
Diluted earnings per share	**0.8p**	9.7p

The number of shares excludes the weighted average number of the Company's own shares held as treasury shares during the year of 3.7m (2011/12: 7.0m).

Adjusted earnings per share from continuing operations

The Directors believe that the presentation of an adjusted earnings per share, being the basic earnings per share adjusted for exceptional items and amortisation of intangible assets, better explains the underlying performance of the Group. A reconciliation of basic to adjusted earnings per share is as follows:

	2013			2012		
	£m	**Basic – pence per share**	**Diluted – pence per share**	£m	Basic – pence per share	Diluted – pence per share
Basic earnings	**69.9**	**7.6p**	**7.5p**	8.0	1.2p	1.2p
Add back amortisation, after tax	**31.6**	**3.4p**	**3.4p**	8.1	1.2p	1.2p
Add back exceptional items, after tax	**59.6**	**6.4p**	**6.4p**	71.2	10.4p	10.3p
Adjusted earnings	**161.1**	**17.4p**	**17.3p**	87.3	12.8p	12.7p

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

9. Dividends proposed and paid

	2013 Pence per share	2013 £m	2012 Pence per share	2012 £m
2011/12 final dividend – paid	**4.0p**	**36.8**	–	–
2012/13 interim dividend	**2.5p**	**23.1**	1.9p	12.1
2012/13 final dividend – proposed	**5.5p**	**50.9**	4.0p	36.8

	2013 £m	2012 £m
Paid during the year	**36.8**	31.5

The interim dividend in respect of 2012/13 of 2.5 pence per share (£23.1m) was paid after the year-end on 1 May 2013. The 2011/12 interim dividend was paid during the 2011/12 financial year. A final dividend in respect of 2012/13 of 5.5 pence per share (£50.9m) has been proposed by the Directors after the balance sheet date.

10. Intangible assets

	Goodwill £m	Software £m	Intellectual property £m	Customer related £m	Other £m	Total £m
Cost						
At 1 May 2012	299.0	24.5	15.4	18.7	16.2	373.8
Acquisitions	329.9	7.2	9.7	348.7	37.5	733.0
Additions	–	2.0	0.9	–	3.0	5.9
Disposals	–	(0.2)	(0.1)	–	(2.8)	(3.1)
Currency translation	22.8	1.5	2.6	17.3	2.4	46.6
At 30 April 2013	**651.7**	**35.0**	**28.5**	**384.7**	**56.3**	**1,156.2**
Amortisation and impairment						
At 1 May 2012	(27.4)	(17.9)	(7.7)	(3.2)	(7.9)	(64.1)
Amortisation	–	(3.6)	(2.9)	(31.9)	(6.5)	(44.9)
Disposals	–	0.2	0.1	–	2.0	2.3
Currency translation	(0.7)	(0.7)	(1.7)	(1.3)	(0.8)	(5.2)
At 30 April 2013	**(28.1)**	**(22.0)**	**(12.2)**	**(36.4)**	**(13.2)**	**(111.9)**
Carrying amount						
At 1 May 2012	271.6	6.6	7.7	15.5	8.3	309.7
At 30 April 2013	**623.6**	**13.0**	**16.3**	**348.3**	**43.1**	**1,044.3**

The amortisation charge for the year of £44.9m is included within continuing operating expenses (2011/12: £8.1m continuing operations, £0.2m profit from discontinued operations).

The impairment charge for the year was £nil (2011/12: £7.3m).

In the year ended 30 April 2013, intangible asset acquisitions of £733.0m, including £329.9m of goodwill, arose on the acquisition of SCA Packaging (see note 30).

10. Intangible assets continued

	Goodwill £m	Software £m	Intellectual property £m	Customer related £m	Other £m	Total £m
Cost						
At 1 May 2011	316.3	39.4	18.0	18.8	19.3	411.8
Acquisitions	0.3	–	–	–	–	0.3
Additions	–	4.3	0.2	–	0.9	5.4
Adjustment relating to business combination in previous year	2.1	–	–	–	–	2.1
Divestments	(8.8)	(16.9)	(2.1)	–	–	(27.8)
Disposals	–	(0.6)	–	–	(1.9)	(2.5)
Currency translation	(10.9)	(1.7)	(0.7)	(0.1)	(2.1)	(15.5)
At 30 April 2012	**299.0**	**24.5**	**15.4**	**18.7**	**16.2**	**373.8**
Amortisation and impairment						
At 1 May 2011	(21.2)	(30.0)	(7.7)	(1.3)	(6.8)	(67.0)
Amortisation	–	(2.2)	(1.0)	(1.9)	(3.2)	(8.3)
Impairment	(6.6)	(0.7)	–	–	–	(7.3)
Divestments	–	13.1	0.8	–	–	13.9
Disposals	–	0.5	–	–	1.7	2.2
Currency translation	0.4	1.4	0.2	–	0.4	2.4
At 30 April 2012	**(27.4)**	**(17.9)**	**(7.7)**	**(3.2)**	**(7.9)**	**(64.1)**
Carrying amount						
At 1 May 2011	295.1	9.4	10.3	17.5	12.5	344.8
At 30 April 2012	**271.6**	**6.6**	**7.7**	**15.5**	**8.3**	**309.7**

An adjustment of £2.1m was made to the fair value of goodwill in 2011/12 relating to the acquisition of Otor in 2010/11.

The 2011/12 amortisation charge of £8.3m was included within continuing operating expenses (£8.1m) and profit from discontinued operations (£0.2m).

The divestment of goodwill relates to the sale of the Office Products Wholesaling division.

Goodwill

Following the acquisition of SCA Packaging during the year ended 30 April 2013, the Group changed its operating structure and consequently the number and composition of its operating segments (see note 2). Prior to the acquisition of SCA Packaging, there were three cash generating unit (CGU) groups identified which contained goodwill and following the acquisition there are now five CGU groups which correspond to the new operating segments.

The CGU groups represent the lowest level at which goodwill is monitored for internal management purposes and are not larger than the operating segments determined in accordance with IFRS 8 'Operating Segments'. The carrying values of goodwill are split between the CGU groups as follows:

	2013 £m	2012* £m
UK	**146.7**	130.9
Western Europe	**151.5**	102.6
DACH and Northern Europe	**220.9**	–
Central Europe and Italy	**53.4**	–
Plastics	**51.1**	38.1
Total goodwill	**623.6**	271.6

* 2012 goodwill has been re-allocated to the new operating segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

10. Intangible assets continued

Goodwill impairment tests – key assumptions and methodology

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill may be impaired. The recoverable amounts of the groups of CGUs are determined from value-in-use calculations. No impairment arose in the year ended 30 April 2013 as the recoverable amount of the groups of CGUs, based on value-in-use calculations, exceeded the carrying amounts.

The key assumptions in the value-in-use calculations are:

- the cash flow forecasts have been derived from the most recent Board approved budgets for the two years ending 30 April 2015 and are based upon past performance, known changes and expectations of current market conditions, taking into account the cyclical nature of the business;
- the sales volume and price assumptions underlying the cash flow forecasts are the Directors' estimates of likely future changes based upon historic performance and the current economic outlooks for the economies in which the Group operates. These are viewed as the key operating assumptions as they determine the Directors' approach to margin and cost maintenance;
- the cash flow forecasts for capital expenditure are based upon past experience and include the replacement capital expenditure required to generate the terminal cash flows;
- cash flows beyond the budgeted period (2016 and beyond) have been determined using a long-term growth rate specific to each of the CGU groups based upon external sources such as the International Monetary Fund's World Economic Outlook Database. These resulted in an average growth rate for the total Group of 1.9%; and
- the pre-tax adjusted discount rate is derived from the weighted average cost of capital ('WACC') for the Group of 9.5% (2011/12: 10.1%). The WACC is a function of the cost of debt and equity. The cost of equity is largely based upon the risk free rate for 30 year UK gilts, adjusted for the UK market risk premium, which reflects the increased risk of investing in UK equities and the relative volatilities of the equity of the Group compared to the market as a whole. This Group rate has been adjusted for the risks inherent in the countries in which the CGU group operates that are not reflected in the cash flow projections.

Goodwill impairment tests – sensitivities

The value-in-use is based upon anticipated discounted future cash flows and results in significant headroom across all CGU groups. Whilst the Directors believe the assumptions used are realistic, it is possible that a reduction in the headroom would occur if any of the above key assumptions were significantly changed. Factors which could cause an impairment are:

- significant underperformance relative to the forecast results; and
- further deteriorations in the economies in which the Group operates.

To support their assertions, the Directors' have conducted sensitivity analyses to determine the impact that would result from the above situations.

If estimates of future growth were reduced to 0% per annum, or if the estimated discount rates applied to the cash flows were increased by 1%, there would still be sufficient headroom to support the carrying value of the assets.

Based on this analysis the Directors believe that no reasonably possible change in any of the key assumptions detailed above would cause the carrying value of CGU groups to exceed their recoverable amounts. Therefore at 30 April 2013 no impairment charge is required against the carrying value of goodwill.

11. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Fixtures and fittings £m	Under construction £m	Total £m
Cost					
At 1 May 2012	314.2	1,189.6	22.0	39.0	1,564.8
Acquisitions	279.0	354.4	18.5	64.5	716.4
Additions	13.5	84.3	4.9	36.1	138.8
Divestments	(1.2)	(3.4)	–	–	(4.6)
Disposals	(2.1)	(26.5)	(2.4)	–	(31.0)
Transfers	6.6	64.3	1.6	(72.5)	–
Reclassification to held for sale	–	(22.0)	–	–	(22.0)
Currency translation	29.8	77.6	4.9	2.2	114.5
At 30 April 2013	**639.8**	**1,718.3**	**49.5**	**69.3**	**2,476.9**
Depreciation and impairment					
At 1 May 2012	(86.4)	(864.7)	(14.8)	(0.6)	(966.5)
Depreciation charge	(15.2)	(91.7)	(5.5)	–	(112.4)
Divestments	0.6	3.0	–	–	3.6
Disposals	1.7	24.0	1.7	–	27.4
Reclassification to held for sale	–	14.2	–	–	14.2
Currency translation	(14.0)	(53.9)	(4.1)	–	(72.0)
At 30 April 2013	**(113.3)**	**(969.1)**	**(22.7)**	**(0.6)**	**(1,105.7)**
Carrying amount					
At 1 May 2012	227.8	324.9	7.2	38.4	598.3
At 30 April 2013	**526.5**	**749.2**	**26.8**	**68.7**	**1,371.2**

The depreciation charge for the year of £112.4m is included within continuing operating expenses (2011/12: £63.9m continuing operating expenses, £0.6m profit from discontinued operations).

The amounts above include land and buildings held under finance lease agreements. At 30 April 2013, the carrying amount of land and buildings held under finance leases was £6.6m (30 April 2012: £4.5m).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

11. Property, plant and equipment continued

	Land and buildings £m	Plant and equipment £m	Fixtures and fittings £m	Under construction £m	Total £m
Cost					
At 1 May 2011	364.0	1,202.5	58.0	24.4	1,648.9
Additions	4.5	75.5	1.1	30.8	111.9
Divestments	(36.4)	(20.5)	(34.2)	–	(91.1)
Disposals	(5.6)	(32.8)	(1.4)	–	(39.8)
Transfers	1.8	12.5	0.5	(14.8)	–
Currency translation	(14.1)	(47.6)	(2.0)	(1.4)	(65.1)
At 30 April 2012	**314.2**	**1,189.6**	**22.0**	**39.0**	**1,564.8**
Depreciation and impairment					
At 1 May 2011	(101.4)	(859.9)	(46.5)	(0.6)	(1,008.4)
Depreciation charge	(7.4)	(55.8)	(1.3)	–	(64.5)
Divestments	13.0	16.9	30.0	–	59.9
Disposals	4.1	24.2	1.4	–	29.7
Impairment	–	(23.7)	–	–	(23.7)
Currency translation	5.3	33.6	1.6	–	40.5
At 30 April 2012	**(86.4)**	**(864.7)**	**(14.8)**	**(0.6)**	**(966.5)**
Carrying amount					
At 1 May 2011	262.6	342.6	11.5	23.8	640.5
At 30 April 2012	**227.8**	**324.9**	**7.2**	**38.4**	**598.3**

The 2011/12 depreciation charge of £64.5m was included within continuing operating expenses (£63.9m) and profit from discontinued operations (£0.6m).

12. Investment in associates

	2013 £m	2012 £m
At 1 May	**9.5**	–
Acquisition	**16.0**	–
Disposal	**(3.1)**	–
Reinstatement of investment in associate at fair value	**–**	10.0
Share of profit/(loss) of associates after interest and tax	**1.2**	(0.5)
Currency translation	**0.7**	–
At 30 April	**24.3**	9.5

The Group acquired associate investments in Turkey and Spain as part of the acquisition of SCA Packaging.

The disposal during the year ended 30 April 2013 relates to a 50% investment in GAE Smith, which was acquired as part of SCA Packaging.

Principal associates

	Nature of business	Principal country of operation	Ownership interest 2013	Ownership interest 2012
OJSC Rubezhansk Paper and Packaging Mill (Rubezhansk)	Paper and packaging	Ukraine	**49.6%**	49.6%
Turkey	Paper, packaging and recycling	Turkey	**49.0%**	–
Lantero Group	Packaging	Spain	**25.0%**	–

The Group accounts for its investments in Rubezhansk and Turkey as associates because the Group has the ability to exercise significant influence over the investment due to the Group's equity holdings, but the Group does not have control over these investments under IAS 27 'Consolidated and Separate Financial Statements' because it does not, by virtue of its shareholding or other agreement, have more than half the voting rights.

All associates are accounted for using the equity method within these financial statements.

Rubezhansk
In 2008/09, the Group fully impaired the carrying value of its investment in Rubezhansk due to a breach in Rubezhansk's banking covenants caused by foreign exchange losses following the significant decline in the Ukrainian Hryvnia against the US dollar, after which the Group did not recognise any profits in respect of its investment. In November 2011, revised facilities were agreed with the banks and hence it was considered appropriate to re-instate the Group's investment in associate at fair value of £10.0m and resume recognition of the Group's share of profit or loss from that date.

Turkey
The Group owns direct and indirect holdings in the following Turkish businesses; Yalova Ambalaj Sanayi ve Ticaret A.Ş; Kaplamin Ambalaj Sanayi ve Ticaret A.Ş; OVA Oluklu Mukavva Ambalaj Sanayi. ve Ticaret A.Ş; Atkasan Atık Değerlendiseme San. Ve Tic. A.Ş; and Selkasan Kağıt ve Paketleme Malzemeleri Imalat San. Ve Tic. A.Ş. Direct holdings vary between 2.2% and 49.0%. These holdings were acquired as part of the SCA Packaging acquisition.

Spain
The Group has a 25% interest in the corrugated packaging and heavy duty division of Lantero Group, acquired as part of the SCA Packaging acquisition. The Group has board representation and as such is considered to exercise significant influence.

Summary of financial information of associates
The following items are an aggregate of the financial statements of the Group's main associates on a 100% basis.

	2013 £m	2012 £m
Assets	**429.2**	190.0
Liabilities	**(180.4)**	(59.2)
Revenue	**326.8**	121.2
Profit after tax	**(0.4)**	10.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

13. Other investments

	2013 £m	2012 £m
Restricted cash – receivable after one year	**5.1**	–
Other investments	**0.5**	–
Total non-current investments	**5.6**	–
Restricted cash – receivable within one year	**16.6**	–
Other investments	**0.2**	0.1
Total current investments	**16.8**	0.1

To facilitate Pension Scheme Trustee support for the acquisition of SCA Packaging, an escrow deposit of £15m was required to be held until the net debt /EBITDA ratio was below 2 times. This escrow deposit represents the majority of the £16.6m restricted cash receivable within one year. As the Group has achieved this metric in these consolidated financial statements, the escrow amount will now be released.

14. Inventories

	2013 £m	2012 £m
Raw materials and consumables	**151.8**	83.4
Work in progress	**16.4**	5.7
Finished goods	**116.6**	57.7
	284.8	146.8

Inventory provisions at 30 April 2013 were £39.8m (30 April 2012: £15.2m).

15. Trade and other receivables

	2013		2012	
	Non-current £m	Current £m	Non-current £m	Current £m
Trade receivables	**–**	**594.7**	–	268.1
Provisions for bad and doubtful receivables	**–**	**(36.4)**	–	(9.3)
Prepayments and other receivables	**2.8**	**85.4**	2.4	32.9
	2.8	**643.7**	2.4	291.7

			Of which past due but not impaired				
Trade receivables	Net carrying amount £m	Of which neither impaired nor past due £m	1 month or less £m	1–3 months £m	3–6 months £m	6–12 months £m	More than 12 months £m
At 30 April 2013	**558.3**	**492.4**	**46.6**	**12.3**	**3.9**	**1.1**	**2.0**
At 30 April 2012	258.8	235.6	16.6	4.7	1.2	0.5	0.2

Movement in bad and doubtful receivables allowance

	2013 £m	2012 £m
At 1 May	**(9.3)**	(17.5)
Uncollectible amounts written off, net of receivables	**0.4**	0.4
Decrease/(increase) in allowance recognised in the income statement	**0.8**	(0.3)
(Acquisitions)/disposals	**(26.7)**	7.1
Currency translation	**(1.6)**	1.0
At 30 April	**(36.4)**	(9.3)

The majority of the Group's trade receivables are due for maturity within 90 days. Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and diverse. Management believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful receivables.

16. Trade and other payables

	2013 Non-current £m	2013 Current £m	2012 Non-current £m	2012 Current £m
Trade payables	**–**	**580.7**	–	278.1
Non-trade payables and accrued expenses	**9.7**	**375.1**	9.9	153.5
	9.7	**955.8**	9.9	431.6

17. Net (debt)/cash

	2013 £m	2012 £m
Non-current liabilities	**(903.9)**	(227.6)
Current liabilities	**(20.2)**	(93.4)
Derivative financial instruments	**(10.7)**	(10.5)
Net cash and cash equivalents	**78.5**	653.2
Other investments – restricted cash	**21.7**	–
Other deposits	**17.6**	–
Net (debt)/cash	**(817.0)**	321.7

The movement in net (debt)/cash is as follows:

	At 1 May 2012 £m	Continuing operations cash flow £m	Discontinued operations cash flow £m	Acquisitions and disposals £m	Foreign exchange and fair value movements £m	At 30 April 2013 £m
Cash and cash equivalents	664.5	(593.2)	7.2	22.5	15.4	**116.4**
Overdrafts	(11.3)	(22.4)	–	(3.7)	(0.5)	**(37.9)**
Net cash and cash equivalents	653.2	(615.6)	7.2	18.8	14.9	**78.5**
Restricted cash – receivable after one year	–	16.6	–	–	–	**16.6**
Restricted cash – receivable within one year	–	5.1	–	–	–	**5.1**
Other deposits	–	17.4	–	–	0.2	**17.6**
Interest-bearing loans and borrowings due – after one year	(225.2)	(629.4)	–	(1.4)	(43.1)	**(899.1)**
Interest-bearing loans and borrowings due – within one year	(91.7)	77.0	–	(5.7)	1.0	**(19.4)**
Finance leases	(4.1)	(0.4)	–	(0.8)	(0.3)	**(5.6)**
Derivative financial instruments						
– assets	7.9	–	–	–	1.2	**9.1**
– liabilities	(18.4)	–	–	–	(1.4)	**(19.8)**
	(331.5)	(513.7)	–	(7.9)	(42.4)	**(895.5)**
Net cash/(debt)	**321.7**	**(1,129.3)**	**7.2**	**10.9**	**(27.5)**	**(817.0)**

On 29 June 2012, €700m of loan facilities were utilised to part finance the acquisition of SCA Packaging. On 6 August 2012, €300m of these loans were refinanced with US Private Placement notes having maturities of between five and 10 years.

Derivative financial instruments above relate to interest rate and cross-currency swaps used to hedge the Group's borrowings. The difference between the amounts shown above and the total derivative financial instrument assets and liabilities in the Group's balance sheet relates to derivative financial instruments that hedge forecast foreign currency transactions and the Group's purchases of energy.

Certain other deposits balances are included as these short-term receivables have the characteristics of net debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

18. Cash and cash equivalents

	2013 £m	2012 £m
Bank balances	**108.4**	44.9
Short-term deposits	**8.0**	619.6
Cash and cash equivalents (consolidated statement of financial position)	**116.4**	664.5
Overdrafts	**(37.9)**	(11.3)
Net cash and cash equivalents (consolidated statement of cash flows)	**78.5**	653.2

19. Interest-bearing loans and borrowings

	2013		2012	
	Current £m	Non-current £m	Current £m	Non-current £m
Borrowings measured at amortised cost				
Bank and other loans	**(19.4)**	**(408.6)**	(0.2)	(0.4)
Note purchase agreements	**–**	**(403.7)**	–	(142.4)
Finance lease liabilities	**(0.8)**	**(4.8)**	(1.7)	(2.4)
	(20.2)	**(817.1)**	(1.9)	(145.2)
Borrowings in a fair value hedge relationship				
Note purchase agreements	**–**	**(86.8)**	(91.5)	(82.4)
	(20.2)	**(903.9)**	(93.4)	(227.6)

The repayment profile of the Group's borrowings, after taking into account the effect of cross-currency and interest rate swaps, is as follows:

	2013				
	1 year or less £m	1–2 years £m	2–5 years £m	More than 5 years £m	Total £m
Interest-bearing loans and borrowings					
Fixed-rate	**(0.8)**	**–**	**(317.9)**	**(344.1)**	**(662.8)**
Floating-rate	**(19.4)**	**(88.9)**	**(153.0)**	**–**	**(261.3)**
Total interest-bearing loans and borrowings	**(20.2)**	**(88.9)**	**(470.9)**	**(344.1)**	**(924.1)**

	2012				
	1 year or less £m	1–2 years £m	2–5 years £m	More than 5 years £m	Total £m
Interest-bearing loans and borrowings					
Fixed-rate	(37.8)	(0.7)	(67.2)	(97.3)	(203.0)
Floating-rate	(55.6)	(0.3)	(62.1)	–	(118.0)
Total interest-bearing loans and borrowings	(93.4)	(1.0)	(129.3)	(97.3)	(321.0)

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

	2013				
	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m
Interest-bearing loans and borrowings					
Fixed-rate	**(176.0)**	**(486.8)**	**–**	**–**	**(662.8)**
Floating-rate	**–**	**(200.0)**	**(38.6)**	**(22.7)**	**(261.3)**
	(176.0)	**(686.8)**	**(38.6)**	**(22.7)**	**(924.1)**
Net cash and cash equivalents (including bank overdrafts)					
Floating-rate	**4.8**	**46.5**	**8.0**	**19.2**	**78.5**
Net borrowings at 30 April 2013	**(171.2)**	**(640.3)**	**(30.6)**	**(3.5)**	**(845.6)**

19. Interest-bearing loans and borrowings continued

	2012				
	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m
Interest-bearing loans and borrowings					
Fixed-rate	(46.2)	(141.1)	(15.7)	–	(203.0)
Floating-rate	(25.4)	(92.6)	–	–	(118.0)
	(71.6)	(233.7)	(15.7)	–	(321.0)
Net cash and cash equivalents (including bank overdrafts)					
Floating-rate	621.2	10.6	4.9	16.5	653.2
Net cash/(borrowings) at 30 April 2012	549.6	(223.1)	(10.8)	16.5	332.2

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

	2013 £m	2012 £m
Expiring between two and five years	**517.3**	610.0

At 30 April 2013, 76% of the Group's interest-bearing loans and borrowings, after taking into account the effect of cross-currency swaps, were denominated in euros in order to hedge the underlying assets of the Group's European operations (30 April 2012: 73%). Interest rates on floating-rate borrowings are based on London Interbank Offered Rate (LIBOR), Euro Interbank Offered Rate (EURIBOR) or base rates.

Bank loan facilities

The Group has a £610m syndicated committed revolving credit facility with an expiry date of 23 September 2016. Advances drawn down under the facility bear interest at a margin over the applicable LIBOR or EURIBOR rate.

The Group also has a €400m (£338.9m) syndicated term loan with an expiry date of 30 June 2016. This facility bears interest at a margin over EURIBOR. The Group has entered into interest rate swap derivatives with bank counterparties to fix a proportion of the interest on this facility in compliance with Group hedging policy on interest rate risk management.

Note purchase agreements

	Issue date	Principal outstanding	Coupon	Maturity date
Private Placement	November 2002	$nil	6.24%	November 2012[2]
Private Placement	November 2002	£nil	6.85%	November 2012[2]
Private Placement	August 2004	$105m	5.66%	August 2014[3]
Private Placement	August 2004	$95m	5.80%	August 2016[4]
Private Placement – shelf facility	August 2010	€59m	4.40%	August 2018
Private Placement – shelf facility	August 2010	€59m	4.83%	August 2020
Private Placement	August 2012	$400m	4.48%[1]	August 2017-2022[5]

1. Weighted average coupon rate.
2. Repaid on 14 November 2012 upon maturity.
3. Swapped to floating rate €86.5m based on 6 month EURIBOR plus a margin using a cross-currency interest rate swap.
4. Swapped to floating rate €16.5m based on 6 month EURIBOR plus a margin, and fixed rate £40.8m using cross-currency interest rate swaps.
5. Swapped to fixed rate £130m and fixed rate €160m using cross-currency interest rate swaps.

Finance lease liabilities

	2013			2012		
	Future minimum lease payments £m	**Interest £m**	**Present value of minimum lease payments £m**	Future minimum lease payments £m	Interest £m	Present value of minimum lease payments £m
Less than one year	**2.5**	**(0.2)**	**2.3**	1.8	(0.2)	1.6
Between one and five years	**2.1**	**(0.2)**	**1.9**	1.5	(0.2)	1.3
More than five years	**1.6**	**(0.2)**	**1.4**	1.4	(0.2)	1.2
Finance lease liabilities	**6.2**	**(0.6)**	**5.6**	4.7	(0.6)	4.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

20. Financial instruments

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

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

The Group's treasury policy prohibits entering into speculative transactions.

(a) Carrying amounts and fair values of financial assets and liabilities

Set out below is the accounting classification of the carrying amounts and fair values of all of the Group's financial assets and liabilities:

	2013		2012	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Financial assets				
Cash and cash equivalents	**116.4**	**116.4**	664.5	664.5
Other investments – restricted cash	**21.7**	**21.7**	–	–
Available for sale – other investments	**0.7**	**0.7**	0.1	0.1
Loans and receivables	**646.5**	**646.5**	294.1	294.1
Other financial assets in designated hedge accounting relationships	**10.8**	**10.8**	10.7	10.7
Total financial assets	**796.1**	**796.1**	969.4	969.4
Financial liabilities				
Trade and other payables	**(965.5)**	**(965.5)**	(441.5)	(441.5)
Bank and other loans	**(428.0)**	**(428.0)**	(0.6)	(0.6)
Note purchase agreements	**(490.5)**	**(583.3)**	(316.3)	(345.7)
Finance lease liabilities	**(5.6)**	**(5.6)**	(4.1)	(4.1)
Bank overdrafts	**(37.9)**	**(37.9)**	(11.3)	(11.3)
Other financial liabilities in designated hedge accounting relationships	**(22.7)**	**(22.7)**	(23.6)	(23.6)
Total financial liabilities	**(1,950.2)**	**(2,043.0)**	(797.4)	(826.8)

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

Under IAS 39 'Financial Instruments: Recognition and Measurement', only the portions of the note purchase agreements which form part of an effective fair value hedge are carried at fair value in the consolidated statement of financial position. The majority of the Group's note purchase agreements are in effective cash flow and net investment hedges and are therefore held at amortised cost. The fair values of financial assets and liabilities which bear floating rates of interest are estimated to be equivalent to their book values.

IFRS 7 'Financial Instruments: Disclosures' requires the classification of fair value measurements using the fair value hierarchy that reflects the significance of the inputs used in making the assessments.

All of the Group's financial instruments are Level 2 financial instruments, where inputs are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

20. Financial instruments continued

(b) Derivative financial instruments

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

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

	Assets		Liabilities		Net	
	2013 £m	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Derivatives held to:						
Manage the interest rate and currency exposures on borrowings and net investments	**9.1**	7.9	**(19.8)**	(18.4)	**(10.7)**	(10.5)
Derivative financial instruments included in net debt	**9.1**	7.9	**(19.8)**	(18.4)	**(10.7)**	(10.5)
Derivatives held to hedge future transactions						
Energy costs	**1.5**	1.8	**(2.4)**	(3.8)	**(0.9)**	(2.0)
Foreign exchange on purchases and sales of goods and services	**0.2**	1.0	**(0.5)**	(1.4)	**(0.3)**	(0.4)
Total derivative financial instruments	**10.8**	10.7	**(22.7)**	(23.6)	**(11.9)**	(12.9)
Current	**1.4**	3.1	**(1.9)**	(20.2)	**(0.5)**	(17.2)
Non-current	**9.4**	7.6	**(20.8)**	(3.4)	**(11.4)**	4.3
	10.8	10.7	**(22.7)**	(23.6)	**(11.9)**	(12.9)

(c) Cash flow, fair value and net investment hedges

(i) Cash flow hedging reserve movements

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

	2013 £m	2012 £m
At 1 May	**(1.9)**	3.0
Unrealised fair value (loss)/gain on designated cash flow hedges		
Forward exchange contracts	**0.3**	(0.5)
Cross-currency and interest rate swaps	**(16.4)**	0.8
Commodity contracts	**1.6**	(7.8)
(Loss)/gain in equity recycled to the income statement		
Forward exchange contracts	**(0.1)**	0.8
Cross-currency and interest rate swaps	**(0.2)**	–
Commodity contracts	**(0.7)**	1.8
At 30 April	**(17.4)**	(1.9)

The gains and losses recycled to the income statement from the cash flow hedging reserve during the year are reflected in the following items in the consolidated income statement:

	2013 £m	2012 £m
Revenue	**0.9**	(0.7)
Cost of sales	**(2.2)**	4.1
Income tax	**0.3**	(0.8)
Total (gain)/loss in equity recycled to the income statement during the year	**(1.0)**	2.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

20. Financial instruments continued

(c) Cash flow, fair value and net investment hedges continued

(ii) Fair value hedges

At 30 April 2013, the Group held interest rate and foreign exchange swap contracts as fair value hedges of the interest rate and foreign exchange risk on fixed rate debt payable by the Group. The receive leg of the swap contracts is identical in all critical aspects to the terms of the underlying debt and therefore the hedging is treated as highly effective. The pre-tax gain on hedging derivative instruments taken to the income statement during the year was £17.0m (2011/12: loss of £0.8m) offset by a pre-tax loss on the fair value of the debt of £16.3m (2011/12: gain of £0.6m).

(iii) Hedges of net investments in foreign operations

The Group holds cross-currency interest rate swap contracts as hedges of long-term investments in foreign subsidiaries. The pre-tax loss on the hedges recognised in equity during the year was £8.9m (2011/12: gain of £14.8m). This loss is matched by a similar gain in equity on the retranslation of the hedged foreign subsidiary's net assets resulting in a net gain of £1.2m (2011/12: loss of £0.1m) treated as hedge ineffectiveness in the consolidated income statement.

(d) Risk identification and risk management

(i) Capital management

The Group defines its managed capital as equity as presented in the consolidated statement of financial position and net debt (see note 17).

	2013 £m	2012 £m
Net debt/(cash)	**817.0**	(321.7)
Total equity	**1,084.9**	1,057.5
Managed capital	**1,901.9**	735.8

There have been no changes to the components of managed capital during the year. Managed capital is different from capital employed (defined in the Chief Executive's review on page 21). Managed capital relates to our sources of funding, whereas return on average capital employed is our measure of the level of return being generated by the asset base.

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

The Group's overall treasury objectives are to ensure sufficient funds are available for the Group to carry out its strategy and to manage certain financial risks to which the Group is exposed, as described elsewhere in this note. The Group's treasury strategy is controlled through the Treasury Committee, which meets regularly and includes the Group Chief Executive, the Group Finance Director, the Group Financial Controller, the Group Treasurer and the Group Tax Manager. The Group Treasury function operates in accordance with policies and procedures approved by the Board and controlled by the Group Treasurer. The function arranges funding for the Group, provides a service to operations and implements strategies for financial risk management.

(ii) Market risk

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

Interest rate risk

The Group is exposed to interest rate risk as borrowings are arranged at fixed interest rates exposing it to fair value risk and floating interest rates exposing it to future cash flow risk. The risk is managed by maintaining a mix of fixed and floating rate borrowings and by the use of interest rate swap contracts which modify the interest payable on the Group's underlying debt instruments. The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

20. Financial instruments continued

(d) Risk identification and risk management continued
(ii) Market risk continued

Interest rate risk continued
At 30 April 2013, 72% of the Group's interest-bearing loans and borrowings were at fixed rates of interest (30 April 2012: 63%). The sensitivity analysis below shows the impact on profit and total equity of a 100 basis points rise in market interest rates (representing management's assessment of the reasonably possible change in interest rates) in all currencies in which the Group had variable rate borrowings at 30 April 2013.

To calculate the impact on the income statement for the year, the interest rates on all external interest-bearing loans and cash deposits have been increased by 100 basis points, and the resulting increase in the net interest charge has been adjusted for the effect of the Group's interest rate derivatives. Changes in the carrying value of derivative financial instruments only affect the Group's income statement.

The results are presented before non-controlling interests and tax.

	2013		2012	
	Impact on profit £m	Impact on total equity £m	Impact on profit £m	Impact on total equity £m
Increase in market interest rates by 100 basis points	(2.9)	–	5.3	–

Under interest rate swap contracts the Group agrees to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal amounts. At 30 April 2013, losses of £16.7m (30 April 2012: losses of £0.1m) net of tax are deferred in equity in respect of cash flow hedges of interest rate risk. This will be recycled to the income statement in the period in which the hedged item also affects the income statement, which will be during the period to 2022.

Foreign exchange risk
Foreign exchange risk on investments

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

Foreign exchange risk on borrowings

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

Foreign exchange risk on transactions

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

At 30 April 2013, losses of £0.1m net of tax are deferred in equity in respect of cash flow hedges (30 April 2012: losses of £0.3m). This will be recycled to the income statement in the period in which the hedged item also affects the income statement, which will occur within two years.

The Group's main currency exposure is to the euro and the following significant exchange rates applied during the year:

	2013		2012	
	Average	Closing	Average	Closing
euro	1.222	1.180	1.167	1.227

The following sensitivity analysis shows the impact on the Group's results of a 10% increase and decrease in the sterling exchange rate against all other currencies representing management's assessment of the reasonably possible change in foreign exchange rates. The analysis is restricted to financial instruments denominated in a foreign currency and excludes the impact of financial instruments designated as net investment hedges. Loans that are treated as net investment hedges are not included within the impact on the Group's profit as the impact of foreign exchange movements on these is offset by equal and opposite movements in the foreign assets that the instruments hedge.

The results are presented before non-controlling interests and tax.

	2013		2012	
	Impact on profit £m	Impact on total equity £m	Impact on profit £m	Impact on total equity £m
10% strengthening of sterling	0.7	(1.2)	0.4	(0.4)
10% weakening of sterling	(0.6)	1.5	(0.5)	0.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

20. Financial instruments continued

(d) Risk identification and risk management continued

(ii) Market risk continued

Commodity risk

The Group's main commodity exposures are to changes in gas and electricity prices. The majority of this commodity price risk is managed by a combination of physical supply agreements and derivative instruments. At 30 April 2013, losses of £0.7m net of tax are deferred in equity in respect of cash flow hedges in accordance with IAS 39 (30 April 2012: losses of £1.5m). This will be recycled to the income statement in the period in which the hedged item also affects the income statement, which will occur within two years.

The following table details the Group's sensitivity to a 10% increase in these prices, which is management's assessment of the reasonably possible change, on average, over any given year. A decrease of 10% in these prices would produce an opposite effect on equity. As all of the Group's commodity financial instruments achieve hedge accounting under IAS 39, there is no impact on profit for either year.

The results are presented before non-controlling interests and tax.

	2013		2012	
	Impact on profit £m	Impact on total equity £m	Impact on profit £m	Impact on total equity £m
10% increase in UK electricity prices	–	0.6	–	0.3
10% increase in UK gas prices	–	10.2	–	2.9

(iii) Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will fail to perform or fail to pay amounts due, causing financial loss to the Group. In the current economic environment, the Group has placed increased emphasis on the management of credit risk. The carrying amount of financial assets at 30 April 2013 was £796.1m and is analysed in note 20(a). This represents the maximum credit risk exposure.

Credit risk on financial instruments held with financial institutions is assessed and managed by reference to the long-term credit ratings assigned to that counterparty by Standard & Poor's and Moody's credit rating agencies. There are no significant concentrations of credit risk.

See note 15 for information on credit risk with respect to trade receivables.

(iv) Liquidity risk

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

The Group manages its liquidity risk by maintaining a sufficient level of undrawn committed borrowing facilities. At 30 April 2013, the Group had £517.3m of undrawn committed facilities available (2012: £610.0m). The Group mitigates its refinancing risk by raising its debt requirements from a number of different sources with a range of maturities.

The following table is an analysis of the undiscounted contractual maturities of financial liabilities (including the effect of cross-currency and interest rate swaps).

		Contractual repayments		
At 30 April 2013	Total £m	1 year or less £m	1–5 years £m	More than 5 years £m
Non-derivative financial liabilities				
Trade and other payables	965.5	955.8	9.7	–
Bank and other loans	434.4	19.5	414.9	–
Note purchase agreements	493.4	–	141.7	351.7
Finance lease liabilities	5.6	0.8	4.8	–
Bank overdrafts	37.9	37.9	–	–
Interest payments on borrowings	197.4	38.4	111.1	47.9
Total non-derivative financial liabilities	**2,134.2**	**1,052.4**	**682.2**	**399.6**

20. Financial instruments continued

(d) Risk identification and risk management continued

(iv) Liquidity risk continued

At 30 April 2012	Total £m	Contractual repayments 1 year or less £m	1–5 years £m	More than 5 years £m
Non-derivative financial liabilities				
Trade and other payables	441.5	431.6	9.9	–
Bank and other loans	0.6	0.2	0.4	–
Note purchase agreements	309.1	89.7	123.2	96.2
Finance lease liabilities	4.1	1.7	1.3	1.1
Bank overdrafts	11.3	11.3	–	–
Interest payments on borrowings	70.9	14.8	32.9	23.2
Total non-derivative financial liabilities	837.5	549.3	167.7	120.5

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

The following table is an analysis of the undiscounted contractual maturities of derivative financial liabilities. Where the payable and receivable legs of these derivatives are denominated in foreign currencies, the contractual payments or receipts have been calculated based on exchange rates prevailing at the respective year-ends.

Where applicable, interest and foreign exchange rates prevailing at the reporting date are assumed to remain constant over the future contractual maturities.

At 30 April 2013	**Total £m**	**Contractual payments/(receipts) 1 year or less £m**	**1–5 years £m**	**More than 5 years £m**
Derivative financial liabilities				
Energy derivatives	**0.9**	**0.2**	**0.7**	**–**
Interest rate and currency swaps:				
Payments	**393.4**	**–**	**141.7**	**251.7**
Receipts	**(385.6)**	**–**	**(141.4)**	**(244.2)**
Foreign exchange:				
Payments	**28.6**	**28.6**	**–**	**–**
Receipts	**(28.3)**	**(28.3)**	**–**	**–**
Total net derivative financial liabilities	**9.0**	**0.5**	**1.0**	**7.5**

At 30 April 2012	Total £m	Contractual payments/(receipts) 1 year or less £m	1–5 years £m	More than 5 years £m
Derivative financial liabilities				
Energy derivatives	2.0	0.9	1.1	–
Interest rate and currency swaps:				
Payments	213.0	75.6	137.4	–
Receipts	(203.3)	(62.6)	(140.7)	–
Foreign exchange:				
Payments	59.3	45.9	13.4	–
Receipts	(58.9)	(45.5)	(13.4)	–
Total net derivative financial liabilities/(assets)	12.1	14.3	(2.2)	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

21. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

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

	Assets		Liabilities		Net	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Property, plant and equipment and intangible assets	–	–	(155.7)	(51.9)	(155.7)	(51.9)
Share-based payments and employee benefits	56.9	34.0	–	–	56.9	34.0
Other items	21.7	12.1	–	–	21.7	12.1
Tax assets/(liabilities)	78.6	46.1	(155.7)	(51.9)	(77.1)	(5.8)

The Group has total unrecognised deferred tax assets relating to tax losses of £19.2m (30 April 2012: £4.2m). These losses include £13.2m (30 April 2012: £4.2m) which do not expire and £6.0m (30 April 2012: £nil) which expire between 2017 and 2019 under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise these benefits.

No deferred tax liability is recognised on temporary differences of £195.1m (30 April 2012: £140.6m) relating to unremitted earnings of overseas subsidiaries as the Group is able to control the timing of the reversal of these temporary difference and it is probable that they will not reverse in the foreseeable future. The temporary differences at 30 April 2013 represent only the unremitted earnings of those overseas subsidiaries where remittance to the UK of those earnings may still result in a tax liability, principally as a result of dividend withholding taxes levied by the overseas jurisdiction in which these subsidiaries operate.

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

	Property, plant and equipment and intangible assets		Employee benefits including pensions		Other		Total	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
At 1 May	(51.9)	(62.9)	34.0	41.3	12.1	18.3	(5.8)	(3.3)
Acquired	(126.6)	0.5	11.5	–	–	–	(115.1)	0.5
Credit/(charge) for the year	29.2	7.7	(2.1)	(1.4)	–	–	27.1	6.3
Recognised directly in equity	–	–	13.4	(5.9)	9.6	(6.2)	23.0	(12.1)
Currency translation	(6.4)	2.8	0.1	–	–	–	(6.3)	2.8
At 30 April	(155.7)	(51.9)	56.9	34.0	21.7	12.1	(77.1)	(5.8)

At 30 April 2013, deferred tax assets and liabilities were recognised for all taxable temporary differences:

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

22. Provisions

	Employee benefits £m	Restructuring £m	Other £m	Total £m
At 1 May	0.5	22.7	20.9	44.1
Acquisitions	–	10.4	57.5	67.9
Charged	–	17.5	4.7	22.2
Utilised	–	(24.6)	(22.3)	(46.9)
Reclassified	(0.5)	0.3	3.6	3.4
Currency translation	–	0.7	2.3	3.0
At 30 April 2013	**–**	**27.0**	**66.7**	**93.7**
Non-current	–	10.3	28.9	39.2
Current	–	16.7	37.8	54.5
	–	**27.0**	**66.7**	**93.7**

The restructuring provision includes amounts associated with the closures, restructuring and acquisition and integration costs described in note 4. Other provisions mainly relate to acquired onerous contracts, site restorations and to provisions for vacant leaseholds and various legal claims. The timing of the utilisation of these provisions is uncertain, except where the associated costs are contractual, in which case the provision is utilised over the time period specified in the contract.

23. Capital and reserves

Share capital

	Number of shares			
	2013 Millions	2012 Millions	**2013 £m**	2012 £m
Ordinary equity shares of 10 pence each:				
Issued, allotted, called up and fully paid	**928.6**	927.0	**92.9**	92.7

During the year ended 30 April 2013, 1,652,485 ordinary shares of 10 pence each were issued as a result of exercises of employee share options. The net movement in share capital and share premium is disclosed in the consolidated statement of changes in equity.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In respect of the Company's shares that are held by the Group (see below), all rights are suspended until those shares are reissued.

Translation reserve

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

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Share premium

The share premium account represents the difference between the issue price and the nominal value of shares issued.

Own shares

The reserve for the Company's own shares comprises the cost of the Company's shares held by the Group. The Group operates a General Employee Benefit Trust, which acquires shares in the Company that can be used to satisfy the requirements of the Executive Share Option Scheme, Performance Share Plan, Share Matching Plan and the Sharesave Plan. At 30 April 2013, the Trust held 2.1m shares (30 April 2012: 6.3m shares). The market value of the shares at 30 April 2013 was £5.0m (30 April 2012: £10.6m). Dividends receivable on the shares owned by the Trust have been waived.

Non-controlling interests

The Group had a liability of £5.6m at 30 April 2013 (30 April 2012: £5.2m) and a corresponding entry against non-controlling interests in respect of the non-controlling shareholders' put option in Toscana Ondulati SpA. This amount was calculated with reference to the recent profitability of the company using a multiple based formula. The fair value of the put options increased during the year by £0.4m (2011/12: £0.2m decrease). This charge was recorded within finance costs through the income statement and then transferred out of retained earnings into non-controlling interests.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

24. Employee benefits

	Total		UK		Overseas	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Fair value of plan assets	**927.6**	765.1	**849.9**	759.2	**77.7**	5.9
Present value of obligations	**(1,130.0)**	(869.3)	**(983.1)**	(846.5)	**(146.9)**	(22.8)
Post-retirement plan deficit	**(202.4)**	(104.2)	**(133.2)**	(87.3)	**(69.2)**	(16.9)
Other employee benefit assets	**3.9**	–	**–**	–	**3.9**	–
Other employee benefit liabilities	**(15.5)**	–	**–**	–	**(15.5)**	–
Total employee benefit liabilities	**(214.0)**	(104.2)	**(133.2)**	(87.3)	**(80.8)**	(16.9)

Liability for defined benefit obligations

The Group's principal funded, defined benefit pension scheme, the DS Smith Group Pension scheme ('the Group scheme'), is in the UK and is now closed to future accrual. The Group also operates various local post-retirement arrangements for overseas operations and a small UK unfunded scheme. Other employee benefits include pre-retirement benefits and long-service awards.

The Group made agreed contributions of £18.3m to the Group scheme in 2012/13 (2011/12: £29.8m). A charge over certain assets of the Group has been made as security for certain of the unfunded arrangements. The most recent full actuarial valuation of the Group scheme was at 30 April 2010. All UK valuations used the projected unit method.

Principal actuarial assumptions for the Group scheme are as follows:

	2013	2012	2011	2010	2009
Discount rate for scheme liabilities	**3.9%**	5.0%	5.3%	5.6%	6.4%
Inflation	**2.2%**	2.4%	2.8%	3.5%	3.3%
Future salary increases	**N/A**	N/A	N/A	4.5%	4.3%
Future pension increases for pre 30 April 2005 service	**2.2%**	2.4%	2.8%	3.5%	3.3%
Future pension increases for post 30 April 2005 service	**2.0%**	2.2%	2.3%	2.4%	2.3%
Expected return on plan assets	**4.8%**	5.3%	5.8%	6.5%	6.7%

For other overseas arrangements, the weighted average actuarial assumptions are a discount rate of 2.9%, inflation of 1.8%, future salary increase of 3.1%, a rate of increase of pensions in payment of 1.1% and an expected rate of return on assets of 3.9%.

The sensitivity of the liabilities in the Group scheme to the key assumptions above is summarised below:

	Increase in pension liability £m
0.5% decrease in discount rate	**(85.0)**
0.5% increase in inflation	**(75.0)**
1 year increase in life expectancy	**(24.0)**

As part of the Group scheme actuarial valuation exercise the mortality tables have been amended as follows:

	2013		2012	
	Male	Female	Male	Female
Life expectancy at age 65				
Pensioner currently aged 65	**21.2**	**23.4**	21.1	23.3
Member currently aged 45	**22.6**	**24.9**	22.5	24.8

The mortality assumptions for other overseas arrangements are based on relevant standard mortality tables in each country.

24. Employee benefits continued

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

	2013 Expected rate of return	2013 Market value £m	2012 Expected rate of return	2012 Market value £m	2011 Expected rate of return	2011 Market value £m	2010 Expected rate of return	2010 Market value £m	2009 Expected rate of return	2009 Market value £m
Equities	**6.4%**	**501.5**	6.9%	442.1	7.5%	435.9	7.9%	420.1	7.4%	349.8
Bonds, gilts, cash and other	**2.5%**	**426.1**	3.1%	323.0	4.5%	295.6	4.9%	269.0	5.1%	205.5
Total market value of assets		**927.6**		765.1		731.5		689.1		555.3
Present value of schemes' liabilities		**(1,130.0)**		(869.3)		(879.0)		(892.2)		(746.6)
Post-retirement plan deficit		**(202.4)**		(104.2)		(147.5)		(203.1)		(191.3)
Other employee benefit assets and liabilities		**(11.6)**		–		–		–		–
Total employee benefit liabilities		**(214.0)**		(104.2)		(147.5)		(203.1)		(191.3)
Related deferred tax asset		**56.1**		27.1		35.7		57.0		53.3
Net employee benefit liabilities		**(157.9)**		(77.1)		(111.8)		(146.1)		(138.0)

Movements in the liability for post-retirement plans' obligations recognised in the statement of financial position

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Schemes' liabilities at 1 May	**(869.3)**	(879.0)	(892.2)	(746.6)	(797.7)
Interest cost	**(45.3)**	(45.6)	(49.0)	(46.7)	(46.4)
Service cost recognised in the income statement	**(2.9)**	(0.9)	(9.3)	(9.6)	(11.7)
Member contributions	**(0.4)**	–	(4.4)	(5.6)	(6.2)
Settlement/curtailment	**10.1**	0.7	35.3	–	–
Pension payments	**41.1**	42.3	51.7	47.4	31.6
Actuarial (losses)/gains	**(146.3)**	6.5	(1.1)	(132.3)	84.0
Currency translation	**(6.0)**	3.2	0.5	0.6	(0.2)
(Acquisition)/divestment	**(111.0)**	6.0	(10.5)	–	–
Reclassification	**–**	(2.5)	–	0.6	–
Schemes' liabilities at 30 April	**(1,130.0)**	(869.3)	(879.0)	(892.2)	(746.6)

Movements in the fair value of post-retirement plans' assets recognised in the statement of financial position

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Schemes' assets at 1 May	**765.1**	731.5	689.1	555.3	721.8
Employer contributions	**23.2**	30.4	32.3	17.1	16.9
Member contributions	**0.4**	–	4.4	5.6	6.2
Settlement/curtailment	**(8.1)**	–	–	–	–
Expected return on schemes' assets	**40.7**	41.8	41.6	35.2	47.9
Actuarial gains/(losses)	**74.5**	9.6	15.5	122.0	(207.4)
Acquisition/(divestment)	**69.6**	(4.8)	–	–	–
Pension payments	**(40.8)**	(42.3)	(51.7)	(45.7)	(31.4)
Currency translation	**3.0**	(1.1)	0.3	(0.4)	1.3
Schemes' assets at 30 April	**927.6**	765.1	731.5	689.1	555.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

24. Employee benefits continued

Expense recognised in the income statement

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Current service cost	**(2.9)**	(0.9)	(8.3)	(7.9)	(9.7)
Past service cost	**–**	–	–	(0.6)	(0.8)
Pension Protection Fund levy	**–**	–	(1.0)	(1.1)	(1.2)
Total service cost	**(2.9)**	(0.9)	(9.3)	(9.6)	(11.7)
Interest cost on schemes' liabilities	**(44.2)**	(45.6)	(49.0)	(46.7)	(46.4)
Expected return on schemes' assets	**40.7**	41.8	41.6	35.2	47.9
Pension Protection Fund levy	**(1.1)**	(1.0)	–	–	–
Employment benefit net finance (expense)/income	**(4.6)**	(4.8)	(7.4)	(11.5)	1.5

The expected rates of return on scheme assets have been derived based on the weighted average of the expected returns on the individual asset classes.

Prior to 2010/11, the Pension Protection Fund levy was included in total service cost. Subsequently it has been included in the employment benefit net finance expense.

Analysis of amounts recognised in the statement of comprehensive income

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Actual return less expected return on pension schemes' assets	**74.5**	9.6	15.5	122.0	(207.4)
Changes in assumptions underlying present value of schemes' liabilities	**(146.3)**	6.5	(1.1)	(132.3)	84.0
Actuarial losses on other employee benefits	**(1.0)**	–	–	–	–
Actuarial (losses)/gains recognised in the statement of comprehensive income	**(72.8)**	16.1	14.4	(10.3)	(123.4)

History of experience gains and losses

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Difference between expected and actual returns on schemes' assets	**74.5**	9.6	15.5	122.0	(207.4)
Above as a percentage of schemes' assets	**8%**	1%	2%	18%	(37%)
Total amount recognised in the consolidated statement of comprehensive income	**(72.8)**	16.1	14.4	(10.3)	(123.4)
Above as a percentage of the present value of schemes' liabilities	**(6%)**	2%	2%	(1%)	(17%)

The actual return on scheme assets was £115.2m (2011/12: £51.4m). The Group expects to pay approximately £17m in contributions to the Group scheme in the year ending 30 April 2014.

25. Share-based payment expense

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

(i) A Performance Share Plan (PSP). Awards under the PSP normally become exercisable after three years subject to remaining in service and the satisfaction of performance conditions measured over the three financial years commencing with the year of grant. Awards have been made under the PSP annually since 2008, based on the following performance measures, in the proportions shown below:

 (i) the Company's total shareholder return (TSR) compared to the constituents of the Industrial Goods and Services Supersector within the FTSE 250;

 (ii) average adjusted earnings per share (EPS); and

 (iii) average adjusted return on average capital employed (ROACE).

- The 2008 award was subject to three equally-weighted performance measures (TSR, average adjusted EPS, and average adjusted ROACE). For those senior executives working in one of the Business Segments, the three equally-weighted measures were TSR, average adjusted operating profit and average adjusted ROACE for the relevant segment. Of these awards, 55.1% of TSR element have vested, but they have not yet been fully exercised.
- The 2009 award was subject to two performance measures (80% based on a TSR component and 20% based on average adjusted ROACE). For those senior executives working in one of the Business Segments, the two measures were TSR and ROACE for the relevant segment. The 2009 awards have vested in full, but they have not yet been fully exercised.
- The 2010, 2011 and 2012 awards are subject to three performance measures:

 (i) 50% of each award based on a TSR component;

 (ii) 25% of each award based on average adjusted EPS; and

 (iii) 25% of each award based on average adjusted ROACE.

(ii) Replacement 2007 and 2008 Long-Term Incentive Plans for Mr M W Roberts. The Replacement 2007 LTIP vested on 10 October 2010 and the Replacement 2008 LTIP vested on 17 October 2011. The Replacement 2007 LTIP and the Replacement 2008 LTIP have not yet been exercised. The Replacement 2008 LTIP award was subject to a performance condition measuring the TSR of McBride Plc up to the date Mr Roberts joined the Company and thereafter the Company's TSR against a comparator group of companies comprising the FTSE 250 Index (excluding investment trusts) constituted as at the date of grant of the award over a three-year performance period commencing on 1 July 2008.

(iii) The Replacement Deferred Shares Award and the Substitute Share Bonus Award are subject to substantially the same terms as the Company's Deferred Share Bonus Plan, except that the vesting dates were 1 September 2012 and 1 September 2013 respectively. The Replacement Deferred Shares Award vested in full on the vesting date but has not been exercised. Mr Roberts will be entitled to a cash payment on vesting, representing a value equivalent to the dividends which would have been paid on his vested shares while they were subject to his awards. There are no performance conditions governing the vesting of the Replacement Deferred Shares Award and the Substitute Share Bonus Award because the awards they replicate had no performance conditions attaching to them.

(iv) The Recruitment Award is subject to substantially the same terms as the awards made under the Company's PSP in 2009. The award vested in full on 19 October 2012 but has not yet been exercised.

(v) A Deferred Share Bonus Plan (DSBP) is operated for Executive Directors and, from 2012/13, for senior executives. Shares awarded under the Plan will vest automatically if the Director or senior executive is still employed by the Company three years after the grant of the award.

(vi) A Share Matching Plan (SMP) is operated for Executive Directors and senior executives with the first award made in 2012/13. The award will vest after three years subject to remaining in service and the satisfaction of performance conditions measured over the three financial years commencing with the year of grant. The performance conditions of the award are based 50% on average adjusted EPS and 50% on average adjusted ROACE.

(vii) An Executive Share Option Scheme (ESOS). This scheme ceased to be operated from September 2008. In normal circumstances, the vesting of any options granted under the ESOS is subject to remaining in service and to the growth in the Company's normalised earnings per share equalling or exceeding the growth in the UK Retail Prices Index plus an average of 3% per annum over the three financial years commencing with the year of grant.

(viii) A Sharesave Plan was introduced in the UK in January 2011. All UK employees of the Company and participating subsidiaries of the Group are eligible to participate in this Plan. Under this HMRC approved Plan options are granted to participants who have contracted to save up to £250 per month over a period of three years at a discount of up to 20% to the average closing mid-market price of a DS Smith Plc ordinary share on the three dealing days prior to invitation. Options cannot normally be exercised until a minimum of three years has elapsed. In common with most plans of this type there are no performance conditions applicable to options granted under this Plan.

Full details of the awards described in (i), (ii), (iii), (iv), (v) and (vi) are set out in the Remuneration Report on pages 58 to 70.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

25. Share-based payment expense continued

Options outstanding and exercisable under share arrangements at 30 April 2013 were:

	Options outstanding			Options exercisable		
	Number of shares	Option price range (p)	Weighted average remaining contract life (years)	Weighted average exercise price (p)	Number exercisable	Weighted average exercise price (p)
Executive Share Option Scheme (1999)	111,844	110.5-109.5	Nil	103.7	111,844	103.7
Performance Share Plan	11,511,292	Nil	0.9	Nil	856,556	Nil
Replacement 2008 Long-Term Incentive Plan	627,718	Nil	Nil	Nil	627,718	Nil
Replacement Deferred Shares Award	154,863	Nil	Nil	Nil	154,863	Nil
Recruitment Award	828,526	Nil	Nil	Nil	828,526	Nil
Substitute Share Bonus Award	116,148	Nil	0.3	Nil	Nil	Nil
Deferred Share Bonus Plan	1,095,290	Nil	2.1	Nil	Nil	Nil
Share Matching Plan	519,648	Nil	2.2	Nil	Nil	Nil
Sharesave Plan	5,853,539	119.2	0.9	Nil	Nil	Nil

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

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

	Executive Share Option Scheme (1999)		Performance Share Plan		Replacement 2008 Long-Term Incentive Plan		Replacement Deferred Shares Award		Recruitment Award	
2013	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)
At 1 May 2012	103.7	334	Nil	15,160	Nil	628	Nil	155	Nil	828
Granted	Nil	–	Nil	3,214	Nil	–	Nil	–	Nil	–
Exercised	103.7	(222)	Nil	(6,236)	Nil	–	Nil	–	Nil	–
Lapsed	Nil	–	Nil	(627)	Nil	–	Nil	–	Nil	–
At 30 April 2013	**103.7**	**112**	**Nil**	**11,511**	**Nil**	**628**	**Nil**	**155**	**Nil**	**828**
Exercisable at 30 April 2013	**103.7**	**112**	**Nil**	**857**	**Nil**	**628**	**Nil**	**155**	**Nil**	**828**

	Substitute Share Bonus Award		Deferred Share Bonus Plan		Share Matching Plan		Sharesave Plan	
2013 continued	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)
At 1 May 2012	Nil	116	Nil	263	Nil	Nil	119.2	6,928
Granted	Nil	–	Nil	835	Nil	700	Nil	–
Exercised	Nil	–	Nil	–	Nil	–	Nil	(342)
Lapsed	Nil	–	Nil	(3)	Nil	(180)	Nil	(732)
At 30 April 2013	**Nil**	**116**	**Nil**	**1,095**	**Nil**	**520**	**119.2**	**5,854**
Exercisable at 30 April 2013	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**

25. Share-based payment expense continued

2012	Executive Share Option Scheme (1999) Weighted average exercise price (p)	Executive Share Option Scheme (1999) Options ('000s)	Performance Share Plan Weighted average exercise price (p)	Performance Share Plan Options ('000s)	Replacement 2008 Long-Term Incentive Plan Weighted average exercise price (p)	Replacement 2008 Long-Term Incentive Plan Options ('000s)	Replacement Deferred Shares Award Weighted average exercise price (p)	Replacement Deferred Shares Award Options ('000s)
At 1 May 2011	148.6	1,077	Nil	11,719	Nil	432	Nil	107
Adjustment for rights issue*	(46.2)	486	Nil	4,056	Nil	196	Nil	48
Granted	Nil	–	Nil	2,677	Nil	–	Nil	–
Exercised	102.6	(867)	Nil	(493)	Nil	–	Nil	–
Lapsed	102.0	(362)	Nil	(2,799)	Nil	–	Nil	–
At 30 April 2012	103.7	334	Nil	15,160	Nil	628	Nil	155
Exercisable at 30 April 2012	103.7	334	Nil	324	Nil	628	Nil	Nil

2012 continued	Recruitment Award Weighted average exercise price (p)	Recruitment Award Options ('000s)	Substitute Share Bonus Award Weighted average exercise price (p)	Substitute Share Bonus Award Options ('000s)	Deferred Share Bonus Plan Weighted average exercise price (p)	Deferred Share Bonus Plan Options ('000s)	Sharesave Plan Weighted average exercise price (p)	Sharesave Plan Options ('000s)
At 1 May 2011	Nil	571	Nil	80	Nil	59	–	–
Adjustment for rights issue*	Nil	257	Nil	36	Nil	26	–	–
Granted	Nil	–	Nil	–	Nil	178	119.2	7,977
Exercised	Nil	–	Nil	–	Nil	–	Nil	(49)
Lapsed	Nil	–	Nil	–	Nil	–	Nil	(1,000)
At 30 April 2012	Nil	828	Nil	116	Nil	263	119.2	6,928
Exercisable at 30 April 2012	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

* The exercise prices and number of shares under option have been adjusted to reflect the bonus element of the rights issue in February 2012.

The average share price of the Company during the financial year was 191.4 pence (2011/12: 150.2 pence).

The fair value of awards granted in the period relates to the PSP, DSBP and SMP schemes.

The fair value of the PSP award granted during the year, determined using the stochastic valuation model, was £3.0m. The significant inputs into the model were: a share price of £1.487 for the PSP at the grant date; the exercise prices shown above; an expected initial volatility of the share price of 40.7% and long-term volatility of 28.9%; the scheme life disclosed above; an annual risk-free interest rate of 0.24% and an expected dividend yield of nil%. The volatility of share price returns measured as the standard deviation of expected share price returns is based on statistical analysis of average weekly share prices from 1 January 1970.

The Group Finance Director tendered his resignation on 8 January this year and as such his share-based payment arrangements will lapse on 28 June 2013 when he leaves the Company.

The total charge for the year relating to share-based payments recognised as personnel expenses was £3.8m (2011/12: £4.0m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

26. Cash generated from operations

Continuing operations	**2013 £m**	2012 £m
Profit for the year	**70.3**	8.4
Adjustments for:		
Pre-tax SCA Packaging integration costs and other exceptional items	**67.8**	70.1
Amortisation of intangible assets and acquisition related costs	**56.7**	26.5
Cash outflow for SCA Packaging acquisition costs	**(31.6)**	(7.0)
Cash outflow for SCA Packaging integration costs	**(52.9)**	–
Cash outflow for other exceptional items	**(27.8)**	(19.5)
Depreciation	**112.4**	63.9
(Profit)/loss on sale of non-current assets	**(0.7)**	0.8
Share of (profit)/loss of associate	**(1.2)**	0.5
Employment benefit net finance expense	**4.6**	4.8
Share-based payment expense	**3.8**	4.0
Finance income	**(3.1)**	(2.1)
Finance costs	**39.5**	20.5
Other non-cash items (including other deposits)	**(20.1)**	(0.1)
Income tax expense	**16.3**	13.3
Provisions and employee benefits	**(18.3)**	(28.8)
Cash generation before working capital movements	**215.7**	155.3
Changes in:		
Inventories	**29.2**	2.1
Trade and other receivables	**111.4**	2.9
Trade and other payables	**17.3**	38.7
Working capital movement	**157.9**	43.7
Cash generated from continuing operations	**373.6**	199.0

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

	2013 £m	2012 £m
Continuing operations		
Operating profit before amortisation and exceptional items	**250.9**	142.0
Depreciation	**112.4**	63.9
Adjusted EBITDA	**363.3**	205.9
Working capital movement	**157.9**	43.7
Provisions and employee benefits	**(18.3)**	(28.8)
Other	**0.4**	4.7
Cash generated from operations before exceptional cash items	**503.3**	225.5
Capital expenditure	**(161.0)**	(94.2)
Proceeds from sale of property, plant and equipment and other investments	**4.4**	8.3
Tax paid	**(41.7)**	(25.3)
Net interest paid	**(34.6)**	(19.8)
Free cash flow	**270.4**	94.5
SCA Packaging acquisition costs	**(31.6)**	(7.0)
SCA Packaging integration costs	**(52.9)**	–
Other exceptional items	**(27.8)**	(19.5)
Dividends paid to Group shareholders	**(36.8)**	(31.5)
Acquisition of subsidiary businesses, net of cash and cash equivalents	**(1,281.0)**	(2.3)
Divestment of subsidiary and associate businesses, net of cash and cash equivalents	**50.8**	184.5
Net cash flow	**(1,108.9)**	218.7
(Transaction costs)/proceeds from issue of share capital	**(0.4)**	450.2
Purchase of own shares	**(1.2)**	(0.3)
Loans and borrowings acquired	**(7.9)**	(14.2)
Net movement on (debt)/cash	**(1,118.4)**	654.4
Foreign exchange and fair value movements (note 17)	**(27.5)**	24.7
Net debt movement – continuing operations	**(1,145.9)**	679.1
Net debt movement – discontinued operations	**7.2**	(6.4)
Opening net debt	**321.7**	(351.0)
Closing net (debt)/cash	**(817.0)**	321.7

28. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2013 £m	2012 £m
Less than one year	**21.4**	15.0
Between one and five years	**43.2**	33.0
More than five years	**13.6**	2.8
	78.2	50.8

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

At 30 April 2013, the Group's future minimum sub-lease receipts totalled £0.3m (30 April 2012: £0.5m).

29. Capital commitments

At 30 April 2013, the Group had committed to incur capital expenditure of £9.2m (30 April 2012: £31.0m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

30. Acquisitions and divestments

(a) SCA Packaging
On 30 June 2012, the Group acquired the packaging division of Svenska Cellulosa Aktiebolaget SCA (publ) excluding its kraftliner assets ('SCA Packaging'). The acquisition was effected by the purchase of equity of 100% of SCA Packaging Holding B.V. and SCA Packaging Nicollet S.A.S. for €1.6 billion on a cash, debt and, to the extent legally possible and commercially practicable, pension free basis. This is subject to customary post-completion adjustments.

SCA Packaging was the second largest packaging business in Europe and the acquisition represents a significant opportunity for the Group to achieve its stated strategic aim of becoming the leading supplier of recycled packaging for consumer goods in Europe.

The Group expects that the acquisition will drive growth in the business and add shareholder value by providing access to new geographical markets across continental Europe that better matches the location and scale of key pan-European FMCG customers, given the complementary geographic business and customer fit between the two businesses. The Group expects development of broader relationships with existing customers as well as the potential to win new customers through increased ability to supply and innovate new products and improve service levels, driving of further benefits from the enlarged Group's operational structure, utilising the strengthened resource in key commercial and operational functions and delivering synergies.

In the year ended 30 April 2013, SCA Packaging contributed revenue of £1,890m and operating profit before amortisation of £104m to the Group's results. If the acquisition had occurred on 1 May 2012, estimated revenue and operating profit before amortisation and exceptional items for the combined entity would have been £4,072m and £273m respectively.

The following table summarises the consideration paid for SCA Packaging, and the provisional fair value of assets acquired and liabilities assumed.

	Carrying values before acquisition £m	Provisional fair values £m
Intangible assets	12.9	403.1
Property, plant and equipment	956.3	716.4
Investment in associates	55.8	16.0
Net deferred tax liabilities	(63.9)	(115.1)
Other non-current receivables	9.7	–
Inventories	183.7	158.6
Trade and other receivables	365.7	348.7
Net income tax liabilities	(24.3)	(78.5)
Interest-bearing loans and borrowings – non-current	(1.4)	(1.4)
Employee benefits	(42.9)	(57.0)
Net assets classified as held for sale	7.3	30.7
Cash and cash equivalents	18.8	18.8
Interest-bearing loans and borrowings – current	(5.7)	(5.7)
Trade and other payables	(237.1)	(396.8)
Provisions	(120.1)	(67.9)
Total identifiable net assets acquired	1,114.8	969.9
Goodwill		329.9
Total consideration		1,299.8
Satisfied by:		
Cash consideration		1,299.8

Net cash flow arising on acquisition	
Cash consideration	1,299.8
Cash and cash equivalents acquired	(18.8)
Total cash outflow	1,281.0

30. Acquisitions and divestments continued

(a) SCA Packaging continued

A detailed exercise has been undertaken to assess the fair value of assets acquired and liabilities assumed, with the use of third party experts where appropriate. The fair value of intangible assets and property, plant and equipment has been assessed by reference to work performed by an independent valuation specialist. The intangible assets acquired as part of the acquisition relate primarily to customer relationships.

If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised.

Deferred tax is recognised on the temporary timing differences created by the fair value adjustments.

The trade and other receivables comprise gross contractual amounts due of £375.4m. At the acquisition date, it is estimated that contractual cash flows of £26.7m will not be collected.

Goodwill of £329.9m arising on the acquisition of SCA Packaging (which is not expected to be tax deductible) includes anticipated synergies from integrating SCA Packaging into the Group, and the skills and technical talent of the SCA Packaging workforce.

Included within provisions are contingent liabilities of £8.6m which have been recognised in respect of legal claims.

(b) Remedy disposals

On 25 May 2012, the European Commission granted competition clearance for the SCA Packaging acquisition. The clearance required the Group to divest three sites after the acquisition, which represent approximately 1% of the enlarged Group profit. All three remedy disposal sites were divested during the year for total proceeds of £42.6m. The Group incurred transaction costs of £1.8m of which £0.5m was recognised as an expense for the year, with the remainder included in the opening fair value less cost to sell of the two remedy disposal sites gained through the SCA Packaging acquisition.

(c) Other disposals

The Group made additional minor disposals of associates and subsidiary businesses for proceeds of £8.2m, net of cash and cash equivalents. These include the Group's associate GAE Smith, UK packaging disposals and the sale of the Group's Norwegian subsidiary.

(d) SCA Packaging acquisition related costs

The Group incurred acquisition related costs of £11.8m in 2012/13 (2011/12: £18.4m) on professional advisory fees and due diligence costs associated with the acquisition. These costs have been included in administrative expenses in the Group's consolidated income statement.

(e) Office Products Wholesaling

In April 2013, DS Smith received £7.2m in relation to final settlement of the disposal of its Office Products Wholesaling division in 2011/12 to Unipapel SA, which was recorded in discontinued operations in exceptional items.

On 30 December 2011 the Office Products Wholesaling division was sold to Unipapel SA. The Office Products Wholesaling division is presented as discontinued operations in the 2011/12 comparative consolidated income statement and the consolidated statement of cash flows.

(f) SCA Packaging Kuban acquisition and disposal

In 2011/12 the Group acquired 100% of the equity of SCA Packaging Kuban in July 2011 for €5.0m cash consideration and €1.5m deferred consideration payable in December 2011, exclusively with a view to resale. The business was subsequently sold in December 2011 to the Group's associate, OJSC Rubezhansk Paper and Packaging Mill, for €6.5m with nil profit or loss on disposal.

31. Related parties

Identity of related parties

In the normal course of business the Group undertakes a wide variety of transactions with certain of its subsidiaries and associates.

The key management personnel of the Company comprise the Chairman, Executive Directors and non-Executive Directors. The compensation of key management personnel can be found in the Remuneration Report. Certain key management also participate in the Group's share-based incentive programme (note 25). Included within the share-based payment expense is a charge of £0.5m (2011/12: £1.2m) relating to key management.

Other related party transactions

	2013 £m	2012 £m
Sales to associates	**0.2**	–
Purchases from associates	**0.1**	0.2
Amounts due from associates	**0.5**	–
Amounts due to associates	**(0.2)**	(0.1)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

32. DS Smith Group companies

Control of the Group

The Group's ultimate parent company is DS Smith Plc.

List of key consolidated companies

	Country of incorporation or registration	Ownership interest at 30 April 2013
UK		
DS Smith Holdings Limited	UK	100%
DS Smith Packaging Limited	UK	100%*
DS Smith Corrugated Packaging Limited	UK	100%*
DS Smith Paper Limited	UK	100%*
DS Smith Logistics Limited	UK	100%*
DS Smith Recycling UK Limited	UK	100%*
Western Europe		
DS Smith Kaysersberg S.A.S.	France	100%*
DS Smith Packaging France S.A.S.	France	100%*
Otor S.A.	France	100%*
DS Smith Packaging Services S.A.S.	France	100%*
DS Smith Packaging Consumer S.A.S.	France	100%*
DS Smith Chouanard S.A.S.	France	100%*
DS Smith Packaging Netherlands B.V.	Netherlands	100%*
DACH and Northern Europe		
DS Smith Packaging Deutschland Stiftung & Co KG	Germany	100%*
DS Smith Recycling Deutschland GmbH	Germany	100%*
DS Smith Paper Deutschland GmbH	Germany	100%*
DS Smith Packaging Denmark A/S	Denmark	100%*
DS Smith Packaging Sweden AB	Sweden	100%*
Central Europe and Italy		
DS Smith Polska S.A.	Poland	100%*
Toscana Ondulati SpA	Italy	92%*
DS Smith Packaging Italia SpA	Italy	100%*
Plastics		
DS Smith Plastics Limited	UK	100%*
DS Smith Cartón Plástico s.a.	Spain	100%*
D.W. Plastics NV	Belgium	100%*
DS Smith Ducaplast S.A.S.	France	100%*
DSS Rapak Inc.	USA	100%*
Rapak GmbH	Germany	100%*
Rapak Asia Pacific Limited	New Zealand	100%*

* indirectly held by DS Smith Plc.

A complete list of the Group's companies is available from the registered office.

COMPANY BALANCE SHEET PREPARED IN ACCORDANCE WITH UK GAAP

At 30 April 2013

	Note	2013 £m	2012 £m
Fixed assets			
Tangible assets	3	**1.9**	1.5
Investments	4	**1,833.3**	534.1
		1,835.2	535.6
Current assets			
Debtors: amounts falling due within one year	5	**21.8**	13.8
Debtors: amounts falling due after more than one year	5	**393.2**	980.2
Cash at bank and in hand	10	**32.9**	648.9
		447.9	1,642.9
Creditors: amounts falling due within one year			
Trade and other creditors	6	**(47.3)**	(53.2)
Borrowings	6	**(51.0)**	(91.6)
Net current assets		**349.6**	1,498.1
Total assets less current liabilities		**2,184.8**	2,033.7
Creditors: amounts falling due after more than one year			
Trade and other creditors	6	**(20.7)**	(3.1)
Borrowings	6	**(899.1)**	(945.6)
Provisions for liabilities	7	**(7.4)**	(17.1)
Net assets		**1,257.6**	1,067.9
Capital and reserves			
Called up share capital	8	**92.9**	92.7
Share premium account	9	**710.0**	710.2
Profit and loss account	9	**454.7**	265.0
Shareholders' funds		**1,257.6**	1,067.9

Approved by the Board of Directors of DS Smith Plc (company registered number 1377658) on 26 June 2013 and signed on its behalf by

M W Roberts, Director **S W Dryden**, Director

The accompanying notes are an integral part of these financial statements.

NOTES TO THE COMPANY BALANCE SHEET

1. Significant accounting policies

A summary of the significant accounting policies, which have been applied consistently, is set out below:

(a) Accounting basis

The financial statements of DS Smith Plc (the 'Company') have been prepared on a going concern basis and under the historical cost convention and have been prepared in accordance with the Companies Act 2006 and UK Generally Accepted Accounting Practice (GAAP).

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

Under FRS 1 'Cash Flow Statements', the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the parent undertaking includes the Company in its own consolidated financial statements.

The Company has also taken advantage of the exemption in FRS 29 'Financial Instruments: Disclosures', not to present Company only information as the disclosures provided in the notes to the consolidated financial statements comply with the requirements of this standard.

In accordance with FRS 17 'Retirement Benefits', the Company has chosen to take the multi-employer exemption from disclosing the assets and liabilities of the scheme as it is not possible to separately identify those that relate to the Company employees. This is because of the complexities in determining how the cost of funding the deficit will be allocated between group companies in future periods. A Group level actuarial valuation under FRS 17 has not been performed, but the net pension liability under IAS 19 for the UK defined benefit pension schemes was £133.2m at 30 April 2013 (2012: £87.3m).

(b) Income recognition

Dividend income from subsidiary undertakings is recognised in the profit and loss account when declared by the subsidiary undertaking.

(c) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated to write off the cost or valuation less the estimated residual value of all tangible fixed assets in equal annual instalments over their estimated useful lives at the following rates:

Plant and equipment	2 – 25 years

(d) Fixed asset investments

Fixed asset investments are valued at cost less provisions for impairment.

(e) Deferred taxation

In accordance with FRS 19 'Deferred Tax', deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise, provided at current tax rates and based on current legislation. Timing differences arise from inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

(f) Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the financial year-end. Exchange differences arising on translation are taken to the profit and loss account.

(g) Pension contributions

The Company participates in a funded, defined benefit scheme in the UK, the DS Smith Group Pension scheme ('the Group scheme'). On 30 April 2011, the scheme was closed for future accrual.

As the Company is unable to identify its share of scheme assets and liabilities on a consistent and reasonable basis, the Company treats contributions to defined benefit schemes as if they were contributions to a defined contribution scheme in accordance with the exemption permitted by FRS 17 'Retirement Benefits'. As a result the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the relevant accounting period.

(h) Financial instruments

Financial instruments are reported in accordance with FRS 26 'Financial Instruments: Recognition and Measurement'.

The Group uses derivative financial instruments, primarily interest rate, currency and commodity swaps, to manage interest rate, currency and commodity risks associated with the Group's underlying business activities and the financing of these activities. The Group has a policy not to, and does not undertake any speculative activity in these instruments. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivative financial instruments are accounted for as hedges when designated as hedges at the inception of the contract and when the financial instruments provide an effective hedge of the underlying risk.

Any gains or losses arising from the hedging instruments are offset against the hedged items.

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

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

(i) Share options

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

It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

Where applicable, the fair value of employee services received by subsidiary undertakings within the DS Smith Plc Group in exchange for options granted by the Company is recognised as an expense in the financial statements of the subsidiary by means of a recharge from the Company.

2. Employee information

The average number of employees employed by the Company was 48 (2011/12: 41).

	2013 £m	2012 £m
Wages and salaries	**8.9**	6.8
Social security costs	**2.0**	1.8
Pension costs	**0.4**	0.3
Total	**11.3**	8.9

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

3. Tangible fixed assets

	Plant and equipment £m	Total £m
Cost		
At 1 May 2012	2.8	2.8
Additions	1.4	1.4
At 30 April 2013	4.2	4.2
Depreciation		
At 1 May 2012	(1.3)	(1.3)
Charge for the year	(1.0)	(1.0)
At 30 April 2013	(2.3)	(2.3)
Carrying amount		
At 1 May 2012	1.5	1.5
At 30 April 2013	**1.9**	**1.9**

4. Fixed asset investments

	Shares in Group undertakings £m
At 1 May 2012	534.1
At 30 April 2013	**1,833.3**

The Company's principal trading subsidiary undertakings at 30 April 2013 are shown in note 32 of the consolidated financial statements.

NOTES TO THE COMPANY BALANCE SHEET continued

5. Debtors

	2013 £m	2012 £m
Amounts falling due within one year		
Amounts owed by subsidiary undertakings	**14.8**	0.4
Corporation tax	**–**	2.5
Other debtors	**2.4**	4.8
Prepayments and accrued income	**3.5**	3.7
Derivative financial instruments	**1.1**	2.4
	21.8	13.8
Amounts falling due after more than one year		
Amounts owed by subsidiary undertakings	**373.9**	966.0
Deferred tax asset	**9.9**	6.9
Derivative financial instruments	**9.4**	7.3
	393.2	980.2
Total debtors	**415.0**	994.0

6. Creditors

	2013 £m	2012 £m
Trade and other creditors falling due within one year		
Amounts owed to subsidiary undertakings	**–**	0.5
Corporation tax	**4.8**	–
Other tax and social security payables	**8.2**	6.6
Other creditors, accruals and deferred income	**33.0**	26.9
Derivative financial instruments	**1.3**	19.2
	47.3	53.2
Trade and other creditors falling due after more than one year		
Derivative financial instruments	**20.7**	3.1
	20.7	3.1
Borrowings falling due within one year		
Bank loans and overdrafts	**34.1**	0.1
Other loans	**16.9**	91.5
	51.0	91.6
Borrowings falling due after more than one year		
Loans from subsidiary undertakings	**–**	720.8
Other loans	**899.1**	224.8
	899.1	945.6
Total creditors	**1,018.1**	1,093.5

7. Provisions for liabilities

	Restructuring £m	Other £m	Total £m
At 1 May 2012	3.6	13.5	17.1
Charged to the income statement	2.6	0.2	2.8
Utilised	(1.0)	(11.5)	(12.5)
At 30 April 2013	**5.2**	**2.2**	**7.4**

8. Share capital

	Number of shares			
	2013 Millions	2012 Millions	**2013 £m**	2012 £m
Ordinary equity shares of 10 pence each				
Issued, allotted, called up and fully paid	**928.6**	927.0	**92.9**	92.7

During the year, the Company issued new ordinary shares relating to placings in respect of employee share options of 1,652,485 ordinary shares of 10 pence.

The net movement in share capital and share premium is disclosed in the consolidated statement of changes in equity.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In respect of the Company's shares that are held by the Group, all rights are suspended until those shares are reissued.

9. Reserves

	Share premium account £m	Profit and loss account			
		Own shares £m	Hedging reserve £m	Other £m	Total £m
At 1 May 2012	710.2	(7.9)	(7.7)	280.6	265.0
Issue of share capital	(0.2)	–	–	–	–
Profit for the year	–	–	–	235.3	235.3
Dividends paid	–	–	–	(36.8)	(36.8)
Purchase of own shares	–	(1.2)	–	–	(1.2)
Changes in the fair value of cash flow hedges (including tax)	–	–	(16.2)	–	(16.2)
Share-based payment expense	–	–	–	1.2	1.2
Employee share trust	–	7.4	–	–	7.4
At 30 April 2013	**710.0**	**(1.7)**	**(23.9)**	**480.3**	**454.7**

The Company made a profit for the year of £235.3m (2011/12: profit of £67.8m) including the recognition of intra-group dividends.

10. Cash at bank and in hand

Included within cash at bank and in hand is £15.0m (30 April 2012: £nil) restricted for use by the Company. Details of the restriction are disclosed within note 13 of the consolidated financial statements.

11. Contingent liabilities

The Company has guaranteed the gross overdrafts and loans of certain subsidiary undertakings, which at 30 April 2013 amounted to £60.6m (30 April 2012: £26.3m).

12. Related party disclosure

The Company has identified the Directors of the Company, its key management and the UK pension scheme as related parties for the purpose of FRS 8 'Related Party Disclosures'. Details of the relevant relationships with these related parties are disclosed in the Directors' Remuneration Report, and note 31 of the consolidated financial statements respectively.

As permitted by FRS 8, no related party disclosures in respect of transactions between the Company and its wholly owned subsidiaries have been included.

FIVE-YEAR FINANCIAL SUMMARY

Continuing operations	2009 £m	2010 £m	2011 £m	2012 £m	**2013 £m**
Revenue	1,386.1	1,336.9	1,759.3	1,969.4	**3,669.3**
Operating profit[1]	76.1	76.7	110.9	142.0	**250.9**
Amortisation	(2.2)	(2.9)	(6.8)	(8.1)	**(44.9)**
Share of profit/(loss) of associates	0.6	0.2	–	(0.5)	**1.2**
Net financing costs	(24.4)	(26.7)	(27.4)	(23.2)	**(41.0)**
Profit before taxation and exceptional items	50.1	47.3	76.7	110.2	**166.2**
SCA Packaging acquisition and integration related costs	–	–	–	(18.4)	**(69.6)**
Other exceptional items	(52.6)	(11.5)	0.9	(70.1)	**(10.0)**
Profit/(loss) before income tax	(2.5)	35.8	77.6	21.7	**86.6**

	2009	2010	2011	2012	2013
Adjusted earnings per share[1]	6.4p	6.3p	10.0p	12.8p	**17.4p**
Dividends per share	3.0p	3.2p	4.5p	5.9p	**8.0p**

	2009	2010	2011	2012	2013
Adjusted return on sales[1]	5.5%	5.7%	6.3%	7.2%	**6.8%**
Adjusted return on average capital employed[1,2,3]	8.7%	9.0%	11.5%	14.6%	**12.3%**

1. Before amortisation and exceptional items.
2. Adjusted return on average capital employed is defined as operating profit before amortisation and exceptional items divided by average capital employed.
3. Average capital employed is the average monthly capital employed for the last 12 months. Capital employed is made up of property, plant and equipment, goodwill and intangible assets, working capital, capital debtors/creditors, provisions and assets/liabilities held for sale. The definition of capital employed is different from the definition of managed capital as defined in note 20 to the consolidated financial statements, which consists of equity as presented in the statement of financial position, plus net debt.

SHAREHOLDER INFORMATION

Financial diary

3 September 2013
Annual General Meeting

2 October 2013
Ex-dividend date for final dividend

1 November 2013
Payment of final dividend

5 December 2013*
Announcement of half-year results for the six months ended 31 October 2013

2 April 2014*
Ex-dividend date for interim dividend

1 May 2014*
Payment of interim dividend

26 June 2014*
Announcement of final results for the year ended 30 April 2014

* Provisional date.

Company website

The Company's website at www.dssmith.uk.com contains the latest information for shareholders, including press releases and an updated financial diary. E-mail alerts of the latest news, press releases and financial reports about DS Smith Plc may be obtained by registering for the e-mail news alert service on the website.

Share price information

The latest price of the Company's ordinary shares is available from the FT Cityline service. Calls within the UK are charged at 75 pence per minute at all times. To access this service, telephone +44 (0)9058 171 690. Alternatively click on www.londonstockexchange.com. DS Smith's ticker symbol is SMDS. It is recommended that you consult your financial adviser and verify information obtained from these services before making any investment decision.

Registrars

Please contact the Registrars at the address below to advise of a change of address or for any enquiries relating to dividend payments, lost share certificates or other share registration matters.

The Registrars provide online facilities at www.shareview.co.uk. Once you have registered you will be able to access information on your DS Smith Plc shareholding, update your personal details and amend your dividend payment instructions online without having to call or write to the Registrars.

Dividends

Shareholders who wish to have their dividends paid directly into a bank or building society account should contact the Registrars. In addition, the Registrars are now able to pay dividends in 36 foreign currencies. This service is called 'TAPS' and enables the payment of your dividends directly into your bank account in your home currency. A charge of £2.50 is deducted from each dividend payment to cover the costs involved. Please contact the Registrars to request further information.

Share dealing services

The Registrars offer a real-time telephone and internet dealing service. Further details including terms and rates can be obtained by logging on to the website at www.shareview.co.uk/dealing or by calling +44 (0)845 603 7037. Lines are open between 8am and 4.30pm, Monday to Friday.

Registered office and advisers

Secretary and Registered Office
Matt Jowett
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Registered in England No: 1377658

The Group Head Office is relocating to central London later in the calendar year, at which time the registered office will change to the new address.

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Deloitte LLP
2 New Street Square
London EC4A 3BZ

Solicitors

Allen & Overy LLP
One Bishops Square
London E1 6AD

Principal clearing bank

The Royal Bank of Scotland
135 Bishopsgate
London EC2M 3UR

Stockbroker

J.P. Morgan Cazenove
10 Aldermanbury
London EC2V 7RF

Registrars

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Registrars queries

Information on how to manage your shareholdings can be found at https://help.shareview.co.uk. The pages at this web address provide answers to commonly asked questions regarding shareholder registration, links to downloadable forms and guidance notes.

If your question is not answered by the information provided, you can send your enquiry via secure email from these pages. You will be asked to complete a structured form and to provide your Shareholder Reference, Name and Address. You will also need to provide your email address if this is how you would like to receive your response.

Alternatively, telephone: 0871 384 2197. Lines are open 8.30am to 5.30pm Monday to Friday. Calls to this number will be charged at 8 pence per minute plus network extras. Overseas telephone: +44 121 415 7047.

DS Smith Plc

DS Smith Plc
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68 Lower Cookham Road
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Berkshire SL6 8XY

Registered in England No: 1377658

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