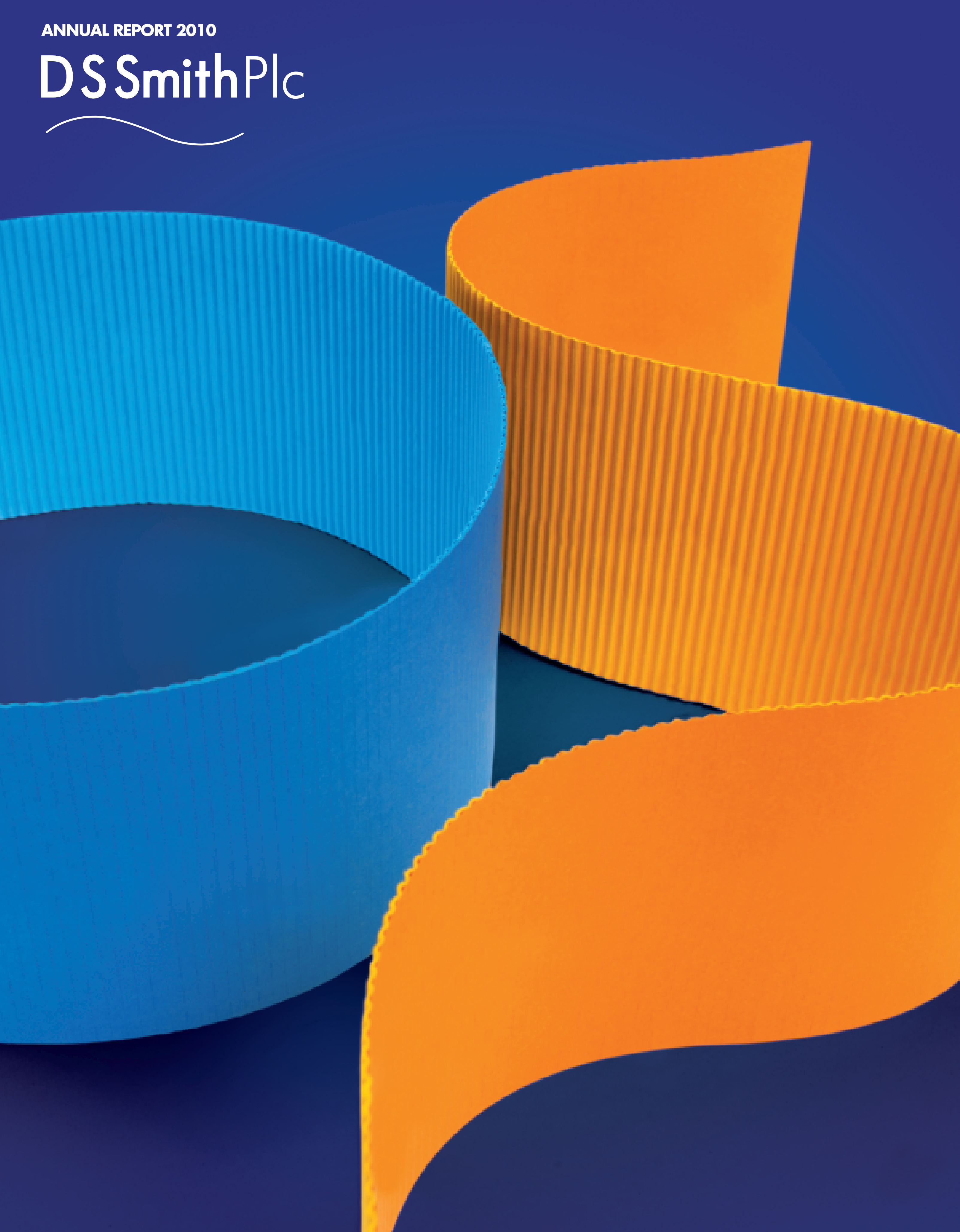

DS Smith Plc
Annual Report 2010

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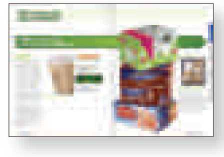
DS Smith is an international packaging supplier and office products wholesaler. It has revenue of £2.1 billion and employs over 10,500 people in 16 countries.

DS Smith is shaping the future of packaging. The combination of the Group's market-leading positions, European growth potential, record of successful innovation and strong customer relationships means that DS Smith is well positioned for the market upturn.

INNOVATING TO WIN...

BUILDING THE BUSINESS OF TOMORROW

INNOVATION DRIVING GROWTH
Designing with the customer in mind

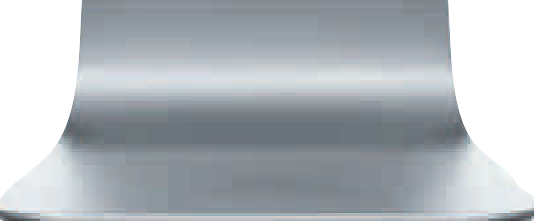


FIRST CHOICE FOR OUR CUSTOMERS
Building partnerships with our largest customers

GROWING OUR BUSINESS IN EUROPE
Leveraging our unrivalled depth of expertise

BUILDING ON OUR STRENGTHS
Consolidating our leading market positions

INNOVATION DRIVING GROWTH



Computer-aided design is used to create the best box for the job.

Designing with the customer in mind

DELIVERING SUCCESS IN LOGISTICS AS WELL AS PACKAGING

DS Smith Packaging takes a holistic approach to pack performance, merging the search for lower costs at every stage of customers' packing operations and supply chains, with a detailed understanding of product promotion through compelling presentation of our customers' products. Recent innovations, combining new pack structures and cutting-edge design from DS Smith Packaging with the latest high performance materials from St Regis Paper, are achieving excellent results, often involving less paper than was previously specified.

Since every customer is different, technical representatives from DS Smith perform a careful audit of how each pack will be used, from inbound receipt, to use on automated packing lines and through all stages of distribution, right up to the display of products in the supermarket and recycling after use.

Significant reductions in supply chain cost can be achieved, especially in relation to the cost of the packaging. For instance, good pack design can prevent loss and damage, whilst sharply reducing the number of loads, both for deliveries of packaging and for distribution of packed goods. Savings are generated through waste prevention, less handling, taking lorries off the road and fewer delivery miles. The same improvements translate directly into lower carbon footprints for customers. Optimising packaging material can offer further footprint reductions.

In a recent example, collaboration with a large customer eliminated 26% of the journeys made to deliver products, with correspondingly less materials handling and less need for storage space. Technical innovation reduced the customer's product overall packaging weight by almost 600 tonnes per annum, whilst providing a better print finish to promote the product to consumers.

Sustainable packaging for lubricants

DS Smith Corrugated Packaging Rawcliffe and Rapak have helped develop a new bag-in-box packaging system for lubricants. The project was part of a drive towards using more sustainable raw materials for the packaging of oil-based products. The new packaging has a lower environmental impact than the previous rigid plastic container. The outer box is made from recycled material and is easy to recycle. The bag inside the box produces only a sixth of the waste of the previous container. In addition, the new pack shape is cubic rather than round, so that 20% more filled product can be distributed on each pallet. For one customer alone, this means 200 fewer lorry movements each year. The innovative design achieves a major reduction in costs, supports environmental objectives and makes storage and transport more efficient.

DS Smith Corrugated Packaging Rawcliffe and Rapak create sustainable packaging for lubricants.

FIRST CHOICE FOR OUR CUSTOMERS

Building partnerships with our largest customers

UNRIVALLED DEPTH AND EXPERIENCE

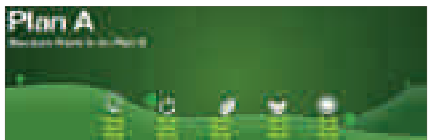
Severnside works with M&S and DS Smith Tri-Wall

In 2007, retailer Marks & Spencer (M&S) launched Plan A, a list of ethical and environmental commitments involving all areas of its business. M&S wanted to reduce significantly the amount of waste it sends to landfill. From packaging and plastics, through to cardboard and food, the retailer wanted to find more sustainable solutions for its waste. The target set was to send no waste to landfill by 2012. To achieve this target, M&S needed to transform its waste management processes. Its first step was to appoint a waste management partner who focused on sustainable solutions rather than landfill. Market-leading sustainable waste management company Severnside Recycling, a company with a long tradition of working in the retail sector, was chosen.

One of the most important areas for primary focus was organic waste. As out-of-date food is required to be disposed of, traditionally through landfill or by expensive treatment processes, an effective solution was required. It was important to find a process that would allow organic waste to be separated from all other types of materials. Severnside turned to sister company DS Smith Tri-Wall for support.

DS Smith Tri-Wall developed a large box with an integral bag, erected on a dolly, which integrated easily into the M&S logistics system. The bulk box and bag were tested extensively and the designs optimised to ensure there was no risk of leakage of food waste during transport or storage. The new waste management process makes use of M&S' existing logistics operation and takes the waste to the regional distribution centres where it is then collected, sorted and reprocessed by Severnside or its strategic partner, Shanks Waste Management. Organic waste is now converted into renewable energy via biomass-to-energy plants.

DS Smith Tri-Wall's specially designed box to handle food waste from M&S stores.



DESIGNRIGHT TOOLS

DesignRight = better display + less raw material + stronger boxes + lower costs + lower CO_2.

We have created a set of business tools in order to help customers save money, cut carbon emissions and support their sales. DesignRight starts right at the beginning of the process. First we design a box that displays the products it contains to maximum advantage. By using high-performance lightweight corrugated material, we can design a stronger box using less material. Being stronger, the boxes can be stacked higher – as in the example shown in the picture above, which means that more products can be moved in each lorry-load, cutting fuel costs and carbon emissions for our customers.

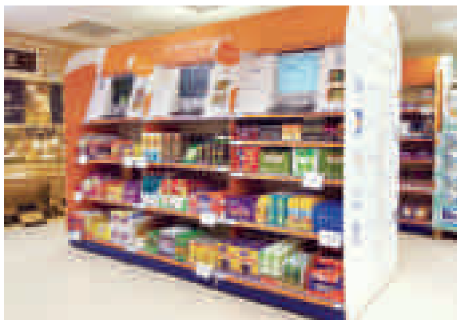
GROWING OUR BUSINESS IN EUROPE

Leveraging our unrivalled depth of expertise

NEW IMPACT AND INNOVATION CENTRE IN FRANCE

In the past two years, DS Smith Kaysersberg further developed its marketing strategy to concentrate on the fast-moving consumer goods (FMCG) market. A long-established expert in the field of industrial packaging design, the business chose to redevelop its existing showroom and create a much more powerful centre to showcase the skills and the resources it can bring to providing innovative design for customers looking for help with brand promotion, supply chain optimisation, costs and environmental issues.

The French Impact and Innovation Centre was opened in December 2009 and benefited from the experience of sister company DS Smith Packaging, which had constructed its own Impact and Innovation Centre at Ely in Cambridgeshire in 2008. The UK Centre hosted its one hundredth group of visitors in November 2009. Both centres have received very positive feedback from customers.



DS Smith Packaging's Impact and Innovation Centre at Ely in the UK.

DS Smith Kaysersberg's Impact and Innovation Centre at St Just in France.

SPICERS' GROWTH IN EUROPE

In France, Spicers has built its success on its two dealer brands, Plein Ciel and Calipage, which account for over half of sales. These are the best known office supply brands in the country. Plein Ciel has grown strongly in recent years, increasing from 136 resellers in 2001, to 225 by March 2010. It has over 200 stationery shops, including 14 hyperstores.

Calipage was launched by Spicers in 1995 and now comprises over 300 sites. The Calipage model has been adapted for other national markets and was launched in Belgium in early 2009 and in Spain in early 2010. By the end of the financial year 2009/10, there were 19 Calipage dealers in Belgium and 128 in Spain. Further growth is planned in the coming year.

One of Plein Ciel's stores.

BUILDING ON OUR STRENGTHS

Consolidating our leading market positions

A REVOLUTION IN PACKAGING

DS Smith will continue to drive forward its strategy of growth in Europe. With over 100 sites in Europe the Group has firm foundations, leading positions and excellent prospects for future growth. In the UK, the Group is already the largest producer of recycled paper, the largest recycling group and the leading manufacturer of corrugated packaging. We have strong corrugated packaging operations in France, Italy and Poland, and there is room for further growth in all these markets. The key area of focus will be the retail-ready packaging market.

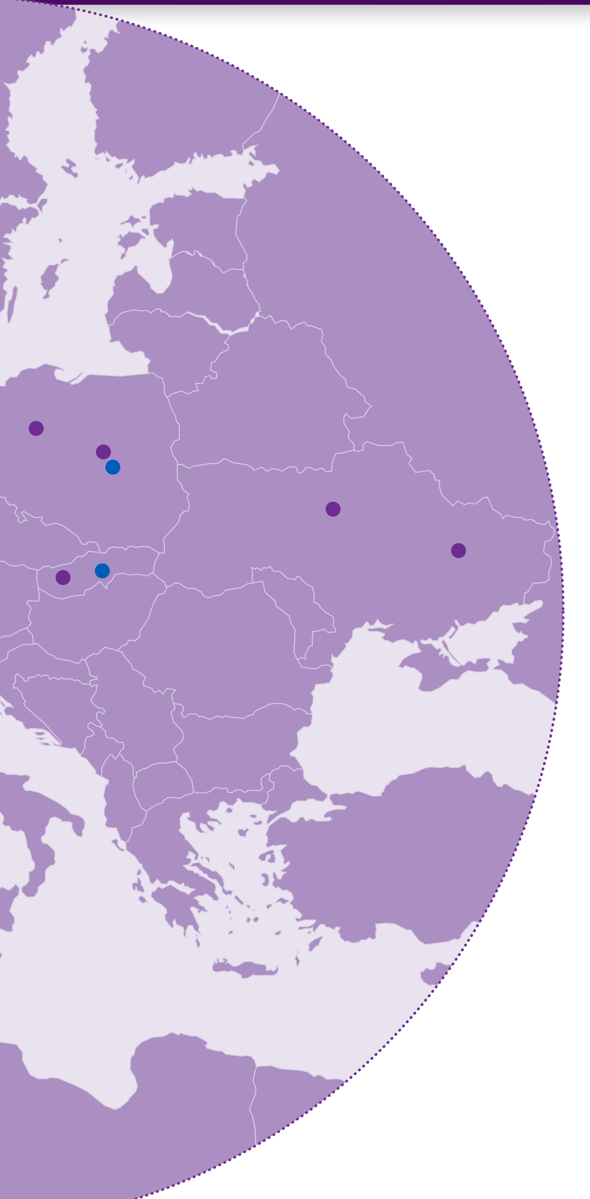
SUPPORTING BRANDS

For our customers, like Cadbury, protecting a brand's identity is an absolutely critical aspect of marketing. The confectioner has developed ink standards for its iconic colours so they can be reproduced accurately anywhere in the world. Using ImageRight, our people make sure that the colour is right, and that it remains right as each order is printed. We have also invested in spectrophotometers – devices which measure colour digitally rather than by eye – which means we achieve consistent, repeatable colour, regardless of where a job is printed. The new Cadbury factory at Skarbimierz in Poland will make many familiar brands such as Crunchie, Chomp and Curly Wurly, so it is vital that we can rely on our technology to ensure that, no matter where the packaging is produced, it will meet Cadbury's high specifications.

KEY

- UK Paper & Corrugated Packaging
- Continental European Corrugated Packaging
- Plastic Packaging
- Spicers

Our customers want the colours on the box to match the products inside.



DS SMITH PACKAGING – 'COOL' IN MORE THAN ONE WAY

Following success at the UK Packaging Awards in 2009, when DS Smith Packaging became Environmental Company of the Year, its speciality plant at Belper in Derbyshire won the Gold Standard Green Apple Award in recognition of an innovative project called 'The Environmental Benefits of Cool Corrugating'. The essence of the project is to run the corrugators at lower temperatures and involves some complex technological developments on the machines. The outcome was a reduction in carbon emissions of 400 tonnes per annum and an improvement in board quality that has led to a reduction in waste levels throughout the business.

DS SMITH KAYSERSBERG CONSTRUCTS A GREEN PALLET FOR A GREEN PRODUCT

A leading supplier of photovoltaic solar panels approached DS Smith Kaysersberg (DSSK) with a particular request. A product with such strong environmental credentials needed special packaging. The solution had to be strong enough to protect its fragile cargo, cost-competitive, lightweight in order to facilitate the handling and to be fully recyclable. DSSK was able to deliver a specially designed cardboard pallet weighing only 5kg, but able to support a load of up to 350kg. The customer was so pleased that each product shipped included information explaining the nature of the design of the pallet, its reduced carbon footprint and its recyclability.

DS SMITH PLASTICS REPLEN CREATES REUSABLE WHEELED PALLET

DS Smith Replen, a specialist in returnable transit packaging, has created an ingenious solution for the international grocery industry. The K-Roll wheeled pallet is made of lightweight material. It functions both as a pallet in the supply chain, and a dolly in the store. With a specially designed handle and runners that lift to expose the wheels, it is easy to manoeuvre, but can be locked down when stationary.

SPICERS FOCUSES ON ON-LINE SALES ACROSS EUROPE

Spicers has been working to expand its offering to the growing on-line market for office products. In the UK, Spicers has been developing its business with London-based Euroffice, now one of its top customers. Spicers UK and Spicers Italy were able to work together to support Euroffice's expansion into continental Europe. In 2010, Spicers Germany began to supply Conrad Elektronik, the leading European multichannel supplier in the electronics sector, which operates in ten countries across Europe.

Focused on the Future

AN INTERVIEW WITH MILES ROBERTS, DS SMITH'S NEWLY-APPOINTED GROUP CHIEF EXECUTIVE

"This is a business that has tremendous strength and competitive advantages. We are well positioned to grow our higher margin operations in the UK and across continental Europe."

What attracted you to DS Smith?

I think there is considerable potential here at DS Smith to create a focused, growing business that will deliver higher, more consistent financial returns.

The current business operates in many markets and product and service categories; some of which display the sort of characteristics that provide the opportunity to create sustainable value for our customers and therefore our employees and shareholders. For example, our retail-ready packaging business has achieved consistent growth and better returns for many years as retailers and fast-moving consumer goods companies seek packaging suppliers that can improve the efficiency of their distribution chain whilst developing the in-store appearance of their products. DS Smith has developed a considerable degree of competence in this area across Europe.

Do you see areas of differentiation?

A key theme within DS Smith is sustainability. The communities in which we operate focus increasingly on the environmental impact of their behaviour and actions. All the paper we make is produced from recycled material and over 80% of the boxes we make are made of recycled paper and are fully recyclable themselves. In the UK, DS Smith has a uniquely vertically-integrated position as a waste paper collector, recycled paper manufacturer and corrugated box producer. It takes just 14 days to collect used boxes from a retailer, recycle the boxes into paper and produce a new box delivered back to the retailer – this speed combined with the 100% recyclability element cannot be matched by other packaging formats.

Do you see opportunities for growth?

DS Smith has developed various strong market positions, some with considerable scale. Others, whilst smaller, have good market positions in regions of Europe that are expected to grow well ahead of the average for Europe and in customer segments that show consistent growth opportunity and higher margins, due to the significant degree of added value.

To achieve sustainable returns the Group will need to become more focused. We have recently disposed of two small businesses that were sub-scale or did not operate in attractive markets. How we achieve greater focus will become clearer as we develop our Group strategy over the coming months.

What do you think DS Smith's customers want?

Customer service will be one of our key performance indicators and we will need to ensure we operate at the highest levels of any supplier in our markets. This, combined with increasing focus on innovation and quality, will add further value for our customers and provide us with a greater degree of competitive advantage. There are always opportunities to improve the effectiveness and efficiency of an organisation.

Changing and challenging markets demand product and service innovation. Successful development primarily depends on understanding the customers' current and future requirements. Our customers are seeking services and products that reduce their internal costs but support their own growth; service scope, product appearance, weight, environmental impact, cost and distribution are key themes. DS Smith has a strong track record in innovation. An example is the Impact and Innovation Centre (IIC) opened in December last year at St Just in France. This builds on the success of the first IIC established at Ely in the UK in 2008. At these sites we can demonstrate to our customers and retailers how we can enhance the appearance of their products and the efficiency of their distribution systems with minimal impact on the environment. Other examples include the expansion within our waste recycling business of services offered to our retail customers that include the administration of all their waste disposal to ensure minimal environmental impact and near-zero landfill.

Product development will be an increasing demand from our customers and we are well positioned to meet this.

What are some of the key issues for DS Smith?

During the last year, the Group has successfully undertaken a restructuring programme that reduced costs in the face of the severe downturn in the global economy. We work in very competitive markets where scale and resulting efficiency are essential to meet our customers' demands. Our operating standards, structures and processes throughout the Group are clear but we must ensure that our internal culture engages and motivates all our colleagues in the pursuit of operational excellence through continuous improvement. This is a 'must do' for us.

Since joining DS Smith at the start of May, I have been visiting many of our businesses to listen and learn about the skills and capabilities of the Group and the ideas for improvements. A culture that supports the continuous development of the business by encouraging all staff to be involved and contribute to our success is an essential ingredient of any winning business. We will build on the enthusiasm and commitment I have seen across the Group. This enthusiasm will be harnessed through improved communication, a clear set of principles and the continuing development of all staff.

What are your ambitions for DS Smith?

The first step was to go out and learn about the businesses and the people in the Group. The next step will be to focus on our strategic planning – work being undertaken by a group of senior managers drawn from across all divisions. The objective is to create a business that is more focused, producing higher, more sustainable and consistent returns; the plan to achieve this objective will be completed over the coming months. It is already clear that there are a number of strong opportunities.

This plan will be built on sectors that offer growth, where customers demand excellent customer service and support, product and service development and where we can deliver at the most efficient cost to customers. This will be achieved by creating a culture that engages everyone in the achievement of our results.

A culture that supports the continuous development of the business by encouraging all staff to be involved and contribute to our success is an essential ingredient of any winning business.”

DS Smith Group at a Glance

Group overview	Division	Market	Contribution to adjusted operating profit

PACKAGING

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

WASTE PAPER
SEVERNSIDE RECYCLING
www.severnside.com

No.1 UK waste recycling company and a provider of waste management services.

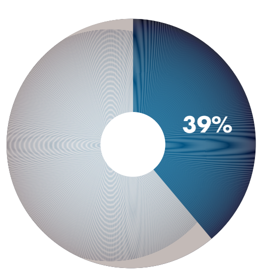
PAPER
ST REGIS
www.stregis.co.uk

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

CORRUGATED PACKAGING
DS Smith Packaging
www.dssmith-packaging.com

No.1 UK supplier; 70% to the fast-moving consumer goods sector.

£35.4 million
(2009: £36.5 million)



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

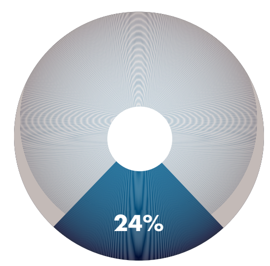
CORRUGATED PACKAGING AND PAPER
DS Smith Kaysersberg
www.dssmith-kaysersberg.com

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

Smaller operations in Czech Republic and Slovakia.

The Group has an associate business in Ukraine.

£22.9 million
(2009: £30.4 million)



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PLASTIC
Focused on two plastic packaging markets

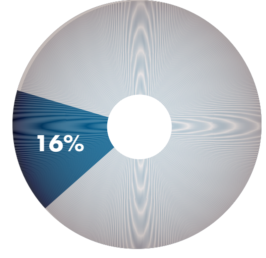
RETURNABLE TRANSIT PACKAGING (RTP)
DS Smith Plastics
www.dssmith-plastics.com

A leading European supplier of beverage crates, reusable containers and extruded sheet.

LIQUID PACKAGING AND DISPENSING (LP&D)
DS Smith Plastics
www.dssmith-plastics.com

No. 2 globally in bag-in-box systems and taps.

£15.5 million
(2009: £7.0 million)



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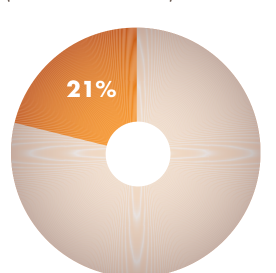
OFFICE PRODUCTS WHOLESALING

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

OFFICE PRODUCTS WHOLESALER
SPICERS
www.spicerseurope.com

Leading office products supplier in UK, Ireland, France and Benelux with growing positions in Germany, Spain and Italy.

£20.2 million
(2009: £20.1 million)



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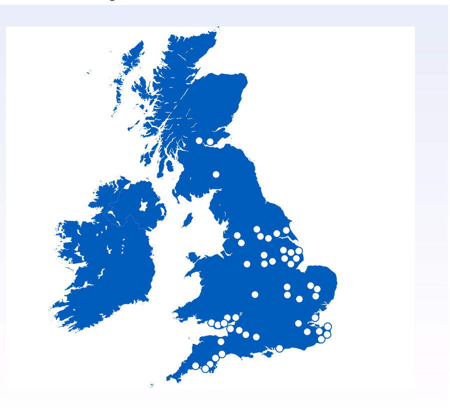
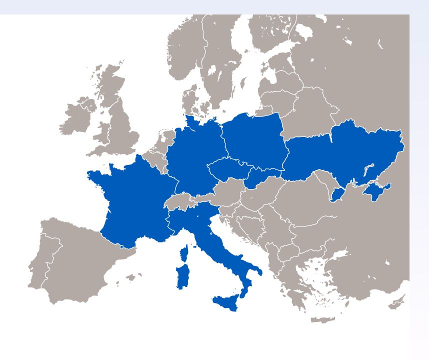
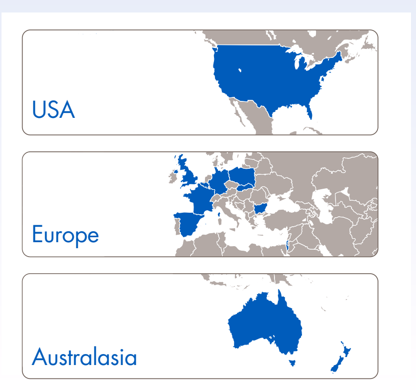
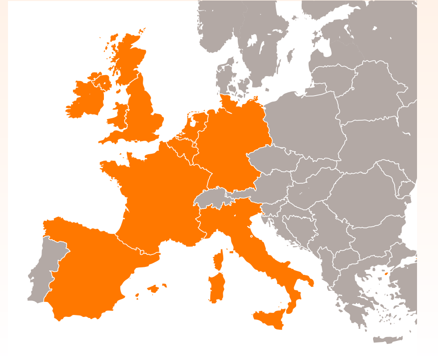
Areas of operation



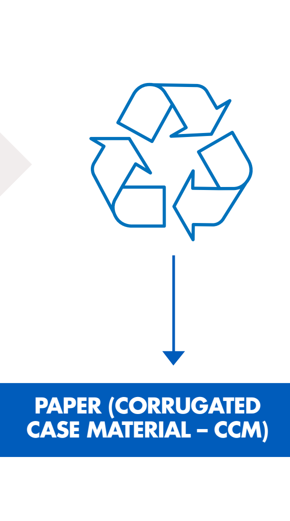


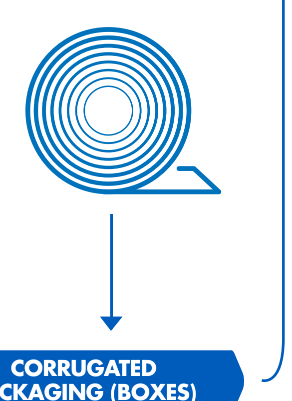


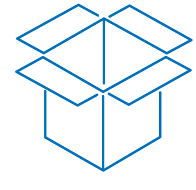


OUR CORRUGATED PACKAGING SUPPLY CHAIN

DS SMITH – UK Annual volume ('000 tonnes)	DS SMITH – CONTINENTAL EUROPE Annual volume ('000 tonnes)	
		WASTE PAPER
SEVERNSIDE RECYCLING Waste paper collected – 1,700		
		PAPER (CORRUGATED CASE MATERIAL – CCM)
ST REGIS PAPER CCM – 750 Other speciality papers – 250	DS SMITH KAYSERSBERG France Solid board and speciality papers – 180	
		CORRUGATED PACKAGING (BOXES)
DS SMITH PACKAGING Boxes and board – 600	DS SMITH KAYSERSBERG France, Italy, Poland, Czech Republic and Slovakia Boxes and board – 560	







2009/10 Highlights

- Robust performance in challenging markets
- EBITDA up 1.3% to £166.0 million
- Adjusted earnings per share up 2.4% to 12.9 pence
- Strong cash flow generation drives net debt down £52.0 million to £239.5 million
- Full-year dividend increased by 4.5% to 4.6 pence per share
- Successful implementation of 2008/09 cost reduction plan
- The Group has continued to build its market position in corrugated packaging for the fast-moving consumer goods sector across Europe
- Review of strategy and business operations launched

Adjusted return on average capital employed
9.7%
2009: 9.3%

Adjusted EBITDA margin
8.0%
2009: 7.8%

Adjusted earnings per share
12.9p
2009: 12.6p

Net debt/ adjusted EBITDA
1.4 times
2009: 1.8 times

FINANCIAL SUMMARY

	2009/10	2008/09
Revenue – £m	**2,070.6**	2,106.6
Adjusted profit before tax[1] – £m	**68.3**	72.5
Profit before tax – £m	**55.0**	16.8
Adjusted earnings per share[2] – pence	**12.9**	12.6
Earnings/(loss) per share – pence	**9.7**	(3.0)
Adjusted return on average capital employed[3] – %	**9.7%**	9.3%
Free cash inflow[4] – £m	**76.8**	59.9
Net debt/adjusted EBITDA[3] – times	**1.4x**	1.8x
Total dividend per share – pence	**4.6**	4.4

1 before exceptional charge of £13.3m (2008/09: £55.7m)
2 before after-tax exceptional charge of £12.4m (2008/09: £61.1m)
3 before exceptional charge of £13.3m (2008/09: £50.6m)
4 before net acquisitions/(disposals) of equity in subsidiaries, exceptional cash costs and dividends

Chairman's Statement

"The Group delivered a robust performance in 2009/10 and under the leadership of its new Group Chief Executive is well placed to resume growth."

In last year's annual report I stated that the work done to refocus the business over recent years would make it more resilient. Our results for the year are testament to that. The fast-moving consumer goods sector, which is our major market for retail-ready packaging, weathered the downturn better than other sectors. The focus on innovation in both products and services, and our expertise in recycling and solving customers' packaging problems allowed us to make significant progress.

Adjusted operating profit of £94.0 million matched the previous year and adjusted earnings per share advanced 2.4% to 12.9 pence (2008/09: 12.6 pence).

The Board has decided to recommend a final dividend for 2009/10 of 3.1 pence per share (2008/09: 1.8 pence) which, together with the interim dividend of 1.5 pence, gives a total dividend for the year of 4.6 pence (2008/09: 4.4 pence). The Board recognises the importance of dividends to shareholders and remains committed to the payment of dividends that reflect the sustainable earnings and cash generation of the Group over the cycle. Future dividend policy is under review as part of the Group Chief Executive's review of strategy.

The financial and operational performance of the Group during the year is set out fully in the following reports, together with an assessment of the risks facing the Group, its performance on environmental and other matters of corporate responsibility and reports on the Audit and Remuneration Committees. The Board has continued to maintain a strong focus on identifying and managing risks, ensuring the Group's financial position remains strong and on making sure that it is well placed, financially and operationally, to benefit from recovery in our markets. An increased focus has been placed on the business strategy and the Group's financial strength. The composition of the Group is being considered by the Group Chief Executive as part of his review.

Parts of our business operate in attractive markets with long-term growth and attractive margin potential. The challenge for the Group is to take full advantage of the opportunities open to it and to deliver strong growth in shareholder value. The Board will support the Group Chief Executive as he develops his plans for this in the coming months.

As we announced in November 2009, Tony Thorne retired from the Board on 4 May 2010 and Miles Roberts took over the role of Group Chief Executive.

On behalf of the Board and his colleagues, I would like to thank Tony for his strong leadership of the Group over the last nine years. The Group that he leaves behind is far better placed and balanced than the one he joined, with strengthened potential. The growth in the packaging and recycling businesses and the development of leading positions in retail-ready and high quality design packaging have created a formidable position in UK packaging.

Miles Roberts joins us from McBride plc where he led a programme to deliver significant growth and improved profitability. In addition to this record, he brings considerable international experience as well as a thorough understanding of manufacturing and DS Smith's packaging markets.

I am also pleased to confirm that Gareth Davis joined our Board as a non-Executive Director on 1 June 2010. Gareth has recently stepped down from the role of Chief Executive of Imperial Tobacco PLC, a Group which he led to great success following the demerger of the company from Hanson Plc in 1996. He has served as a non-Executive Director since 2003 and Senior Independent Director since 2004 of Wolseley plc. He brings enormous relevant experience to our affairs. He will take over as Chairman of the Remuneration Committee from July 2010.

Jonathan Nicholls joined the Board in December 2009 and his experience as Finance Director of two FTSE 100 companies, Hanson Plc and Old Mutual Plc, has been of great value. He will take over as Chairman of the Audit Committee from July 2010.

Bob Beeston, who has served as a non-Executive Director with great distinction since December 2000, will step down from the Board at the end of 2010, once the new Directors have their feet firmly under the table. Bob has been an outstanding contributor to our affairs and I would like to thank him for his ceaseless challenge and support. Chris Bunker has already succeeded Bob as Senior Independent Director.

On behalf of the Board, I thank all our colleagues across the world for their ongoing efforts and commitment, particularly through these tough times. Economic activity has improved, but the pace of recovery remains uncertain. Actions taken by management to date have positioned us well to take advantage of improving economic conditions and I am confident that further progress will be made in the coming year.

PETER JOHNSON
Chairman

Chief Executive's Review

"The Group is well positioned to take full advantage of the improving economy."

I am pleased to announce that in 2009/10 adjusted operating profit at £94.0 million matched that of the previous year. All our business segments felt the impact of lower demand for their products and services as a result of the general contraction in economic activity, but all were able to mitigate this by improving efficiency. The Group remained highly cash generative, reflecting our ongoing focus on cash management. Year-end net debt fell to £239.5 million (30 April 2009: £291.5 million) providing a robust financial base for the Group.

Profit before exceptional items and tax was £68.3 million (2008/09: £72.5 million). As previously advised, the Group incurred exceptional charges in the year of £13.3 million (2008/09: £55.7 million), of which £10.2 million were non-cash impairment charges, principally related to our paper and packaging operation in Turkey, the sale of which was announced after the year end.

Capital expenditure in the year of £52.6 million (2008/09: £87.4 million) reflected the re-phasing of the capital programme to match the change in the economic environment and the completion of capital expenditure on the conversion of a paper machine in 2008/09. The Group continued to invest for its future development: around two-thirds of our expenditure was targeted at growth and maintaining and strengthening our market positions, focusing on those areas that provide the most attractive returns.

The Group's adjusted return on average capital employed increased in 2009/10 to 9.7% (2008/09: 9.3%), due to a lower capital base. This compares to the Group's estimated pre-tax weighted average cost of capital of 11.8%.

Looking ahead, we are undertaking a review of our business portfolio to identify how long-term value can best be delivered to shareholders. Our objective is to create a growing business that is more focused, producing higher margins and returns, with less cyclicality. This work is now under way and is centred on five major themes:

- Achieving higher margins through improving the mix of business towards products with a higher value-added component and less commoditisation;
- Differentiating our offering through product innovation and customer service;
- Raising efficiency through process design, organisation structure and scale of our operations;
- Building on people, with focus on personal performance and development supported by an enabling culture; and
- Managing carefully any implementation risks.

The results of this work will be completed later in 2010.

OPERATING REVIEW

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

PACKAGING

Across Europe, demand for corrugated packaging fell progressively through most of calendar 2009, but began to recover modestly late in the year. This recovery continued in the first quarter of 2010. In the fourth quarter of 2009, demand was up 2.9% compared with the same period in 2008, but was still 5.7% below the comparable period for 2007. Throughout 2009, packaging demand in the fast-moving consumer goods (FMCG) sector held up better than in the industrial sectors. DS Smith has benefited from actions taken in recent years to focus on the FMCG area of the market, which now accounts for around two-thirds of our Packaging revenue.

In the first half of the financial year, lower demand for corrugated packaging caused box prices to soften, and resulted in reduced demand and falling prices for corrugated case material (CCM) – the paper that is used to manufacture boxes. In the second half of the year, the cost of waste paper – our key raw material – rose strongly, causing CCM prices and, in turn, box prices to increase.

Profits in our UK Paper and Corrugated Packaging operations almost matched those of the previous year, helped by the cost reductions achieved through the action programme announced in December 2008 and better productivity.

Results in our Continental European Corrugated Packaging segment were down; gains in FMCG packaging were more than offset by the continuing low activity levels in the industrial packaging sector and the impact of higher CCM prices.

Profits in Plastic Packaging improved markedly as a result of restructuring undertaken during 2008/09, implementation of the action programme to cut costs and growth in sales of higher margin products.

UK Paper and Corrugated Packaging

In 2009/10, the UK Paper and Corrugated Packaging segment, which accounted for 36% of Group revenue and 55% of Group average capital employed, reported a 4.5% decrease in revenue to £750.2 million (2008/09: £785.8 million). This reduction in revenue was due to lower CCM and box prices, the effects of which were partly offset by revenue from a full year's sales of lightweight CCM produced on the converted paper machine at Kemsley. Operating profit was slightly down at £35.4 million (2008/09: £36.5 million), primarily due to reduced box sales mitigated by the restructured, lower cost base.

Our UK business is vertically integrated, from collection of waste paper to supply the recycled paper mills, through to the design and supply of corrugated packaging.

Severnside Recycling, which recovers waste paper as the raw material for use in our paper mills, continued to make progress, collecting an increased quantity of paper and offering more added-value services to a number of new retail customers.

Our UK paper business was significantly affected by the impacts of lower demand and pricing for CCM during 2009/10. Margins were further put under pressure by the rising cost of raw materials, especially in the second half of the year. The high-quality, lightweight CCM which we have been producing at Kemsley since early 2009 continues to be favourably received by customers.

Our UK corrugated packaging business produced a good result and grew its market share on a platform of service and innovation. Our emphasis on the FMCG sector and higher value-added products assisted our performance significantly, when compared to the UK corrugated industry as a whole. Key investments have been made to increase our capability to support the growth in demand for shelf-ready packaging, improve print quality innovation and continue the roll out of high-performance, lighter-weight boxes.

As we enter 2010/11, we are experiencing modest improvements in demand offset by increasing waste paper input costs and CCM prices. We will build on the strong market positions achieved to date and are well positioned for growth.

Continental European Corrugated Packaging

Despite an increase in sales volumes, driven by the encouraging performance in the final quarter of the year, revenue was down 2.2% to £355.4 million (2008/09: £363.4 million) due to lower selling prices. Operating profit decreased to £22.9 million (2008/09: £30.4 million), as a result of increasing CCM costs, the effect of which was partially offset by a significant reduction in conversion costs.

In France, our corrugated box business showed a 2% increase in sales volume, despite a flat market, as a result of its focus on the resilient and growing FMCG market. Despite difficult market conditions, our Italian business performed well primarily as a result of its strong position in the FMCG sector. Our Polish operation continued to focus on higher added-value products, gaining share in a broadly static market. Market conditions in Turkey remained difficult and after the year end, we announced the sale of the business for £4.7 million.

Rubezhansk, our Ukrainian associate business continues to trade profitably and to generate cash. This is a substantial, vertically-integrated packaging business with a market-leading position, supplying the FMCG customers principally in Ukraine and Russia. The business has excellent long-term potential. As noted in the Financial Review, we are continuing to work with our partner and the lending banks to resolve the position in relation to the external financing of this business.

In 2010/11, we expect margins to come under increased pressure from higher input costs, but we expect to benefit from higher sales volumes. Our priorities are to maintain good levels of profitability through increased selling prices, volume growth and control of costs.

Plastic Packaging

Revenue in Plastic Packaging decreased by 2.4% over the year to £231.3 million (2008/09: £236.9 million) due to lower selling prices, following reduction in polymer costs, and our exit from a lower margin packaging management contract in continental Europe. Adjusted operating profit more than doubled to £15.5 million (2008/09: £7.0 million) as a result of lower costs following the prior year's restructuring actions and increased sales into new market segments.

Results in liquid packaging and dispensing benefited from higher sales, particularly into new markets in the USA. Results in Europe increased substantially, reflecting the restructuring and cost cutting previously mentioned, as well as higher sales of existing products into new markets and our focus on improving the business mix.

Demand in the returnable transit packaging sector continued to be weak. Sales to the construction and automotive sectors, which fell sharply during 2008/09, have seen no real recovery. Our beverage crate business, which was significantly affected by the deferral of crate replacement programmes, has seen a modest increase in demand as customers have begun to purchase some replacements. This business increased its profits in the year as a result of active management of conversion costs, low raw material prices in the first half of the year and development of products in all of the constituent businesses.

In January 2010, we completed the sale of Demes Logistics, a small plastics logistics business based mainly in Germany. The business had gross assets of €11.2 million.

In 2010/11, we expect to build further on the strong recovery in liquid packaging and dispensing and to see growth in demand for RTP's products.

OFFICE PRODUCTS WHOLESALING

Overall revenue increased by 1.8% to £733.7 million (2008/09: £720.5 million), reflecting lower volumes which were more than offset by the effect of the depreciation of sterling against the euro. The trading environment was better than expected given the substantial economic slow-down in the major markets we serve. An increase in sales of electronic office supplies (EOS), was partly offset by lower sales in traditional office products.

In Spicers UK, revenue fell marginally. Non-EOS sales declined for the first three quarters of the year then began to recover in the final quarter. EOS sales grew modestly. Operating profit was higher than last year, benefiting from actions to cut costs and improve the sales mix.

In the continental European businesses, which account for just over half of Spicers' total revenue, profit was flat. Operating results in France, Germany and the Benelux region matched or exceeded last year and Italy put in a strong performance. Trading was difficult in Ireland and Spain where, in both countries, the economic downturn has had a significant effect.

In 2010/11, we will focus on improving our overall sales, primarily in traditional office products, and on tight cost control. We believe that Spicers is well placed to take advantage of improving economic conditions, due to its strong market positions.

OUR PEOPLE

I have been hugely impressed by the dedication and commitment of the employees of DS Smith during my early visits to the businesses. It is clear that we have skilful, enthusiastic and creative people who have worked hard to support the Company through recent difficult times. I thank them for all they have done to date and look forward to working with them in the future.

OUTLOOK

Trading in the current financial year has started well and is in line with our expectations. We are experiencing increasing sales volumes due to the continuing recovery in market conditions. We are also benefiting from the success of our service and product offering.

MILES ROBERTS
Group Chief Executive

A Clear and Consistent Strategy

OUR VISION

To be the leading supplier of high-performance sustainable packaging designed to enhance our customers' products

OUR GOALS

- To be the supplier of choice of packaging solutions in our chosen markets across Europe
- To deliver great value to customers
- To deliver to shareholders a growing business with enhanced margins and returns on capital employed
- To build on Spicers' position as the leading pan-European wholesaler of office products

OPERATING STRATEGY

PACKAGING

- Build our sales to fast-moving consumer goods and industrial customers across Europe
- Focus on innovation to drive growth
- Further develop our capabilities to offer recyclable, lower environmental impact packaging to meet increasing demand
- Grow both organically and through acquisition
- Increase exposure to corrugated packaging
- Selectively increase our presence in growth markets in Eastern Europe
- Develop our internal Group culture to support our employees
- Enhance customer service
- Boost our efficiency through operating improvement and cost reduction

see page 22

OFFICE PRODUCTS WHOLESALING

- Expand the product range
- Strengthen presence in the markets in which we have significant market share and build operations in the markets in which we are under-represented
- Continue to drive efficiency and enhance profits
- Invest in staff to support best-in-class customer service

see page 27

RISK MANAGEMENT

- Understand, monitor and effectively manage risks to our businesses

see page 32

CORPORATE RESPONSIBILITY

- Maintain high standards in the way we conduct our business with respect to the health and safety of our employees, the communities in which we work and by paying due regard to our impact on the environment

see page 34

Our strategy to focus on faster-growing, high value-added products has contributed to our robust performance in 2009/10 and will enable us to benefit from improving economic conditions.

GROUP STRATEGY

Our objective is to create businesses that are more focused, producing higher, more sustainable and consistent returns. We have a number of strong opportunities. We will build our businesses in sectors that offer growth, where customers demand excellent customer service and support, as well as product and service development and where we can deliver at the most efficient cost to customers. This will be delivered by creating a culture that engages all colleagues in the achievement of our results.

PACKAGING

In the UK, we will maintain our leadership positions in all three parts of the corrugated packaging supply chain, through both organic development and acquisition. We believe that a combination of scale and the interaction between our three businesses will allow us to meet our target of generating an adjusted return on average capital employed over the business cycle in excess of the cost of capital.

Our Continental European Corrugated Packaging business is a market leader in heavy-duty industrial packaging, a high value-added product which we supply competitively to both local and export markets. We will mirror our successful UK strategy of increasing exposure to retail-ready packaging and the FMCG market in Europe, which we expect to grow significantly more quickly than the overall market for packaging.

In our Plastic Packaging business we are focused on two sectors: Returnable Transit Packaging (RTP) and Liquid Packaging and Dispensing (LP&D). The RTP market is highly fragmented but we have built good positions in our selected market sectors. We are number two globally in LP&D with leading market positions in Europe, the USA and Australasia.

OFFICE PRODUCTS WHOLESALING

Our strategy is to be a pan-European, highly efficient wholesaler of office products. Our primary aim is to support our network of dealers in growing their share of the market. In the short-term our emphasis will be on: raising profits substantially in the UK and Ireland; strengthening further our market positions in the continental European markets in which we have an established position; and extending our businesses in our developing markets, especially Germany and Italy.

FINANCIAL OBJECTIVES

Our aim is to generate enhanced returns and cash flows for our investors over the longer term, while maintaining a strong balance sheet. We will do this through concentrating on higher return, higher growth business areas and ensuring that our products and services are low cost and provide high added-value.

Our Group Key Performance Indicators at a Glance

Adjusted return on average capital employed

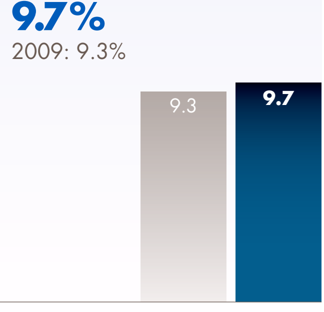
Target

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

Definition

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

9.7%
2009: 9.3%



Adjusted EBITDA margin

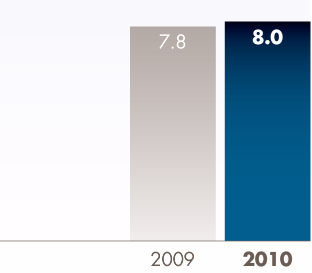
Target

To generate an adjusted EBITDA margin which enables us to pay our dividends while providing funds for development.

Definition

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

8.0%
2009: 7.8%



Adjusted earnings per share

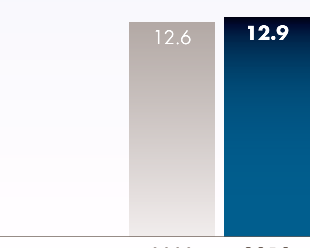
Target

To achieve an improved adjusted earnings per share between one business cycle and the next.

Definition

Net profit attributable to shareholders before exceptional items divided by the weighted average number of shares outstanding (see note 8 on page 76).

12.9 pence
2009: 12.6 pence



Net debt/adjusted EBITDA

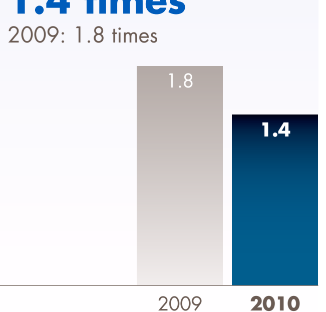
Target

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

Definition

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

1.4 times
2009: 1.8 times



Description of the Group

DS Smith – international packaging supplier and office products wholesaler

PACKAGING

UK PAPER AND CORRUGATED

A leading position in the whole UK corrugated packaging supply chain

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

Severnside Recycling is the leading UK collector and merchant of waste paper, the principal raw material for producing recycled paper. In total, annually it sources 1.7 million tonnes of waste paper by means of collections through its 15 UK depots and open-market purchases from supermarkets and third-party waste merchants. In addition, Severnside's facilities management function provides general recycling and waste disposal services for customers in a number of sectors.

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CONTINENTAL EUROPEAN CORRUGATED

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

In continental Europe, DS Smith Kaysersberg produces 0.64 billion square metres per annum of corrugated packaging at 12 factories located in France, Italy, Poland, Czech Republic and Slovakia. The bulk of its CCM requirements are sourced from third parties. It has estimated market shares of 4% in France, 5% in Italy and 8% in Poland. The business has been growing strongly in Poland.

DS Smith Kaysersberg produces 0.2 million tonnes of recycled paper (principally solid board for use in the manufacture of detergent boxes) at two mills in France. DS Smith also owns 49.6% of the leading paper and corrugated packaging business in Ukraine; the results of this business are reported under associates.

see page 25

PLASTIC

Focused on two plastic packaging markets

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

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

In LP&D, it is ranked as number two globally in bag-in-box packaging systems and injection-moulded taps and dispensers, which are supplied worldwide to the soft drinks, wine, food and other industry sectors from 11 locations in the UK, Germany, Bulgaria, Slovakia, the USA, Australia and New Zealand.

see page 26

OFFICE PRODUCTS WHOLESALING

SPICERS

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

Spicers is the number one European wholesaler of office products; it has leading positions in the UK, Ireland, France and the Benelux region, and it is building its position in continental Europe with development businesses in Germany, Spain and Italy. Its network of distribution centres comprises: UK – 8; Ireland – 1; France – 6; Benelux – 1; Germany – 2; Spain – 2; and Italy – 1.

Spicers provides a wholesaling service to its customer base of office products dealers and resellers, who principally supply small and medium-sized offices. It supplies approximately 11,500 dealers throughout Europe and no single dealer customer accounts for more than 4% of Spicers' total revenue. Spicers' product range supplied across Europe, of up to 22,000 product lines in each country, comprises its own 5-Star

see page 27

Severnside's main sources of waste paper include large supermarket groups and other retailers, other commercial and industrial organisations and local authorities. The largest single source of waste paper accounts for 16% of the total amount sourced. Severnside particularly concentrates on sourcing used corrugated packaging, referred to as old corrugated containers (OCC), which is the most suitable form of waste paper for producing recycled CCM. Severnside supplies all of the 1.2 million tonnes of waste paper required by the St Regis paper mills and it sells 0.5 million tonnes on the open market.

St Regis' four paper mills produce approximately 1.0 million tonnes of 100% recycled paper. St Regis is the leading UK producer of CCM, which accounts for over 75% of the paper it produces, and is a leading European producer of plasterboard liner, which accounts for approximately 15% of its production; the remainder comprises other speciality paper grades. The Group's Corrugated Packaging operations account for around 40% of St Regis' CCM sales. St Regis' external sales are made to over 300 customers; no single external customer accounts for more than 5% of the Group's total UK Paper and Corrugated Packaging revenue.

DS Smith Packaging produces 1.1 billion square metres per annum of corrugated packaging at 30 factories located throughout the UK. It is the leading supplier of corrugated packaging to the UK market with a market share of around 25%. Approximately 70% of sales go into the fast-moving consumer goods (FMCG) sector, predominantly for food and beverages, with the remainder being principally for the consumer durables, industrial or trade sectors. DS Smith Packaging supplies many of the leading FMCG companies; no individual customer accounts for more than 3% of the total UK Paper and Corrugated Packaging revenue.

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

Additionally, the segment contains a development business, StePac, based in Israel, which specialises in modified atmosphere packaging for preserving the quality of fresh fruit and vegetables in transit.

The division purchases a wide range of polymers and plastic films, principally polypropylene, high density polyethylene and polycarbonate. This segment has a widely spread customer base and no single customer accounts for more than 3% of DS Smith Plastics' total revenue.

brand and other branded products of traditional stationery items, electronic office supplies, office furniture, janitorial supplies and office catering and vending provisions. Its range is communicated to its dealers and the offices they supply through printed catalogues and electronic systems; orders are now principally submitted to Spicers on-line or by other electronic means.

Spicers offers its dealer customers a same-day or an overnight, next-day delivery service; it also provides the dealers with marketing and promotional support. The business is highly transaction-intensive with approximately 720,000 line-items being processed weekly. The maintenance of reliable and efficient systems that are capable of handling the high volume of customer orders received daily, either on-line or by telephone, is a key feature of the business. Spicers' business model is explained further on page 27.

Operating Review

PACKAGING

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

Paper and Corrugated Packaging Market Overview

THE CORRUGATED PACKAGING MARKET

The European market for corrugated packaging in 2009 is estimated to have been approximately 33 billion square metres[1], equivalent to circa 17.5 million tonnes, of which the UK market is estimated to be 10%. Demand for corrugated packaging is principally influenced by overall economic activity and manufacturing output.

In the calendar year 2009, the European market for corrugated packaging, measured in square metres, declined by 6.7%. Demand in western Europe fell by 7.7% and within this the UK market fell by 8.1%. Demand in eastern and central Europe fared slightly better and was down by 0.9% in 2009. Owing to cost and environmental pressures, there is a continuing emphasis in most markets on reducing the average weight of packaging. As a result, European demand, when measured by weight, declined by 7.0% and the UK market, which is at the forefront of the 'light-weighting' trend, fell by 10.1%. Across Europe, demand was weak, in line with the economic downturn, especially in the first half of the year. The first quarter in 2010 has seen an improvement in demand and this trend is expected to continue as the year progresses.

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

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

Within the overall weaker market for boxes there is a continuing strong trend towards the greater use of lighter-weight corrugated packaging. This trend is being driven not only by the continuing pressure through the supply chain to reduce the cost of packaging but also the increased attention being given to the quantity and type of packaging being used in order to reduce the amount of waste going to landfill. Corrugated packaging is fully recyclable and the trend towards use of lighter-weight boxes has been enabled by the increasing availability of high-quality lightweight recycled corrugated case material (CCM) with good strength characteristics. This lightweight CCM allows box manufacturers to produce packaging with high performance characteristics while reducing the weight of material used.

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

THE CORRUGATED CASE MATERIAL MARKET

Whereas boxes are generally sold locally, CCM is sold on a pan-European basis and pricing is therefore affected by pan-European supply and demand. The market for CCM in Europe is dependent upon European demand for corrugated packaging, as the imports and exports of unfilled boxes are negligible. Approximately 80% of the CCM used in Europe is made from recycled fibre, with the balance principally comprising kraftliner, which is made from virgin wood pulp.

The lower demand for boxes has resulted in reduced demand for CCM. However, within the overall CCM market there is strong demand for high quality, lightweight CCM to produce lighter-weight packaging. The growth in the usage of lightweight CCM continues to be limited by the available supply of lightweight paper as the majority of the existing CCM machines are unable to manufacture lightweight papers cost-effectively or to an acceptable quality. This increased demand for high-quality lightweight CCM is resulting in the addition of new CCM capacity capable of producing lightweight paper.

1 Source: European Federation of Corrugated Board Manufacturers

OUR UK CORRUGATED PACKAGING SUPPLY CHAIN

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

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

In January 2009, the Group started production of its 'K-light' lightweight CCM product at Kemsley. Other European lightweight producers started up new machines located in Poland and Hungary during the second half of 2009 and in Germany in 2010. This new capacity will produce circa 1.5 million tonnes per annum when it is fully operational. Additionally, it has been reported in the press that a new 400,000 tonne machine is planned for 2012 in the UK. It is anticipated that the production from the new machines will principally be targeted at satisfying the rapidly growing pan-European demand for lightweight paper.

During 2008 and 2009, a number of closures of older recycled CCM machines, representing circa 0.8 million tonnes of capacity, were implemented across the industry. Despite these closures it is estimated that there is currently an oversupply of some three million tonnes of CCM in Europe. There are no new machines planned until 2012 and with demand picking up, this oversupply is expected to lessen considerably over the next two years. Additionally, the continuing economic viability of some existing older machines across the industry is under pressure due to having a much higher cost base relative to new machines, especially in terms of fibre costs.

CCM AND BOX PRICES

Finished recycled paper stocks in 2010 have fallen rapidly and are below levels seen in 2006. This, coupled with a rapid pick-up in demand at the start of the year has led to a change in the pricing environment in Europe. As a result, CCM prices in both the UK and continental Europe increased by 60% in the final quarter of 2009 and the first quarter of 2010. These increases in CCM prices have necessarily resulted in increases in box prices.

WASTE PAPER

Waste paper, the principal raw material for recycled CCM, is a globally traded commodity. The price of old corrugated containers (OCC), the principal grade of waste paper used for producing CCM rose throughout the financial year, increasing by over 50%. Three main factors drove the price increases: demand from Asia increased, including demand from India and Indonesia, as well as the more established demand from China; waste paper collected was down due to lower economic activity; and there was demand from new European mills using OCC to make recycled CCM.

UK Paper and Corrugated Packaging

Good productivity and cost reductions offset the effects of lower demand and rising input costs.

	2009/10	2008/09
Revenue – £m	**750.2**	785.8
Adjusted operating profit – £m*	**35.4**	36.5
Adjusted EBITDA – £m*	**74.4**	73.2
Segment key performance indicators:		
Revenue growth – %	**(4.5)%**	4.3%
Adjusted return on sales – %*	**4.7%**	4.6%
Adjusted EBITDA margin – %*	**9.9%**	9.3%
Adjusted return on average capital employed – %*	**6.6%**	6.7%

* before exceptional charge of £4.5m (2008/09: £18.2m)

2009/10 PERFORMANCE

Results in the UK Paper and Corrugated Packaging segment were affected by lower demand for packaging and the rising cost of raw materials. Our corrugated box business performed well, despite a lower demand for boxes, through its focus on adding value for FMCG customers with innovative products and services. Our paper business began to benefit from rising CCM prices towards the end of the financial year. Revenue fell 4.5% to £750.2 million. Adjusted operating profit was marginally lower at £35.4 million (2008/09: £36.5 million).

Our waste paper recovery and recycling business, Severnside Recycling, was affected by the rapidly increasing cost of recovered paper, which increased by over 50% during the financial year, due to resurgent demand from Asia. The amount of material available for collection was lower due to the reduced levels of activity at retailers and other businesses. Despite this, volumes increased due to the acquisition of new customers. In addition to fulfilling its primary role of securing the required quantities of fibre for our UK paper mills, Severnside developed further its value-added waste management services in response to growing demand, which is being stimulated by government action to reduce the amount of waste going to landfill. During the course of the year, Severnside and our UK box business, DS Smith Packaging, have further strengthened their marketing collaboration for our 'cradle-to-cradle' environmental capability. In April 2009, Severnside announced that it had entered a contractual relationship with Marks & Spencer (M&S) to help the retailer to achieve its 'Plan A' goal of sending zero waste to landfill by 2012. Severnside will provide the management systems for dealing with waste generated by all stores and distribution centres. Fibre-based packaging material produced by M&S will be reprocessed through Severnside's UK facilities. Any residual waste, mainly food waste, will be processed through a network of landfill diversion technologies, focusing on anaerobic digestion facilities being developed by strategic partner, Shanks Group plc. Customers are increasingly recognising the benefits of the Group's expertise in the design of waste-minimising packaging, the manufacture of fully recyclable boxes and waste recycling and disposal services.

Revenue at St Regis, our UK paper business, fell slightly, due to the ending of a tolling contract to supply M-real with copier paper, which was mostly mitigated by the full-year contribution from the new lightweight paper machine at Kemsley. Waste paper costs increased, but the business benefited from the increase in CCM prices in the second half of the financial year.

In early 2009, production of lightweight CCM ('K-light') commenced. The quality of the 'K-light' product being produced continues to exceed our expectations and there is strong demand for this lightweight paper despite the weaker demand for CCM as a whole. We believe that this investment has materially strengthened the long-term competitiveness of our UK Paper and Corrugated Packaging business. It has established us as a leader in high-quality, high-performance, lighter-weight packaging and given us a significant capability as well as an increased share of this growing market.

DS Smith Packaging, our UK box business, achieved a good result, strengthening its position in a weaker overall market. Increasing CCM costs necessitated price increases from the second half of the year, which continue to be implemented. We benefited from our broad exposure to the FMCG sector of the market and particularly from our focus on RRP, which continues to increase its share of the market. We are continuing to develop our innovative supply chain support service, designing and manufacturing packaging solutions that will reduce customers' overall transportation and handling costs, and hence their carbon footprint. Our sheet-feeding operation, which supplies corrugated sheet to box converters, increased its market share during the year, aided by structural changes in the market.

As we enter 2010/11, we are experiencing modest improvements in demand offset by increasing waste paper input costs and CCM prices. We will build on the strong market positions achieved to date and are well positioned for growth.

Continental European Corrugated Packaging

Despite growth in our share of the FMCG market, results were affected by weak demand and higher input costs.

	2009/10	2008/09
Revenue – £m	**355.4**	363.4
Adjusted operating profit – £m*	**22.9**	30.4
Adjusted EBITDA – £m*	**38.7**	45.8
Segment key performance indicators:		
Revenue growth – %	**(2.2)%**	5.0%
Adjusted return on sales – %*	**6.4%**	8.4%
Adjusted EBITDA margin – %*	**10.9%**	12.6%
Adjusted return on average capital employed – %*	**11.9%**	15.2%

* before exceptional charge of £7.1m (2008/09: £24.7m)

2009/10 PERFORMANCE

The Continental European Corrugated Packaging segment saw demand recovering at the end of the fiscal year. A 4% volume improvement in the fourth quarter, year-on-year, resulted in volume for the full year increasing by 2%. Revenue fell by 2.2% to £355.4 million (2008/09: £363.4 million), mostly due to lower selling prices at the beginning of the fiscal year. This segment, which is a substantial net buyer of paper, suffered from increasing CCM prices, partially offset by a significant reduction in conversion costs. Operating profit decreased by 24.7% to £22.9 million (2008/09: £30.4 million). Excluding the effects of foreign exchange translation, revenue was £18.2 million lower than in 2008/09. Operating profit, excluding the effects of foreign exchange was £8.1 million lower than in the prior year.

The 2% increase in volume for the full year was a result of our continental European business having focused strongly on developing its sales to the fast moving consumer goods (FMCG) market. The sales to this market increased by almost 10%, taking its share of our business to 48%, and compensated for lower industrial sales.

In our established markets, the French paper business, which focuses on supplying speciality products, suffered from higher input (waste paper) costs, particularly in the second half of the year. Our French corrugated packaging business increased sales to the FMCG sector by over 10%. Our particularly strong market position in heavy-duty packaging for the industrial sector in France continued to be affected by the sharply lower level of activity in some of its customers' industries. Our Italian business performed particularly well in a difficult trading environment.

In our developing markets, the Polish business continued to develop its speciality product portfolio, gaining share in a broadly static market. We are taking advantage of the investments we have made over a number of years and our focus on developing sales of higher value-added products. Our facilities in Poland also serve the adjacent markets in the Czech Republic, Hungary, Slovakia, Russia and Lithuania.

Although operating results at our Ukrainian associate business Rubezhansk, which is reported under associates, were affected by weaker sales volume and margin pressure from rising costs, it remained profitable and cash generative. As explained in last year's annual report, we fully impaired the carrying value of the investment in this business due to the covenant breach in the large, non-recourse to DS Smith, US dollar denominated loan and we remain in discussion with the lenders.

In 2010/11, we expect margins to come under increased pressure from higher input costs, but we expect to benefit from higher sales volumes. Our priorities are to maintain good levels of profitability in our three principal markets – France, Italy and Poland – through increased selling prices, volume growth and control of conversion costs. We will continue to invest in and develop the Polish business in both conventional and speciality products and concentrate on supplying the higher value-added product sectors in all our markets.

Plastic Packaging

Results recovered strongly due to improvements in both our major segments.

	2009/10	2008/09
Revenue – £m	**231.3**	236.9
Adjusted operating profit – £m*	**15.5**	7.0
Adjusted EBITDA – £m*	**27.6**	19.2
Segment key performance indicators:		
Revenue growth – %	**(2.4)%**	6.0%
Adjusted return on sales – %*	**6.7%**	3.0%
Adjusted EBITDA margin – %*	**11.9%**	8.1%
Adjusted return on average capital employed – %*	**12.6%**	5.3%

* before exceptional income of £0.1m (2008/09: exceptional charge of £4.0m)

MARKET OVERVIEW

Returnable transit packaging (RTP) products are mostly used within the retail, automotive, electronics and beverage sectors. Demand is heavily influenced by industry sector activity levels. RTP is often a capital purchase for our customers, being driven by particular projects, hence annual demand can be uneven. The European market for RTP is fragmented into many product subsectors and has a large number of suppliers. In western Europe, the markets we serve are estimated to have declined in 2009 as a result of the slow-down in industrial and retail activity. The previous trend towards the use of multi-trip, reusable packaging on cost and environmental grounds has reduced in recent years, although there remain many market sectors that are well suited to returnable systems. This slowdown in demand has been partly a result of the fluctuations in polymer costs and partly a result of the general decline in economic activity.

The global market for liquid packaging and dispensing (LP&D) products is estimated to be approximately £500 million. The principal uses of bag-in-box packaging are for wine, agricultural produce (such as fruit juice and dairy products) and food service applications such as carbonated soft drink concentrate (for the hotel and restaurant industries). The market for dispensing products (principally taps), other than for bag-in-box systems, is fragmented across a wide range of applications. DS Smith Plastics is a major supplier to the wine and liquid detergent sector; the latter has grown strongly in recent years in the USA.

Polymer prices fell during 2009, then began to increase rapidly in the second half of the year.

2009/10 PERFORMANCE

DS Smith Plastics' revenue decreased by 2.4% to £231.3 million (2008/09: £236.9 million), including the positive effect of foreign exchange translation. Results were higher in both of our major sectors such that overall adjusted operating profit more than doubled to £15.5 million. The effects of foreign exchange translation improved revenue and operating profit by £11.2 million and £0.8 million respectively compared with 2008/09.

In RTP, revenue excluding the impact of foreign exchange translation accounted for 43% of the segment revenue and was 6.2% lower due to weak and variable demand from almost all its main customer sectors. Sales to the construction and automotive sectors continued to be weak and our beverage crate business was significantly affected by the deferral by our customers of anticipated crate replacement programmes.

In LP&D, revenue excluding the impact of foreign exchange translation accounted for 57% of the segment and fell by 2.3%. Our USA operations showed a strong performance, partly due to the development of new market sectors for bag-in-box packaging. Our European operations also improved profits, benefiting from the restructuring completed last year and sales of existing products into new markets.

In January 2010, we completed the sale of Demes Logistics, a small plastics logistics business based mainly in Germany. The business had gross assets of €11.2 million.

In 2010/11, we expect to build further on the strong recovery in LP&D and to see growth in demand for our RTP products.

Office Products Wholesaling

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

	2009/10	2008/09
Revenue – £m	**733.7**	720.5
Adjusted operating profit – £m*	**20.2**	20.1
Adjusted EBITDA – £m*	**25.3**	25.7
Segment key performance indicators:		
Revenue growth – %	**1.8%**	11.7%
Adjusted return on sales – %*	**2.8%**	2.8%
Adjusted EBITDA margin – %*	**3.4%**	3.6%
Adjusted return on average capital employed – %*	**16.9%**	15.2%

* before exceptional charge of £1.8m (2008/09: £3.7m)

MARKET OVERVIEW

The office products markets of the UK, France and Germany, in which Spicers currently has approximately 85% of its sales, are estimated to be worth approximately £5 billion, €6 billion and €7 billion respectively, at manufacturers' selling prices. The demand for office products is principally influenced by the level of economic activity. The value of the markets in which Spicers operates fell in 2009, with the traditional stationery sector declining significantly although the electronic office supplies (EOS) sector continued to show modest growth. EOS accounts for approximately 50% of the total office products market. It is especially price-competitive on the high-volume EOS products.

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

2009/10 PERFORMANCE

Spicers showed overall sales growth, aided by the translation benefits of the stronger euro. Despite the adverse impact of the economic environment on the demand for office products, revenue increased by 1.8% to £733.7 million (2008/09: £720.5 million). Adjusted operating profit increased marginally at £20.2 million, with improved results in all markets except Spain and Ireland. The effects of foreign exchange translation improved revenue by £20.1 million and operating profit by £1.1 million compared with 2008/09.

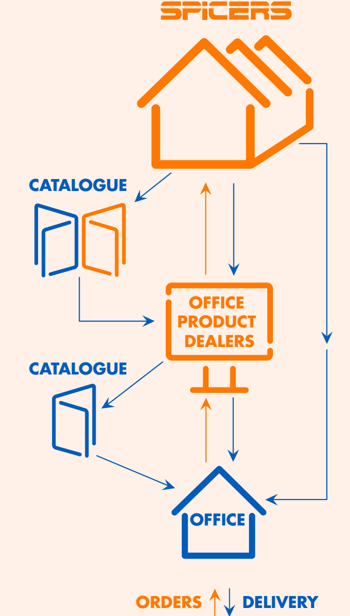
In the UK, which accounts for approximately half of our office products wholesaling revenue, sales declined slightly. However, this modest decline masks a more significant decline in traditional office products, partly offset by growth in lower margin EOS. Despite the lower sales and mix change, our actions to focus on efficiency, reduce the cost to sales ratio and on maintaining overall margins, led to improved profits. Action will continue to be taken to improve the sales mix and to raise efficiency levels further, with the aim of continuing the positive profit trend.

In continental Europe, our well-established businesses in France, Germany and the Benelux region performed solidly despite the decline in the overall market. Our Italian operation once again showed good profit growth, consolidating its position as a significant supplier in this market.

Under the leadership of George Adams, who was appointed to the role of Divisional Chief Executive of Spicers in June 2009, the management team has been further strengthened and the Spicers business has further developed its strategy. New initiatives are being created to support dealers with new ranges and we are investing in strengthening our service capability.

In the current year we expect to build on the achievements of 2009/10 and benefit further from the restructuring actions taken to date. We will build on our good overall performance in continental Europe while continuing to drive profit improvement in the UK. We will focus on improving our overall sales levels, primarily in traditional office products, and on tight cost control. We believe that Spicers is well placed to take advantage of improving economic conditions, due to its strong market positions and its thorough understanding of supply chain management.

SPICERS' BUSINESS MODEL



SPICERS

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

DEALERS AND RESELLERS

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

OFFICE END-USERS

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

Financial Review

"The Group achieved a strong financial performance despite economic conditions."

OVERVIEW

The Group has achieved a strong financial performance despite challenging trading conditions. A combination of early action taken to control costs and relentless focus on managing the business through the tough economic conditions led to our matching the level of operating profit achieved in 2008/09. Free cash flow was higher than in 2008/09 due to the planned reduction in capital expenditure and the additional benefits of asset disposals and lower interest payments.

TRADING RESULTS

The Group's trading results for the year to 30 April 2010 are summarised in Table 1.

The major drivers of the 2009/10 results were: lower prices across the Packaging activity as a whole due to the weak economic environment; a recovery in CCM selling prices during the second half of the year in the UK Paper and Corrugated Packaging segment; a significant turnaround in our Plastic Packaging segment and a resilient performance from the Office Products Wholesaling segment.

Revenue for the financial year ended 30 April 2010 decreased by 1.7% compared with the prior year; it was 7.7% lower in the first half of the year but 4.9% higher in the second half. Excluding the effect of movements in foreign exchange rates, revenue was down 3.6% on 2008/09.

Adjusted Group operating profit (excluding exceptional items) in 2009/10 matched the 2008/09 figure of £94.0 million. UK Paper and Corrugated Packaging was marginally down, at £35.4 million, whilst Continental European Corrugated Packaging declined by £7.5 million to £22.9 million. The performance in these two segments was offset by strong performance in Plastic Packaging which increased operating profits by £8.5 million to £15.5 million and Office Products Wholesaling which was £0.1 million ahead of last year at £20.2 million. The Group's adjusted return on sales was maintained at 4.5%.

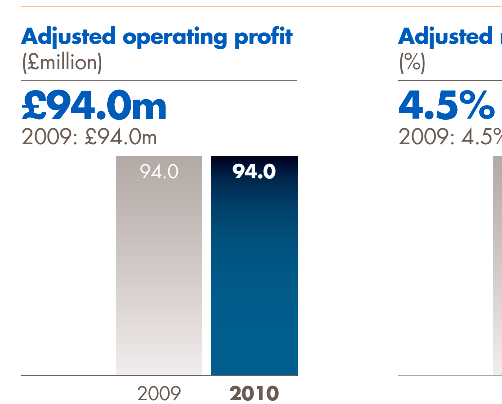
The Group's adjusted pre-tax return on capital employed (which is defined as the adjusted operating profit divided by the average capital employed) increased from 9.3% in 2008/09 to 9.7% in 2009/10, although this remains below the Group's estimated pre-tax cost of capital of 11.8%. The increase in the Group's return on capital employed reflected higher returns in 2009/10 in both Plastic Packaging and Office Products Wholesaling, which were partially offset by lower returns in UK Paper and Corrugated Packaging and Continental European Corrugated Packaging. The pre-tax cost of capital for each segment varies between 11.1% for Plastic Packaging and 13.4% for Office Products Wholesaling.

EXCEPTIONAL ITEMS

The Group recorded net exceptional charges before tax of £13.3 million during the year (2008/09: £55.7 million). A total of £13.3 million was recorded against operating profits, of which £2.7 million were restructuring costs. Impairments included the impairment of the carrying value of intangible assets within UK Paper and Corrugated Packaging of £4.3 million. In anticipation of the disposal of the Group's business in Turkey, which was announced in May 2010, the assets of the business were impaired by £5.9 million. A further £0.4 million was recorded against exceptional costs in respect of Demes Logistics (which was sold in January 2010) and the anticipated disposal of a small UK corrugated packaging business, which occurred after the year end. Operating profit after exceptional items was £80.7 million (2008/09: £43.4 million).

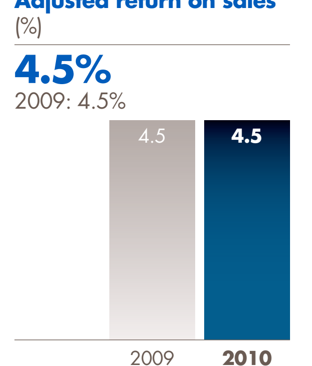
Adjusted operating profit
(£million)

£94.0m
2009: £94.0m



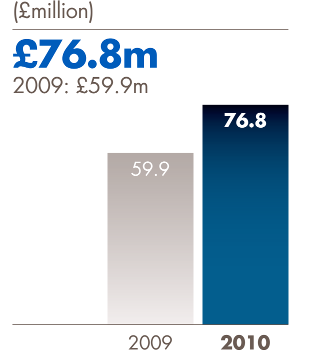
Adjusted return on sales
(%)

4.5%
2009: 4.5%



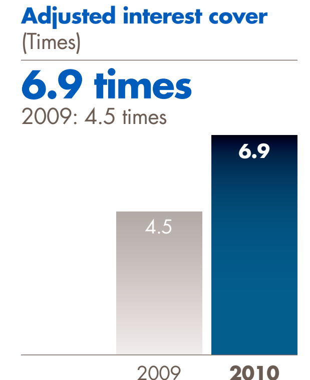
Free cash flow
(£million)

£76.8m
2009: £59.9m



Adjusted interest cover
(Times)

6.9 times
2009: 4.5 times



INTEREST, TAX AND EARNINGS PER SHARE

Net interest expense decreased from £23.6 million in 2008/09 to £14.4 million in 2009/10, mainly reflecting lower interest rates and lower average net debt. The employment benefit net finance charge, which is a non-cash item, was £11.5 million (2008/09: £1.5 million income), reflecting a higher opening deficit on the defined benefit schemes. For 2010/11, given the lower discount rates used and higher return on assets, it is anticipated that there will be a decrease in the employment benefit finance charge to circa £8.0 million.

In 2008/09 the Group took the decision to fully impair its investment in Rubezhansk, the Group's associate business in Ukraine. Consequently, the Group has not recorded any income in respect of profits achieved by the business due to the continuing uncertainty of the outcome of the negotiations between Rubezhansk and lenders regarding the restructuring of Rubezhansk's US$87 million loan. There is no recourse to the Group for the loan held by Rubezhansk.

Adjusted profit before tax was £68.3 million (2008/09: £72.5 million). Profit before tax after exceptional items was £55.0 million (2008/09: £16.8 million).

The Group's effective tax rate, excluding exceptional items and associates, at 26.1%, was lower than the previous year's rate of 31.4% mainly as a result of the recognition of prior year foreign currency losses which only became recognisable under IFRS when the tax return is submitted. A tax credit on exceptional items of £0.9 million resulted from tax allowances for restructuring costs.

Adjusted basic earnings per share were 12.9 pence (2008/09: 12.6 pence). Basic earnings per share were 9.7 pence (2008/09: losses per share 3.0 pence).

TABLE 2 – CASH FLOW

	2009/10 £m	2008/09 £m
Operating profit before exceptional items	**94.0**	94.0
Depreciation and amortisation	**72.0**	69.9
Adjusted EBITDA	**166.0**	163.9
Working capital movement	**(2.4)**	30.8
Other	**(9.7)**	(11.1)
Cash generated from operations	**153.9**	183.6
Capital expenditure payments	**(52.6)**	(87.4)
Sales of assets	**13.0**	7.7
Tax paid	**(21.3)**	(21.0)
Net interest paid	**(16.2)**	(23.0)
Free cash flow[1]	**76.8**	59.9
Exceptional cash costs	**(18.4)**	(17.2)
Dividends	**(12.9)**	(34.4)
Dividends paid to minority shareholders	**–**	(1.9)
Net acquisitions	**(1.0)**	(1.2)
Net cash flow	**44.5**	5.2
Purchase of own shares	**–**	(0.2)
Net debt acquired	**(0.9)**	(0.2)
Non-cash movements	**8.4**	(44.5)
Net debt movement	**52.0**	(39.7)

1 before net acquisitions/(disposals) of equity in subsidiaries, exceptional cash costs and dividends

DIVIDEND

The proposed final dividend is 3.1 pence (2008/09: 1.8 pence), giving a total dividend for the year of 4.6 pence (2008/09: 4.4 pence). Dividend cover before exceptional items was 2.8 times in 2009/10 (2008/09: 2.9 times). After exceptional items the dividend was covered 2.1 times (2008/09: not covered).

CASH FLOW

The Group generated free cash flow of £76.8 million (2008/09: £59.9 million). Adjusted EBITDA rose by £2.1 million to £166.0 million. Despite the increase in paper and box prices towards the end of the year, our tight control of working capital resulted in a working capital cash outflow of just £2.4 million (2008/09: inflow of £30.8 million). Cash generated from operations (before exceptional items) was £153.9 million (2008/09: £183.6 million).

TABLE 1 – TRADING RESULTS SUMMARY

	First half		Second half		Full-year	
	2009/10	2008/09	**2009/10**	2008/09	**2009/10**	2008/09
Revenue – £m	**1,018.0**	1,102.8	**1,052.6**	1,003.8	**2,070.6**	2,106.6
Adjusted operating profit – £m*	**48.5**	54.4	**45.5**	39.6	**94.0**	94.0
Adjusted return on sales – %*	**4.8%**	4.9%	**4.3%**	3.9%	**4.5%**	4.5%
Adjusted return on average capital employed – %*	**9.9%**	10.8%	**9.4%**	7.7%	**9.7%**	9.3%

* before exceptional items

Capital expenditure payments after disposals were £52.6 million (2008/09: £87.4 million). The interest paid decreased in line with the income statement charge.

Proceeds from sales of assets and investments of £13.0 million were principally accounted for by the sale of the Demes Logistics assets, together with the disposal of surplus property assets.

Tax payments were £21.3 million (2008/09: £21.0 million). Cash dividend cover, defined as free cash flow divided by dividends paid/declared for the year, was 6.0 times, up from 1.7 times in 2008/09.

The cash outflow in respect of exceptional restructuring costs was £18.4 million (including cash outflows related to exceptional charges made in 2008/09), compared with a cash outflow from restructuring costs of £17.2 million in 2008/09.

The net cash outflow on acquisitions was £1.0 million (2008/09: £1.2 million).

In respect of pension payments, the agreed annual contributions into the UK Group Pension Scheme were £15.6 million in 2009/10 (2008/09: £15.6 million).

Overall, the Group generated cash of £44.5 million (2008/09: £ 5.2 million) after funding additional capital expenditure and restructuring costs.

FINANCIAL POSITION

Shareholders' funds totalled £474.8 million at 30 April 2010, up from £458.0 million at 30 April 2009, principally due to lower borrowings. Net assets per share were 121.0 pence (30 April 2009: 116.7 pence). The profit attributable to the shareholders of DS Smith Plc was £37.9 million (2008/09: £11.8 million loss) and dividends of £12.9 million (2008/09: £34.4 million) were paid during the year. In addition, after-tax actuarial losses of £7.0 million on the Group's defined benefit pension schemes were debited to reserves through the Consolidated Statement of Comprehensive Income. Other items recognised directly in equity, relate to currency translation gain of £5.5 million and movements in cash flow hedges of £(10.1) million.

The Group has committed facilities to November 2012 of £530 million. The closing net debt was £239.5 million, which was £52.0 million lower than at the start of the year, reflecting the net cash inflow during the year of £44.5 million and non-cash movements, principally exchange differences and related fair value movements, of £8.4 million.

Gearing, defined as net debt as a percentage of net assets, was 50.6% (30 April 2009: 63.9%); the movement reflected the reduction in borrowings from the net cash inflow. Adjusted Interest Cover (as defined in the loan agreements) was 6.9 times, compared with 4.5 times last year. The higher cover reflected the higher adjusted operating profit combined with lower interest charge. The ratio of net debt to EBITDA (before exceptional items) was 1.4 times (2008/09: 1.8 times).

The Group's banking covenants for the syndicated loan and the private placements specify an Adjusted Interest Cover not less than 3.0 times, a maximum ratio of net debt to EBITDA of 3.25 times and net assets to be in excess of £360 million. The covenant calculations exclude from the income statement exceptional items and the net interest income/charge arising from the defined benefit pension schemes. The calculation of net assets excludes the net asset or liability arising from the defined benefit pension schemes. As at 30 April 2010, the most important covenant is the Adjusted Interest Cover and this had an Adjusted Profit headroom of £56.6 million (2008/09: £34.6 million).

ENERGY COSTS

The high level of energy costs continued to be a significant factor for the Group in 2009/10. The Group's total costs for gas, electricity and diesel fuel fell from circa £114 million in 2008/09 to circa £109 million in 2009/10. The Group continued with its strategy of hedging energy costs with suppliers and financial institutions, the purpose of which is to reduce the volatility of energy costs and provide the Group with a degree of certainty over future energy costs.

CAPITAL STRUCTURE AND TREASURY MANAGEMENT

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

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

The Group's main borrowing facilities are shown in Table 3. At 30 April 2010, the Group's committed borrowing facilities, excluding the bilateral facility, were £566.5 million. The total gross borrowing drawn under all these facilities at the year end were £255.5 million. At 30 April 2010, the Group's borrowing facilities had a weighted-average maturity of three years and four months.

TABLE 3 – BORROWING FACILITIES

Facility	Committed funds million	Maturity
Private placement	US$105.0	2012
Private placement	£25.0	2012
Private placement	US$105.0	2014
Private placement	US$95.0	2016
Syndicated revolving credit facility	£287.5	2013

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

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

The Treasury Committee regularly reviews the Group's exposure to interest rates and considers whether to borrow on fixed or floating terms. The Group has a current policy of mainly borrowing at floating rates, which the Treasury Committee believes provides better value over the medium-term. Fixed-rate borrowing, taking into account the effect of related swaps, comprised 44% of total borrowing at 30 April 2010 (30 April 2009: 35%).

The Group has a net investment in major overseas subsidiary companies' foreign currency assets and liabilities, in particular those whose functional currency is the euro or the US dollar. The Group's policy is to hedge a large part of the resulting exposure to movements in foreign currency rates, by means of debt in the same currency, to a level determined by the Treasury Committee. The overseas net assets hedged through euro borrowing decreased from 89% at 30 April 2009 to 76% at 30 April 2010 as a proportion of the Group's euro net investment.

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

IMPAIRMENT

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

In summary, the tests indicated that the goodwill and other intangible assets of certain small packaging businesses within UK Paper and Corrugated Packaging required impairment by £4.3 million.

On 28 May 2010, the Group announced the intention to sell its business in Turkey. Consequently, the assets and liabilities of this business have been reclassified to assets and liabilities held for sale. An impairment of £5.9 million has been made to reflect the estimated value of the business.

Whilst the Board considers that its assumptions are realistic, it is possible impairment would be identified if any of the key assumptions were changed significantly. The net book value of goodwill and other intangibles at 30 April 2010 was £221.2 million (30 April 2009: £222.0 million).

Approximately 71% of the carrying value of the Group's goodwill is allocated to UK Paper and Corrugated Packaging.

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

PENSIONS

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

The Group operates one defined benefit pension scheme in the UK and has some small overseas arrangements. The aggregate gross assets of the schemes at 30 April 2010 were £689.1 million and the gross liabilities at 30 April 2010, calculated under IAS 19, were £892.2 million, resulting in the recognition of a gross balance sheet deficit of £203.1 million (30 April 2009: £191.3 million), a net deficit of £146.1 million (30 April 2009: £138.0 million) after the establishment of a deferred tax asset of £57.0 million (30 April 2009: £53.3 million). The increase in the gross balance sheet deficit of £11.8 million was principally due to an increase in liabilities of £145.6 million due to a lower discount rate and an increase in the inflation assumption. The increase in liabilities was partially offset by an increase in asset values of £133.8 million resulting from the appreciation in global equity prices during the year.

In order to control the future costs and financial obligations of these schemes, the Group's UK defined benefit pension scheme is closed to new members. The current service cost in 2009/10, amounted to £6.7 million compared with £9.7 million in 2008/09. The Group's agreed annual cash contributions to the main UK scheme were £15.6 million (2008/09: £15.6 million). A triennial valuation of the main UK scheme was carried out as at 30 April 2007 and the scheme actuaries have commenced work on the valuation as at 30 April 2010. The Group anticipates that it will have concluded discussions with the trustees of the main UK scheme on the outcome of the 2010 valuation by the end of the 2010/11 financial year.

Note 25 to the financial statements sets out additional information regarding the Group's pension and post-retirement benefits.

STEVE DRYDEN
Group Finance Director

Risk Management

The Group has maintained rigorous procedures for understanding and managing its significant risks.

The Group faces various risks, both internal and external, which could have a material effect on its performance. The Group's exposure to individual risks is limited and diversified by the fact that it has several distinct types of activity, with 30 business sectors operating from over 100 sites in 16 different countries, and it sells to a broad range of customers. Details of the limited dependence of each of our segments on any one customer are provided in the Description of the Group on pages 20 and 21. The main commercial and other risks that are specific to a business segment are described within the narrative on that segment. The principal Group-wide key risks and uncertainties, as perceived in the light of present knowledge, and the way they are managed, are described below. There are further references to the risks faced by the Group in the Financial Review on pages 28 to 31, in the Corporate Governance section on pages 42 to 45 and in the Notes to the Consolidated Financial Statements on pages 65 to 105. The Group seeks to mitigate its insurable risks through an insurance programme that covers property and liability risks where it is relevant and cost-effective to do so.

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

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

For our paper-based packaging products, a 5% reduction in the current level of overall demand across Europe could have the potential to reduce future operating profits by approximately £15 million. However, the actual impact would depend upon the specific effect of the reduction on individual products and markets and upon the outcome of the actions that management would take to mitigate the effects of such a change in demand.

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

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

Further information on the changes and trends in demand and pricing relevant to our business segments is provided within the market commentaries in the Operating Review on pages 22 to 27.

VOLATILITY OF PRICING AND AVAILABILITY OF GLOBALLY TRADED RAW MATERIALS

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

The Group's Severnside Recycling business collects and trades waste paper to ensure a continuous cost-competitive supply to the Group's paper mills. It achieves this through long-term contracts with major suppliers of waste paper and the collection of waste from smaller suppliers through its network of collection depots. Based on the Group's purchases of waste paper of approximately £112 million, a £10 per tonne increase in waste paper prices would reduce Group operating profit by £9 million. However, as noted above, the actual impact on future profitability would depend upon the extent to which finished goods prices are linked to input prices.

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

VOLATILE AND INCREASING ENERGY PRICES

The Group's exposure to energy costs is described on page 30 and is being managed in a number of ways. The Group is looking to maximise in-house energy generation from its combined heat and power (CHP) plants in the UK and France, thereby taking advantage of the greater efficiency of the CHP process. It is also investigating the potential for the use of renewable or low-carbon energy sources, including refuse-derived fuel. The Group continues to undertake a wide range of energy-saving projects aimed at increasing its energy efficiency and reducing its energy usage. In 2009/10, the Group increased its own energy usage by 0.5% compared with 2008/09, but its purchases from external providers fell, such that overall energy usage was down.

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

The most significant energy risk relates to the purchase of gas in the UK, where a 10 pence per therm increase would reduce Group operating profit by circa £7 million.

MOVEMENTS IN FOREIGN EXCHANGE RATES AND INTEREST RATES

These risks and the way in which they are managed through the Group's Treasury Committee and its subsidiary committees or groups are described on pages 30 and 31.

In terms of the effects of currency translation, the principal conversion rates which affect the Group's reported financial performance are sterling to the euro and sterling to the US dollar. An increase in sterling's value against the euro by 10 cents would decrease operating profits by around £3 million, principally due to the impact on the translation of profits in the Group's euro-denominated operations. This impact would be partially offset at a profit before tax level by a reduction in interest costs of circa £0.6 million due to translation of interest costs on the Group's euro debt. Similarly, a 10 cents increase in the value of sterling against the US dollar would reduce reported operating profits by around £0.3 million.

An overall one percentage point increase in interest rates across the debt held by the Group would increase interest costs by £1.5 million. However, as noted on page 30, we currently have 44% of our debt placed at fixed interest rates.

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

The funding of the Group's UK defined benefit pension scheme is sensitive to a number of key factors: the value of the assets, of which 61% are invested in equities and 39% in bonds, gilts and cash; the discount rate, based on the yield on high quality corporate bonds, which is used to calculate the scheme's liabilities; and the expected mortality rate of the scheme's members. The funding position of the scheme has deteriorated during 2009/10 as described on page 31. The Group faces the risk that this funding position may deteriorate further over time. The Group and the scheme's trustee have sought to mitigate this risk through the scheme's investment strategy and through having increased the contributions made to the scheme by both the members and the Group. The regulatory environment for pension schemes and their trustees has changed in recent years, in particular with the Pensions Act 2004: the presence of a deficit in a scheme may now oblige the trustee or possibly the Pensions Regulator to seek some further funding of the scheme in the event of a significant corporate action or perceived decline in the Group's financial covenant. The sensitivity of the funding position to the key assumptions is detailed in note 25. On 30 April 2010, the scheme commenced the triennial actuarial valuation, the results of which will be available by the end of 2010/11. At that time the Group expects to reach agreement with the trustees as to the increased level of pension contributions necessary to repay the deficit.

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

The Group's borrowing facilities and their management through the Treasury Committee are described on pages 30 and 31. The Group has committed facilities of £566.5 million (2008/09: £625.9 million) and, as at 30 April 2010, £255.5 million was drawn against these facilities. The facilities are provided by a range of banks that typically have a credit rating of BBB+ or greater. The Group is required as a condition of its borrowing facilities to remain within certain covenants. These are detailed in the Financial Review on page 30. In the event that a breach of covenant occurs, borrowing under the facility becomes repayable on demand.

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

COMPETITIVE RISK

DS Smith operates in competitive markets. Aggressive pricing from competitors may cause a reduction in our revenues and margins. We aim to build long-term relationships with our customers in order to become an integral part of their supply chain and help them reduce costs. We also ensure that we are the supplier of choice by focusing on innovation for our customers and maintaining high standards of service.

CUSTOMER CREDIT RISK

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

SERIOUS BREACHES OF THE LAW OR OTHER REGULATIONS

The Group's Key Corporate Values, which are described in more detail in the Corporate Responsibility Review on pages 38 and 39 and are available in full at: www.dssmith.uk.com/pages/Policies.asp on the Group's website, require all employees to comply with all relevant laws and regulations in the countries in which they operate. The Group recognises the risk that substantial fines, or other penalties, may be imposed for non-compliance with laws and regulations relating to competition, environmental, health and safety or other matters, and has control mechanisms, ongoing programmes and systems, and special initiatives in place for monitoring compliance. It also carries out training programmes for employees and has systems in place to share expertise and best practice on these matters. The Group has a Workplace Malpractice Policy, and a process for employees to report any suspected wrongdoing in confidence, that is in place across its international operations where such reporting is permitted by law.

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

As a result of its substantial energy usage, the Group is likely, in the medium term, to be increasingly subject to regulation and taxation of its CO_2 emissions. The details of this and the actions being taken to reduce the Group's future energy usage and CO_2 emissions are described in the Corporate Responsibility Review on page 38 and in the statement of the Group's strategy for managing its energy costs on page 30.

PRODUCT LIABILITY

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

OTHER SOCIAL AND ENVIRONMENTAL MATTERS

The Group's management of other social and environmental risks is described in the Corporate Responsibility Review on pages 34 to 39.

Corporate Responsibility Review

Safety performance has improved significantly over the past year. The safety of our employees is our principal concern and the Group is committed to achieving further improvements.

OUR CORPORATE RESPONSIBILITY APPROACH

	AIMS	2009/10 ACTIONS AND PROGRESS
HEALTH AND SAFETY	• Ensure the safety of our staff and others affected by our operations – our top priority • Reduce the number of accidents	• Group-wide 'Think Safe, Be Safe' campaign and local initiatives targeted at key safety issues achieved substantial reduction in accidents • Lost-time accidents down 35% • Accident frequency rate down 30% • Accident severity rate down 28% • Businesses use audits and benchmarking processes to measure performance and highlight areas for improvement • Extensive training programmes undertaken aimed at analysing and reducing risks and changing attitudes and behaviour
ENVIRONMENT	• Reduce the impact of our operations on the environment • Contribute to optimising resource usage and waste throughout our supply chains	• Developed further our services to provide the optimum packaging solutions for the end-use • Life-cycle analysis of bag-in-box format confirmed green credentials • Reduced environmental impact due to improved performance as activity levels began to increase • Own energy usage up 0.5%, offset by fall in energy bought in • CO_2 emissions down 1.5% • Water usage down 4.5% • Waste sent to landfill down 1.4%
EMPLOYEES	• Attract, retain and motivate good people • Enable our employees to fulfil their potential	• New Management Development programme initiated in partnership with Warwick Business School • Increased level of communication to ensure awareness of business plans and objectives • Employee surveys in parts of the Group • Training and development programmes to meet businesses' and employees' specific needs
COMMUNITY INVOLVEMENT	• Develop and maintain good relations with our local communities	• Businesses work closely with local schools and colleges • Involvement in a range of community activities • Participate in liaison groups and hold open days • Support good causes in local communities

OUR PRINCIPLES AND APPROACH TO CORPORATE RESPONSIBILITY

DS Smith is committed to providing good sustainable returns for its investors while maintaining high standards in the way we conduct our business. The safety of our 10,500 employees, working at over 100 locations worldwide, is our principal concern. We also pay close attention to the fulfilment of our responsibilities towards the environment and to how we interact with our employees and local communities. This review presents information on these high priority aspects of corporate responsibility (CR) for the Group.

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

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

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

HEALTH AND SAFETY

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

The Group's safety record continues to improve. Our businesses benchmark their performance on safety against other Group businesses and through the use of external data. This process enables them to identify areas that require further attention as well as areas of strength which can be spread across the Group. Site health and safety audits by internal specialists and external consultants are also used to measure performance and to highlight important issues. All accidents and situations that might have resulted in an accident are investigated to ensure that 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.

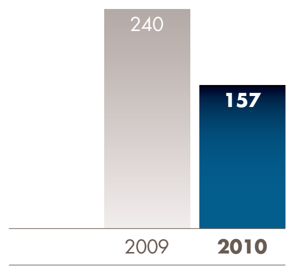
The Group has a well-established safety communications programme, first launched in 2006 under the slogan 'Think Safe, Be Safe', which aims to raise awareness of key issues; to challenge unsafe attitudes and behaviour; and to promote a collective responsibility for maintaining a safe working environment. In the past year, we have also implemented measures to help communicate best practice more effectively across the Group's management cadre.

SAFETY PERFORMANCE INDICATORS

Lost time accidents

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

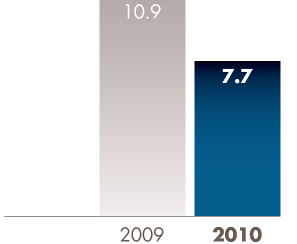
157
2009: 240



Accident frequency rate

Number of hours of lost time due to accidents per million hours worked.

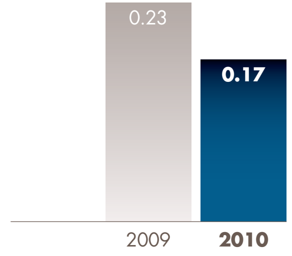
7.7
2009: 10.9



Accident severity rate

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

0.17
2009: 0.23



Our 'Think Safe, Be Safe' campaign has helped us reduce the number of accidents significantly.

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 the KPIs, which reflect the nature of their business and their previous performance. In 2009/10, our continuing emphasis on safety was reflected in a 35% reduction in the number of accidents that resulted in one shift or more of working time being lost and a 30% reduction in the accident frequency rate, which measures all accidents in proportion to the number of hours worked. There was a 28% improvement in the accident severity rate, which measures the hours lost as a result of accidents as a percentage of the total hours worked. The improvements in the Group's safety record reflect the leadership shown by the Group's managers 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.

ENVIRONMENT

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

Recycling

The Group's operations make a major contribution to the corrugated packaging recycling process. In the UK, Severnside Recycling is the largest collector of waste paper and an increasingly significant collector of plastic and other materials for recycling. It sources waste paper and other recoverable materials from major supermarkets, other retailers and industrial operations. Severnside's growth into the integrated recycling and waste management market has been further underlined by a contract with Marks & Spencer, in line with its Plan A principles, to deliver waste and recycling services across their retail and distribution estate (see feature on page 4).

All of the paper produced by the Group is made from recycled waste paper. St Regis is the UK's leading recycler of packaging waste and largest producer of recycled paper, while DS Smith Kaysersberg is a significant recycler of waste paper in France; in total the Group recycled 1.5 million tonnes of paper in 2009/10. 78% of the paper used by the Group's corrugated packaging operations in 2009/10 was 100% recycled paper. The remainder was made from virgin wood pulp, sourced from producers who obtain their wood pulp from sustainable forestry sources, and is required by certain customers for its particular strength and appearance characteristics.

The Group's paper collection and recycling operations play an important role in meeting the EU and UK government objectives for recycling of packaging waste, as prescribed in the EU Packaging and Packaging Waste Directive and the UK Packaging Waste Regulations. Under the Directive, the UK is required to recycle at least 60% of all paper packaging; it is well ahead of this target, with over 80% of paper packaging being recycled in 2009, and DS Smith is the largest contributor to this reprocessing.

Packaging and the environment

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

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

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

Corrugated packaging, the Group's principal packaging product, is 100% recyclable and in the UK over 80% of all corrugated packaging is recycled[3]. Although corrugated packaging is not generally re-used, it is a fully recyclable packaging material that is produced predominantly from recycled paper in what is essentially a loop system, which is described in more detail on page 23. Used corrugated boxes are recycled into paper; this paper is converted into boxes which are packed with goods; retailers or consumers discard the used boxes which are then collected for recycling and delivered to the paper mill to be turned into paper once again. Corrugated products are playing an increasingly important role in the pursuit of sustainable, environmentally-friendly packaging. The Group has been at the forefront of the trend to lower the weight of corrugated packaging used through the use of lightweight paper and improved box design. DS Smith Packaging's suite of PackRight

1 Source: Industry Council for Packaging and the Environment (INCPEN)

2 Source: Department for Environment, Food and Rural Affairs (DEFRA)

3 Source: Confederation of Paper Industries (CPI)

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

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

Rapak, our bag-in-box manufacturer, has launched an initiative to promote the environmental benefits of the format among end consumers. The business has developed a logo which can be printed on both the bag and the box to convey the message that 'bag-in-box technology is green'. The logo has been introduced to help companies who use bag-in-box provide valuable reassurance to their customer while at the same time contributing to an enhanced brand image for their products. The basis for the introduction of the logo is the independent Life Cycle Assessment of bag-in-box packaging, commissioned by Rapak from PIRA (the Paper and Board, Printing and Packaging Association), which was completed last year. The PIRA report assessed and compared the potential life cycle environmental impacts of bag-in-box technology with alternative liquid packaging formats in key markets including wine, postmix syrup, dairy, edible oils, chemicals, industrial products, aseptic and bulk packaging. The overall findings, which are published at www.rapak.com/pages/environment.asp, confirmed that bag-in-box has excellent environmental credentials that are at least competitive with, and in many cases superior to, alternative packaging formats.

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

Environmental management and regulation

The environmental performance and activities of the divisions are reviewed at the Group Environment Committee, which meets three times a year and is chaired by the Group Chief Executive. Under the terms of the Group's Environment Policy, which may be viewed on the Group's website, www.dssmith.uk.com/CorporateResponsibility.asp each of our sites is required to implement an environmental management system (EMS) which is appropriate to its activity. Of our total operations, 57 sites have been identified as having higher potential environmental impact, due to their size or type of activity and all 57 are accredited under the internationally recognised ISO 14001 EMS standard. The Group's other 47 sites are required to have in place a simplified EMS, appropriate to their lower level of potential environmental impact, and to review and improve these systems regularly, often with the assistance of external auditors. A single smaller site, acquired during the year is in the process of having a simplified EMS put in place. As part of their EMS, many Group businesses have procedures in place for assessing their suppliers' environmental policies and management systems, as appropriate.

The Group had a number of minor environmental incidents during the year, following which prompt corrective action and steps to prevent any recurrence were taken and, where necessary, the appropriate agencies were informed. As reported last year, the Environment Agency has brought a case against St Regis Paper Company Ltd in relation to alleged breaches of Higher Kings Mill's Pollution Prevention and Control (PPC) permit that occurred between December 2005 and March 2008. The charges primarily relate to the training of staff, record keeping and the operation of the plant; an independent investigation has indicated that these breaches did not result in any significant environmental impact. The outcome of the case is unlikely to be known before the end of calendar year 2010. The circumstances surrounding all environmental incidents are investigated immediately and, when appropriate, the findings and lessons learnt are communicated throughout the Group as part of our drive to reduce such incidents.

The Group's paper manufacturing operations account for over 80% of the Group's environmental impact, particularly because their manufacturing process uses large quantities of energy and water. The UK paper mills are regulated through PPC permits under which they each have specific improvement programmes and targets. St Regis' overall compliance with its environmental permits rose to 94% in 2009/10 (2008/09: 93%, restated from 94% to include an additional permit) principally due to better performance of the effluent treatment plant at Higher Kings Mill. St Regis is a key participant in the UK paper sector Climate Change Levy (CCL) Agreement with the Department of Environment, Food and Rural Affairs under which the industry has undertaken to achieve energy consumption reduction targets. St Regis met its previous targets and remains on course to meet its next target for the year to September 2010.

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

Environmental performance

Our businesses continue to take action and invest in order to reduce their environmental impact. 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, particularly in relation to the conversion factors being used for converting energy usage into carbon emissions. The recommendations of Bureau Veritas have been implemented. The Group's overall environmental performance in 2009/10 is shown in the table on page 38. A fuller report on our environmental performance is available in the Corporate Responsibility section of our website.

The Group consumed 0.5% more energy in 2009/10 compared with the previous year. This increase was principally due to higher activity levels at the speciality paper mills in the UK and the recommissioning of a CHP plant at one of the mills. The Group's paper mills reduced their energy usage per tonne of paper produced by 0.8%, partly due to the closure of a less energy-efficient paper machine in early 2009. The increase in own use of energy was offset by a reduction in energy purchased by the Group, such that a reduction of 1.5% in total emissions of CO_2 was achieved in the year. The Group's total water usage was 4.5% lower than in 2008/09, principally as a result of the closure of the paper machine mentioned above. The total amount of

waste generated by our businesses increased by 8.9% partly due to an increase in the proportion of more complex corrugated boxes which give rise to more off-cut waste. Waste sent to landfill was 1.4% lower and the proportion of waste sent to landfill fell to 15% compared with 16% in the previous year.

Energy efficiency

Our two largest paper mills, at Kemsley in the UK and Kaysersberg in France, which account for approximately 65% of the Group's energy usage, have on-site CHP plants. These CHP facilities provide energy more efficiently, with lower carbon dioxide (CO_2) emissions and at significantly lower cost than if it were to be sourced from the external grid. In addition, Kemsley Mill recycles, in the form of energy recovery, a substantial proportion of the reject material, such as plastic and polystyrene, which enters its process mixed in with the waste paper and is separated out during paper manufacture; the mill's own waste-to-energy plant efficiently recovers the energy to produce steam for use in the mill's operations. We are investigating the potential for installing a sustainable energy plant at Kemsley Mill to reduce the mill's reliance on fossil fuels and applied for planning permission for this in April 2010. The proposed fuel for this plant is hard-to-recycle materials, sourced and pre-treated offsite, which might otherwise go to landfill.

DS Smith Packaging, which in 2008 became the first UK corrugated packaging producer to be accredited under the UK's Energy Efficiency Accreditation Scheme, lowered its energy usage per square metre by 1.4%. This was achieved through its division-wide energy management system and a wide range of energy reduction projects. Both DS Smith Packaging and DS Smith Kaysersberg have achieved substantial improvements in their energy efficiency through programmes of process improvements on their corrugator machines (see feature on page 9).

EMPLOYEES

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

ENVIRONMENTAL PERFORMANCE INDICATORS[1]

	2009/10	2008/09
Energy consumption[1]		
Gigawatt hours	**3,264**	3,247
Megawatt hours/£'000 revenue	**1.58**	1.54
Carbon dioxide (CO_2) emissions[2]		
Scope 1 (direct) emissions – '000 tonnes	**277**	274
Scope 2 (indirect) emissions – '000 tonnes	**643**	653
Total Scopes 1 and 2 emissions – '000 tonnes	**920**	927
Kilograms/£'000 revenue	**444**	440
Water usage		
Million cubic metres	**10.9**	11.4
'000 cubic metres/£'000 revenue	**5.2**	5.4
Waste management[3]		
Waste recycled – '000 tonnes	**158**	135
Waste sent to landspread – '000 tonnes	**144**	130
Waste-to-Energy – '000 tonnes	**105**	102
Waste sent to landfill – '000 tonnes	**70**	71
Total waste generated	**477**	438
Kilograms/£'000 revenue	**230**	208
% of total waste sent to landfill	**15%**	16%

Methodology: The Group aims to collect and report its environmental data in accordance with the guidelines specified by the Global Reporting Initiative and the Greenhouse Gas Protocol (GHGP), to the extent that this is currently practicable. The figures reported above include data from all of the Group's wholly-owned or majority-owned operations and sites worldwide. The methodology used is consistent for 2008/09 and 2009/10.

1 The energy figures relate to the usage of all fuels used in fixed installations on the Group's sites plus the diesel fuel used for freight transport.

2 The CO_2 emissions have been calculated using the energy data, as defined above. The factors used for converting gas, coal, fuel oil and diesel usage into CO_2 emissions are the latest factors for each year as published by the UK Department for the Environment and Rural Affairs (DEFRA) in the Guidelines to DEFRA's GHG Conversion Factors; the factor used for converting gas usage changed from 0.19 tonnes of CO_2 per megawatt hour in 2008/09 to 0.18 tonnes of CO_2 per megawatt hour in 2009/10. The factors used for converting electricity usage are the national figures for each country in which the Group operates sourced from the International Energy Agency Data Services via the UK Carbon Trust; these factors therefore reflect the mix of fuels used for electricity generation in each country. As required by the GHGP, Scope 1 and Scope 2 CO_2 emissions are reported separately. Scope 1 (direct) emissions are those arising from combustion of fuel in installations or vehicles owned by the Group; Scope 2 (indirect) emissions are those arising from bought-in energy (i.e. electricity or steam) where the combustion has been carried out by another company. The 2009/10 Scope 1 emissions included 57,000 tonnes (2008/09: 61,000 tonnes) of CO_2 which were associated with the production of electricity which was sold to the grid from one of our CHP plants. Scope 3 emissions from sources external to DS Smith but involved in the supply chains for the Group's products and services are not included.

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. The data on waste identifies separately: a) the amount of waste that is conventionally recycled in the manufacture of other products, b) the quantity of waste cellulose fibre, generated in the paper-making operations, which is recycled through agricultural use as landspread, c) the quantity of waste that is used for energy recovery at our waste-to-energy plant, and d) the waste that goes to landfill.

VERIFICATION STATEMENT FROM BUREAU VERITAS UK LTD

For the second year we have worked with DS Smith Plc to provide an independent opinion on the Environmental Performance Indicators presented on this page of its 2010 Annual Report. Having completed a process incorporating site visits, document review and interrogation of associated management and reporting systems, it is our opinion that the presented performance indicators provide a fair and accurate representation of DS Smith Plc's performance.

DS Smith Plc should be commended on its approach to data collection, which remains consistent across the divisions with a clear understanding of required processes demonstrated by those with responsibilities in this regard at both divisional and site level. It is clear that DS Smith Plc is constantly looking to improve these processes; both via internal mechanisms, and as demonstrated in the proactive manner in which the company has continued to engage Bureau Veritas on this project, as well as its consideration of recommendations arising from the previous year's verification.

Bureau Veritas encourages DS Smith Plc to further define and document its environmental reporting responsibilities and data collection procedures, to continue to improve the monitoring of its performance by initiating a half-yearly review of consolidated performance data, and to explore the feasibility of extending performance data to stakeholders by increasing the scope of its reported greenhouse gas emissions.

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

June 2010
Bureau Veritas UK Ltd
London

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

Recruitment and retention of employees is not a significant issue for most of the Group's operations but the situation varies depending upon the alternative employment opportunities in any particular location and the skills required.

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

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

In 2009, DS Smith initiated a three-year development programme for its senior business leaders. The programme has been designed and run in partnership with Warwick Business School. This has enabled the Group to develop bespoke content which combines the latest academic thinking with practical application to the Group's businesses.

The principal aim of the programme is to enhance managers' understanding of the strategic issues facing the Group and to build the leadership capabilities needed to meet these challenges. The programme also offers managers an opportunity to reflect on their personal leadership style and to consider their performance against external benchmarks. To date, 60 senior managers have participated in the programme and it has been exceptionally well received. Over the coming year, the Management Development Programme will be extended to cover a wider range of topics and will be supported by external coaching schemes. In 2010, DS Smith will also begin a development programme for the Group's high potential employees; this will be a further demonstration of the Group's commitment to developing its talent pool.

COMMUNITY INVOLVEMENT

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

Directors and Company Secretary

Peter Johnson[+]

Chairman

Appointed to the Board on 8 December 1999 as a non-Executive Director. He became Chairman of the Board on 1 January 2007 and is Chairman of the Nomination Committee. He is a Member of the Supervisory Board of Wienerberger AG and is a non-Executive Director of SSL International plc. He was previously Chief Executive of George Wimpey Plc and prior to that Chief Executive of The Rugby Group PLC. Age 62.

Miles Roberts[§+]

Group Chief Executive

Appointed to the Board on 4 May 2010 as Group Chief Executive. 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 46.

Steve Dryden[§]

Group Finance Director

Appointed to the Board on 1 April 2008 as Group Finance Director. He is a non-Executive Director of Fiberweb plc. He previously held the position of Finance Director of Filtrona plc following its demerger from Bunzl plc in 2005. Prior to that he was divisional Finance Director of the Filtrona businesses and held other senior finance positions within Bunzl plc. He began his career at Price Waterhouse and has also held various finance roles within Rolls-Royce plc. Age 42.

Christopher Bunker[†+*#]

Non-Executive Director

Appointed to the Board on 9 December 2003 as a non-Executive Director. He is the Senior Independent Director and until recently was Chairman of the Audit Committee. He was previously Group Finance Director of Thames Water Plc, Tarmac Plc and Westland Group Plc. He is a non-Executive Director of Travis Perkins plc and was a non-Executive Director of Mowlem Plc, Baltimore Technologies plc and Xansa plc. Age 63.

Bob Beeston[†]

Non-Executive Director

Appointed to the Board on 5 December 2000 as a non-Executive Director. Until recently he was Chairman of the Remuneration Committee. He is also Chairman of Elementis plc and was previously Chief Executive of FKI plc and until May 2010 was Chairman of Cookson Group plc. Age 68.

Gareth Davis[†+*#]

Non-Executive Director

Appointed to the Board on 1 June 2010 as a non-Executive Director. He became Chairman of the Remuneration Committee at the end of June 2010. He was Group Chief Executive of Imperial Tobacco Group PLC until May 2010 and is a non-Executive Director of Wolseley plc. Age 60.

Philippe Mellier[†*]

Non-Executive Director

Appointed to the Board on 7 September 2006 as a non-Executive Director. He is currently President of Alstom Transport and an Executive Vice-President of Alstom Group. Previously, he was Chairman and CEO of Renault Trucks and a Member of the Executive Committee of AB Volvo, and prior to that held senior management positions with Renault S.A. and Ford Motor Company. Age 54.

Jonathan Nicholls[†+#]

Non-Executive Director

Appointed to the Board on 1 December 2009 as a non-Executive Director. He became Chairman of the Audit Committee at the end of June 2010. 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 of Great Portland Estates plc and SIG plc and was a non-Executive Director of Man Group Plc. Age 52.

Carolyn Cattermole

Company Secretary

Appointed Company Secretary on 20 November 2000. She was previously Company Secretary of Courtaulds Textiles plc and prior to that was a senior legal adviser with Courtaulds plc, having qualified as a solicitor with Norton Rose. Age 49.

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

Corporate Governance

The Company is committed to the principle and application of sound corporate governance. This report explains the key features of the Group's governance structure, how it applies the principles set out in the Code of Best Practice set out in Section 1 of the FRC Combined Code on Corporate Governance issued in June 2008 (the 'Combined Code') and the extent to which the Company has complied with the provisions of the Combined Code.

The Company has complied throughout the financial year with all the provisions of the Combined Code, except as stated on page 43 in respect of Nomination Committee membership (Combined Code A.4.1), in respect of Audit Committee membership (Combined Code C.3.1) and in respect of Remuneration Committee membership (Combined Code B.2.1). The Board has an ongoing review of its corporate governance policy. Further explanation of how the principles and supporting principles have been applied is set out below and in the Directors' Remuneration Report. The Company's Auditors have reviewed the compliance with those provisions of the Combined Code specified for their review.

BOARD AND BOARD COMMITTEES

The role of the Board

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

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

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

The Board currently comprises the Chairman, two Executive and five non-Executive Directors. 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.

It is recognised that Mr Beeston was not considered a fully independent non-Executive Director after 5 December 2009 because of his length of service, however, the Board believes that Mr Beeston continues to demonstrate strong independence in judgement and, during the year under review, provided leadership for the Remuneration Committee.

Summary of Board changes in the year

Month	Change
August 2009	Mr R E C Marton retired from the Board, Audit, Remuneration and Nomination Committees.
December 2009	Mr J C Nicholls was appointed as a non-Executive Director and joined the Audit and Nomination Committees.
January 2010	Mr R G Beeston stepped down as Senior Independent Director but remains on the Board. Mr C J Bunker was appointed as Senior Independent Director.
May 2010	Mr A D Thorne retired from the Board and Nomination Committee and as Group Chief Executive. Mr M W Roberts was appointed to the Board and as Group Chief Executive and joined the Nomination Committee.
June 2010	Mr G Davis was appointed as a non-Executive Director and became a member of the Remuneration, Audit and Nomination Committees. Mr Davis will become Chairman of the Remuneration Committee at the end of June 2010. Mr Nicholls will become Chairman of the Audit Committee at the end of June 2010.

The Board meets a minimum of eight times per year. During the year under review it met nine times. All Board members attend all Board and relevant Committee meetings unless exceptional circumstances prevent them from attending. During the year, Mr P J-C Mellier did not attend the May 2009 Board and the May and June 2009 Remuneration Committee meetings due to previous commitments. He was unable to attend the additional Board meeting held in July 2009 as it was held at short notice. He was also unable to attend the Board meeting held in October 2009 due to ill health. Mr Beeston did not attend the Board meeting and the Remuneration Committee meeting held in March 2010 due to ill health. There were no other absences from any Board or Committee meetings by any Director. In addition to formal Board meetings, the Chairman and Group Chief Executive maintain regular contact with all Directors and hold informal meetings with non-Executive Directors to discuss issues affecting the Company. Individual Directors are encouraged to make site visits during the year. The Board reviews the performance of the Group and undertakes a strategic review on an annual basis. There is a formal schedule of matters reserved for consideration and approval by the Board. These include the annual Plan, substantial acquisitions and disposals, the approval of the full-year and half-year results and a review of the overall system of internal control and risk management.

The Board and its Committees, as detailed below, receive timely information of a quality that enables them to carry out their roles effectively. All Directors have access to the advice and services of the Company Secretary. A procedure is in place for any Director to take independent professional advice in the furtherance of his duties at the Company's expense. No such advice was sought by any Director during the year. The Directors are provided with opportunities for training to ensure that they are kept up to date on relevant new legislation and regulation changes, corporate governance developments and changing commercial risks. On appointment, new Directors are given appropriate induction training, tailored to their specific needs, taking into account their individual qualifications and experience, which includes individual

time with the Chairman, Group Chief Executive and Group Finance Director and site visits to major business units.

Following an independent review in 2009, the Board carried out a comprehensive appraisal of its performance in February 2010 which was led by the Chairman and the Senior Independent Director. The review comprised feedback from a questionnaire and individual discussions. All Directors and the Company Secretary participated in the exercise. The results were discussed by the Board at its meeting in March 2010. The process confirmed that each of the current Directors has sufficient time, knowledge and commitment to contribute effectively to the Board and its Committees. The review results showed an improvement from the previous year indicating that the Directors considered that no major changes were required to Board and Committee processes. In particular, the Board in the past year had achieved a good balance between consideration of matters relating to the short-term economic crisis and longer-term strategic issues. All Directors had been fully engaged in a well-structured succession exercise for both the Group Chief Executive and non-Executive Directors. Useful comments and suggestions were made as to how the performance of the Board might be further improved. These included more contact with divisional management, ideas on the reporting of action points arising from previous meetings and more contact between the Group Chief Executive and non-Executive Directors between meetings. It was also agreed that the Nomination Committee should increase its focus on succession planning at levels below the Board. In addition, the Senior Independent Director conducted a review of the performance of the Chairman which concluded that the Chairman had led the Board effectively. The non-Executive Directors (apart from Mr Beeston who was unable to attend due to ill health) met separately with the Chairman in March and all the non-Executive Directors and the Executive Directors met in March to give them the opportunity to discuss any matters they wished to raise in the absence of the Chairman.

Board Committees

The principal Committees of the Board are the Audit, Remuneration and Nomination Committees. All Board Committees have written terms of reference agreed by the Board. These are available on the Company's website at www.dssmith.uk.com/pages/CorporateGovernance.asp or are available on request to the Company Secretary. The Audit Committee was chaired by Mr Bunker from 2004 until the end of June 2010 and will now be chaired by Mr Nicholls. The Remuneration Committee was chaired by Mr Beeston from 2001 until the end of June 2010 and will now be chaired by Mr Davis. The Nomination Committee is chaired by Mr P M Johnson. The membership of each Committee and the experience of its members can be seen on pages 40 and 41. The Audit and Remuneration Committees comprised independent non-Executive Directors for the majority of the year. However, Mr Beeston is no longer considered an independent non-Executive Director since December 2009 by reason of his length of service (Combined Code C.3.1 and B.2.1). The Nomination Committee comprised a majority of independent non-Executive Directors for most of the year. According to Combined Code A.4.1, Mr Beeston is no longer considered an independent non-Executive Director since December 2009 by reason of his length of service. As mentioned in the Chairman's Statement on page 15, Mr Beeston will be retiring from the Board at the end of 2010.

Audit Committee

In addition to the Committee members listed on pages 40 and 41, the Chairman, the Group Chief Executive, the Group Finance Director, the Head of Operational Audit and the Group Financial Controller attended parts of each meeting by invitation. Mr Marton ceased to be a member of the Committee when he resigned from the Board on 31 August 2009. The Board is satisfied that Mr Bunker had current and relevant financial experience during his Chairmanship of the Committee and that Mr Nicholls has both current and relevant financial experience.

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

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

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

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

In order to ensure the independence and objectivity of the Auditors, 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 Group Finance Director and approved by the Audit Committee. The policy on the supply of non-audit services by external auditors is as follows. The Group should not employ the Auditors to provide non-audit services where either the nature of the work or the extent of such services might impair the Auditors' independence or objectivity. The external Auditors are permitted to undertake some non-audit services, providing they have the skill, competence and integrity to carry out the work in the best interests of the Group, on, for example, advisory services and due diligence activities associated with potential acquisitions and disposals and major changes in accounting regulations. Non-audit services and fees are reported to the Audit Committee twice a year. For guidance, annual non-audit fees payable to the external Auditors should not exceed 75% of the annual Group audit fee without prior formal approval of the Committee. During 2009/10, non-audit fees were 15.6% of the annual Group audit fee. 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 Auditors was the most cost-effective way of conducting business but also that no conflicts of interest existed between such audit and non-audit work.

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

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

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

- at the year end a series of tests were undertaken to determine whether there had been any impairment to the balance sheet carrying values of goodwill and other intangible assets. The key assumptions behind these calculations can be found in note 10 to the financial statements;
- at each meeting it received a report from the Head of Operational Audit covering, amongst other things, the work undertaken by the Group Operational Audit function and management responses to proposals made in the audit reports issued by the function during the year;
- it considered the effectiveness of systems for monitoring and reporting on risks faced by the Group;
- it carried out an appraisal of the effectiveness of the Audit Committee (as part of the Board evaluation process referred to on page 43), the external Auditors and Group Operational Audit, the results of which were reported to the Board. The Committee concluded that each area operated satisfactorily during the year; and
- it oversaw the continuing development and the operation of the Group's Workplace Malpractice Policy.

Nomination Committee
Mr Marton ceased to be a member of the Committee when he resigned from the Board on 31 August 2009 and Mr Thorne ceased to be a member of the Committee when he resigned from the Board on 4 May 2010. Mr Nicholls became a member of the Committee in December 2009, Mr Roberts became a member in May 2010 and Mr Davis became a member in June 2010. The Nomination Committee evaluates the balance of skills, knowledge and experience (including the length of service of each Director) of the Board, develops role specifications, considers the appointment of Directors, reviews succession planning at Board level, identifies the skills required of future directors and makes recommendations to the Board as a whole. A rigorous process is in place for the appointment of new Directors, involving the use of external recruitment consultants followed by meetings both with the Committee and then with the Board. The Committee met four times during the year and there were no absences.

The performance of the Committee was evaluated as part of the Board performance evaluation process described above.

Remuneration Committee
The Chairman and the Group Chief Executive attend these meetings by invitation, except when their remuneration is being discussed.

The Remuneration Committee is responsible for determining the remuneration of the Executive Directors, the Chairman and the Company Secretary and for advising on the remuneration of senior management. The Remuneration Report is set out on pages 46 to 55. During the year, the Committee met four times. Mr Mellier did not attend the meetings in May and June 2009, and due to ill health Mr Beeston did not attend the meeting in March 2010, but otherwise there were no absences.

The performance of the Committee was evaluated as part of the Board performance evaluation process described above.

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 provided that the Board considers this to be in the best interests of the Company.

Each of the Directors in office as at 1 October 2008 reviewed their individual positions prior to implementation of the new legislation and new Directors review their individual position prior to joining the Board. Directors are reminded from time to time of their obligations. The Company has put procedures in place via the Company Secretary whereby the Directors can notify any future conflicts or potential conflicts of interest that may arise so that the Board can consider whether authorisation is appropriate. Any notifications are considered 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.

RELATIONS WITH SHAREHOLDERS
The Company has a programme of regular meetings (which sometimes includes the Chairman and the Senior Independent Director), site visits and results briefings with its major institutional shareholders, which provides opportunities to discuss the progress of the business. Presentations are conducted in accordance with the Financial Services Authority's Disclosure Rules on the dissemination of inside information to ensure the protection of such information that has not already been made available generally to the Company's shareholders. The Board also receives feedback from major shareholders in the form of independently prepared reports. Together, the Chairman, Group Chief Executive, Group Finance Director, and Head of Investor Relations ensure the Board is fully briefed on shareholders' views such that any issues or concerns are fully understood and considered by the Board. The Senior Independent Director is available to discuss with shareholders any major issues that cannot be resolved through normal channels.

The Annual General Meeting is used as an opportunity to communicate with private shareholders, including a short presentation on the business and current trading position as well as an opportunity for questions from investors to the Chairman of the Board and the chairmen of the Audit and Remuneration Committees. All Directors made themselves available to meet shareholders at the Annual General Meeting after the formal business of the meeting. To ensure compliance with the Code, separate resolutions are proposed on each discrete subject. The number of proxy votes for, against and withheld for each resolution are displayed at the Meeting. The final results are published through a Regulatory Information Service and on the website following the Meeting.

Regular communication with shareholders also takes place through the full-year and half-year reports and via the Company's website, www.dssmith.uk.com. In addition, the Company provides Interim Management Statements and Trading Updates.

INTERNAL CONTROL

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. Such a system, however, can only be designed to manage rather than to eliminate risk and can therefore provide only reasonable and not absolute assurance against material misstatement or loss. In accordance with the Turnbull Committee guidance the Company has established the procedures necessary to ensure that there is an ongoing process for identifying, evaluating and managing the significant risks to the Group. These procedures have been in place for the whole of the financial year ended 30 April 2010 and up to the date of the approval of these financial statements and they are reviewed regularly. In 2008, a Group Risks Committee was established, comprised of the Group Chief Executive, the Group Finance Director, the Group Human Resources Director, the Company Secretary, the Divisional Chief Executives and the Head of Operational Audit. This Committee meets at least four times a year to review the risks faced by the Group and the adequacy and suitability of the mitigation arrangements in place to manage those risks.

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

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

The Group's Operational Audit function undertakes regular reviews of the Group's operations and their systems of internal control and internal financial control. The work of the function is overseen by the Audit Committee, which regularly reviews its plans and activities.

The Directors can confirm that they have reviewed the effectiveness of the Group's system of internal control. This included a process of self-certification by senior divisional management in which they 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. It also involved reviewing the results of the work of the Group's Operational Audit function and the risk identification and management processes identified above.

GOING CONCERN

A review of the Group's business activities, together with the factors likely to affect its future development, performance and position are set out on pages 16 and 17 in the Group Chief Executive's review of the year. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are shown in the Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows, the accompanying Notes to the Consolidated Financial Statements on pages 60 to 105 and in the Financial Review on pages 28 to 31. Further information concerning the Group's objectives, policies and process for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk can be found in the section covering risk management on pages 32 and 33.

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

In arriving at their opinion, the Directors have taken into account the risks and uncertainties which arise as a result of the current economic environment. These risks are described in the section covering risk management (pages 32 and 33). The planning assumptions and sensitivities of these risks are covered on pages 32 and 33. The principal risks and uncertainties which would have a direct impact on liquidity and banking covenants are summarised below:

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

The Directors consider that the Group has the flexibility to react to changing market conditions.

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

Remuneration Report

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

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

The members of the Committee during the year under review were Mr R G Beeston (Chairman), Mr C J Bunker, Mr P J-C Mellier and Mr R E C Marton (until 31 August 2009). Mr G Davis became a member of the Committee when he joined the Board on 1 June 2010.

With the exception of Mr Beeston, all the members are considered independent. Since 5 December 2009, Mr Beeston is no longer considered independent because of his length of service (Combined Code B.2.1). However, the Board believes that Mr Beeston continues to demonstrate strong independence in judgement and, during the year under review, provided leadership for the Committee. Mr Davis will become Chairman of the Committee at the end of June 2010.

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

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

(B) COMPLIANCE

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

(C) ADVISERS TO THE COMMITTEE

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

(D) GENERAL POLICY ON REMUNERATION

The Committee's overall policy is to ensure that the remuneration packages enable the Company to attract, retain and motivate Executive Directors and other senior managers of sufficient calibre to meet the Company's needs. In addition, the remuneration packages are designed to align the interests of executives and shareholders and to link a significant proportion of executives' remuneration to performance. To achieve this, the Company operates cash and share-based incentive schemes which are linked to the achievement of short-term and long-term performance targets. As in previous years, the main elements of the remuneration policy in 2010/11 will be as follows:

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

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

Variable performance-related remuneration for Mr M W Roberts and Mr S W Dryden for 2010/11 will account for approximately 57% of total target remuneration (excluding pensions and benefits).

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

- the annual review of the Chairman's and Executive Directors' remuneration for 2009;
- the executive bonus arrangements and targets for 2009;
- long-term incentive award levels and targets for 2009 awards;
- oversight of remuneration policy for senior management and employees;
- policy changes for 2010/11;
- the terms of recruitment of Mr M W Roberts and departure of Mr A D Thorne; and
- the disclosures in this Report.

When setting Executive Directors' remuneration, the Committee looks at the pay and conditions in the rest of the workforce. Executive Directors' salaries in 2009/10 remained the same as in 2008/09 which compares to an average increase of 1% 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.

Over the last year, the Company has performed significantly better than had been anticipated in a challenging environment. Whilst market conditions have been better than feared, this improvement has resulted in the main from the successful implementation of the action programme on costs and cash and the successful recovery of strong input cost increases.

The Company's profits are much higher than expected at the start of the year, the share price has recovered strongly over the last 12 months and the Company's total shareholder return over the last year is well ahead of the FTSE 250 Index. The Company has also performed well in comparison with its peers. However, the Board is not complacent and is strongly supporting the new Group Chief Executive in developing plans to deliver much improved profits and returns on capital going forwards.

Against this background, the Committee has considered the annual bonus and long-term incentive arrangements for 2010/11 and discussed them with the Association of British Insurers, RiskMetrics and some major investors. The changes from 2009/10 are described in sections (F) and (G) below.

(E) BASIC SALARIES

The basic salaries of Executive Directors are reviewed annually on 1 August, in conjunction with other aspects of remuneration. The basic

salary for each Executive Director is targeted at the rates of salary for similar roles within a selected group of UK businesses of similar size with substantial overseas operations. When determining the level of salary, the Committee takes into account market salary levels, the relative performance of the Group and of the individual Director, together with his experience in the particular job. The Committee also considers relevant information on the remuneration of other senior executives and the pay of employees elsewhere in the Group and, where appropriate, communicates its views on the levels of such remuneration to the Group Chief Executive. During its deliberations, the Committee has regard to salary levels in other countries where this is relevant for any non-UK based senior executive. The table of emoluments of the Directors is set out on page 51. The current basic salaries of Mr Roberts and Mr Dryden are £535,000 and £330,000 respectively. These were fixed on appointment on 4 May 2010 and 1 April 2008 respectively. Mr Roberts' basic salary will not be increased in 2010. Mr Dryden's basic salary has recently been reviewed and will be increased by 2% to £336,600 from 1 August 2010. Other senior executives' basic salaries will be increased by an average of 2% from 1 August 2010.

(F) ANNUAL BONUS

The Executive Directors participate in an annual bonus scheme which has been approved by the Committee. Following discussions with investors in 2009, for the financial year 2009/10 the maximum bonus payable was reduced from 100% to 75% of basic salary for Mr Thorne and Mr Dryden to take account of the expected reduction in profits in 2009/10. In addition, there was a much more demanding payment schedule than had been in place in previous years.

Under the scheme, the first 25% of salary worth of bonus is payable in cash, with the excess split equally between cash and deferred shares. The deferred shares vest three years after they are awarded and are held pursuant to the Deferred Share Bonus Plan. At that point, the Director receives the shares and a payment equal to the value of dividends payable on the vested shares during the deferral period. If the Director ceases employment with the Group during the deferral period, he will lose his right to the shares unless he is a defined 'good leaver' or the Committee considers that vesting is appropriate in the circumstances. The shares will vest in the event of a change of control or voluntary winding-up.

The annual bonus payable to Mr Thorne and Mr Dryden for the financial year 2009/10 was 50% based on profit before tax with the other 50% based on return on capital employed. The outcome of the results for the financial year 2009/10 means that Mr Thorne earned a bonus of 75% of salary (£413,400) and Mr Dryden earned a bonus of 75% of salary (£247,500). Full bonus was achieved for the profit before tax and return on capital employed targets and this required the Executive Directors to exceed the top end of the range of financial targets, a financial performance significantly ahead of what was anticipated at the start of the year with profits at the level achieved in 2008/09.

No deferral is being operated in respect of Mr Thorne's 2009/10 bonus since he ceased employment on 18 May 2010.

As indicated last year, the Committee has reviewed the maximum potential bonus for 2010/11 and, in light of the outcome for 2009/10 and the expected improvement in financial performance for 2010/11, the maximum bonus potential for 2010/11 for the Executive Directors will return to the previous level of 100% of basic annual salary. The bonus will continue to be based on the Group profit before tax and return on capital employed. The Committee has set a range of demanding targets around the Company's Plan for the year. Full bonus will require performance significantly ahead of Plan and the threshold above which payment starts to be made will be significantly above 2009/10 actual performance. At Plan, 50% of the maximum bonus will be payable.

The annual bonus for the other most senior executives for 2009/10 was based on an appropriate combination of Group profit before tax and personal performance for centre-based senior executives. In the case of senior divisional executives, their bonus schemes were based on divisional profit and cash flow relating to the operating performance of the business and/or division in which they are employed.
For 2010/11, the bonus maximum will be either 60% or 70% of basic salary and the bonus metrics will be based on a mix of Group profit before tax, return on capital employed and Business Segment operating profit, subject to the achievement of a cash flow hurdle, as relevant to each individual's job.

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

(G) SHARE AWARDS

The Company operates a Performance Share Plan ('PSP') which was approved by shareholders in 2008. The individual grant limit under this Plan is 150% of basic salary per annum. In exceptional circumstances this may be increased to 200% of basic salary. As reported last year, in light of the low level of the Company's share price in mid-2009 the Committee reduced the 2009 award to Executive Directors to 100% of salary (70% of salary for the other most senior executives). Following the increase in the share price since then, the Committee considers it appropriate to return to 150% of salary awards for the Executive Directors. This is also the level promised to Mr Roberts when his recruitment was being negotiated. Similarly, award levels below Director level will also be increased to between 75% to 150% of salary for the other most senior executives for 2010.

The vesting of 2008 awards is based one-third on total shareholder return ('TSR') relative to the constituents of the FTSE 250 Industrial Goods and Services Supersector, one-third on average adjusted earnings per share ('EPS') and one-third on average adjusted return on average capital employed ('ROACE'). For those senior executives working in one of the four Business Segments, the measures were TSR, average adjusted operating profit for the relevant segment and average adjusted ROACE for the relevant segment.

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.

For 2009 awards, following a shareholder consultation, the vesting criteria were revised as follows:

- Recognising that it was very difficult at the time to set three-year financial targets and that the lack of visibility made it impractical to establish an appropriate range of EPS targets, the vesting of each award was split 80% on the Company's TSR relative to the constituents of the FTSE 250 Industrial Goods and Services Supersector and 20% based on ROACE;
- For those senior executives working in one of the four Business Segments, the measures were 80% TSR and 20% average adjusted ROACE for the relevant segment; and
- 25% of the TSR part vests if the Company is ranked median, rising so that 100% vests if the Company is ranked in the upper quartile. The threshold and upper targets for ROACE were 10.3% and 11.5%.

The Committee has given consideration to the terms of the 2010 PSP awards, taking into account the Company's current circumstances, priorities and more certain outlook for the future. The Committee considers that, with a new Group Chief Executive in place and markets

still well below 2007 levels, the most appropriate balancing of the three criteria is to have an equal weighting between TSR and the two financial metrics. Accordingly, following a shareholder consultation, for 2010 awards it has been decided that it is appropriate that 50% will be based on TSR, 25% on EPS and 25% on ROACE. The targets will be as follows:

Percentage vesting as a proportion of that element of the award	Relative TSR[1] (50% of award)	Average EPS[2] (25% of award)	Average adjusted ROACE[3] (25% of award)
100%	Upper quartile	17.6p	12.2%
Between 25% and 100%	Between median and upper quartile	Between 14.8p and 17.6p	Between 11.1% and 12.2%
25%	Median	14.8p	11.1%

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

2 Average adjusted EPS as disclosed in the Annual Report except that the Committee may adjust this figure in exceptional circumstances.

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

For those senior executives working in one of the four Business Segments, the Committee has decided to apply the same targets as apply to other executives, to encourage a greater focus on Group performance. Therefore, 2010 awards will not be based on Business Segment performance at all.

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 in the circumstances, these targets are demanding and no less challenging than the targets set last year.

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

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

The interests of the Directors in the share capital of the Company and awards made under the PSP (last award 2009), Long-Term Incentive Plan (last award 2007), Deferred Share Bonus Plan (last award 2008) and Replacement Deferred Share Bonus Plan (last award 2008) and details of options granted to date under the Executive Share Option Scheme (last grant 2007) are shown on pages 98 to 101.

(H) BENEFITS IN KIND

Benefits in kind include provision of a company car, free fuel, permanent health insurance, life cover and private medical cover. Mr Thorne also had a driver.

(I) PENSIONS

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

Mr Thorne's benefits from the Registered Group Pension Scheme were subject to a scheme-specific earnings cap (the 'Cap'). Consequently, the Company gave a promise to provide the balance of Mr Thorne's pension entitlement through a non-registered unfunded arrangement. A charge over certain assets of the Company has been made as security against future pension payments pursuant to this pension arrangement on behalf of Mr Thorne.

The Company has agreed that any shortfall in pension accrual which would otherwise have been foregone as a result of the termination of Mr Thorne's employment prior to his 60th birthday will be provided under his existing unfunded retirement benefit arrangements. As a consequence of the change in income tax rate and the potential impact on the cost of providing his unapproved benefits, the Committee decided that it was in the interests of the Company for Mr Thorne to take his pension from 1 April 2010 prior to the change in income tax rates.

The spouse's pension on death after retirement is two-thirds of the member's pension, before any reduction for early retirement or commutation of pension for cash.

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

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

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

Mr Roberts receives a pension allowance of 30% of salary per annum plus death in service cover equal to four times basic salary.

(J) APPOINTMENT OF MR ROBERTS

On 4 May 2010, Mr Roberts joined the Company and was appointed Group Chief Executive. Mr Roberts' ongoing remuneration arrangements are as follows:

- basic salary of £535,000;
- provision of company car or car allowance, private medical insurance and permanent health insurance;
- pension allowance of 30% of salary;
- annual bonus potential of 100% of salary; and
- annual awards under the PSP of 150% of salary.

In order to facilitate the recruitment of Mr Roberts in unusual circumstances and to ensure that his interests are directly and immediately aligned with those of the Company's shareholders, the Company has agreed with him that he will be awarded a cash bonus and 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 conditional share awards will be granted under Listing Rules 9.4.2R(2) and are expected to be made as soon as practicable following the announcement of the Group's results for 2009/10.

The awards to be made to him are as follows:

- Substitute Cash Bonus Award and Substitute Share Bonus Award as compensation for loss of his cash and share bonus entitlement with his previous employer for the year 2009/10 as a result of his recruitment by the Company. He will receive a cash sum of £187,500 payable as soon as practicable after 1 September 2010 provided he remains in employment and has not been given or served notice of termination and will receive a conditional award of shares worth £112,500 that vest on 1 September 2013 as detailed below. The sums of £187,500 and the £112,500 have been calculated to reflect the proportion of the period of 12 calendar months beginning on 1 July 2009 during which Mr Roberts was actively employed by McBride plc and is 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;
- Replacement 2007 LTIP;
- Replacement 2008 LTIP; and
- Recruitment Award.

The Replacement Deferred Shares Award and the Substitute Share Bonus Award (see above) are subject to substantially the same terms as the Company's Deferred Share Bonus Plan, as described on page 47, except that they will vest on 1 September 2012 and 1 September 2013 respectively, reflecting the time of vesting of the entitlements which they replace. The number of shares under the Replacement Deferred Shares Award and Substitute Share Bonus Award will be calculated by dividing £150,000 and £112,500 respectively by the middle market quotation of the Company's shares on the dealing day before the day of grant. The sum of £150,000 reflects the value of the shares as at October 2009 which Mr Roberts forfeited. The awards will lapse if Mr Roberts serves, or is served with, notice of termination of his employment or otherwise on actual cessation of his employment, other than in the event of certain good leaver circumstances or at the discretion of the Committee. The awards will vest early in the event of a takeover or similar corporate event. 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.

The Replacement 2007 LTIP award and the Replacement 2008 LTIP award are subject to substantially the same terms (other than as to performance conditions) as the McBride plc 2005 Long-Term Incentive Plan under which Mr Roberts' original entitlements were awarded and they are due to vest on 10 October 2010 and 17 October 2011 respectively, reflecting the time of vesting of the original entitlements which they replace. The Replacement 2008 LTIP award is 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. The award will vest in full if the TSR is ranked in the upper quartile of the comparator group and on a straight-line basis if the TSR is ranked between median and upper quartile. This performance condition reflects the primary features of the performance condition applying to the original award it replaces, to the extent those features can be measured in relation to the Company as well as McBride plc. Since the 2007 LTIP award was due to vest in the near future, the Company calculated the value of shares subject to the Replacement 2007 LTIP award based on the value of shares under award in October 2009 and the likelihood the existing performance conditions would be satisfied. For that reason there are no further performance conditions governing the vesting of the Replacement 2007 LTIP award. The value of the Replacement 2008 LTIP award has been calculated based on the value of shares subject to the 2008 LTIP award as at October 2009. The number of shares under the Replacement 2007 LTIP award and the Replacement 2008 LTIP award will be calculated by dividing £315,000 and £608,000 respectively by the middle market quotation of the Company's shares on the dealing day before the day of grant. The awards will lapse if Mr Roberts serves, or is served with, notice of termination of his employment or otherwise on actual cessation of his employment, other than in the event of certain good leaver circumstances or at the discretion of the Committee.
The awards will vest early in the event of a takeover or similar corporate event. If early vesting does occur in any of these circumstances then the number of vested shares shall be pro-rated and, in the case of the Replacement 2008 LTIP, subject to early measurement of the performance condition.

The Recruitment Award is being made to Mr Roberts to facilitate his recruitment and is also in lieu of the 2009 LTIP award which he would have been granted at McBride plc had he remained in employment. Once granted, the award is subject to substantially the same terms as the awards made under the Company's PSP in 2009, including the performance conditions which are described above, except that the award is due to vest on 19 October 2012, reflecting the time of vesting of the award he would have received. The number of shares under the Recruitment Award will be calculated by dividing £802,500 (the normal ongoing award level of 150% of his basic salary) by the middle market quotation of the Company's shares on the dealing day before the day of grant. The Committee considered that this level of award was necessary to recruit Mr Roberts. The award will lapse if Mr Roberts ceases employment, other than in the event of certain good leaver circumstances or at the discretion of the Committee. The award will vest in the event of a takeover or similar corporate event. If vesting does occur in any of these circumstances then the number of vested shares shall be pro-rated and subject to the measurement of the performance condition.

The number of shares subject to Mr Roberts' awards described above may be adjusted in the event of any variation of share capital or demerger, special dividend or other similar event. The awards cannot be assigned, charged or otherwise disposed of. Benefits under the awards are not pensionable. The awards will be satisfied with existing shares other than treasury shares. None of the awards can be amended to the advantage of Mr Roberts in relation to the basis for determining his entitlement to, and the terms of, the shares and/or cash to be provided under those awards without prior shareholder approval in general meeting except for minor amendments to benefit the administration of the awards, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment.

(K) SERVICE CONTRACTS AND COMPENSATION

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

The service contract for Mr Thorne was dated 28 February 2001 and was terminable by 12 months' notice on either side. Notice was given by the Company on 30 October 2009 on the basis that Mr Thorne would continue as Group Chief Executive until the new Group Chief Executive started employment. Mr Thorne stepped down as Group Chief Executive on 4 May 2010 and his employment terminated on 18 May 2010. Mr Thorne will receive a maximum of £498,800 in connection with the termination of his employment in lieu of notice, determined by reference to the terms of his service contract, paid in instalments, and subject to a reduction for certain other earnings for the period prior to 30 October 2010. The Company has also procured that the car which was made available for Mr Thorne's use was transferred to him following his termination at no cost.

As noted in section (F) above, the outcome of the results for the financial year 2009/10 means that Mr Thorne earned a bonus of 75% of salary (£413,400), which will be paid to him in cash (less required deductions). No bonus is payable to him in relation to 2010/11.

The Committee has exercised its discretion under the relevant share incentive schemes so that, subject to satisfaction of relevant performance conditions and time pro-rating where relevant, his share options and awards will vest or be capable of exercise.

The service contracts for Mr Roberts and Mr Dryden are dated 4 May 2010 and 1 April 2008 respectively. The 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 Mr Roberts' case, to basic salary and pensions allowance for any unexpired period of notice and, in Mr Dryden's case, to basic salary for any unexpired period of notice. The Company may make such payment 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.

(L) POLICY ON EXTERNAL APPOINTMENTS

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

Mr Thorne had no external appointments. Mr Roberts has no external appointments. Mr Dryden is a non-Executive Director of Fiberweb plc and received fees of £34,833 for the period from 1 June 2009 (the date he was appointed to the board of Fiberweb plc) to 30 April 2010.

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

The remuneration for non-Executive Directors consists of annual fees for their services as members of the Board and, where relevant, for their work on selected Committees. Non-Executive Directors have letters of appointment for a term of three years whereupon they are normally renewed but generally for no more than three terms in aggregate. Their respective dates of appointment are shown on pages 40 and 41.

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

The 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 rates for the Chairman's and non-Executive Directors' fees from July 2010 are as follows:

Chairman's and non-Executive Directors' fees	Base fee (£)	Senior Independent non-Executive Director fee (£)	Chairman of Audit Committee fee (£)	Chairman of Remuneration Committee fee (£)	**Total (£)**
P M Johnson	168,000	–	–	–	**168,000**
R G Beeston	45,000	–	–	–	**45,000**
C J Bunker	45,000	2,500	–	–	**47,500**
G Davis	45,000	–	–	7,500	**52,500**
P J-C Mellier	49,200	–	–	–	**49,200**
J C Nicholls	45,000	–	8,500	–	**53,500**

In line with the decision not to raise the salaries of the Executive Directors and other senior executives, the non-Executive Directors' and the Chairman's fees were not increased in 2009. However, fees for the Chairman, the non-Executive Directors, and chairmanship fees in respect of the Remuneration and Audit Committees, were recently reviewed by the Board as a whole. The review took into account market practice with reference to the comparator group. The Chairman's fees will be increased by £3,500 and the non-Executive Directors' fees will be increased by £1,000 with effect from 1 August 2010.

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 Company's Articles of Association enable the Board to set the remuneration of 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 £362,420. 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.

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. The Directors' interests in shares can be seen on page 54.

(N) DIRECTORS' EMOLUMENTS (AUDITABLE)

	Salary/fees £'000	Annual bonus £'000	Deferred bonus £'000	Benefits £'000	Pensions supplement £'000	**2010 total £'000**	2009 total £'000
Chairman							
P M Johnson	168	–	–	23	–	**191**	189
Group Chief Executive							
A D Thorne	551	413	–	3	–	**967**	565
Group Finance Director							
S W Dryden	330	165	83	28	65	**671**	422
Non-Executives							
R G Beeston	54	–	–	–	–	**54**	54
C J Bunker	54	–	–	–	–	**54**	53
P J-C Mellier	49	–	–	–	–	**49**	49
J C Nicholls*	19	–	–	–	–	**19**	–
	1,225	578	83	54	65	**2,005**	1,332

* Appointed 1 December 2009

Past Directors	Salary/fees £'000	Annual bonus £'000	Deferred bonus £'000	Benefits £'000	Compensation for loss of office £'000	**2010 total £'000**	2009 total £'000
G M B Adams	3	–	–	–	–	**3**	44
R E C Marton	15	–	–	–	–	**15**	44
Total	18	–	–	–	–	**18**	88

Mr Dryden received a non-pensionable cash supplement during the year. The total emoluments of Mr Thorne for 2009/10 were £967,000 (2008/09: £565,000). The total emoluments, excluding the deferred bonus, of Mr Dryden were £588,000 (2008/09: £422,000).

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

Details of the Directors' interests in the PSP, which is described in more detail on pages 47 and 48, are as follows:

Executive Directors	Interests under the PSP at 30 April 2009	Awards granted/ commitments made during year	Awards lapsed/ crystallised in year	Date of award	Market price on date of award (p)	Market price at date of vesting (p)	**Interests under the PSP at 30 April 2010**	Vesting date if performance conditions met
A D Thorne	619,325	–	–	–	–	–	**619,325**	17 Sept 11
	–	776,338	–	22 Jul 09	71.0	–	**776,338**	22 Jul 12
S W Dryden	370,786	–	–	–	–	–	**370,786**	17 Sept 11
	–	464,788	–	22 Jul 09	71.0	–	**464,788**	22 Jul 12

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

The vesting of each award granted in 2009 is split 80% based on the Company's TSR compared to the constituents of the FTSE 250 Industrial Goods and Services Supersector, and 20% based on the average ROACE. 25% of the TSR part vests if the Company is ranked median, rising until 100% vests if the Company is ranked in the upper quartile. The threshold (at which 25% vests) and maximum targets are 10.3% and 11.5% for ROACE.

Mr Thorne stepped down from the Board on 4 May 2010 and his employment terminated on 18 May 2010. The performance conditions attached to the award granted in 2008 were not met as at 18 May 2010. Accordingly, the award has lapsed. The performance conditions for the 2009 award were tested by reference to 18 May 2010. 100% of the TSR element will vest on 24 June 2010, subject to a time pro-rata reduction to reflect the unexpired portion of the performance period at cessation. Accordingly, 34.9% of the TSR element will vest and so 216,753 shares will be released to Mr Thorne on 24 June 2010. The performance conditions for the ROACE element were not met and accordingly that element of the award has lapsed. In accordance with the rules of the PSP £7,152.84 will be paid on the same date in respect of the time pro-rated dividends earned since the award was made.

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

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

Executive Director	Options held at 30 April 2009	Options granted during year	Options exercised during year	Options lapsed during year	**Options held at 30 April 2010**	Exercise price (p)	Dates from which exercisable	Expiry date
A D Thorne	243,979	–	–	–	**243,979**	135.23	26 Jul 05	25 Jul 12
	241,245	–	–	–	**241,245**	149.22	31 Jul 06	30 Jul 13
	207,500	–	–	–	**207,500**	159.00	2 Aug 08	1 Aug 15
	239,050	–	–	–	**239,050**	149.00	1 Aug 09	31 Jul 16
	155,600	–	–	–	**155,600**	240.00	31 Jul 10	30 Jul 17

All of the above options were granted for £nil consideration. The market price of the ordinary shares at 30 April 2010 was 135.2p and the range during the year was 58p to 143p. Aggregate gains made by Directors on exercise of share options in the year were £nil (2008/09: £nil). There is no retest facility for options granted since 2004. For these share options to become exercisable, the growth in the Company's normalised EPS must match or exceed the growth in the UK Retail Prices Index plus an average of 3% per annum over three years. During the transition to IFRS, the Committee ensured that a consistent basis was used to measure earnings per share performance. Options granted in 2002, 2003 and 2005 became exercisable when they passed their respective performance conditions in 2008 and options granted in 2006 became exercisable when they passed their performance conditions in 2009. Based on EPS performance to 30 April 2010, the options granted in 2007 will fail their performance conditions and therefore will lapse.

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

The performance condition attached to Mr Thorne's share options granted in 2002, 2003, 2005 and 2006 was met and accordingly these options will remain exercisable until 18 November 2010. Performance in relation to the options granted in 2007 will be tested following the publication of the 2009/10 results. It is expected that these performance conditions will not be met. Accordingly, the award will lapse immediately.

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

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

Executive Directors	Interests under the Plan at 30 April 2009	Awards granted/ commitments made during year	Awards lapsed/ crystallised in year	Date of award	Market price on date of award (p)	Market price at date of vesting (p)	**Interests under the Plan at 30 April 2010**	Vesting date if performance conditions met
A D Thorne	237,500	–	237,500	27 Jul 06	150.0	–	**–**	27 Jul 09
	156,768	–	–	26 Jul 07	238.2	–	**156,768**	26 Jul 10

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

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

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

The awards made under the LTIP in 2006 lapsed during the year as the performance conditions were not met. Based on performance to 30 April 2010, the awards made under the LTIP in 2007 also lapsed as the performance conditions were not met.

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

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

Executive Directors	Interests under the Plan at 30 April 2009	Awards granted/ commitments made during year	Awards lapsed/ crystallised in year	Date of award	Market price on date of award (p)	Market price at date of vesting (p)	**Interests under the Plan at 30 April 2010**	Vesting date
A D Thorne	69,473	–	–	26 Jul 07	238.7	–	**69,473**	26 Jul 10
	153,122	–	–	23 Jul 08	115.3	–	**153,122**	23 Jul 11

Mr Thorne stepped down from the Board on 4 May 2010 and his employment terminated on 18 May 2010. His interests under the Plan as disclosed above will vest in full on 24 June 2010. In accordance with the rules of the Plan £32,908.66 will be paid on the same date in respect of the dividends earned since the awards were made.

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

Executive Directors	Interests under the Plan at 30 April 2009	Awards granted/ commitments made during year	Awards lapsed/ crystallised in year	Date of award	Market price on date of award (p)	Market price at date of vesting (p)	**Interests under the Plan at 30 April 2010**	Vesting date if performance conditions met
S W Dryden	38,504	–	38,504	1 Apr 08	156.5	125.4	**–**	1 Mar 10
	74,674	–	–	1 Apr 08	156.5	–	**74,674**	1 Mar 11

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

The first tranche vested on 1 March 2009, as reported in the 2009 accounts, and the second tranche vested on 1 March 2010 and 38,504 shares were transferred to Mr Dryden on 9 March 2010 (allowing time for the market to assimilate the Interim Management Statement). At the same time, Mr Dryden sold 15,820 of the acquired shares at a price of 125.4p per share in order to pay the income tax, NIC and dealing expenses due following the vesting. In normal circumstances, the remaining shares will vest on 1 March 2011, as shown in the table above, subject only to Mr Dryden's continued employment with the Company. This date corresponds to the date when Mr Dryden's arrangements in his previous employment would have vested.

(T) DIRECTORS' INTERESTS IN SHARES

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

	30 April 2009*		**30 April 2010**	
Name of Director	Beneficial	Non-beneficial	**Beneficial**	**Non-beneficial**
P M Johnson	255,000	–	**255,000**	**–**
A D Thorne	331,862	–	**331,862**	**–**
S W Dryden	32,797	–	**55,481**	**–**
R G Beeston	50,000	–	**50,000**	**–**
C J Bunker	10,000	–	**20,000**	**–**
P J-C Mellier	10,000	–	**20,000**	**–**
J C Nicholls	19,130	–	**19,130**	**–**

* Or at date of appointment

There have been no changes to the shareholdings set out above between the financial year end and the date of the Report. It is currently intended that any ordinary shares required to fulfil entitlements under the Performance Share Plan, the Deferred Share Bonus Plan, the Substitute Bonus Award, the Replacement Deferred Share Award, the Replacement 2007 LTIP, the Replacement 2008 LTIP, the Recruitment Award and the Replacement Deferred Share Bonus Plan will be provided by the David S Smith Group General Employee Benefit Trust (the 'Trust'), which buys shares on the market to do so. The Trust will also be used to fulfil certain entitlements under the Executive Share Option Scheme (along with new issue shares for other entitlements).

(U) DIRECTORS' PENSION ENTITLEMENTS (AUDITABLE)

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

Name of Director	Gross increase in accrued pension (1) £	Increase in accrued pension net of inflation (2) £	Total accrued pension at 31 March 2010 (3) £	Transfer value of net increase in accrual over period (net of Director's contribution) (4) £	Transfer value of accrued pension at 31 March 2010 (5) £	Transfer value of accrued pension at 30 April 2009 (6) £	Total change in value during period (net of Director's contribution) (7) £
A D Thorne	28,860	28,860	173,908	707,639	4,468,967	3,148,759	1,304,038

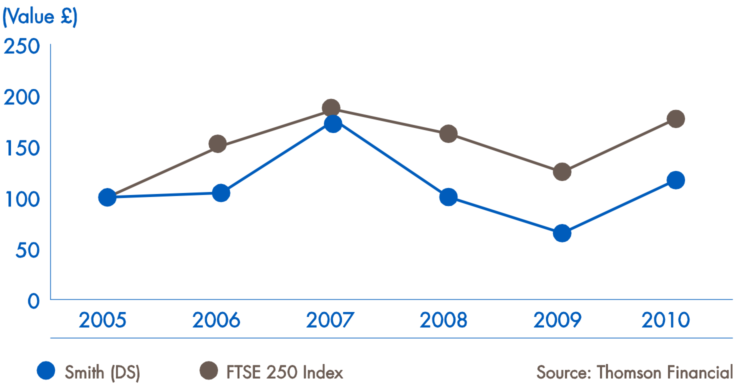
Pension accruals shown are the amounts which would be paid annually on retirement, based on service to the end of the period. Transfer values have been calculated in accordance with the Group Pension Scheme Trustee's method and assumptions for the calculation of Cash Equivalent Transfer Values. The value of net increase (4) represents the incremental value to the Director of his service during the year, calculated on the assumption that service terminated at 31 March 2010. It is based on the accrued pension increase (2) after deducting the Director's contribution. The change in transfer value (7) includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and Directors, such as stock market movements. It is calculated after deducting the Director's contribution.

Mr Thorne commenced receipt of these benefits on 31 March 2010 and so figures have been provided at that date. Mr Thorne elected to receive a lump sum of £1,246,609 in lieu of part of his pension entitlement. The accrued pension (3) is prior to commutation and shows the gross pension and the figures in columns (2) and (4) are based on this. The transfer value (5) in the table allows for the lump sum payment. If allowance is excluded, in accordance with Companies Act Regulations, the value reduces to £3,222,358 and the change in value becomes £57,429.

(V) TOTAL SHAREHOLDER RETURN PERFORMANCE

The following graph illustrates the Company's total shareholder return performance since 1 May 2005, in accordance with paragraph 4 of the Directors' Remuneration Report Regulations 2002, relative to the FTSE 250 Index.

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



This graph looks at the value, by 30 April 2010, of £100 invested in Smith (DS) over the last five financial years compared with that of £100 invested in the FTSE Mid 250 Index. The other points plotted are the values at intervening financial year ends.

On behalf of the Board

BOB BEESTON
Chairman of the Remuneration Committee
23 June 2010

Directors' Report

The Directors submit their Annual Report and the audited financial statements for the financial year ended 30 April 2010. The Directors' Statement as to disclosure of information to auditors, as required by Section 418(2) of the Companies Act 2006, is on page 58.

PRINCIPAL ACTIVITIES

The Company acts as the holding company of a group, which, during 2009/10, was engaged in the supply of corrugated and plastic packaging and of recycled paper and the wholesaling of office products. A full review of the activities during the financial year ended 30 April 2010 is set out on pages 1 to 39. The principal risks and uncertainties facing the Group are discussed on pages 32 and 33. A discussion of future developments and key performance indicators that management use is set out in the Business Review on page 19. The principal subsidiary undertakings are listed in note 33 on page 104.

BUSINESS REVIEW

The information that fulfils the requirements of the Business Review can be found in the Business Review on pages 1 to 39, 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 42 to 45 (and is incorporated into this report by reference) with the exception of the information referred to in the Financial Services Authority Disclosure and Transparency Rules 7.2.6, which is located in this Directors' Report.

CAUTIONARY STATEMENT

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

RESULTS FOR THE YEAR

The financial results are shown on pages 60 to 111.

DIVIDENDS

An interim dividend of 1.5 pence net per ordinary share was paid on 2 March 2010 and the Directors recommend a final dividend of 3.1 pence net per ordinary share, making a total dividend to be paid for the year of 4.6 pence (2008/09: 4.4 pence) net per ordinary share. Subject to approval of shareholders at the Annual General Meeting to be held on 7 September 2010, the final dividend will be paid on 14 September 2010 to shareholders on the register at the close of business on 13 August 2010. The dividends per ordinary share stated above are those actually paid or to be paid.

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 24. No shares pursuant to the Company's executive share option scheme were issued between 30 April 2010 and 23 June 2010 inclusive. The Company has not utilised its authority to make market purchases of shares granted to it at the 2009 Annual General Meeting but will be seeking to renew such authority at this year's Meeting.

SUBSTANTIAL SHAREHOLDERS

At 23 June 2010, the Company has been informed of the following notifiable interests in its issued ordinary share capital in accordance with the Disclosure and Transparency Rules of the Financial Services Authority:

	Ordinary shares held	%
Schroder Investment Management Ltd	70,235,754	17.85%
Standard Life Investments Ltd	55,662,041	14.15%
Sparinvest Holdings A/S	19,992,238	5.08%
AXA S.A.	16,561,204	4.21%
Legal & General Group plc	13,536,366	3.44%

ACQUISITIONS AND DISPOSALS

2009/10

Wirth

On 17 February 2010, the Group obtained control of Winfried Wirth GmbH, a corrugated packaging business in Germany. As a result, the Group's equity interest in Wirth increased from 25% to 55%.

Demes Logistics

On 6 January 2010, the assets of Demes Logistics, a plastic packaging business in Germany, were sold.

Vale Paper Limited

Deferred consideration of £0.2 million was paid in 2010 to Vale Paper Limited in full settlement of the further consideration due.

2008/09

Vale Paper Limited

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

RESEARCH AND DEVELOPMENT

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

DIRECTORS

The biographies of the present Directors are on pages 40 and 41. All the Directors served throughout the year except as follows. Mr G M B Adams resigned as a non-Executive Director on 26 May 2009 when he became Chief Executive of Spicers, the Group's Office Products Wholesaling division. Mr R E C Marton retired from the Board on 31 August 2009. Mr J C Nicholls joined the Board as a non-Executive Director with effect from 1 December 2009. Mr A D Thorne retired from the Board on 4 May 2010 and Mr M W Roberts joined the Board as Group Chief Executive on the same date. Mr G Davis joined the Board as a non-Executive Director on 1 June 2010. As mentioned in the Chairman's Statement on page 15, Mr Beeston will be retiring from the Board at the end of 2010. Other than as previously disclosed in this Report and in respect of existing service agreements, no Director, either during or at the end of the financial year, has been materially interested in any significant contract or arrangement in relation to the Group's business.

In accordance with Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the Directors disclose that the rules regarding the appointment and

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

RE-ELECTION OF DIRECTORS

The Articles require that all Directors who have either been appointed by the Board since the last Annual General Meeting, or for whom the forthcoming Annual General Meeting is the third Annual General Meeting since they were 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. Mr Nicholls, Mr Davis and Mr Roberts, have been appointed to the Board since the last Annual General Meeting and, being eligible, offer themselves for election. The Directors retiring by rotation at the Annual General Meeting on 7 September 2010 are Mr Bunker and Mr Mellier and being eligible, offer themselves for re-election. As required by the Combined Code any non-Executive Director who has been in post for nine years or more, or who is non-independent for any reason, is subject to annual re-election. Mr Beeston has served for more than nine years and is submitting himself for re-election. As mentioned in the Chairman's Statement on page 15, Mr Beeston will be retiring from the Board at the end of 2010. Formal performance evaluation has confirmed that the individual performance of the Directors offering themselves for election and 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, including options granted but not yet exercised under the Performance Share Plan, Long-Term Incentive Plan, Executive Share Option Scheme, Deferred Share Bonus Plan and the Replacement Deferred Share Bonus Plan were as shown in the tables on pages 52 to 54.

DIRECTORS' INDEMNITIES

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

EMPLOYEE INVOLVEMENT AND COMMUNICATIONS

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

EQUAL OPPORTUNITIES

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

PENSION FUND

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

HEALTH AND SAFETY

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

SIGNIFICANT AGREEMENTS

The Company is required to disclose any significant agreements that take effect, alter or terminate on a change of control of the Company. The Company has a number of borrowing and related derivative facilities provided by various lenders. These facilities agreements generally include change of control provisions which, in the event of a change of ownership of the Company, could result in renegotiation or withdrawal of these facilities. These significant agreements are as set out in note 20.

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

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

PAYMENT TO SUPPLIERS

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

CHARITABLE AND POLITICAL DONATIONS

The Group contributed £72,000 (2008/09: £78,000) to charities in the UK. No payments were made to political parties. Donations were made by operating divisions to support their local communities. The Group also supported a number of other charities across a range of causes.

REGISTERED OFFICE

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

ANNUAL GENERAL MEETING

The notice of the Annual General Meeting of the Company to be held on 7 September 2010, together with explanations of the Resolutions to be proposed, appears at the back of this Annual Report.

AUDITORS

Each Director confirms that:

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

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

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

By Order of the Board

CAROLYN CATTERMOLE
Company Secretary
23 June 2010

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 elected 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; 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 are 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
23 June 2010

STEVE DRYDEN
Group Finance Director
23 June 2010

Independent Auditors' Report to the Members of DS Smith Plc

We have audited the financial statements of DS Smith Plc for the year ended 30 April 2010 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 35 to the Consolidated Financial Statements and the related notes 1 to 11 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 April 2010 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.

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; and
- 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.

COLIN HUDSON FCA
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom

23 June 2010

Consolidated Income Statement

For the year ended 30 April 2010

	Note	**Before exceptional items 2010 £m**	**Exceptional items (note 4) 2010 £m**	**After exceptional items 2010 £m**	Before exceptional items 2009 £m	Exceptional items (note 4) 2009 £m	After exceptional items 2009 £m
Revenue	2	**2,070.6**	**–**	**2,070.6**	2,106.6	–	2,106.6
Cost of sales		**(1,558.4)**	**–**	**(1,558.4)**	(1,604.4)	–	(1,604.4)
Gross profit		**512.2**	**–**	**512.2**	502.2	–	502.2
Operating expenses	3,4	**(418.2)**	**(13.3)**	**(431.5)**	(408.2)	(50.6)	(458.8)
Operating profit	2,3	**94.0**	**(13.3)**	**80.7**	94.0	(50.6)	43.4
Finance income	5	**1.5**	**–**	**1.5**	2.5	–	2.5
Finance costs	5	**(15.9)**	**–**	**(15.9)**	(26.1)	–	(26.1)
Employment benefit net finance (expense)/income	25	**(11.5)**	**–**	**(11.5)**	1.5	–	1.5
Net financing costs		**(25.9)**	**–**	**(25.9)**	(22.1)	–	(22.1)
Profit after financing costs		**68.1**	**(13.3)**	**54.8**	71.9	(50.6)	21.3
Share of profit/(loss) of associates	12	**0.2**	**–**	**0.2**	0.6	(5.1)	(4.5)
Profit before income tax		**68.3**	**(13.3)**	**55.0**	72.5	(55.7)	16.8
Income tax (expense)/credit	7	**(17.8)**	**0.9**	**(16.9)**	(22.6)	(5.4)	(28.0)
Profit/(loss) for the financial year		**50.5**	**(12.4)**	**38.1**	49.9	(61.1)	(11.2)
Profit/(loss) for the financial year attributable to:							
Owners of the parent		**50.3**	**(12.4)**	**37.9**	49.3	(61.1)	(11.8)
Non-controlling interests		**0.2**	**–**	**0.2**	0.6	–	0.6
Basic earnings/(loss) per share (pence)	8	**12.9p**	**(3.2)p**	**9.7p**	12.6p	(15.6)p	(3.0)p
Diluted earnings/(loss) per share (pence)	8	**12.6p**	**(3.1)p**	**9.5p**	12.6p	(15.6)p	(3.0)p

	Note	**2010**	2009
Dividend per share			
– interim, paid (pence)	9	**1.5p**	2.6p
– final, proposed (pence)	9	**3.1p**	1.8p

Consolidated Statement of Comprehensive Income

For the year ended 30 April 2010

	Note	2010 £m	2009 £m
Actuarial losses on defined benefit pension schemes	25	**(10.3)**	(123.4)
Movements on deferred tax relating to actuarial losses	7	**3.3**	34.9
Currency translation gains, including tax of £(2.4)m (2009: tax of £14.5m)		**5.5**	0.7
Movements in cash flow hedges including tax of £3.9m (2009: tax of £3.9m)		**(10.1)**	(10.3)
Other comprehensive income for the year, net of tax		**(11.6)**	(98.1)
Profit/(loss) for the year		**38.1**	(11.2)
Total comprehensive income for the year		**26.5**	(109.3)
Total comprehensive income attributable to:			
Owners of the parent		**26.4**	(110.3)
Non-controlling interests		**0.1**	1.0

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Consolidated Statement of Financial Position

As at 30 April 2010

	Note	2010 £m	2009 £m
Assets			
Non-current assets			
Intangible assets	10	**221.2**	222.0
Property, plant and equipment	11	**590.8**	637.1
Investments in associates	12	**–**	0.3
Other investments	13	**0.8**	0.8
Deferred tax assets	22	**81.4**	73.2
Other receivables	15	**0.8**	0.9
Derivative financial instruments	21	**11.9**	13.7
Total non-current assets		**906.9**	948.0
Current assets			
Inventories	14	**174.8**	170.2
Other investments	13	**0.2**	0.5
Income tax receivable		**2.3**	1.3
Trade and other receivables	15	**380.5**	356.1
Cash and cash equivalents	19	**55.1**	62.9
Derivative financial instruments	21	**6.3**	11.7
Assets classified as held for sale	17	**8.1**	–
Total current assets		**627.3**	602.7
Total assets		**1,534.2**	1,550.7
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	20	**(256.4)**	(331.5)
Post-retirement benefits	25	**(203.1)**	(191.3)
Other payables	16	**(3.9)**	(3.8)
Provisions	23	**(7.9)**	(14.0)
Deferred tax liabilities	22	**(60.5)**	(70.5)
Derivative financial instruments	21	**(26.0)**	(23.7)
Total non-current liabilities		**(557.8)**	(634.8)
Current liabilities			
Bank overdrafts	19	**(22.3)**	(8.8)
Interest-bearing loans and borrowings	20	**(5.7)**	(5.8)
Trade and other payables	16	**(430.4)**	(412.1)
Income tax liabilities		**(17.1)**	(10.0)
Provisions	23	**(12.9)**	(22.1)
Derivative financial instruments	21	**(8.7)**	(0.7)
Liabilities classified as held for sale	17	**(6.1)**	–
Total current liabilities		**(503.2)**	(459.5)
Total liabilities		**(1,061.0)**	(1,094.3)
Net assets		**473.2**	456.4
Equity			
Issued capital		**39.3**	39.3
Share premium		**263.1**	263.1
Reserves		**172.4**	155.6
Total equity attributable to equity shareholders of the Company		**474.8**	458.0
Non-controlling interests		**(1.6)**	(1.6)
Total equity		**473.2**	456.4

Approved by the Board on 23 June 2010 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

For the year ended 30 April 2010

	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
Balance at 1 May 2008		39.3	263.1	13.0	27.1	(4.2)	263.4	601.7	0.2	601.9
Loss for the period		–	–	–	–	–	(11.8)	(11.8)	0.6	(11.2)
Actuarial losses on defined benefit pension schemes	25	–	–	–	–	–	(123.4)	(123.4)	–	(123.4)
Movement on deferred tax relating to actuarial losses	7	–	–	–	–	–	34.9	34.9	–	34.9
Currency translation differences (including tax)		–	–	–	0.3	–	–	0.3	0.4	0.7
Changes in the fair value of cash flow hedges (including tax)	21	–	–	(5.3)	–	–	–	(5.3)	–	(5.3)
Amounts recognised in profit or loss during the year (including tax)	21	–	–	(4.5)	–	–	–	(4.5)	–	(4.5)
Amounts recognised in property, plant and equipment during the year	21	–	–	(0.5)	–	–	–	(0.5)	–	(0.5)
Own shares acquired		–	–	–	–	(0.2)	–	(0.2)	–	(0.2)
Share-based payment expense (including tax)	26	–	–	–	–	0.2	0.1	0.3	–	0.3
Dividends paid to Group shareholders	9	–	–	–	–	–	(34.4)	(34.4)	–	(34.4)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	(1.9)	(1.9)
Transactions with non-controlling interests (Toscana Ondulati SpA)	24	–	–	–	–	–	0.9	0.9	(0.9)	–
Balance at 30 April 2009		39.3	263.1	2.7	27.4	(4.2)	129.7	458.0	(1.6)	456.4
Profit for the period		–	–	–	–	–	37.9	37.9	0.2	38.1
Actuarial losses on defined benefit pension schemes	25	–	–	–	–	–	(10.3)	(10.3)	–	(10.3)
Movement on deferred tax relating to actuarial losses	7	–	–	–	–	–	3.3	3.3	–	3.3
Currency translation differences (including tax)		–	–	–	5.6	–	–	5.6	(0.1)	5.5
Changes in the fair value of cash flow hedges (including tax)	21	–	–	(2.7)	–	–	–	(2.7)	–	(2.7)
Amounts recognised in profit or loss during the year (including tax)	21	–	–	(7.4)	–	–	–	(7.4)	–	(7.4)
Acquisitions	31	–	–	–	–	–	–	–	0.3	0.3
Share-based payment expense (including tax)	26	–	–	–	–	–	2.9	2.9	–	2.9
Dividends paid to Group shareholders	9	–	–	–	–	–	(12.9)	(12.9)	–	(12.9)
Transactions with non-controlling interests (Toscana Ondulati SpA)	24	–	–	–	–	–	0.4	0.4	(0.4)	–
Balance at 30 April 2010		**39.3**	**263.1**	**(7.4)**	**33.0**	**(4.2)**	**151.0**	**474.8**	**(1.6)**	**473.2**

The above should be read in conjunction with note 24.

Consolidated Statement of Cash Flows

For the year ended 30 April 2010

	Note	2010 £m	2009 £m
Operating activities			
Cash generated from operations	27	**135.5**	166.4
Interest received		**0.8**	1.1
Interest paid		**(17.0)**	(24.1)
Tax paid		**(21.3)**	(21.0)
Cash flows from operating activities		**98.0**	122.4
Investing activities			
Acquisition of subsidiary businesses and joint ventures, net of cash and cash equivalents acquired	31	**(1.0)**	(1.2)
Disposal of subsidiary business, net of cash and cash equivalents	31	**8.1**	–
Capital expenditure payments		**(52.6)**	(87.4)
Proceeds from the sale of property, plant and equipment and intangible assets		**4.8**	7.7
(Purchases)/proceeds from the sale of investments in associates and other investments, net of additions of £0.8m (2009: £0.4m)	31	**0.1**	(0.1)
Cash flows used in investing activities		**(40.6)**	(81.0)
Financing activities			
Purchase of own shares		**–**	(0.2)
Repayment of borrowings		**(65.9)**	(12.8)
Repayment of finance lease obligations		**(0.4)**	(1.0)
Dividends paid to Group shareholders	9	**(12.9)**	(34.4)
Dividends paid to non-controlling interests		**–**	(1.9)
Cash flows used in financing activities		**(79.2)**	(50.3)
Decrease in cash and cash equivalents		**(21.8)**	(8.9)
Net cash and cash equivalents at 1 May		**54.1**	56.0
Exchange gains on cash and cash equivalents		**0.5**	7.0
Net cash and cash equivalents at 30 April	19	**32.8**	54.1

Notes to the Consolidated Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

In the current year the Group adopted amendments to IAS 1, 'Presentation of Financial Statements'. The amendments require the presentation of an entity's transactions with owners in a separate primary statement, the Statement of Changes in Equity. Previously the Group had the choice of whether to present transactions with owners in a primary statement or in the notes to the consolidated financial statements. In addition, the amendments require the presentation of a Statement of Comprehensive Income. Previously the Group presented a Statement of Recognised Income and Expense, which is now no longer required. The Balance Sheet has been renamed and is now the Statement of Financial Position.

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('adopted IFRSs'). The Company has elected to prepare its parent Company financial statements in accordance with UK GAAP; these are presented on pages 106 to 111.

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

The consolidated financial statements have been prepared on a going concern basis as set out on page 45 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 (w).

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

(b) Basis of consolidation

(i) Subsidiaries

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

(ii) Associates

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

(iii) Joint ventures

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

(iv) Non-controlling interests

The share of profit attributable to non-controlling interests is shown as a component of profit for the period in the income statement. 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 in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

(d) Government grants

(i) Emission quotas

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

(ii) Other

Other government grants are recognised in the 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.

(e) Dividends

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

(f) Foreign currency translation

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

The assets and liabilities of all the Group entities that have a functional currency other than sterling are translated at the closing exchange rate at the date of the statement of financial position. 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.

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(g) Intangible assets

(i) Goodwill

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

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

(ii) Research and development

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

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

(iii) Computer software

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

(iv) Intellectual property

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

(v) Other intangible assets

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

(vi) Amortisation

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

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

Goodwill is systematically tested for impairment at each statement of financial position date, and when there is an indication for impairment.

(h) Property, plant and equipment and other investments

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

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

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

The estimated useful lives are as follows:

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

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

(i) Impairment

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

(i) Calculation of recoverable amount

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

(ii) Reversals of impairment

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

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(j) Derivative financial instruments

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

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

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

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

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

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

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

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

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

If the hedging instrument expires or is sold, terminated or exercised without replacement or 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.

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

(k) Trade and other receivables

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

(l) Inventories

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

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

(m) Cash and cash equivalents

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

(n) Treasury shares

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

(o) Borrowings

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

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

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(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) Long-term service benefits

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

(iv) Share-based payment transactions

The Group operates 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 an employee 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.

For options remaining outstanding under the Executive Share Option Scheme (1999), which ceased to be operated from September 2008 (see note 26), non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. 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.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised. It is probable that an outflow of economic benefits will be required to settle the obligation and are discounted to present value where the effect is material.

(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, and it is probable that an outflow of economic benefits will be required to settle the obligation and are discounted to present value where the effect is material.

(r) Trade and other payables

Trade and other payables are stated at their cost.

(s) Leases

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

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

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

(t) Taxation

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(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 goodwill and intangible assets with the higher of their net realisable value and value in use to determine whether an impairment exists.

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

(ii) Pensions and other post-retirement benefits

IAS 19, 'Employee Benefits', requires the Group to make assumptions including, but not limited to, future asset returns, rates of inflation, discount rates and life expectancies. The use of different assumptions, in any of the above calculations, could have a material effect on the accounting values of the relevant statement of financial position assets and liabilities which could also result in a change to the cost of such liabilities as recognised in the income statement over time. These assumptions are subject to periodic review. See note 25 for additional information.

(iii) Accounting for carbon dioxide (CO_2) emissions

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

(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. Unless where stated, the Group does not anticipate that the adoption of those standards and interpretations that are effective for the financial year ending 30 April 2011 will have a material effect on its financial statements on initial adoption. The standards and interpretation to be adopted by the Group include:

		Effective date – financial years ending
International Financial Reporting Standards (IFRS/IAS)		
IFRS 2	Amendments to IFRS 2,'Share-based Payment': cash-settled share-based payment transactions	30 April 2011
Revised IFRS 3	'Business Combinations': The revised standard still requires the purchase method of accounting to be applied to business combinations, however, this will introduce some changes to the existing accounting treatment. For example, contingent consideration is measured at fair value at the date of acquisition and subsequently remeasured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All transaction costs incurred in connection with a business combination do not form part of the business combination transaction and will be expensed. The Group will apply the revised IFRS 3 prospectively to all business combinations from 1 May 2010.	30 April 2011
Amended IAS 27	Consolidated and Separate Financial Statements	30 April 2011
IAS 32	Amendments to IAS 32 Classification of Rights Issues	30 April 2011
IAS 39	Amendments to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items	30 April 2011
Improvements to IFRSs issued April 2009.		30 April 2011

2. SEGMENT REPORTING

Operating segments

For the year ended 30 April 2010	Packaging: UK Paper and Corrugated £m	Packaging: Continental European Corrugated £m	Packaging: Plastic £m	Packaging: Sub-total £m	Office Products Wholesaling £m	Total Group £m
External revenue (sales of goods)	750.2	355.4	231.3	1,336.9	733.7	2,070.6
Adjusted operating profit[1]	35.4	22.9	15.5	73.8	20.2	94.0
Exceptional items (note 4)	(4.5)	(7.1)	0.1	(11.5)	(1.8)	(13.3)
Segment result	30.9	15.8	15.6	62.3	18.4	80.7

Analysis of total assets and total liabilities	UK Paper and Corrugated £m	Continental European Corrugated £m	Plastic £m	Sub-total £m	Office Products Wholesaling £m	Total Group £m
Segment assets	703.1	268.9	158.8	1,130.8	244.4	1,375.2
Unallocated items						
Investments, associates and other assets						2.0
Derivative financial instruments						18.2
Cash and cash equivalents						55.1
Tax balances						83.7
Total assets						1,534.2
Segment liabilities	(199.1)	(81.2)	(43.4)	(323.7)	(129.7)	(453.4)
Unallocated items						
Borrowings and accrued interest						(292.2)
Derivative financial instruments						(34.7)
Tax balances						(77.6)
Post-retirement benefits						(203.1)
Total liabilities						(1,061.0)

Other segment items:	UK Paper and Corrugated	Continental European Corrugated	Plastic	Sub-total	Office Products Wholesaling	Total Group
Adjusted return on sales – %[1]	4.7%	6.4%	6.7%	5.5%	2.8%	4.5%
Adjusted EBITDA – £m[1]	74.4	38.7	27.6	140.7	25.3	166.0
Adjusted EBITDA margin – %[1]	9.9%	10.9%	11.9%	10.5%	3.4%	8.0%
Year-end capital employed – £m[2]	504.0	187.7	115.4	807.1	114.7	921.8
Average capital employed – £m[2]	538.6	192.4	123.2	854.2	119.4	973.6
Adjusted return on average capital employed – %[1, 2]	6.6%	11.9%	12.6%	8.6%	16.9%	9.7%
Capital expenditure – £m[3]	20.0	12.7	5.4	38.1	3.1	41.2
Depreciation and amortisation – £m	38.9	15.8	12.1	66.8	5.2	72.0

1 before exceptional items
2 year-end and average capital employed is defined on page 72
3 capital expenditure represents additions to intangible assets and property, plant and equipment

2. SEGMENT REPORTING CONTINUED

Operating segments continued

For the year ended 30 April 2009	Packaging					
	UK Paper and Corrugated £m	Continental European Corrugated £m	Plastic £m	Sub-total £m	Office Products Wholesaling £m	Total Group £m
External revenue (sales of goods)	785.8	363.4	236.9	1,386.1	720.5	2,106.6
Adjusted operating profit[1]	36.5	30.4	7.0	73.9	20.1	94.0
Exceptional items (note 4)	(18.2)	(24.7)	(4.0)	(46.9)	(3.7)	(50.6)
Segment result	18.3	5.7	3.0	27.0	16.4	43.4

Analysis of total assets and total liabilities						
Segment assets	687.7	265.4	172.4	1,125.5	259.8	1,385.3
Unallocated items						
Investments, associates and other assets						2.6
Derivative financial instruments						25.4
Cash and cash equivalents						62.9
Tax balances						74.5
Total assets						1,550.7
Segment liabilities	(183.5)	(71.7)	(49.4)	(304.6)	(138.2)	(442.8)
Unallocated items						
Borrowings and accrued interest						(355.3)
Derivative financial instruments						(24.4)
Tax balances						(80.5)
Post-retirement benefits						(191.3)
Total liabilities						(1,094.3)

Other segment items:						
Adjusted return on sales – %[1]	4.6%	8.4%	3.0%	5.3%	2.8%	4.5%
Adjusted EBITDA – £m[1]	73.2	45.8	19.2	138.2	25.7	163.9
Adjusted EBITDA margin – %[1]	9.3%	12.6%	8.1%	10.0%	3.6%	7.8%
Year-end capital employed – £m[2]	504.2	193.7	123.0	820.9	121.6	942.5
Average capital employed – £m[2]	545.2	199.6	132.8	877.6	131.9	1,009.5
Adjusted return on average capital employed – %[1, 2]	6.7%	15.2%	5.3%	8.4%	15.2%	9.3%
Capital expenditure – £m[3]	55.2	18.9	7.1	81.2	2.0	83.2
Depreciation and amortisation – £m	36.7	15.4	12.2	64.3	5.6	69.9

1 before exceptional items
2 year-end and average capital employed is defined on page 72
3 capital expenditure represents additions to intangible assets and property, plant and equipment

2. SEGMENT REPORTING CONTINUED

The Group has adopted IFRS 8 'Operating Segments' during the year. IFRS 8 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. The Directors have reviewed the business segments identified under the previous standard (IAS 14 'Segmental Reporting'), and consider that these reported segments remain appropriate under IFRS 8. Further details of these business segments are given in the Business Review on pages 1 to 39. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Central administration costs are allocated to the individual segments on a consistent basis year-on-year. Assets and liabilities have been analysed by segment at a capital employed level. Capital employed excludes items of a financing nature, taxation balances, post-retirement benefit liabilities and non-current asset investments; segmental capital employed comprises identifiable segment assets less segmental liabilities. Average capital employed is the average monthly capital employed. The adjusted return on average capital employed is defined as operating profit before exceptional items divided by average capital employed.

In presenting information by geographical area, external revenue is based on geographical location of customers. Non-current assets exclude investments and derivative financial instruments and are based on the geographical location of the assets.

Geographical areas

	External revenue		Non-current assets		Capital expenditure	
Year ended 30 April	**2010 £m**	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m
UK	**1,106.3**	1,147.6	**614.3**	639.4	**23.5**	57.2
France	**449.3**	447.3	**111.8**	119.2	**5.0**	12.2
Rest of Western Continental Europe	**335.8**	331.9	**83.1**	91.9	**4.1**	5.6
Eastern Continental Europe	**108.6**	113.0	**46.1**	44.7	**6.7**	5.5
Rest of the World	**70.6**	66.8	**38.9**	38.0	**1.9**	2.7
	2,070.6	2,106.6	**894.2**	933.2	**41.2**	83.2

3. OPERATING PROFIT

	2010 £m	2009 £m
Operating expenses		
Distribution expenses	**223.5**	220.0
Administrative expenses	**208.0**	238.8
	431.5	458.8

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

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

	2010 £m	2009 £m
Depreciation – owned assets	**67.1**	65.5
– leased assets	**0.8**	0.9
Amortisation of intangible assets	**4.1**	3.5
Hire of plant and machinery	**12.6**	12.3
Other operating lease rentals	**13.3**	11.9
Research and development	**1.8**	1.2
Gains on the sale of land and buildings	**(2.4)**	(1.2)
Amounts paid to Deloitte LLP	**1.4**	1.3

3. OPERATING PROFIT CONTINUED

Auditors' remuneration	2010 UK £m	2010 Overseas £m	2010 Total £m	2009 UK £m	2009 Overseas £m	2009 Total £m
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**0.2**	**–**	**0.2**	0.2	–	0.2
Fees payable to the Company's auditors and their associates for other services:						
The audit of the Company's subsidiaries, pursuant to legislation	**0.4**	**0.5**	**0.9**	0.4	0.6	1.0
Tax and other services	**0.2**	**0.1**	**0.3**	0.1	–	0.1
	0.8	**0.6**	**1.4**	0.7	0.6	1.3

Total non-audit fees relating to tax and other services are £0.3m (2008/09: £0.1m).

4. EXCEPTIONAL ITEMS

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

	2010 £m	2009 £m
Restructuring costs		
UK Paper and Corrugated Packaging	**–**	(18.2)
Continental European Corrugated Packaging	**(1.2)**	(1.6)
Plastic Packaging	**0.3**	(3.5)
Office Products Wholesaling	**(1.8)**	(3.7)
Total restructuring costs	**(2.7)**	(27.0)
Impairment of associate	**–**	(18.1)
Other impairments	**(10.2)**	(5.5)
Disposal costs	**(0.4)**	–
Total exceptional items recognised in operating profit/(loss)	**(13.3)**	(50.6)
Group's share of exceptional losses on associate	**–**	(5.1)
Total pre-tax exceptional items	**(13.3)**	(55.7)
Deferred tax charge following amendment to UK Industrial Building Allowance regime	**–**	(13.3)
Income tax credit on exceptional items	**0.9**	7.9
Total exceptional tax items	**0.9**	(5.4)
Total post-tax exceptional items	**(12.4)**	(61.1)

2009/2010

The Continental European Corrugated Packaging restructuring of £(1.2)m relates to restructuring in France; the Plastic Packaging restructuring of £0.3m relates to a gain on reversal of under-utilised provisions; restructuring of £(1.8)m within Office Products Wholesaling relates to Spicers UK; other impairments are described in notes 10 and 17; disposal costs predominantly relate to the sale of Demes Logistics GmbH & Co KG (see note 31).

4. EXCEPTIONAL ITEMS CONTINUED

2008/09

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

The Continental European Corrugated Packaging restructuring of £(1.6)m relates to restructuring of corrugated packaging facilities in France.

The Plastic Packaging restructuring of £(3.5)m relates to the closure of the Rugby office and related restructurings.

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

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

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

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

The Group recognised a £(5.1)m exceptional loss in respect of the Group's share of losses incurred by Rubezhansk, the Group's associate in Ukraine (see note 12).

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

5. FINANCE INCOME AND COSTS

	2010 £m	2009 £m
Interest on loans and overdrafts	**14.8**	23.7
Finance lease interest	**0.1**	0.3
Other	**1.0**	2.1
Finance costs	**15.9**	26.1
Interest income from financial assets	**(0.7)**	(1.7)
Other	**(0.8)**	(0.8)
Finance income	**(1.5)**	(2.5)

Other finance costs largely relate to the increase in the fair value of the non-controlling shareholders' put options in Toscana Ondulati SpA (see note 24).

Included within other finance income is £0.6m (2008/09: £0.6m) of hedge ineffectiveness on net investment hedges and fair value hedges. Refer to note 21(c) for further details of cash flow, fair value and net investment hedges.

6. PERSONNEL EXPENSES

	2010 £m	2009 £m
Wages and salaries	**316.6**	318.6
Social security costs	**52.7**	49.9
Contributions to defined contribution pension plans	**2.6**	2.9
Service costs for defined benefit schemes (see note 25)	**8.5**	11.7
Share-based payment expense (see note 26)	**1.4**	0.3
Personnel expenses	**381.8**	383.4

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

	2010 Number	2009 Number
UK	**6,273**	6,913
France	**1,638**	1,724
Rest of Western Continental Europe	**1,337**	1,449
Eastern Continental Europe	**1,054**	1,120
Rest of the World	**474**	504
Average number of employees	**10,776**	11,710

7. INCOME TAX EXPENSE

Income tax expense recognised in the income statement

	2010 £m	2009 £m
Current tax expense		
Current year	**(18.7)**	(21.0)
Adjustment in respect of prior years	**(8.7)**	–
	(27.4)	(21.0)
Deferred tax (expense)/credit		
Origination and reversal of temporary differences	**(2.2)**	5.9
Abolition of Industrial Buildings Allowances	**–**	(13.3)
Adjustment in respect of prior years	**12.7**	0.4
	10.5	(7.0)
Total income tax expense in the income statement	**(16.9)**	(28.0)

During the year, the Group has undertaken a review of its current and deferred tax balances primarily as a result of significant adjustments to its UK tax depreciation claims in submitted tax computations in earlier years. This review has resulted in a net credit to the income statement of £4.0m and a significant movement between prior year current and deferred tax.

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

	2010 £m	2009 £m
Profit before income tax	**55.0**	16.8
Less: share of (profit)/loss of associates	**(0.2)**	4.5
Profit before tax and share of profit/(loss) of associates	**54.8**	21.3
Income tax calculated using the domestic corporation tax rate of 28.0% (2008/09: 28.0%)	**(15.3)**	(6.0)
Effect of tax rates in overseas jurisdictions	**(2.8)**	(2.7)
Non-deductible expenses	**(3.9)**	(5.7)
Utilisation/(origination) of tax losses not recognised	**0.5**	(2.0)
Adjustment in respect of prior years	**4.0**	0.4
Abolition of Industrial Buildings Allowances	**–**	(13.3)
Other	**0.6**	1.3
Income tax expense	**(16.9)**	(28.0)

	2010 £m	2009 £m
Deferred tax recognised directly in equity		
Relating to post-retirement benefits	**3.3**	34.9
Other	**4.3**	18.4
	7.6	53.3

8. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 30 April 2010 is based on the profit/(loss) attributable to ordinary shareholders of £37.9m (2008/09: £(11.8m)) and the weighted average number of ordinary shares outstanding during the year ended 30 April 2010 of 391.0m (2008/09: 390.9m). The number of shares excludes the weighted average number of the Company's own shares held as treasury shares during the year of 2.4m (2008/09: 2.4m).

	2010	2009
Profit/(loss) attributable to ordinary shareholders (£m)	**£37.9m**	£(11.8)m
Weighted average number of ordinary shares at 30 April (million)	**391.0m**	390.9m
Basic earnings/(loss) per share	**9.7p**	(3.0)p

Diluted earnings per share

The calculation of diluted earnings per share at 30 April 2010 is based on profit/(loss) attributable to ordinary shareholders of £37.9m (2008/09: £(11.8m)) and the weighted average number of ordinary shares outstanding during the year ended 30 April 2010, as adjusted for potentially issuable ordinary shares, of 399.5m (2008/09: 392.5m), calculated as follows:

	2010 £m	2009 £m
Profit/(loss) attributable to ordinary shareholders (£m)	**37.9**	(11.8)

In millions of shares	2010	2009
Weighted average number of ordinary shares at 30 April	**391.0**	390.9
Potentially dilutive shares issuable under share-based payment arrangements	**8.5**	1.6
Weighted average number of ordinary shares (diluted) at 30 April	**399.5**	392.5
Diluted earnings/(loss) per share	**9.5p**	(3.0)p

Adjusted earnings per share

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

	2010			2009		
	£m	Basic – pence per share	Diluted – pence per share	£m	Basic – pence per share	Diluted – pence per share
Basic earnings/(loss)	**37.9**	**9.7p**	**9.5p**	(11.8)	(3.0)p	(3.0)p
Add back exceptional items, after tax	**12.4**	**3.2p**	**3.1p**	61.1	15.6p	15.6p
Adjusted earnings	**50.3**	**12.9p**	**12.6p**	49.3	12.6p	12.6p

9. DIVIDENDS

Dividends proposed and paid by the Group are as follows:

	2010		2009	
	Pence per share	£m	Pence per share	£m
Interim dividend – paid	**1.5p**	**5.9**	2.6p	10.2
Final dividend – proposed	**3.1p**	**12.1**	1.8p	7.0
	4.6p	**18.0**	4.4p	17.2

	2010 £m	2009 £m
Paid during the year	**12.9**	34.4

A final dividend in respect of 2009/10 of 3.1 pence per share (£12.1m) has been proposed by the Directors after the statement of financial position date and has not been included as a liability in these financial statements.

10. INTANGIBLE ASSETS

	Goodwill £m	Software £m	Intellectual property £m	Other £m	Total £m
Cost					
Balance at 1 May 2009	214.4	36.4	13.1	11.0	274.9
Acquisitions through business combinations	0.7	–	–	–	0.7
Additions	–	1.8	0.2	4.4	6.4
Disposals	(0.3)	(2.3)	–	(0.4)	(3.0)
Effect of movements in foreign exchange	1.3	(0.3)	–	(0.2)	0.8
Balance at 30 April 2010	**216.1**	**35.6**	**13.3**	**14.8**	**279.8**
Amortisation and impairment losses					
Balance at 1 May 2009	(15.1)	(31.9)	(5.0)	(0.9)	(52.9)
Amortisation for the year	–	(1.7)	(0.8)	(1.6)	(4.1)
Impairment loss	(4.3)	–	–	–	(4.3)
Disposals	0.4	2.1	–	–	2.5
Effect of movements in foreign exchange	–	0.3	–	(0.1)	0.2
Balance at 30 April 2010	**(19.0)**	**(31.2)**	**(5.8)**	**(2.6)**	**(58.6)**
Carrying amount					
Balance as at 1 May 2009	199.3	4.5	8.1	10.1	222.0
Balance as at 30 April 2010	**197.1**	**4.4**	**7.5**	**12.2**	**221.2**

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

The amortisation charge for the year of £4.1m (2008/09: £3.5m) is included within administrative expenses. The impairment loss for the year of £4.3m (2008/09: £nil) is included within exceptional items. The other items above include acquired emissions quotas which are capitalised as an asset when granted to the Group and treated as a disposal when used to satisfy the Group's obligations or sold, as explained in note 1.

10. INTANGIBLE ASSETS CONTINUED

Impairment loss

Due to the downturn in the non-food retail sector, resulting from the UK recession, the Multigraphics business, a UK business which provides printing services and display material for the retail sector, which was acquired in 2008, has not met the Group's expectations as at 30 April 2010. The Group has implemented a new business plan which resulted in an impairment loss being recognised on the goodwill identified at the time of acquisition.

The recoverable amount of the Multigraphics cash-generating unit ('CGU') was estimated based on its value in use. Based on the assessment performed, the carrying amount of the CGU was determined to be £3.9m higher than its recoverable amount, resulting in an impairment loss being recognised.

The estimate of value in use was determined using a pre-tax discount rate of 11.8% (2008/09: 11.8%).

The impairment loss is recognised in exceptional items within the UK Paper and Corrugated Packaging segment. An additional goodwill impairment loss of £0.4m has also been recognised due to the carrying amount of another CGU within the UK Paper and Corrugated Packaging segment exceeding its recoverable amount estimated based on its value in use.

Impairment tests for cash-generating units containing goodwill

The following segments have CGUs containing significant carrying amounts of goodwill after the impairment losses recognised:

	2010 £m	2009 £m
UK Paper and Corrugated Packaging	**140.2**	144.3
Plastic Packaging	**40.8**	39.1
	181.0	183.4
Segments with no CGUs containing individually significant goodwill	**16.1**	15.9
Total goodwill	**197.1**	199.3

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value in use calculations.

The key assumptions in the value in use calculation were:

- cash forecasts derived from the latest budgets and forecasts for the two years ending 30 April 2012 as approved by the Directors. Cash flows for the following three years were extrapolated assuming a progressive recovery in margins to historical levels;
- the pre-tax weighted average cost of capital ('WACC') for the Group is 11.8% (2008/09: 11.8%). The Group believes that the risk profile across the significant markets in which it operates are not significantly different, hence the same WACC is universally applied across all CGUs; and
- long-term growth rates are either equal to or less than the inflation assumption.

The outcome of the impairment tests for the CGUs containing significant carrying amounts of goodwill (after the impairment losses recognised) is summarised as follows:

Headroom	2010 £m	2009 £m
UK Paper and Corrugated Packaging	**114.5**	47.6
Plastic Packaging	**68.9**	55.3

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

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

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

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

A half percentage point increase in the WACC to 12.3% would result in a reduction in the headroom for the CGUs containing significant carrying amounts of goodwill within UK Paper and Corrugated Packaging, reducing to circa £86m. The headroom for the CGUs containing significant carrying amounts of goodwill within Plastic Packaging would similarly reduce to circa £61m.

In order for there to be no further impairments within UK Paper and Corrugated Packaging, adjusted operating profits will need to achieve circa £69m in 2015/16; this compares to £36.5m in 2008/09 and £35.4m in 2009/10. The assumptions underpinning UK Paper and Corrugated Packaging adjusted operating profits reflect managements' expectations of a return to historic levels of margins and profitability by 2015/16.

11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Plant and equipment £m	Fixtures and fittings £m	Under construction £m	Total £m
Cost					
Balance at 1 May 2009	334.6	1,148.8	66.4	20.9	1,570.7
Acquisitions through business combinations	0.7	1.8	0.2	–	2.7
Additions	1.6	19.9	1.2	12.3	35.0
Disposals	(2.3)	(38.0)	(7.3)	–	(47.6)
Transfers	4.4	16.4	(2.9)	(17.9)	–
Reclassification to held for sale	(9.3)	(29.5)	(0.2)	–	(39.0)
Other reclassification	0.4	3.3	0.1	0.1	3.9
Effect of movements in foreign exchange	(1.9)	(6.5)	0.8	–	(7.6)
Balance at 30 April 2010	**328.2**	**1,116.2**	**58.3**	**15.4**	**1,518.1**
Depreciation					
Balance at 1 May 2009	(90.2)	(787.6)	(55.8)	–	(933.6)
Acquisitions through business combinations	(0.1)	(1.2)	(0.1)	–	(1.4)
Depreciation charge for the year	(7.2)	(58.1)	(2.6)	–	(67.9)
Disposals	1.1	30.8	7.1	–	39.0
Reclassification to held for sale	5.2	28.9	0.2	–	34.3
Other reclassification	(1.3)	(2.9)	0.3	–	(3.9)
Effect of movements in foreign exchange	3.4	(0.8)	3.6	–	6.2
Balance at 30 April 2010	**(89.1)**	**(790.9)**	**(47.3)**	**–**	**(927.3)**
Carrying amount					
Balance as at 1 May 2009	244.4	361.2	10.6	20.9	637.1
Balance as at 30 April 2010	**239.1**	**325.3**	**11.0**	**15.4**	**590.8**

Leased property, plant and equipment

The amounts above include land and buildings held under finance lease agreements. At 30 April 2010, the carrying amount of land and buildings held under finance leases was £6.3m (2009: £6.9m).

Property, plant and equipment under construction

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

11. PROPERTY, PLANT AND EQUIPMENT CONTINUED

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

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

12. INVESTMENT IN ASSOCIATES

	2010 £m	2009 £m
Balance at 1 May	**0.3**	30.0
Share of profit of associates after interest and tax, including exceptional loss of £nil (2008/09: £5.1m)	**0.2**	(4.5)
Intra-group profit elimination	**–**	(0.4)
Impairment	**–**	(18.1)
Transfer to a subsidiary	**(0.5)**	–
Exchange differences	**–**	(6.7)
Balance at 30 April	**–**	0.3

The share of profit from associates is in respect of Winfried Wirth GmbH, which became a subsidiary during 2009/10 and is therefore no longer accounted for using the equity method.

	Nature of business	Principal country of operation	Financial year end	Ownership interest 2010	Ownership interest 2009
OJSC Rubezhansk Paper and Packaging Mill (Rubezhansk)	Manufacturer of paper and packaging	Ukraine	31 December	**49.6%**	49.6%

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

In 2008/09, the Group fully impaired the carrying value of its investment in Rubezhansk and recognised an exceptional loss of £5.1m, being the Group's share of the after-tax net loss at Rubezhansk incurred in the second half of 2008/09. This was as a result of foreign exchange losses on the US$87m loan, following the significant decline in the Ukrainian Hryvnia against the US dollar. Exchange rate movements resulted in Rubezhansk breaching its banking covenants.

In 2009/10, negotiations continue with Rubezhank's bankers following the breaching of the banking covenants. Whilst the uncertainty of the financial position continues at Rubezhansk, the Group has not recognised any profits in respect of its investment in the associate.

Summary of financial information in associate

	2010 £m	2009 £m
Rubezhansk		
Assets	**120.6**	116.1
Liabilities	**(62.9)**	(71.8)
Revenues	**57.4**	82.8
Profit/(loss) after tax	**1.7**	(9.5)

13. OTHER INVESTMENTS

	2010 £m	2009 £m
Non-current investments	**0.8**	0.8
Current investments	**0.2**	0.5

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

14. INVENTORIES

	2010 £m	2009 £m
Raw materials and consumables	62.2	54.0
Work in progress	4.4	3.2
Finished goods	108.2	113.0
	174.8	170.2

The Group consumed £1,558.4m (2008/09: £1,604.4m) of inventories recognised as cost of sales during the year. Provisions against inventories totalled £20.1m (30 April 2009: £20.2m).

15. TRADE AND OTHER RECEIVABLES

	2010		2009	
	Non-current £m	Current £m	Non-current £m	Current £m
Trade receivables	–	366.5	–	346.4
Provisions for bad and doubtful receivables	–	(17.7)	–	(21.7)
Prepayments and other receivables	0.8	31.7	0.9	31.4
	0.8	380.5	0.9	356.1

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of trade receivables from the date credit was initially granted up to the reporting date. The fair value of trade and other receivables is not materially different from their carrying amounts above. Refer to note 21(d)(iii) for further quantitative and qualitative analysis of credit risk.

16. TRADE AND OTHER PAYABLES

	2010		2009	
	Non-current £m	Current £m	Non-current £m	Current £m
Trade payables	–	307.3	–	288.8
Non-trade payables and accrued expenses	3.9	123.1	3.8	123.3
	3.9	430.4	3.8	412.1

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

17. ASSETS AND LIABILITIES HELD FOR SALE

The Copikas business, a corrugated packaging business in Turkey, within the Continental European Corrugated Packaging segment, is presented as a disposal group held for sale following the commitment of the Board, on 27 April 2010, to a plan to sell the business to focus on growing core businesses of scale within its portfolio. The sale of Copikas for a cash consideration of £4.7m (payable on completion), which was agreed on 28 May 2010 with Olmuksa International Paper-Sabanci Ambalaj Sanayi Ve Ticaret A.S., is subject to the Turkish Competition Board's approval that is anticipated will take around six weeks. At 30 April 2010, the disposal group comprised assets of £7.4m, less liabilities of £5.7m.

An exceptional impairment loss of £5.9m on the remeasurement of the disposal group to the lower of its carrying amount and its fair value less costs to sell has been recognised in exceptional items, of which £4.7m has been allocated against property, plant and equipment and the remainder against inventories (see note 4).

Additionally, assets of £0.7m less liabilities of £0.4m of a small packaging business within the UK Paper and Corrugated Packaging business have been presented as assets and liabilities held for sale following the commitment of the Board, on 27 April 2010, to dispose of the business.

	2010 £m
Assets classified as held for sale	
Property, plant and equipment	–
Inventories	0.8
Trade and other receivables	7.3
	8.1

17. ASSETS AND LIABILITIES HELD FOR SALE CONTINUED

	2010 £m
Liabilities classified as held for sale	
Trade and other payables	**(5.3)**
Provisions	**(0.2)**
Post-retirement benefits	**(0.6)**
	(6.1)

18. NET DEBT

	2010 £m	2009 £m
Non-current liabilities	**256.4**	331.5
Current liabilities	**5.7**	5.8
Derivative financial instruments	**10.2**	8.3
Net cash and cash equivalents	**(32.8)**	(54.1)
Net debt	**239.5**	291.5
Net debt divided by EBITDA (before exceptional items)	**1.4x**	1.8x
Gearing (net debt expressed as a percentage of net assets)	**50.6%**	63.9%

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

	At 1 May 2009 £m	Cash flow £m	Acquisitions and disposals £m	Foreign exchange and fair value movements £m	At 30 April 2010 £m
Cash and cash equivalents	62.9	(7.3)	–	(0.5)	**55.1**
Overdrafts	(8.8)	(14.5)	–	1.0	**(22.3)**
Net cash and cash equivalents	54.1	(21.8)	–	0.5	**32.8**
Interest-bearing loans and borrowings due after one year	(326.2)	65.7	(0.5)	9.6	**(251.4)**
Interest-bearing loans and borrowings due within one year	(4.9)	0.2	–	(0.3)	**(5.0)**
Finance leases	(6.2)	0.4	(0.4)	0.5	**(5.7)**
Derivative financial instruments					
– assets	11.0	–	–	0.3	**11.3**
– liabilities	(19.3)	–	–	(2.2)	**(21.5)**
	(345.6)	66.3	(0.9)	7.9	**(272.3)**
Total net debt	**(291.5)**	**44.5**	**(0.9)**	**8.4**	**(239.5)**

19. CASH AND CASH EQUIVALENTS

	2010 £m	2009 £m
Bank balances	**51.4**	55.4
Short-term deposits	**3.7**	7.5
Cash and cash equivalents (per statement of financial position)	**55.1**	62.9
Bank overdrafts	**(22.3)**	(8.8)
Net cash and cash equivalents (per statement of cash flows)	**32.8**	54.1

20. INTEREST-BEARING LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, refer to note 21.

	2010		2009	
	Current £m	Non-current £m	Current £m	Non-current £m
Borrowings measured at amortised cost				
Bank and other loans	**5.0**	**13.5**	4.9	80.2
Note purchase agreements	**–**	**49.0**	–	50.6
Finance lease liabilities	**0.7**	**5.0**	0.9	5.3
	5.7	**67.5**	5.8	136.1
Borrowings in a fair value hedge relationship				
Note purchase agreements	**–**	**188.9**	–	195.4
	5.7	**256.4**	5.8	331.5

Bank loans, other loans and overdrafts of certain subsidiaries totalling £2.6m (2009: £3.4m) are secured over the properties and machinery of these companies. The holder of the security does not have the right to sell or re-pledge the assets as security.

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

	2010				
	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	**0.3**	**0.1**	**65.2**	**49.2**	**114.8**
Floating-rate	**5.4**	**2.2**	**122.7**	**17.0**	**147.3**
Total interest-bearing loans and borrowings	**5.7**	**2.3**	**187.9**	**66.2**	**262.1**

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

20. INTEREST-BEARING LOANS AND BORROWINGS CONTINUED

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

	Sterling £m	**Euro £m**	**US dollar £m**	**Other £m**	**Total £m**
At 30 April 2010					
Interest-bearing loans and borrowings					
Fixed-rate	**49.3**	**65.5**	**–**	**–**	**114.8**
Floating-rate	**26.8**	**99.1**	**17.6**	**3.8**	**147.3**
	76.1	**164.6**	**17.6**	**3.8**	**262.1**
Net cash and cash equivalents (including bank overdrafts)					
Fixed-rate	**–**	**(2.4)**	**(4.1)**	**(2.2)**	**(8.7)**
Floating-rate	**(11.4)**	**(10.3)**	**0.7**	**(3.1)**	**(24.1)**
	(11.4)	**(12.7)**	**(3.4)**	**(5.3)**	**(32.8)**
Net borrowings/(cash) at 30 April 2010	**64.7**	**151.9**	**14.2**	**(1.5)**	**229.3**

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

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

	2010 £m	2009 £m
Expiring within one year	**19.1**	78.8
Expiring between one and two years	**17.4**	8.9
Expiring between two and five years	**274.5**	208.0
	311.0	295.7

At 30 April 2010, 66% (30 April 2009: 69%) of the Group's net borrowings, after taking into account the effect of cross-currency swaps, were denominated in euros in order to hedge the underlying assets of the Group's relevant continental European operations. Interest rates on floating-rate borrowings are based on London Interbank Offered Rate (LIBOR), Euro Interbank Offered Rate (EURIBOR) or base rates.

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

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

20. INTEREST-BEARING LOANS AND BORROWINGS CONTINUED

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

Finance lease liabilities

	2010			2009		
	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	**0.8**	**(0.1)**	**0.7**	1.0	(0.1)	0.9
Between one and five years	**3.3**	**(0.9)**	**2.4**	2.8	(0.7)	2.1
More than five years	**2.7**	**(0.1)**	**2.6**	3.5	(0.3)	3.2
Finance lease liabilities	**6.8**	**(1.1)**	**5.7**	7.3	(1.1)	6.2

21. FINANCIAL INSTRUMENTS

The Group's activities expose the Group to a number of key risks which have the potential to affect its ability to achieve its business objectives. A summary of the Group's key financial risks and the policies and objectives in place to manage these risks is set out in the Financial Review and Risk Management sections of the Business Review on pages 28 to 33.

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

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

(a) Carrying amounts 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.

	2010		2009	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Financial assets				
Cash and cash equivalents	**55.1**	**55.1**	62.9	62.9
Available-for-sale:				
Other investments	**1.0**	**1.0**	1.3	1.3
Loans and receivables:				
Trade and other receivables	**381.3**	**381.3**	357.0	357.0
Derivative financial instruments:				
Other financial assets in designated hedge accounting relationships	**18.2**	**18.2**	25.4	25.4
Total financial assets	**455.6**	**455.6**	446.6	446.6

21. FINANCIAL INSTRUMENTS CONTINUED

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

	2010		2009	
	Carrying amount £m	**Fair value £m**	Carrying amount £m	Fair value £m
Financial liabilities				
Financial liabilities at amortised cost:				
Trade and other payables	**(434.3)**	**(434.3)**	(415.9)	(415.9)
Bank and other loans	**(18.5)**	**(18.5)**	(85.1)	(85.1)
Note purchase agreements	**(237.9)**	**(246.3)**	(246.0)	(255.9)
Finance lease liabilities	**(5.7)**	**(5.7)**	(6.2)	(6.2)
Bank overdrafts	**(22.3)**	**(22.3)**	(8.8)	(8.8)
Derivative financial instruments:				
Other financial liabilities in designated hedge accounting relationships	**(34.7)**	**(34.7)**	(24.4)	(24.4)
Total financial liabilities	**(753.4)**	**(761.8)**	(786.4)	(796.3)

The fair value is the amount for which an asset or liability could be exchanged or settled on an arm's-length basis. For financial instruments carried at fair value, market prices or rates are used to determine fair value where an active market exists. The Group uses forward prices for valuing forward foreign exchange and commodity contracts and uses valuation models with present value calculations based on market yield curves to value note purchase agreements, cross-currency swaps and interest rate swaps. All derivative financial assets and liabilities are shown at fair value on the statement of financial position. Under IAS 39 'Financial Instruments: Recognition and Measurement', hedge accounting rules, only portions of the note purchase agreements which form part of an effective fair value hedge are carried at fair value in the statement of financial position. The fair value of financial assets and liabilities which bear floating rates of interest is estimated to be equivalent to book value.

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

- Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All of the Group's financial instruments are Level 2 financial instruments. The Group does not hold any Level 1 or Level 3 financial instruments.

21. FINANCIAL INSTRUMENTS CONTINUED

(b) Derivative financial instruments

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

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

	Assets		Liabilities		Net	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Derivatives held to						
Manage the interest rate and currency exposures on borrowings and net investments	**11.3**	11.0	**(21.5)**	(19.3)	**(10.2)**	(8.3)
Derivative financial instruments included in net debt	**11.3**	11.0	**(21.5)**	(19.3)	**(10.2)**	(8.3)
Derivatives held to						
Hedge future transactions – energy costs	**5.3**	11.2	**(13.1)**	(4.5)	**(7.8)**	6.7
Hedge future transactions – foreign exchange on purchases and sales of goods and services	**1.6**	3.2	**(0.1)**	(0.6)	**1.5**	2.6
Total derivative financial instruments	**18.2**	25.4	**(34.7)**	(24.4)	**(16.5)**	1.0
Current	**6.3**	11.7	**(8.7)**	(0.7)	**(2.4)**	11.0
Non-current	**11.9**	13.7	**(26.0)**	(23.7)	**(14.1)**	(10.0)
	18.2	25.4	**(34.7)**	(24.4)	**(16.5)**	1.0

(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.

	2010 £m	2009 £m
Balance at 1 May	**2.7**	13.0
Unrealised fair value gain/(loss) on designated cash flow hedges		
Forward exchange contracts	**1.7**	1.6
Cross-currency and interest rate swaps	**–**	(4.6)
Commodity contracts	**(4.4)**	(2.3)
Losses/(gains) in equity recycled to the income statement*		
Forward exchange contracts	**(1.4)**	0.6
Commodity contracts	**(6.0)**	(5.1)
(Gains) in equity recycled to the statement of financial position**		
Forward exchange contracts	**–**	(0.5)
Balance at 30 April	**(7.4)**	2.7

* (Gains)/losses in equity transferred to profit or loss during the period are included in the line items on the face of the income statement shown in the table below.

** (Gains)/losses in equity transferred to the statement of financial position during the period are included in the line items on the face of the statement of financial position shown in the table below.

21. FINANCIAL INSTRUMENTS CONTINUED

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

(i) Cash flow hedging reserve movements continued

	2010 £m	2009 £m
Revenue	**0.8**	1.2
Cost of sales	**(11.2)**	(7.5)
Income tax	**3.0**	1.8
	(7.4)	(4.5)

	2010 £m	2009 £m
Property, plant and equipment	**–**	(0.5)

(ii) Fair value hedges

At 30 April 2010, the Group held interest rate and currency swap contracts as fair value hedges of the interest rate and currency risk on fixed rate debt payable by the Group. The receive leg of the swap contracts is largely identical for all critical aspects to the terms of the underlying debt and thus the hedging is highly effective. The pre-tax loss on the hedging derivative instruments taken to the income statement in the year was £6.2m (2008/09: gain of £48.4m) offset by a pre-tax gain on the fair value of the debt of £6.1m (2008/09: loss of £47.2m).

(iii) Hedges of net investments in foreign operations

The Group holds currency swap contracts as hedges of long-term investments in foreign subsidiaries. The pre-tax gain on the hedges recognised in equity in the year was £5.7m (2008/09: loss of £19.4m). The gain or loss is matched by a similar gain or loss in equity on the retranslation of the hedged foreign subsidiary's net assets. During the year, hedge ineffectiveness arising from hedges of net investments resulted in a gain of £0.7m (2008/09: loss of £0.6m).

(d) Risk identification and risk management

(i) Capital risk

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

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

(ii) Market risk

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

Interest rate risk

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

At 30 April 2010, 44% (2009: 35%) of the Group's interest-bearing loans and borrowings were fixed for a period of at least one year. The sensitivity analysis below shows the impact on profit and total equity of a 100 basis points rise in market interest rates (representing management's assessment of the reasonably possible change in interest rates) in all currencies in which the Group had variable rate borrowings at 30 April.

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

21. FINANCIAL INSTRUMENTS CONTINUED

(d) Risk identification and risk management continued

(ii) Market risk continued

The results are presented before non-controlling interests and tax.

	2010		2009	
	Impact on profit £m	**Impact on total equity £m**	Impact on profit £m	Impact on total equity £m
Increase in market interest rates by 100 basis points	**(1.2)**	**–**	(1.8)	–

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 2010, losses of £3.5m (2009: losses of £3.5m) (net of tax) are deferred in equity in respect of cash flow hedges of interest rate risk. This will be recycled to the income statement in the period in which the hedged item also affects the income statement, which will occur over time to 2016.

Foreign exchange risk

Foreign exchange risk on investments

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

Foreign exchange risk on borrowings

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

Foreign exchange risk on transactions

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

At 30 April 2010, gains of £1.8m (2009: gains of £1.4m) (net of tax) is deferred in equity in respect of cash flow hedges. This will be recycled to the income statement in the period in which the hedged item also affects the income statement, which occurs within two years. During the year, £1.4m of gains deferred in equity were transferred to the income statement (2008/09: losses of £0.6m).

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

The results are presented before non-controlling interests and tax.

	2010		2009	
	Impact on profit £m	**Impact on total equity £m**	Impact on profit £m	Impact on total equity £m
10% strengthening of sterling	**(0.8)**	**(0.6)**	(0.8)	0.9
10% weakening of sterling	**0.9**	**0.7**	1.0	(1.1)

Commodity risk

The Group's main commodity exposures are to changes in UK gas and UK electricity prices. Part of this commodity price risk is managed by a combination of physical supply agreements and derivative instruments. At 30 April 2010, losses of £5.7m (2009: gains of £4.8m) (net of tax) is deferred in equity in respect of cash flow hedges in accordance with IAS 39. This will be recycled to the income statement in the period in which the hedged item also affects the income statement, which occurs within two years. During the year, gains of £6.0m deferred in equity were transferred to the income statement (2008/09: gains of £5.1m).

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

21. FINANCIAL INSTRUMENTS CONTINUED

(d) Risk identification and risk management continued

(ii) Market risk continued

The results are presented before non-controlling interests and tax.

	2010		2009	
	Impact on profit £m	Impact on total equity £m	Impact on profit £m	Impact on total equity £m
10% increase in UK electricity prices	**–**	**0.4**	–	–
10% increase in UK gas prices	**–**	**1.8**	–	2.1

(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 2010 was £455.6m (2009: £446.6m) and is analysed in note 21(a). This represents the maximum credit exposure.

The majority of the Group's trade receivables are due for maturity within 90 days. Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and diverse. Management believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful debts (see note 15).

	Net carrying amount (see note 15) £m	Of which neither impaired nor past due £m	Of which past due but not impaired				
			1 month or less £m	1–3 months £m	3–6 months £m	6–12 months £m	More than 12 months £m
The ageing of trade receivables							
As at 30 April 2010	**348.8**	**280.4**	**63.7**	**3.0**	**1.0**	**0.3**	**0.4**
As at 30 April 2009	324.7	300.7	16.6	5.4	1.0	0.6	0.4

	2010 £m	2009 £m
Movement in the allowance for bad and doubtful receivables		
Balance as at 1 May	**(21.7)**	(13.7)
Uncollectible amounts written off, net of receivables	**6.3**	0.3
Increase in allowance recognised in profit or loss	**(3.3)**	(7.1)
Reclassification to assets held for sale	**0.7**	–
Effect of movements in foreign exchange	**0.3**	(1.2)
Balance as at 30 April (see note 15)	**(17.7)**	(21.7)

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

21. FINANCIAL INSTRUMENTS CONTINUED

(d) Risk identification and risk management continued

(iv) Liquidity risk

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

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

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			
As at 30 April 2010	**Carrying amount £m**	**Total £m**	**1 year or less £m**	**1–5 years £m**	**More than 5 years £m**
Non-derivative financial liabilities					
Trade and other payables	**434.3**	**434.3**	**430.4**	**3.9**	**–**
Bank and other loans	**18.5**	**18.5**	**5.0**	**13.5**	**–**
Note purchase agreements	**237.9**	**224.2**	**–**	**162.2**	**62.0**
Finance lease liabilities	**5.7**	**5.7**	**0.7**	**2.4**	**2.6**
Bank overdrafts	**22.3**	**22.3**	**22.3**	**–**	**–**
Total non-derivative financial liabilities	**718.7**	**705.0**	**458.4**	**182.0**	**64.6**

		Contractual repayments			
As at 30 April 2009	Carrying amount £m	Total £m	1 year or less £m	1–5 years £m	More than 5 years £m
Non-derivative financial liabilities					
Trade and other payables	415.9	415.9	412.1	3.8	–
Bank and other loans	85.1	85.1	4.9	80.2	–
Note purchase agreements	246.0	230.9	–	95.9	135.0
Finance lease liabilities	6.2	6.2	0.9	2.1	3.2
Bank overdrafts	8.8	8.8	8.8	–	–
Total non-derivative financial liabilities	762.0	746.9	426.7	182.0	138.2

The tables above exclude interest expense estimated to be £11.2m in 2010/11, £9.8m in 2011/12, £8.7m in 2012/13, £4.7m in 2013/14, £3.5m in 2014/15 and £4.4m in 2015/16 and thereafter (assuming interest rates with respect to variable rate debt remain constant and there is no change in the aggregate principal amount of debt other than as a result of repayment at scheduled maturity).

The above table does not include forecast data for liabilities which may be incurred in the future which are not contracted as at 30 April 2010.

Refer to note 29 for an analysis of the Group's future operating lease payments and to note 30 for a summary of the Group's 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/receipts have been calculated based on exchange rates as 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.

21. FINANCIAL INSTRUMENTS CONTINUED

(d) Risk identification and risk management continued

As at 30 April 2010	Carrying amount £m	Contractual payments/(receipts) Total £m	1 year or less £m	1–5 years £m	More than 5 years £m
Derivative financial liabilities					
Energy derivatives	7.8	7.8	4.2	3.6	–
Interest rate and currency swaps:					
Outflow	21.5	282.8	10.1	213.4	59.3
Inflow	(11.3)	(284.6)	(14.1)	(203.1)	(67.4)
Foreign exchange:					
Outflow	0.1	52.8	50.8	2.0	–
Inflow	(1.6)	(54.3)	(52.3)	(2.0)	–
Total net derivative financial liabilities/(assets)	(16.5)	4.5	(1.3)	13.9	(8.1)

As at 30 April 2009	Carrying amount £m	Contractual payments/(receipts) Total £m	1 year or less £m	1–5 years £m	More than 5 years £m
Derivative financial liabilities					
Energy derivatives	(6.7)	(6.4)	(8.3)	1.9	–
Interest rate and currency swaps:					
Outflow	19.3	315.7	13.8	160.2	141.7
Inflow	(11.0)	(315.7)	(16.8)	(152.6)	(146.3)
Foreign exchange:					
Outflow	0.6	53.3	50.5	2.8	–
Inflow	(3.2)	(55.9)	(53.1)	(2.8)	–
Total net derivative financial liabilities/(assets)	(1.0)	(9.0)	(13.9)	9.5	(4.6)

22. 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	
	2010 £m	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m
Property, plant and equipment and intangible assets	**–**	–	**(60.5)**	(70.5)	**(60.5)**	(70.5)
Employee benefits including pensions	**61.1**	55.7	**–**	–	**61.1**	55.7
Other items	**20.3**	17.5	**–**	–	**20.3**	17.5
Tax assets/(liabilities)	**81.4**	73.2	**(60.5)**	(70.5)	**20.9**	2.7

22. DEFERRED TAX ASSETS AND LIABILITIES CONTINUED

Unrecognised deferred tax assets and liabilities

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

	Assets		Liabilities	
	2010 £m	2009 £m	**2010 £m**	2009 £m
Tax losses	**9.9**	3.7	**–**	–
Unremitted earnings of overseas operations	**–**	–	**–**	(5.2)
Total	**9.9**	3.7	**–**	(5.2)

The tax losses above include £8.7m which do not expire and £1.2m which expire between 2013 and 2015, under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom. Following a change in UK tax legislation during the period which resulted in dividends from overseas subsidiaries not being subject to corporation tax, the Group no longer has unrecognised deferred tax liabilities (2009: £5.2m) in respect of temporary differences associated with the unremitted earnings of the subsidiaries. Prior to this change in legislation no liabilities had been recognised in respect of these differences because the Group was in a position to control the timing of their reversal.

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

	Property, plant and equipment and intangible assets		Employee benefits including pensions		Other items		Total	
	2010 £m	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m
Balance at 1 May	**(70.5)**	(66.2)	**55.7**	23.1	**17.5**	3.3	**2.7**	(39.8)
Credit/(charge) for the year	**9.9**	(0.6)	**0.6**	(2.3)	**–**	(4.2)	**10.5**	(7.1)
Recognised directly in equity	**–**	–	**4.8**	34.9	**2.8**	18.4	**7.6**	53.3
Exchange adjustments	**0.1**	(3.7)	**–**	–	**–**	–	**0.1**	(3.7)
Balance at 30 April	**(60.5)**	(70.5)	**61.1**	55.7	**20.3**	17.5	**20.9**	2.7

At 30 April 2010, deferred tax assets and liabilities were recognised for all taxable temporary differences:

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

23. PROVISIONS

	Employee benefits £m	Restructuring £m	Other £m	Total £m
Balance at 1 May 2009	5.8	22.3	8.0	36.1
Provisions made during the year	0.1	4.4	3.2	7.7
Provisions used during the year	(0.2)	(16.3)	(5.2)	(21.7)
Provisions reversed during the year	(0.1)	(0.7)	(0.4)	(1.2)
Reclassification	(0.9)	0.4	0.5	–
Effect of movements in foreign exchange	(0.2)	0.1	–	(0.1)
Balance at 30 April 2010	**4.5**	**10.2**	**6.1**	**20.8**
Non-current	4.1	2.2	1.6	7.9
Current	0.4	8.0	4.5	12.9
	4.5	**10.2**	**6.1**	**20.8**

The provision for employee benefits mainly represents that for long-service awards. The restructuring provision includes amounts associated with the closures and restructuring costs described in note 4. Other provisions mainly relate to an acquired onerous service contract 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.

24. CAPITAL AND RESERVES

Share capital

	Number of shares			
	2010 Millions	2009 Millions	**2010 £m**	2009 £m
Ordinary equity shares of 10 pence each:				
Authorised	**410.0**	410.0	**41.0**	41.0
Issued, allotted, called up and fully paid	**393.4**	393.4	**39.3**	39.3

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In respect of the Company's shares that are held by the Group (see below), all rights are suspended until those shares are reissued.

Translation reserve

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

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

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, the Restricted Share Plan (discontinued in 2004) and the Long-Term Incentive Plan (discontinued in 2007), Performance Share Plan (PSP), Deferred Share Bonus Plan (DSBP), Replacement Deferred Share Bonus Plan (RDSBP). At 30 April 2010, the Trust held 2.4m shares (2009: 2.4m shares). The market value of the shares at 30 April 2010 was £3.2m (2009: £1.9m). Dividends receivable on the shares owned by the Trust have been waived.

Non-controlling interests

At the beginning of the year, the Group had a liability of £3.5m 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 (2009: £0.9m). This charge was recorded within finance costs through the income statement and then transferred out of retained earnings into non-controlling interests.

25. POST-RETIREMENT BENEFITS

Liability for defined benefit obligations

The Group operates a funded, defined benefit scheme in the UK, the DS Smith Group Pension scheme ('the Group scheme'). The Group made agreed annual contributions of £15.6m to the Group scheme in 2009/10 (2008/09: £15.6m). The Group operates various local pension arrangements for overseas operations and unfunded arrangements for senior executives: these are, in aggregate, not significant to the Group. The following financial information includes amounts related to these other arrangements, where appropriate. A charge over certain assets of the Group has been made as security for certain of the unfunded arrangements. The most recent full actuarial valuation of the Group scheme was as at 30 April 2007, which will be updated to 30 April 2010 by a qualified independent actuary. All UK valuations used the projected unit method. The Group scheme is closed to new entrants. Because of this, the average age of the active members is likely to increase at future valuations and this may lead to an increasing current service contribution rate; this may be offset by a falling total pensionable salary resulting from leavers and retirements.

Liability for defined benefit obligations

Principal actuarial assumptions are as follows:

	2010 %	2009 %	2008 %	2007 %	2006 %
Discount rate for scheme liabilities	**5.6%**	6.4%	5.9%	5.4%	5.1%
Inflation	**3.5%**	3.3%	3.5%	2.9%	2.7%
Future salary increases	**4.5%**	4.3%	4.5%	3.9%	3.7%
Future pension increases for pre 30 April 2005 service	**3.5%**	3.3%	3.5%	2.9%	2.7%
Future pension increases for post 30 April 2005 service	**2.4%**	2.3%	2.3%	2.3%	2.3%
Expected return on plan assets	**6.5%**	6.7%	6.7%	6.6%	6.6%

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

	Increase in pension liability £m	**Increase in service costs £m**
0.5% decrease in discount rate	**(80.0)**	**(1.6)**
0.5% increase in inflation	**(70.0)**	**(1.0)**
1 year increase in life expectancy	**(20.0)**	**(0.2)**

Future mortality is the most significant demographic assumption. The basic mortality table used by the Group at 30 April 2010 is PMA92/PFA92 (30 April 2009: PMA92/PFA92) with medium cohort mortality improvement. This means the mortality rates assumed for members of a particular age differ from those for members who will reach that age in the future. Studies have illustrated that the amount of pension, the location of employees and the nature of their work are significant factors affecting mortality. As a result, the basic mortality table rates are based on ages two years older than the members' actual age for non-pensioners and three years older for pensioners.

The current life expectancies (in years) are:

	2010		2009	
	Male	**Female**	Male	Female
Life expectancy at age 65				
Pensioner currently aged 65	**19.5**	**22.4**	19.5	22.3
Member currently aged 45	**21.3**	**24.1**	21.3	24.1

25. POST-RETIREMENT BENEFITS CONTINUED

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

	2010		2009		2008		2007		2006	
	Expected rate of return %	**Market value £m**	Expected rate of return %	Market value £m	Expected rate of return %	Market value £m	Expected rate of return %	Market value £m	Expected rate of return %	Market value £m
Equities	**7.9%**	**420.1**	7.4%	349.8	7.6%	490.8	7.4%	527.1	7.5%	524.5
Bonds, gilts and cash (weighted average)	**4.9%**	**269.0**	5.1%	205.5	4.4%	231.0	4.1%	210.8	4.3%	181.6
Total market value of assets		**689.1**		555.3		721.8		737.9		706.1
Present value of schemes' liabilities		**(892.2)**		(746.6)		(797.7)		(756.5)		(756.4)
Deficit in the schemes		**(203.1)**		(191.3)		(75.9)		(18.6)		(50.3)
Related deferred tax asset		**57.0**		53.3		21.4		5.6		15.0
Net pension liability		**(146.1)**		(138.0)		(54.5)		(13.0)		(35.3)

Movements in the liability for defined benefit schemes' obligations recognised in the statement of financial position

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Schemes' liabilities at 1 May	**(746.6)**	(797.7)	(756.5)	(756.4)	(674.1)
Interest cost	**(46.7)**	(46.4)	(40.1)	(38.1)	(35.2)
Service cost recognised in the income statement	**(8.5)**	(11.7)	(9.8)	(10.9)	(11.4)
Member contributions	**(5.6)**	(6.2)	(6.4)	(6.9)	(6.8)
Curtailments	**–**	–	–	–	3.3
Pension payments	**47.4**	31.6	28.0	31.3	24.2
Payments to the Pension Protection Fund	**–**	1.5	–	0.1	–
Actuarial (losses)/gains recognised in the consolidated statement of comprehensive income	**(132.3)**	84.0	(10.8)	24.2	(56.4)
Effect of movements in foreign exchange	**(0.5)**	(1.7)	(2.1)	0.2	–
Reclassification to held for sale	**0.6**	–	–	–	–
Schemes' liabilities at 30 April	**(892.2)**	(746.6)	(797.7)	(756.5)	(756.4)

Movements in the fair value of defined benefit schemes' assets recognised in the statement of financial position

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Schemes' assets at 1 May	**555.3**	721.8	737.9	706.1	559.3
Employer contributions	**17.1**	16.9	16.8	17.3	16.8
Member contributions	**5.6**	6.2	6.4	6.9	6.8
Other contributions	**–**	–	0.7	–	–
Expected return on schemes' assets	**35.2**	47.9	48.9	46.1	36.4
Actuarial gains/(losses) recognised in the consolidated statement of comprehensive income	**122.0**	(207.4)	(62.2)	(7.2)	110.8
Pension payments	**(45.7)**	(31.4)	(27.8)	(31.2)	(24.0)
Effect of movements in foreign exchange	**(0.4)**	1.3	1.1	(0.1)	–
Schemes' assets at 30 April	**689.1**	555.3	721.8	737.9	706.1

25. POST-RETIREMENT BENEFITS CONTINUED

Expense recognised in the income statement

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Current service cost	**(6.7)**	(9.7)	(8.3)	(9.3)	(11.1)
Past service cost	**(0.6)**	(0.8)	(1.1)	(1.5)	(0.3)
Pension Protection Fund levy	**(1.2)**	(1.2)	(0.4)	(0.1)	–
Total service cost	**(8.5)**	(11.7)	(9.8)	(10.9)	(11.4)
Interest cost on schemes' liabilities	**(46.7)**	(46.4)	(40.1)	(38.1)	(35.2)
Expected return on schemes' assets	**35.2**	47.9	48.9	46.1	36.4
Employment benefit net finance (expense)/income	**(11.5)**	1.5	8.8	8.0	1.2

Analysis of amounts recognised in the statement of comprehensive income

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Actual return less expected return on pension schemes' assets	**122.0**	(207.4)	(62.2)	(7.2)	110.8
Experience gains/(losses) arising on schemes' liabilities	**–**	–	16.1	10.3	(17.9)
Changes in assumptions underlying present value of schemes' liabilities	**(132.3)**	84.0	(26.9)	13.9	(38.5)
Actuarial (losses)/gains recognised in the statement of comprehensive income	**(10.3)**	(123.4)	(73.0)	17.0	54.4

The cumulative amount of actuarial losses recognised in other comprehensive income since the date of transition to IFRS is £166.5m (2009: £156.2m).

History of experience gains and losses

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Difference between expected and actual returns on schemes' assets	**122.0**	(207.4)	(62.2)	(7.2)	110.8
Above as a percentage of schemes' assets	**18%**	(37%)	(9%)	(1%)	16%
Experience gains/(losses) arising on schemes' liabilities	**–**	–	16.1	10.3	(17.9)
Above as a percentage of the present value of schemes' liabilities	**–**	–	2%	1%	2%
Total amount recognised in the consolidated statement of comprehensive income	**(10.3)**	(123.4)	(73.0)	17.0	54.4
Above as a percentage of the present value of schemes' liabilities	**(1%)**	(17%)	(9%)	2%	7%

26. SHARE-BASED PAYMENT EXPENSE

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

(i) 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 that the growth in the Company's normalised earnings per share equals or exceeds 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.

(ii) A Restricted Share Plan (RSP). This scheme ceased to be operated from September 2004. Under the RSP, participants received an award of shares in the Company equal in value to the participant's annual cash bonus. In normal circumstances the shares vested on the third anniversary of award subject to remaining in service.

(iii) A Long-Term Incentive Plan (LTIP). This scheme ceased to be operated from September 2008. In normal circumstances LTIP awards vest on the third anniversary of grant subject to satisfaction of performance conditions and remaining in service. Performance is measured over a single period of three financial years (commencing with the year in which the award is made) and is based on the Company's total shareholder return performance relative to the constituents of the FTSE Mid 250 Index (excluding investment trusts). Full vesting occurs for a ranking of upper quartile or higher reducing on a straight-line basis to 30% of the award vesting for median performance. None of the award vests for below median performance. No awards will vest, irrespective of total shareholder return performance, unless the Company's earnings per share growth matches or exceeds the growth in the Retail Prices Index over the three-year period.

26. SHARE-BASED PAYMENT EXPENSE CONTINUED

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

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

(vi) A Performance Share Plan (PSP). Awards under the PSP normally 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. Awards have been made under the PSP in 2008 and 2009. The performance conditions are as detailed below (see the Remuneration Report on pages 47 and 48 for a summary of threshold and upper targets for the 2008 and 2009 PSP awards):

- The 2008 award is subject to three equally-weighted performance measures:

  (i) the Company's total shareholder return (TSR) compared to the constituents of the Industrial Goods and Services Supersector within the FTSE 250;

  (ii) average adjusted earnings per share (EPS); and

  (iii) average adjusted return on average capital employed (ROACE).

  For those senior executives working in one of the four Business Segments, the three measures (equally weighted) are TSR (as above), average adjusted operating profit and average adjusted ROACE for the relevant segment.

- The 2009 award is subject to two performance measures:

  (i) 80% of each award based on a TSR component as per above; and

  (ii) 20% of each award based on average adjusted ROACE.

  For those senior executives working in one of the four Business Segments, the two measures are TSR and ROACE for the relevant segment.

The total number of options outstanding and exercisable under share arrangements as at 30 April 2010 was as follows:

	Options outstanding				Options exercisable	
	Number of shares	Option price range (p)	Weighted average remaining contract life (years)	Weighted average exercise price (p)	Number exercisable	Weighted average exercise price (p)
Executive Share Option Scheme (1992)	Nil	Nil	Nil	Nil	Nil	Nil
Executive Share Option Scheme (1999)	5,187,594	135.2–243.8	4.6	161.6	4,477,594	148.5
Restricted Share Plan	Nil	Nil	Nil	Nil	Nil	Nil
Long-Term Incentive Plan	690,800	Nil	0.2	Nil	Nil	Nil
Deferred Share Bonus Plan	222,595	Nil	0.9	Nil	Nil	Nil
Replacement Deferred Share Bonus Plan	74,674	Nil	0.8	Nil	Nil	Nil
Performance Share Plan	9,939,030	Nil	1.9	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 (1992)		Executive Share Option Scheme (1999)		Restricted Share Plan		Long-Term Incentive Plan	
2010	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)
Balance at 1 May 2009	166.6	53	162.4	5,541	Nil	29	Nil	1,943
Granted	Nil	–	Nil	–	Nil	–	Nil	–
Exercised	Nil	–	Nil	–	Nil	(29)	Nil	–
Lapsed	166.6	(53)	175.1	(353)	Nil	–	Nil	(1,252)
Balance at 30 April 2010	**Nil**	**Nil**	**161.6**	**5,188**	**Nil**	**Nil**	**Nil**	**691**
Exercisable at 30 April 2010	**Nil**	**Nil**	**148.5**	**4,478**	**Nil**	**Nil**	**Nil**	**Nil**

26. SHARE-BASED PAYMENT EXPENSE CONTINUED

2010 continued	**Deferred Share Bonus Plan**		**Replacement Deferred Share Bonus Plan**		**Performance Share Plan**	
	Weighted average exercise price (p)	**Options ('000s)**	**Weighted average exercise price (p)**	**Options ('000s)**	**Weighted average exercise price (p)**	**Options ('000s)**
Balance at 1 May 2009	Nil	222	Nil	113	Nil	4,090
Granted	Nil	–	Nil	–	Nil	6,247
Exercised	Nil	–	Nil	(38)	Nil	–
Lapsed	Nil	–	Nil	–	Nil	(398)
Balance at 30 April 2010	**Nil**	**222**	**Nil**	**75**	**Nil**	**9,939**
Exercisable at 30 April 2010	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**

2009	Executive Share Option Scheme (1992)		Executive Share Option Scheme (1999)		Restricted Share Plan		Long-Term Incentive Plan	
	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)
Balance at 1 May 2008	172.0	218	161.7	6,790	Nil	54	Nil	3,588
Granted	Nil	–	Nil	–	Nil	–	Nil	–
Exercised	Nil	–	Nil	–	Nil	(25)	Nil	(56)
Lapsed	173.7	(165.4)	158.2	(1,249)	Nil	–	Nil	(1,589)
Balance at 30 April 2009	166.6	53	162.4	5,541	Nil	29	Nil	1,943
Exercisable at 30 April 2009	166.6	53	148.5	3,568	Nil	29	Nil	Nil

2009 continued	Deferred Share Bonus Plan		Replacement Deferred Share Bonus Plan		Performance Share Plan	
	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)
Balance at 1 May 2008	Nil	69	Nil	143	Nil	–
Granted	Nil	153	Nil	–	Nil	4,090
Exercised	Nil	–	Nil	(30)	Nil	–
Lapsed	Nil	–	Nil	–	Nil	–
Balance at 30 April 2009	Nil	222	Nil	113	Nil	4,090
Exercisable at 30 April 2009	Nil	Nil	Nil	Nil	Nil	Nil

The average share price of the Company during the financial year was 104.8 pence (2008/09: 93.7 pence).

The total expense recognised as employee costs is as follows:

	2010 £m	2009 £m
Share-based incentive awards granted in 2004/05	**–**	(0.1)
Share-based incentive awards granted in 2005/06	**–**	0.2
Share-based incentive awards granted in 2006/07	**–**	(0.4)
Share-based incentive awards granted in 2007/08	**0.1**	0.2
Share-based incentive awards granted in 2008/09	**0.5**	0.4
Share-based incentive awards granted in 2009/10	**0.8**	–
Total expense recognised as employee costs	**1.4**	0.3

The fair value of awards granted in the period relates to the PSP schemes.

26. SHARE-BASED PAYMENT EXPENSE CONTINUED

The fair value of the PSP award granted during the period determined using the stochastic valuation model, was £2.9m. The significant inputs into the model were: a share price of £0.7 for the PSP at the grant date; the exercise prices shown above; an expected volatility of the share price of 54.1%; the scheme life disclosed above; an annual risk-free interest rate of 2.4% 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 over a period of three years.

The fair value of the PSP award granted in 2008 using the stochastic valuation model was £2.2m. The significant inputs into the model were: a share price of £1.24 for the PSP at the grant date; the exercise price shown above, an expected volatility of the share price of 37.5%; the scheme life disclosed above; an annual risk-free interest rate of 4.2%; 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 a statistical analysis of average weekly share prices over a period of three years.

There were no grants for the LTIP or ESOS during the period as these plans ceased to be operated during the 2008/09 period.

The fair value of options granted during the 2008 period, determined using the stochastic valuation model, was £2.0m. The significant inputs into the model were: a share price of £2.37 for LTIP, and £2.44 for ESOS; the exercise prices shown above; a standard deviation of expected share price returns of 24.1% for LTIP and 26.6% for ESOS; the options life disclosed above; an annual risk-free interest rate of 5.5% for LTIP and 5.4% for ESOS; and an expected dividend yield of 3.6% for LTIP and 3.5% for ESOS. The volatility of share price returns measured as the standard deviation of expected share price returns was based on statistical analysis of daily share prices over a period of three to six years.

27. CASH GENERATED FROM OPERATIONS

	2010 £m	**2010 £m**	2009 £m	2009 £m
Profit/(loss) for the financial year		**38.1**		(11.2)
Adjustments for:				
Exceptional items charged to income statement	**13.3**		55.7	
Cash outflow for exceptional items	**(18.4)**		(17.2)	
Depreciation and amortisation	**72.0**		69.9	
Profit on sale of non-current assets	**(1.0)**		(1.7)	
Share of profit of associates before exceptional loss of £nil (2008/09: loss £5.1m)	**(0.2)**		(0.6)	
Employment benefit net finance expense/(income)	**11.5**		(1.5)	
Share-based payment expense	**1.4**		0.3	
Finance income	**(1.5)**		(2.5)	
Finance costs	**15.9**		26.1	
Other non-cash items	**0.6**		–	
Income tax expense	**16.9**		28.0	
		110.5		156.5
Changes in				
Inventories	**(8.0)**		25.5	
Trade and other receivables	**(36.3)**		70.8	
Trade and other payables	**41.9**		(65.5)	
Provisions and employee benefits	**(10.7)**		(9.7)	
		(13.1)		21.1
Cash generated from operations		**135.5**		166.4

28. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2010 £m	2009 £m
Operating profit before exceptional items	**94.0**	94.0
Depreciation and amortisation	**72.0**	69.9
Adjusted EBITDA	**166.0**	163.9
Working capital movement	**(2.4)**	30.8
Other	**(9.7)**	(11.1)
Cash generated from operations before exceptional cash items	**153.9**	183.6
Capital expenditure payments	**(52.6)**	(87.4)
Proceeds from sales of assets and investments	**13.0**	7.7
Tax paid	**(21.3)**	(21.0)
Net interest paid	**(16.2)**	(23.0)
Free cash flow	**76.8**	59.9
Exceptional cash costs	**(18.4)**	(17.2)
Dividends paid to Group shareholders	**(12.9)**	(34.4)
Dividends paid to non-controlling interests	**–**	(1.9)
Net acquisitions of equity in subsidiaries	**(1.0)**	(1.2)
Net cash flow	**44.5**	5.2
Purchase of own shares	**–**	(0.2)
Net debt acquired	**(0.9)**	(0.2)
Foreign exchange and fair value movements (note 18)	**8.4**	(44.5)
Net debt movement	**52.0**	(39.7)
Opening net debt	**(291.5)**	(251.8)
Closing net debt	**(239.5)**	(291.5)

Free cash flow excludes net acquisitions/(disposals) of equity in subsidiaries, exceptional cash costs and dividends.

29. OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

	2010 £m	2009 £m
Less than one year	**24.3**	21.0
Between one and five years	**55.5**	58.9
More than five years	**31.3**	35.7
	111.1	115.6

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

As at 30 April 2010, the Group's future minimum sub-lease receipts totalled £1.1m (2009: £1.1m), of which: £0.2m (2009: £0.2m) falls within one year; £0.9m (2009: £0.9m) between one and five years; and £nil (2009: £nil) after five years.

30. CAPITAL COMMITMENTS

As at 30 April 2010, the Group had committed to incur capital expenditure of £5.3m (2009: £2.9m).

31. ACQUISITIONS AND DISPOSALS

2009/10

Wirth

On 17 February 2010, the Group obtained control of Winfried Wirth GmbH, a corrugated packaging business in Germany. As a result, the Group's equity interest in Wirth increased from 25% to 55%.

Demes Logistics

On 6 January 2010, the assets of Demes Logistics GmbH & Co KG, a plastic packaging business in Germany, were sold.

Vale Paper Limited

Deferred consideration of £0.2m was paid in 2010 to Vale Paper Limited in full settlement of the further consideration due.

2008/09

Vale Paper Limited

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

32. RELATED PARTIES

Identity of related parties

In the normal course of business the Group undertakes a wide variety of transactions with certain of its subsidiaries (see note 33) and associates (see note 12). 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 set out on pages 46 to 55 of the Annual Report. Certain key management also participate in the Group's share option programme (refer to note 26). Included within the share-based payment expense is a charge of £0.4m (2009: £0.2m) relating to key management.

Other related party transactions

	2010 £m	2009 £m
Purchases from associates and joint ventures	**0.4**	0.4

33. DS SMITH GROUP COMPANIES

Control of the Group

The Group's ultimate parent company is DS Smith Plc.

List of key consolidated companies

	Country of incorporation or registration	Ownership interest 2010
UK Paper and Corrugated Packaging		
St Regis Paper Company Limited	England	100%*
A. A. Griggs and Company Limited	England	100%*
DS Smith Packaging Limited	England	100%*
Continental European Corrugated Packaging		
DS Smith Kaysersberg S.A.S.	France	100%*
DS Smith Polska S.A.	Poland	100%*
Toscana Ondulati SpA	Italy	92%*
DS Smith Çopikas AS	Turkey	100%*
Plastic Packaging		
DS Smith Plastics Limited	England	100%*
Cartón Plástico s.a.	Spain	100%*
DW Plastics NV	Belgium	100%*
Ducaplast S.A.S.	France	100%*
David S. Smith America Inc.	USA	100%*
DSS Rapak Inc.	USA	100%*
StePac L.A. Limited	Israel	90%*
Rapak GmbH & Co KG Systemverpackungen	Germany	100%*
Rapak Asia Pacific Limited	New Zealand	100%*
Office Products Wholesaling		
Spicers Limited	England	100%*
Spicers (Ireland) Limited	Ireland	100%*
Spicers France SAS	France	100%*
Spicers NV	Belgium	100%*

* indirectly held by DS Smith Plc

A complete list of the Group's companies is available from the registered office.

34. SUBSEQUENT EVENTS

Copikas disposal

The sale of DS Smith Copikas AS, a corrugated packaging business in Turkey within the Continental European Corrugated Packaging segment, was agreed on 28 May 2010 with Olmuksa International Paper-Sabanci Ambalaj Sanayi Ve Ticaret A.S.. The sale is for a cash consideration of £4.7m (payable on completion) and is subject to the Turkish Competition Board approval that is anticipated will take around six weeks.

35. INVESTMENT IN JOINT VENTURES

Rapak AD is proportionately consolidated within these financial statements. The Group share of the summarised financial information is presented as follows:

	2010 £m	2009 £m
Total non-current assets	**0.6**	0.7
Total current assets	**0.8**	0.4
Total non-current liabilities	**(0.6)**	(0.6)
Total current liabilities	**(0.2)**	(0.2)
Share of Rapak AD's net assets, proportionately consolidated	**0.6**	0.3
Revenue	**1.3**	0.9
Cost of sales	**(0.8)**	(0.6)
Operating expenses	**(0.3)**	(0.2)
Share of Rapak AD's profit for the financial year	**0.2**	0.1

	Nature of business	Principal country of operation	Financial year end	Ownership 2010
Rapak AD	Plastic packaging	Bulgaria	31 December	50.0%

Company Balance Sheet Prepared in Accordance with UK GAAP

As at 30 April 2010

	Note	**2010 £m**	2009 £m
Fixed assets			
Tangible assets	4	**2.4**	1.5
Investments	5	**357.0**	357.0
		359.4	358.5
Current assets			
Debtors: amounts falling due within one year	6	**12.9**	21.0
Debtors: amounts falling due after more than one year	6	**1,089.4**	1,092.5
Cash at bank and in hand		**0.8**	1.7
		1,103.1	1,115.2
Creditors: amounts falling due within one year			
Trade and other creditors	7	**(55.8)**	(44.9)
Borrowings	7	**(17.7)**	(47.1)
Net current assets		**1,029.6**	1,023.2
Total assets less current liabilities		**1,389.0**	1,381.7
Creditors: amounts falling due after more than one year			
Trade and other creditors	7	**(25.2)**	(24.3)
Borrowings	7	**(804.7)**	(823.6)
Provisions for liabilities	8	**(4.2)**	(2.7)
Net assets excluding pension liability		**554.9**	531.1
Net pension liability	2	**(142.8)**	(134.4)
Net assets including pension liability		**412.1**	396.7
Capital and reserves			
Called up share capital	9	**39.3**	39.3
Share premium account	10	**263.1**	263.1
Profit and loss account	10	**109.7**	94.3
Shareholders' funds		**412.1**	396.7

Approved by the Board on 23 June 2010 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 Prepared in Accordance with UK GAAP

1. SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies, which have been applied consistently, is set out below:

(a) Accounting basis

The financial statements have been prepared in accordance with applicable accounting standards.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

As the results of the Company are being presented together with its consolidated financial statements (refer to pages 60 to 105), the Company has taken advantage of the exemption contained in FRS 8 'Related Party Disclosures', and has therefore not disclosed transactions or balances with entities which form part of the Group (or investees of the Group qualifying as related parties).

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.

(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	3 – 5 years
Leasehold improvements	over the period of the lease

Land is not depreciated

(d) Fixed asset investments

Fixed asset investments are valued at cost less provisions for impairment.

(e) Deferred taxation

In accordance with FRS 19 'Deferred Tax', is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise, provided at current tax rates and based on current legislation. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

(f) Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the financial year end.

Exchange differences arising on translation are taken to the profit and loss account.

(g) Pension contributions

The amounts charged to operating profit in respect of defined benefit arrangements are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs.

Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and duration to the scheme liabilities. The resulting defined benefit net asset or liability, net of the related deferred tax, is presented.

(h) Financial instruments

Financial instruments are reported in accordance with FRS 26 'Financial Instruments: Recognition and Measurement'.

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

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

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

Any gains or losses arising from the hedging instruments are offset against the hedged items.

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

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

(i) Share options

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

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

Where applicable, the fair value of employee services received by subsidiary undertakings within the DS Smith Plc Group in exchange for options granted by the Company is recognised as an expense in the financial statements of the subsidiary by means of a recharge from the Company.

2. PENSIONS

Details of the assumptions used in the calculation of the underlying assets and liabilities are disclosed in note 25 to the consolidated financial statements on page 96.

	2010 £m	2009 £m
Market value of schemes' assets	**677.6**	544.7
Present value of schemes' liabilities	**(875.9)**	(731.3)
Deficit in the schemes	**(198.3)**	(186.6)
Related deferred tax asset	**55.5**	52.2
Net pension liability	**(142.8)**	(134.4)

The movement in the deficit during the year is as follows:

	2010 £m	2009 £m
Opening deficit	**(186.6)**	(72.1)
Service cost	**(7.0)**	(9.3)
Pension Protection Fund Levy	**(1.1)**	(1.2)
Contributions	**15.9**	15.6
Payments to Pension Protection Fund	**1.1**	1.5
Other finance income	**(11.2)**	1.6
Actuarial losses	**(11.0)**	(122.9)
Net payments	**1.6**	0.2
Closing deficit	**(198.3)**	(186.6)

Information on other aspects of the Company's defined benefit arrangements is materially the same as set out in note 25 to the consolidated financial statements.

3. EMPLOYEE INFORMATION

The average number of employees employed by the Company during the year was 39 (2008/09: 31).

	2010 £m	2009 £m
Wages and salaries	**6.9**	3.9
Social security costs	**1.3**	0.2
Pension costs	**0.5**	0.4
Total	**8.7**	4.5

Note 26 to the consolidated financial statements sets out the disclosure information required for the Company's share-based payments.

4. TANGIBLE FIXED ASSETS

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
Balance at 1 May 2009	1.4	3.3	4.7
Additions	–	1.2	1.2
Disposals	–	(3.0)	(3.0)
Balance at 30 April 2010	**1.4**	**1.5**	**2.9**
Depreciation			
Balance at 1 May 2009	–	(3.2)	(3.2)
Depreciation charge for the year	–	(0.3)	(0.3)
Disposals	–	3.0	3.0
Balance at 30 April 2010	**–**	**(0.5)**	**(0.5)**
Carrying amount			
Balance as at 1 May 2009	1.4	0.1	1.5
Balance as at 30 April 2010	**1.4**	**1.0**	**2.4**

5. FIXED ASSET INVESTMENTS

	Shares in Group undertakings £m	Other £m	Total £m
Balance at 1 May 2009	357.0	–	357.0
Balance at 30 April 2010	**357.0**	**–**	**357.0**

The Company's principal trading subsidiary undertakings at 30 April 2010 are shown in note 33 of the consolidated financial statements.

6. DEBTORS

	2010 £m	2009 £m
Amounts falling due within one year		
Amounts owed by subsidiary undertakings	**0.7**	0.1
Corporation tax	**8.2**	11.3
Other debtors includes other tax	**1.3**	0.9
Prepayments and accrued income	**0.1**	0.2
Derivative financial instruments	**2.6**	8.5
	12.9	21.0
Amounts falling due after more than one year		
Amounts owed by subsidiary undertakings	**1,071.8**	1,078.8
Other debtors	**0.8**	–
Deferred tax asset	**5.5**	–
Derivative financial instruments	**11.3**	13.7
	1,089.4	1,092.5
Total debtors	**1,102.3**	1,113.5

7. CREDITORS

	2010 £m	2009 £m
Trade and other creditors falling due within one year		
Amounts owed to subsidiary undertakings	**34.4**	31.9
Other tax and social security payables	**4.0**	3.1
Accruals and deferred income	**10.6**	9.7
Derivative financial instruments	**6.8**	0.2
	55.8	44.9
Trade and other creditors falling due after more than one year		
Deferred tax liability	**–**	0.6
Derivative financial instruments	**25.2**	23.7
	25.2	24.3
Borrowings falling due within one year		
Bank loans and overdrafts	**17.7**	47.1
	17.7	47.1
Borrowings falling due after more than one year (see note 20 of the consolidated financial statements for further details)		
Bank loans	**11.5**	77.5
Loans from subsidiary undertakings	**555.3**	500.1
Other loans	**237.9**	246.0
	804.7	823.6
Total creditors	**903.4**	939.9

8. PROVISIONS FOR LIABILITIES

	Restructuring £m	Other £m	Total £m
Balance at 1 May 2009	1.9	0.8	2.7
Charged to the profit and loss account	1.1	1.6	2.7
Provisions used during the year	(1.1)	(0.1)	(1.2)
Balance at 30 April 2010	**1.9**	**2.3**	**4.2**

9. SHARE CAPITAL

	Number of shares			
	2010 Millions	2009 Millions	**2010 £m**	2009 £m
Ordinary equity shares of 10 pence each				
Authorised	**410.0**	410.0	**41.0**	41.0
Issued, allotted, called up and fully paid	**393.4**	393.4	**39.3**	39.3

10. RESERVES

	Share premium account £m	Profit and loss account			
		Own shares £m	**Hedging reserve £m**	**Other £m**	**Total £m**
At 1 May 2009	263.1	(4.2)	1.1	97.4	94.3
Retained profit for the financial year	–	–	–	30.7	30.7
Actuarial losses on pension schemes	–	–	–	(11.0)	(11.0)
Tax on actuarial losses on pension schemes	–	–	–	3.2	3.2
Changes in the fair value of cash flow hedges (including tax)	–	–	(10.4)	–	(10.4)
Share-based payments (after tax)	–	–	–	2.9	2.9
At 30 April 2010	**263.1**	**(4.2)**	**(9.3)**	**123.2**	**109.7**

The Company made a profit for the financial year of £43.6m (2008/09: loss of £44.4m) including the recognition of intra-group dividends.

11. CONTINGENT LIABILITIES

The Company has guaranteed the gross overdrafts and loans of certain subsidiary undertakings, which at 30 April 2010 amounted to £42.2m (2008/09: £64.5m).

Five-Year Financial Summary

	Year ended 30 April 2006 £m	Year ended 30 April 2007 £m	Year ended 30 April 2008 £m	Year ended 30 April 2009 £m	**Year ended 30 April 2010 £m**
Revenue					
UK Paper and Corrugated Packaging	649.6	687.1	753.2	785.8	**750.2**
Continental European Corrugated Packaging	276.6	308.0	346.0	363.4	**355.4**
Plastic Packaging	202.4	201.8	223.4	236.9	**231.3**
Office Products Wholesaling	518.7	569.2	644.9	720.5	**733.7**
Office Products Manufacturing[3]	5.4	–	–	–	**–**
Group revenue	1,652.7	1,766.1	1,967.5	2,106.6	**2,070.6**

	Year ended 30 April 2006 £m	Year ended 30 April 2007 £m	Year ended 30 April 2008 £m	Year ended 30 April 2009 £m	**Year ended 30 April 2010 £m**
Operating profit[1]					
UK Paper and Corrugated Packaging	20.5	36.5	68.5	36.5	**35.4**
Continental European Corrugated Packaging	20.1	18.2	20.3	30.4	**22.9**
Plastic Packaging	7.2	10.2	10.7	7.0	**15.5**
Office Products Wholesaling	12.6	12.8	20.1	20.1	**20.2**
Office Products Manufacturing[3]	–	–	–	–	**–**
Group operating profit[1]	60.4	77.7	119.6	94.0	**94.0**
Share of profit of associates[1]	4.1	3.9	3.4	0.6	**0.2**
Net finance cost	(12.3)	(15.0)	(20.8)	(23.6)	**(14.4)**
Employee benefit net finance income	1.2	8.0	8.8	1.5	**(11.5)**
Profit before taxation and exceptional items	53.4	74.6	111.0	72.5	**68.3**
Exceptional items	(42.4)	3.9	(1.9)	(55.7)	**(13.3)**
Profit before income tax	11.0	78.5	109.1	16.8	**55.0**
Free cash flow[1]	67.8	91.9	84.8	59.9	**76.8**
Capital expenditure[4]	62.7	66.0	68.6	83.2	**41.2**
Depreciation and amortisation	67.2	62.9	62.0	69.9	**72.0**
Average capital employed[2]	930.0	895.0	925.7	1,009.5	**973.6**
Shareholders' funds	541.5	567.1	601.9	456.4	**473.2**
Net debt	237.8	181.2	251.8	291.5	**239.5**
Adjusted return on sales[1]	3.7%	4.4%	6.1%	4.5%	**4.5%**
Adjusted return on average capital employed[1]	6.5%	8.7%	12.9%	9.3%	**9.7%**
Gearing[5]	43.9%	32.0%	41.8%	63.9%	**50.6%**
Adjusted earnings per share[1]	10.0p	13.1p	19.9p	12.6p	**12.9p**
Dividends per share	8.4p	8.6p	8.8p	4.4p	**4.6p**
Adjusted dividend cover[1]	1.2x	1.5x	2.3x	2.9x	**2.8x**
Net assets per share	138.5p	144.9p	153.9p	116.7p	**121.0p**

1 before exceptional items

2 average capital employed is defined in note 2 on page 72

3 the Office Products Manufacturing business was sold in July 2005

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

5 gearing is defined in note 18 on page 83

Notice of Annual General Meeting 2010

Notice is hereby given that the Annual General Meeting of DS Smith Plc will be held at the Andaz (formerly Great Eastern) Hotel, Liverpool Street, London EC2M 7QN, on Tuesday 7 September 2010 at 12 noon to consider and, if thought fit, pass the following resolutions, of which Resolutions 1 to 11 will be proposed as ordinary resolutions and Resolutions 12 to 15 will be proposed as special resolutions.

1 To receive and adopt the Directors' Report, the Auditors' Report and financial statements for the year ended 30 April 2010.

2 To declare a final dividend on the ordinary shares.

3 To approve the Report on Remuneration.

4 To elect Mr J C Nicholls as a Director of the Company.

5 To elect Mr M W Roberts as a Director of the Company.

6 To elect Mr G Davis as a Director of the Company.

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

8 To re-elect Mr P J-C Mellier as a Director of the Company.

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

10 To re-appoint Deloitte LLP as auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are to be laid before the Company and to authorise the Directors to determine the remuneration of the auditors.

11 That:

(a) the Directors be generally and unconditionally authorised, in accordance with section 551 of the Companies Act 2006, to exercise all powers of the Company to allot shares in the Company or grant rights to subscribe for, or convert any security into, shares in the Company:

(i) up to a maximum nominal amount of £13,111,863.10 (such amount to be reduced by the nominal amount of any equity securities (as defined in section 560 of the Companies Act 2006) allotted under paragraph (ii) below in excess of £13,111,863.10); and

(ii) comprising equity securities (as defined in section 560 of the Companies Act 2006) up to a maximum nominal amount of £26,223,726.20 (such amount to be reduced by any shares allotted or rights granted under paragraph (i) above) in connection with an offer by way of a rights issue:

(A) to holders of ordinary shares in proportion (as nearly as may be practicable) to their existing holdings; and

(B) to holders of other equity securities if this is required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities;

and so that the Directors may make such exclusions or other arrangements as they consider expedient in relation to treasury shares, fractional entitlements, record dates, shares represented by depositary receipts, legal or practical problems under the laws in any territory or the requirements of any relevant regulatory body or stock exchange or any other matter;

(b) this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or, if earlier, at the close of business on 1 November 2011;

(c) the Company may, before this authority expires, make an offer or agreement which would or might require shares to be allotted or rights to be granted after it expires and the Directors may allot shares or grant rights in pursuance of such offer or agreement as if this authority had not expired; and

(d) all previous unutilised authorities under section 80 of the Companies Act 1985 and section 551 of the Companies Act 2006 shall cease to have effect (save to the extent that the same are exercisable pursuant to section 551(7) of the Companies Act 2006 by reason of any offer or agreement made prior to the date of this resolution which would or might require shares to be allotted or rights to be granted on or after that date).

12 That:

(a) the Directors be given power:

(i) (subject to the passing of resolution 11) to allot equity securities (as defined in section 560 of the Companies Act 2006) for cash pursuant to the authority conferred on them by that resolution under section 551 of that Act; and

(ii) to allot equity securities as defined in section 560(3) of that Act (sale of treasury shares) for cash, in either case as if section 561 of that Act did not apply to the allotment but this power shall be limited:

(A) to the allotment of equity securities in connection with an offer or issue of equity securities (but in the case of the authority granted under resolution 11 (a)(ii), by way of a rights issue only) to or in favour of:

I. holders of ordinary shares in proportion (as nearly as may be practicable) to their existing holdings; and

II. holders of other equity securities if this is required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities;

and so that the Directors may make such exclusions or other arrangements as they consider expedient in relation to treasury shares, fractional entitlements, record dates, shares represented by depositary receipts, legal or practical problems under the laws in any territory or the requirements of any relevant regulatory body or stock exchange or any other matter; and

(B) to the allotment of equity securities pursuant to the authority granted under resolution 11 (a)(i) and/or by virtue of section 560(3) of the Companies Act 2006 (in each case otherwise than under paragraph (A) above) up to a maximum nominal amount of £1,966,779.46;

(b) this power shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or, if earlier, at the close of business on 1 November 2011;

(c) all previous unutilised authorities under section 95 of the Companies Act 1985 and sections 570 and 573 of the Companies Act 2006 shall cease to have effect; and

(d) the Company may, before this power expires, make an offer or agreement which would or might require equity securities to be allotted after it expires and the Directors may allot equity securities in pursuance of such offer or agreement as if this power had not expired.

13 That in accordance with the Companies Act 2006, the Company is generally and unconditionally authorised to make market purchases (within the meaning of section 693 of the Companies Act 2006) of ordinary shares of 10 pence each in the capital of the Company in such manner and on such terms as the Directors may from time to time determine provided that:

(a) the maximum number of ordinary shares hereby authorised to be purchased is 39,335,589;

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

(c) the maximum price which may be paid for each ordinary share is an amount equal to the higher of 105% of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date of any such purchase and the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003 (in each case exclusive of expenses payable by the Company);

(d) the authority hereby conferred shall, unless previously varied, revoked or renewed, expire at the conclusion of the Annual General Meeting to be held in 2011 or, if earlier, 1 November 2011, save that the Company shall be entitled under such authority to make at any time before the expiry thereof any contract or contracts to purchase its ordinary shares which will or might be concluded wholly or partly after the expiry of such authority and may make a purchase of ordinary shares in pursuance of any such contract; and

(e) all existing authorities for the Company to make market purchases of ordinary shares are revoked, except in relation to the purchase of shares under a contract or contracts concluded before the date of this resolution and which has or have not yet been executed.

14 That, in accordance with the Company's Articles of Association, a general meeting (other than an Annual General Meeting) may be called on not less than 14 clear days' notice.

15 That, with effect from the conclusion of the Annual General Meeting:

(a) the Articles of Association of the Company be amended by deleting all the provisions of the Company's Memorandum of Association which, by virtue of section 28 of the Companies Act 2006, are to be treated as provisions of the Company's Articles of Association; and

(b) the Articles of Association produced to the Meeting and initialled by the Chairman of the Meeting for the purpose of identification be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing articles of association.

By Order of the Board

CAROLYN CATTERMOLE
Company Secretary
Beech House
Whitebrook Park
68 Lower Cookham Road
Maidenhead
Berkshire SL6 8XY

15 July 2010

NOTES

(i) Only those Members registered in the Register of Members of the Company as at 6pm on 5 September 2010 shall be entitled to attend and vote at the Meeting in respect of the number of shares registered in their names at that time.

(ii) Members are entitled to appoint a proxy to exercise all or any of their rights to attend and speak and vote on their behalf at the Meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company.

(iii) A proxy may be appointed by any of the following methods:

- completing and returning the enclosed Form of Proxy; or
- by logging onto the Registrars' website www.sharevote.co.uk using the Voting ID, Task ID and Shareholder Reference Number printed on the Form of Proxy enclosed. Shareholders who have already registered with the Registrars' online portfolio service Shareview can submit a proxy by logging into their profile at www.shareview.co.uk and clicking on the link to vote under "Your DS Smith Plc holding details"; or
- members of CREST should use the CREST electronic appointment service (see (vii) below).

If two or more valid but differing appointments of a proxy are received in respect of the same share for use at the same meeting, the one which is last received (regardless of its date or the date of its signature) shall be treated as replacing and revoking the others as regards that share; if the Company is unable to determine which was received last, none of them shall be treated as valid in respect of that share. To be effective, Forms of Proxy must reach the Registrars at the address shown on the Form not later than 48 hours before the time of the Meeting. Completion and return of the Form will not, however, prevent a Member from attending and voting at the Meeting. A Member must inform the Registrars in writing of any termination of the authority of a proxy.

(iv) Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between them and the shareholder by whom they were nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, they may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

(v) The statement of rights of shareholders in relation to the appointment of proxies in Notes (ii) and (iii) above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.

(vi) Nominated persons are reminded that they should contact the registered holder of their shares (and not the Company) on matters relating to their investments in the Company.

(vii) CREST Members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting to be held on 7 September 2010 and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal Members or other CREST sponsored Members, and those CREST Members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by the latest time for receipt of proxy appointments specified in (iii) above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST Members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST Member concerned to take (or, if the CREST Member is a CREST personal Member or sponsored Member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST Members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. The CREST Manual can be reviewed at www.euroclear.com/CREST.

(viii) As at 23 June 2010 (being the latest practicable date prior to publication of this document), the Company's issued share capital consists of 393,355,893 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 23 June 2010 are 393,355,893.

(ix) A member of the Company which is a corporation may authorise a person or persons to act as its representative(s) at the Annual General Meeting. In accordance with the provisions of the Companies Act 2006 (as amended by the Companies (Shareholders' Rights) Regulations 2009), each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company, provided that they do not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative.

(x) Under section 527 of the Companies Act 2006 members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with

sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.

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

(xii) A copy of this Notice, and other information required by section 311A of the Companies Act 2006, can be found in the Annual Report section of the Investors page on our website www.dssmith.uk.com.

(xiii) Under section 338 and section 338A of the Companies Act 2006, Members meeting the threshold requirements in those sections have the right to require the Company (i) to give, to Members of the Company entitled to receive Notice of the Meeting, notice of a resolution which may properly be moved and is intended to be moved at the Meeting and/or (ii) to include in the business to be dealt with at the Meeting any matter (other than a proposed resolution) which may be properly included in the business. A resolution may properly be moved or a matter may properly be included in the business unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious. Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the Company not later than 26 July 2010, being the date six clear weeks before the Meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

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

(a) service contracts of the Executive Directors;

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

(c) the current Memorandum and Articles of Association marked to show the proposed changes; and

(d) the proposed new Articles of Association.

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

EXPLANATORY NOTES ON THE RESOLUTIONS

Resolution 1: Report and financial statements

The Directors present to shareholders at the Annual General Meeting the Reports of the Directors and Auditors and the financial statements of the Company for the year ended 30 April 2010. These are contained in the Annual Report.

Resolution 2: Declaration of a final dividend

Final dividends declared by shareholders must not exceed the amount recommended by the Directors. By passing Resolution 2, shareholders will declare a final dividend. The amount of the final dividend recommended by the Directors is 3.1 pence net per ordinary share.

Resolution 3: Approval of Report on Remuneration

As required by section 439 of the Companies Act 2006, shareholder approval is sought for the Remuneration Report set out on pages 46 to 55.

Resolutions 4-9: Election and Re-election of Directors

The Articles of Association of the Company require that a Director appointed since the previous Annual General Meeting shall be subject to election by the shareholders. Mr Nicholls was appointed as a Director with effect from 1 December 2009 and, in accordance with the Articles, he retires from office at the Meeting. He is a member of the Nomination and Audit Committees and, from the end of June 2010, Chairman of the Audit Committee. Mr Roberts was appointed a Director with effect from 4 May 2010 and, in accordance with the Articles, he retires from office at the Meeting. He is a member of the Nomination and General Purposes Committees. Mr Davis was appointed as a Director with effect from 1 June 2010 and, in accordance with the Articles, he retires from office at the Meeting. He is a member of the Audit, Nomination and Remuneration Committees and, from the end of June 2010, Chairman of the Remuneration Committee. Being eligible they offer themselves for election.

The Articles of Association of the Company require that all Directors retire from office at least once every three years but are eligible to submit themselves for re-election by shareholders. The Directors who retire at each Annual General Meeting are those who would otherwise have served for over three years without re-election by the date of the following Annual General Meeting.

Mr Bunker will retire and, being eligible, offers himself for re-election at this year's Annual General Meeting. Mr Bunker is the Senior Independent Director, and a member of the Audit, Remuneration and Nomination Committees. Mr Mellier will retire and, being eligible, offers himself for re-election at this year's Annual General Meeting. Mr Mellier is a member of the Remuneration Committee.

As required by the Combined Code any non-Executive Director who has been in post for nine years or more, or who is non-independent for any reason, is subject to annual re-election. Mr Beeston has served for more than nine years, will retire and, being eligible, offers himself for re-election at this year's Annual General Meeting. As mentioned in the Chairman's Statement on page 15, Mr Beeston will be retiring from the Board at the end of 2010.

A biography of each Director, including those seeking election or re-election, appears on pages 40 and 41 of the Annual Report.

Resolution 10:
Re-appointment of Auditors and Auditors' remuneration

The auditors of a company must be re-appointed at each general meeting at which accounts are presented. Resolution 10 proposes the re-appointment of the Company's existing auditors, Deloitte LLP, until the next Annual General Meeting and also gives authority to the Directors to determine the auditors' remuneration.

Resolution 11:
Authority to allot shares

At the Annual General Meeting held on 8 September 2009, shareholders authorised the Directors, under section 80 of the Companies Act 1985, to allot relevant securities without the prior consent of shareholders for a period expiring at the conclusion of the Annual General Meeting to be held in 2010 or, if earlier, on 1 November 2010. It is proposed to renew this authority and to authorise the Directors under section 551 of the Companies Act 2006 to allot ordinary shares or grant rights to subscribe for or convert any security into shares in the Company for a period expiring no later than 1 November 2011.

Paragraph (a)(i) of Resolution 11 will allow the Directors to allot ordinary shares up to a maximum nominal amount of £13,111,863.10 representing approximately one third (33.33%) of the Company's existing issued share capital and calculated as at 23 June 2010 (being the latest practicable date prior to publication of this circular). In accordance with the latest institutional guidelines issued by the Association of British Insurers, paragraph (a)(ii) of Resolution 11 will allow Directors to allot, including the ordinary shares referred to in paragraph (a)(i) of Resolution 11, further of the Company's ordinary shares in connection with a pre-emptive offer by way of a rights issue to ordinary shareholders up to a maximum nominal amount of £26,223,726.20, representing approximately two thirds (66.67%) of the Company's existing issued share capital and calculated as at 23 June 2010 (being the latest practicable date prior to publication of this circular). The Directors have no present intention of exercising this authority. However, if they do exercise the authority, the Directors intend to follow emerging best practice as regards its use (including as regards the Directors standing for re-election in certain cases), as recommended by the Association of British Insurers.

Resolution 11 will be proposed as an ordinary resolution to renew this authority until the conclusion of the next Annual General Meeting or, if earlier, the close of business on 1 November 2011.

Resolution 12
Directors' powers to disapply pre-emption rights

Also at last year's meeting, a special resolution was passed, under section 95 of the Companies Act 1985, empowering the Directors to allot equity securities for cash without first being required to offer such shares to existing shareholders. It is proposed that this authority also be renewed under section 560 of the Companies Act 2006. If approved, the Resolution will authorise the Directors to issue shares in connection with a rights issue and otherwise to issue shares for cash up to a maximum nominal amount of £1,966,779.46 which includes the sale on a non pre-emptive basis of any shares the Company may hold in treasury for cash. The maximum nominal amount of equity securities to which this authority relates represents approximately 5% of the issued share capital of the Company as at 23 June 2010 (being the latest practicable date prior to publication of this circular).

The Directors do not intend to issue more than 7.5% of the issued share capital of the Company for cash on a non pre-emptive basis in any rolling three year period without prior consultation with the shareholders and the Investment Committees of the Association of British Insurers and the National Association of Pension Funds.

Resolution 12 will be proposed as a special resolution to renew this authority until the conclusion of the next Annual General Meeting or, if earlier, the close of business on 1 November 2011.

Resolution 13
Company's authority to purchase shares

This Resolution, which will be proposed as a special resolution, seeks to renew the existing authority for the Company to purchase its own shares in the market. This authority gives the Company greater flexibility in managing its capital resources. The Directors have no specific intention of using this authority and would do so only when, in the light of market conditions, they believed that the effect of such purchases would be to increase earnings per share, and that the purchases were in the interests of shareholders generally. The Directors would also give careful consideration to gearing levels of the Company and its general financial position. The purchase price would be paid out of distributable profits. Resolution 13 specifies the maximum number of shares which may be purchased (representing approximately 10% of the Company's issued share capital at 23 June 2010, being the latest practicable date prior to publication of this document), the minimum and maximum prices at which they may be bought and when the authority will expire, reflecting the requirements of the Companies Act 2006 and the Listing Rules of the FSA.

The minimum price at which the shares may be purchased is their nominal value and the maximum price is the higher of 5% above the average of the middle market values of those shares for the five business days before the purchase is made and the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003. The Companies Act 2006 enables certain listed companies to hold shares in treasury, as an alternative to cancelling them, following a purchase of own shares by the Company. Shares held in treasury may subsequently be cancelled, sold for cash or used to satisfy share options and share awards under the Company's share schemes. Once held in treasury, the Company is not entitled to exercise any rights, including the right to attend and vote at meetings, in respect of those shares. Further, no dividend or distribution of the Company's assets may be made to the Company in respect of those shares whilst held in treasury.

Accordingly, if the Directors exercise the authority conferred by Resolution 13, the Company will have the option of holding those shares in treasury rather than cancelling them. The total number of ordinary shares that are under option through the Company's share option schemes at 23 June 2010 (being the latest practicable date prior to publication of this notice) is 4,992,145 of which 4,091,868 are options over unissued ordinary shares. The proportion of issued ordinary share capital that the options over unissued ordinary shares represented on this date was 1.04% and the proportion of issued ordinary share capital that they will represent if the full authority to purchase shares (existing and being sought) is used is 0.95%. The authority will expire on 1 November 2011 or at the conclusion of the next Annual General Meeting (whichever is the earlier). It is the present intention of the Directors to seek a similar authority annually.

Resolution 14
Notice of general meetings

Changes made to the Companies Act 2006 by the Companies (Shareholders' Rights) Regulations 2009 (the 'Shareholders' Rights Regulations') increase the notice period required for general meetings of the Company to 21 days unless shareholders approve a shorter notice period, which cannot however be less than 14 clear days. (Annual General Meetings will continue to be held on at least 21 clear days' notice.)

Before the coming into force of the Shareholders' Rights Regulations on 3 August 2009, the Company was able to call general meetings other than an Annual General Meeting on 14 clear days' notice without obtaining such shareholder approval. In order to preserve this ability, Resolution 14 seeks such approval. The approval will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed.

Note that if a general meeting is called on less than 21 clear days' notice, the Company will make a means of electronic voting available to all shareholders for that meeting.

The flexibility offered by this resolution will be used where, taking into account the circumstances, the Directors consider this appropriate in relation to the business of the meeting and in the interests of the Company and shareholders as a whole.

Resolution 15
Adoption of new Articles of Association

It is proposed in resolution 15 to adopt new Articles of Association (the 'New Articles') in order to update the Company's current Articles of Association (the 'Current Articles'), primarily to take account of the coming into force of the Shareholders' Rights Regulations and the implementation of the last parts of the Companies Act 2006.

The principal changes introduced in the New Articles are summarised below. Other changes, which are of a minor, technical or clarifying nature, and also some more minor changes which merely reflect changes made by the Companies Act 2006 or the Shareholders' Rights Regulations, have not been noted. A copy of the proposed New Articles and a copy of the Memorandum of Association and Current Articles, marked to show all the changes proposed, will be available for inspection at the Company's registered office and at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD, during normal business hours from the date of this circular to the date of the Annual General Meeting, and at the place of the Annual General Meeting from at least 15 minutes prior to the meeting and until the conclusion of the meeting.

(a) The Company's objects

Prior to 1 October 2009, the provisions regulating the operations of the Company were set out in the Company's Memorandum and Articles of Association. The Company's Memorandum contained, among other things, the objects clause which sets out the scope of the activities the Company is authorised to undertake. This is drafted to give a wide scope. The Companies Act 2006 significantly reduces the constitutional significance of a company's memorandum, providing that a memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the company. Under the Companies Act 2006, the objects clause and all other provisions which are contained in a company's memorandum are deemed to be contained in the company's articles of association, but the company can remove these provisions by special resolution.

Further, the Companies Act 2006 states that, unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have objects clauses. For this reason, the Company is proposing to remove its objects clause, together with all other provisions of its Memorandum which, by virtue of the Companies Act 2006, are now treated as forming part of its Articles of Association. Resolution 15(a) confirms the removal of these provisions although, where appropriate, to preserve the status quo, certain Directors' powers that were previously dealt with in the Memorandum have been added back into the New Articles. As the effect of Resolution 15(a) will also be to remove the statement currently in the Company's Memorandum of Association regarding limited liability, the New Articles also contain an express statement regarding the limited liability of shareholders.

(b) Authorised share capital and unissued shares

The Companies Act 2006 abolishes the requirement for a company to have an authorised share capital, and the New Articles reflect this. Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the Companies Act 2006, save in respect of employees' share schemes.

(c) Redeemable shares

Under the Companies Act 1985, if a company wished to issue redeemable shares, it had to include in its articles the terms and manner of redemption, whereas the Companies Act 2006 enables directors to determine such matters themselves, provided that they are authorised to do so by the articles. The New Articles contain such an authorisation for the Directors. The Company has no plans to issue redeemable shares but, if it did so, the Directors would need shareholders' authority to issue new shares in the usual way.

(d) Conversion of shares into stock

The Current Articles refer to a power for the Company by ordinary resolution to convert its paid up shares into stock. This is no longer possible under the Companies Act 2006 and, accordingly, the provision has been deleted.

(e) Suspension of registration of share transfers

The Current Articles permit the Directors to suspend the registration of share transfers. This power has been removed in the New Articles because it is inconsistent with the Companies Act 2006, which requires share transfers to be registered as soon as practicable.

(f) Notice of general meetings

The Shareholders' Rights Regulations amend the Companies Act 2006 to require the Company to give 21 clear days' notice of general meetings unless the Company offers members an electronic voting facility and a special resolution reducing the period of notice to not less than 14 days has been passed. Annual General Meetings must be held on 21 clear days' notice. The New Articles amend the provisions of the Current Articles to be consistent with the new requirements.

(g) Adjournments for lack of quorum

Under the Companies Act 2006, as amended by the Shareholders' Rights Regulations, general meetings adjourned for lack of quorum must be held at least 10 clear days after the original meeting. The New Articles amend the provisions of the Current Articles to reflect this requirement.

(h) Chairman's casting vote

The New Articles remove the provision in the Current Articles giving the Chairman a casting vote in the event of an equality of votes, as this is no longer permitted under the Companies Act 2006.

(i) Voting by proxies on a show of hands

The Shareholders' Rights Regulations have amended the Companies Act 2006 so that it now provides that, subject to a company's articles, each proxy appointed by a member has one vote on a show of hands, unless the proxy is appointed by more than one member, in which case the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution. The New Articles amend the provisions of the Current Articles to reflect these changes, and to clarify the procedure to be followed if a proxy is appointed by more than one member and is given discretion as to how to vote by one or more of those members.

(j) Voting record date and proxy appointment deadline

Under the Companies Act 2006, as amended by the Shareholders' Rights Regulations, the Company must determine the right of members to vote at a general meeting by reference to the Register not more than 48 hours

before the time for the holding of the meeting, not taking account of days that are not working days. The Companies Act 2006 also allows companies to set a time limit for the receipt of proxy appointments and related documents that is not more than 48 hours before the time for the holding of the meeting, not taking account of days that are not working days. The New Articles amend the Current Articles to reflect these provisions.

(k) Voting in accordance with instructions
Under the Shareholders' Rights Regulations, proxies are expressly required to vote in accordance with instructions given to them by members. For the avoidance of doubt, the New Articles contain a provision stating that the Company is not obliged to check whether a proxy or corporate representative has voted in accordance with the members' instructions.

(l) Change of name
Prior to 1 October 2009, a company could only change its name by special resolution, but now, under the Companies Act 2006, a company is able to change its name by other means provided for by its articles. To take advantage of this provision, the New Articles enable the Directors to pass a resolution to change the Company's name.

(m) Scrip dividends
In line with market practice, the New Articles update the Current Articles to provide that the value of shares issued in connection with a scrip dividend may be determined by ordinary resolution, or by reference to the average middle-market quotation for shares of the same class on the London Stock Exchange Daily Official List for the day on which the shares are first quoted 'ex' dividend, and the four subsequent dealing days. The New Articles also allow the Directors the flexibility at any time before the further shares are allotted to decide that the dividend will be paid in cash instead.

(n) General
Generally, the opportunity has been taken to bring clearer language into the New Articles and in some areas to conform the language of the New Articles to the language used in the Companies Act 2006.

Recommendation
Your Directors believe that all the proposals in the resolutions to be considered at the Annual General Meeting are in the best interests of the Company and its shareholders and recommend shareholders to vote in favour of the resolutions. The Directors will be voting in favour of the resolutions in respect of their own shareholdings.

IMPORTANT NOTES ABOUT THE ANNUAL GENERAL MEETING

Date
Tuesday 7 September 2010.

Location
Andaz (formerly Great Eastern) Hotel, Liverpool Street, London EC2M 7QN.

Timing
The Meeting will start promptly at 12 noon and shareholders wishing to attend are advised to be in the venue no later than 11.50am. The reception area will be open from 11.30am, from which time refreshments will be served.

Travel information
A map on the reverse of the Admittance Card shows the location of the Andaz (formerly Great Eastern) Hotel and the nearest underground and railway stations. The venue is less than five minutes' walk from Liverpool Street station. There are no car-parking facilities at the venue.

Admission
Please bring the Admittance Card (which is the tear-off section at the bottom of the Form of Proxy) with you to the Meeting. You may be asked to show the Card before being admitted to the venue. Shareholders and proxy holders may also be required to provide proof of identity. The registration process may take longer without these documents. Shareholders are politely requested to bring no more than one guest to the Meeting except by prior arrangement with the Company Secretary.

Facilities
The Andaz (formerly Great Eastern) Hotel has wheelchair access. If you are planning to come to the Meeting and are a wheelchair user, it would be helpful if you would telephone the venue in advance on 020 7618 5618.

Enquiries and questions
Shareholders who intend to ask a question related to the business of the Meeting are asked to provide their name, address and question at the Registration desk. Staff from Equiniti will be on hand to provide advice and assistance.

Shareholder Information

SHAREHOLDER INFORMATION

Financial diary

24 June 2010
Announcement of final results for the year ended 30 April 2010

11 August 2010
Ex-dividend date for final dividend

7 September 2010
Annual General Meeting

14 September 2010
Payment of final dividend

8 December 2010*
Announcement of half-year results for the six months ended 31 October 2010

26 January 2011*
Ex-dividend date for interim dividend

1 March 2011*
Payment of interim dividend

23 June 2011*
Announcement of final results for the year ended 30 April 2011

* provisional date

COMPANY WEBSITE

The Company's website at www.dssmith.uk.com contains the latest information for shareholders, including press releases and an updated financial diary. E-mail alerts of the latest news, press releases and financial reports about DS Smith Plc may be obtained by registering for the e-mail news alert service on the website.

SHARE PRICE INFORMATION

The latest price of the Company's ordinary shares is available from the FT Cityline service. Calls within the UK are charged at 75 pence per minute at all times. To access this service, telephone 09058 171 690. Alternatively click on www.londonstockexchange.com. DS Smith's ticker symbol is SMDS. It is recommended that you consult your financial adviser and verify information obtained from these services before making any investment decision.

REGISTRARS

Please contact the Registrars at the address below to advise of a change of address or for any enquiries relating to dividend payments, lost share certificates or other share registration matters.

The Registrars provide on-line facilities at www.shareview.co.uk. Once you have registered you will be able to access information on your DS Smith Plc shareholding, update your personal details and amend your dividend payment instructions on-line without having to call or write to the Registrars.

DIVIDENDS

Shareholders who wish to have their dividends paid directly into a bank or building society account should contact the Registrars. In addition, the Registrars are now able to pay dividends in 36 foreign currencies. This service is called 'TAPS' and enables the payment of your dividends directly into your bank account in your home currency. A charge of £2.50 is deducted from each dividend payment to cover the costs involved. Please contact the Registrars to request further information.

SHARE DEALING SERVICES

The Registrars offer a real-time telephone and internet dealing service. Further details including terms and rates can be obtained by logging on to the website at www.shareview.co.uk/dealing or by calling 0845 603 7037. Lines are open between 8am and 4.30pm, Monday to Friday.

J.P. Morgan Cazenove operates a low-cost share dealing service for private investors who wish to buy or sell ordinary shares of the Company. This is an execution-only service and further details can be obtained from The Share Dealing Service, J.P. Morgan Cazenove, 10 Aldermanbury, London EC2V 7RF. Telephone 020 7155 5155. Please note there is a minimum transaction level of £500 for using this service.

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Solicitors
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Calls to this number will be charged at 8 pence per minute from a BT landline. Other telephone providers' costs may vary.
Overseas telephone +44 121 415 7047
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The DS Smith Plc website provides news and details of the Group’s activities, plus links to our business sites and up-to-date information including:

- results announcements and other press releases
- presentations
- share price data
- analysts’ coverage and forecasts
- e-mail alert service
- this and historical Annual Reports in PDF format

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