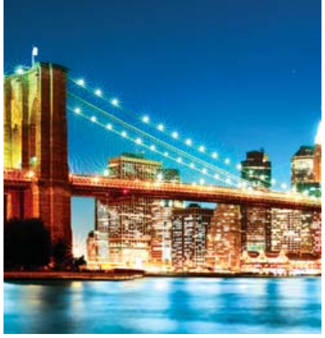
Annual Report and Accounts 2012

DS Smith Plc

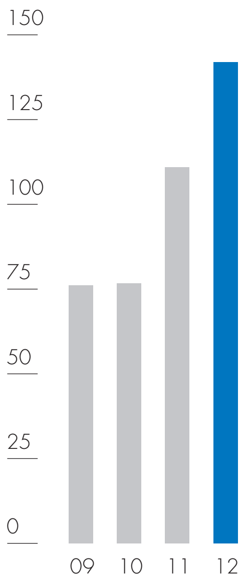




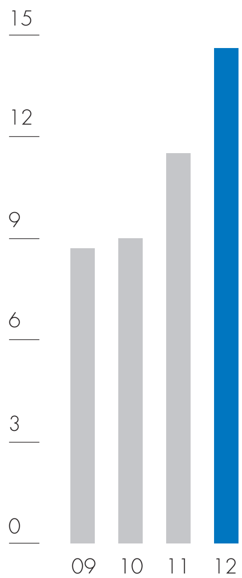


becoming the leader in recycled packaging for consumer goods

Operating profit*
£142.0m
2011: £110.9m



Return on average capital employed*
14.6%
2011: 11.5%



* continuing operations, before amortisation and exceptional items

Contents

Business Review
02 Chairman's statement
04 Chief Executive's statement
10 At a glance
12 Operating review
17 Financial review
22 Corporate Responsibility review
29 Risk management

Governance
34 Directors and Company Secretary
36 Corporate Governance
43 Remuneration Report
55 Directors' Report and Directors' Responsibilities Statement

Financial Statements
59 Independent Auditor's Report
60 Consolidated Financial Statements and Notes
102 Company Balance Sheet and Notes
107 Five-Year Financial Summary

Notice of Meeting
108 Notice of Annual General Meeting 2012
113 Shareholder Information

A long way in a short time – our evolution

2010

Setting out our aims

In May 2010 Miles Roberts joined as Group Chief Executive. In June that year we set out our aims which are to build a company less cyclical, with consistently higher returns and margins, through differentiating the business commercially and engaging with our employees.

Acquisition of Otor – first step in developing our European footprint

In July 2010 we announced the acquisition of Otor, a French corrugated packaging business specialising in innovative, high quality solutions designed particularly for consumer products. Otor became part of DS Smith in September 2010. The business was re-named and re-branded DS Smith Packaging France.

In December 2010 we gave a detailed announcement of our strategy, setting out financial key performance indicators for the first time and setting testing targets. Our aim is to become the leading supplier of recycled packaging for consumer goods.

We are becoming the leader in recycled packaging by offering our customers high standards of service, quality and innovation, on a sustainable basis.

2011

Delivering on the strategy

2011 was the first year of ownership of Otor, and we have been working collaboratively so that innovation is shared throughout the Group. Our businesses gained market share in 2010/11 due to the quality of our products and the service we offered. In December 2011 we sold our Office Products Wholesaling division. We also focused on developing our employees, with our first employee survey and re-defined corporate values.

2012

SCA Packaging – a transformational opportunity

In January 2012 we announced an agreement to buy the SCA Packaging business. This represents a huge step forward for the Group, giving us a pan-European footprint. Since January, we have put in place detailed integration plans. This transaction completes at the end of June 2012 and integration will begin immediately.

Chairman's statement

Gareth Davis

I am delighted to report that 2011/12 has been a year of transformation for DS Smith, during which the Group has made great strides towards its strategic aim of becoming the leading supplier of recycled packaging for consumer goods. This has been achieved through a combination of acquisition and disposal, while at the same time keeping a keen eye on the underlying business, which has continued to perform very well despite the current economic difficulties throughout Europe.

DS Smith has gone through a period of great change in the last 12 months with more changes still to come. Managing this change has been a fundamental part of the good governance of this Company. Meeting the ever-changing demands of the business environment, wider social and political influences whilst at the same time ensuring that our various stakeholders – shareholders, employees, customers and the environment – are all given equal consideration, has been a challenge that your Board has taken very seriously. Ensuring that DS Smith has been able to rise to these demands as a cohesive Group has been at the heart of all your Board's decisions.

Corporate developments and strategy

In December 2010 we set out a clear strategy to investors, accompanied by key performance indicators and the actions we would seek to take. A key one of those was to streamline the Group, and I am pleased to report that in July 2011 we announced the agreement we had reached to dispose of our Office Products Wholesaling division. While a profitable business, this had no synergy with the rest of the Group and the Board believes that the capital realised will deliver a better return invested in our core business. Following the customary competition authority clearance process, that disposal completed in December 2011. We also sold a small paper mill in September 2011, delivering against another objective to reduce our exposure to non-integrated paper manufacturing.

In January 2012, after six months of exclusive negotiation and due diligence, we announced our proposal to acquire SCA Packaging (excluding its kraftliner assets), the second largest corrugated packaging group in Europe. The transaction approximately doubles the size of the Group and substantially extends the DS Smith footprint across Europe.

2011/12 has been a year of transformation for DS Smith

Due to the size of the transaction, and to maintain an acceptable level of debt, we announced at the same time our intention to raise approximately £466 million by way of a rights issue. I was delighted by the reaction of our shareholders, who provided support and leadership, with 98.6 per cent of shareholders choosing to take up their right to buy additional DS Smith shares in the offer. A huge amount of work has followed, to prepare for the point when we take ownership, expected to be 30 June 2012. I am pleased to say that we have a clear plan for integrating the businesses, starting from day one.

Trading performance

Throughout this period of strategic change, the underlying businesses have proved themselves resilient despite substantial economic headwinds, delivering a 28 per cent increase in operating profit (20 per cent excluding the impact of acquisitions and foreign exchange). The performance from our European business, including the Otor business in France, acquired in September 2010, has been particularly good, giving confidence in the prospects for the SCA Packaging acquisition. Return on average capital employed increased 310 basis points to 14.6 per cent. Earnings per share from continuing operations increased 28 per cent in the period to 12.8 pence (2010/11: 10.0 pence).

Dividend

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

Accordingly, the Board recommends a final dividend for 2011/12 of 4.0 pence per share which, together with the interim dividend of 1.9 pence per share gives a total dividend for the year of 5.9 pence per share (2010/11: 4.5 pence per share). This represents an increase of 31 per cent over the prior year and a cover of 2.2 times in relation to adjusted earnings per share, in line with our policy.

Board changes

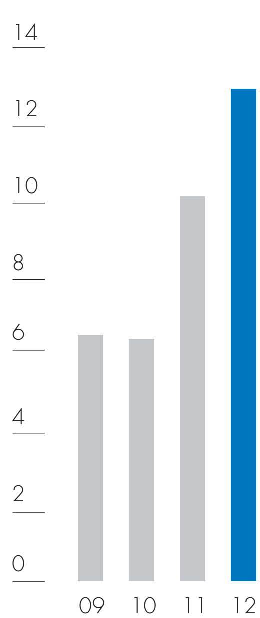
In October 2011 Peter Johnson chose to stand down temporarily from his responsibilities as Chairman, due to personal circumstances, and in January 2012 he decided to resign from the Board. Peter joined the Board as a non-Executive Director in 1999 and became Chairman in 2007. I would like to thank Peter for his immeasurable contribution, leading the business through a period of transition over that time and leaving the business in an excellent position to grow and further develop. I am delighted to have the honour of chairing DS Smith Plc and look forward to continuing this work. We are committed to ensuring our Board continues to have both relevant experience and appropriate diversity and, although we believe it difficult to set targets or timescales for the percentage of women, or any other group, on our Board, we are optimistic that the targets for board composition set out in the Davies recommendations can be met.

Finally, on behalf of the Board, I would like to thank all our colleagues throughout DS Smith for the substantial efforts made by everyone to deliver these results this year. In a period of strategic change, it has been their daily focus on delivering great service, quality and innovation to our customers, which has enabled the delivery of such significant progress. I would also like to extend a warm welcome to our new colleagues from SCA Packaging, who will be joining the Group from the end of June.

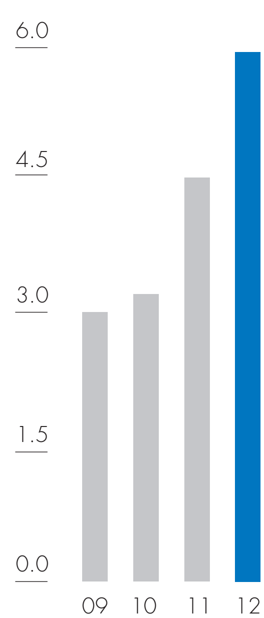
Looking to 2012/13, we are ready to start integrating our new business, and I have every confidence that the success achieved to date will continue.

Gareth Davis, Chairman

Earnings per share*
12.8p
2011: 10.0p



Total dividend per share
5.9p
2011: 4.5p



* continuing operations, before amortisation and exceptional items

Miles Roberts

Overview

2011/12 has been a year of transformation for DS Smith, in which we took several significant steps along the path to our strategic goal: to become the leading supplier of recycled packaging for consumer goods, with improved medium-term financial performance. We are doing this by growing our packaging and recycling businesses, reducing our exposure to paper manufacturing and disposing of non-core businesses.

We delivered great improvements during the first full year of ownership of the French business, Otor, which we acquired in September 2010. In June 2011 we announced the closure of one paper mill, and in September 2011 we announced the sale of a second, in aggregate reducing our UK paper capacity by an annual run-rate of approximately 120 thousand tonnes. We disposed of our Office Products Wholesaling division, Spicers, in December 2011, fulfilling our strategic aim of streamlining the Group and releasing capital to be used in developing the core business. In January 2012 we announced our intention to acquire SCA Packaging (excluding its kraftliner assets) for €1.6 billion, which will make DS Smith the second largest provider of corrugated packaging in Europe, and deliver a pan-European footprint. We are funding the acquisition, in part, with an issue of equity and we were delighted with the strong support of our shareholders. This acquisition has received all the necessary clearances from the competition authorities and we are on track to complete it, as planned, at the end of June 2012.

Notwithstanding this period of considerable change, I am delighted to report that our operations have performed very well. Unless otherwise indicated, all references to operating profit, return on sales, return on average capital employed and earnings per share (EPS), are on the basis of continuing operations, before exceptional items and amortisation of intangible assets.

In 2011/12 the Group's revenues grew by 12 per cent, up 8 per cent excluding the impact of acquisitions and currency. This increase was driven by volume growth in corrugated box sales, of 2 per cent, coupled with strict pricing discipline, recovering cost increases promptly. Operating profit increased 28 per cent to £142.0 million (2010/11: £110.9 million), an increase of 20 per cent excluding the impact of acquisitions and currency. EPS increased 28 per cent despite the dilutive effect of the equity issue that completed in February 2012. This result follows the prior year where EPS increased 58 per cent.

The Group has increased its corrugated box volumes and made good progress in each of its major markets. This progress was achieved by focusing on what our customers value – service, quality and innovation.

Delivering against our Key Performance Indicators

We have delivered results within our previously stated target range for all our Key Performance Indicators in relation to our financial metrics, customer service, employees and environmental performance.

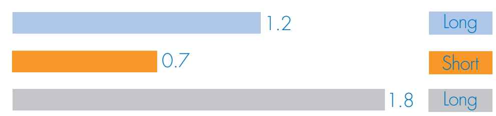
Improved operating performance

A business model for sustainable growth

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

The design and manufacture of corrugated packaging is at the heart of our business, supported by our paper and our recycling businesses. In the markets that we operate in, we choose to be a net buyer of paper from third parties, as there are plenty of external suppliers of this commodity. We regard our recycling business as a way to connect with retailers to develop the market for corrugated packaging, as well as providing us with ownership of paper fibre.

The balance of our business (million tonnes)



* Excluding output from Hollins Mill, scheduled to close in calendar H2 2012

1. Recycling

Recycled paper is made from recovered fibre, principally from used corrugated boxes and other used paper and card. It is a scarce resource that is traded internationally. We have a substantial business in the UK collecting used corrugated and other fibre direct from retailers. This gives us security of supply to our paper mills. We see our recycling operations as more than a sourcing operation. They also connect us with our customers' customer, the retailer. By engaging with major retailers about the benefits of corrugated packaging, we seek to drive growth in the market for corrugated packaging.

Customers such as:
Tesco, Sainsbury, M&S, Morrisons

Recovered fibre collected in 2011/12:

1.8m tonnes

2. Paper

We manufacture corrugated case material (CCM), the paper used to make corrugated packaging. We are a net buyer of CCM, manufacturing only the amount strategically necessary to ensure consistent economic supply. We also manufacture a small amount of other paper grades.

- CCM volume 2011/12: 0.7 million tonnes
- Other paper sales volume 2011/12: 0.4 million tonnes
- Customers: corrugated box manufacturers. 63 per cent of our CCM is used by our own box operations and the remainder is sold. All of our non-CCM grade paper is sold externally

Key raw materials: recovered fibre. In the UK all of our fibre is sourced from our own recycling business. In Europe the fibre is currently sourced externally. Approximately 1.1 tonnes of fibre are needed to make 1.0 tonnes of paper.

CCM manufactured in 2011/12:

0.7m tonnes

4. Retailer

The retailer buys products from the FMCG manufacturer. They will specify the type of packaging that they prefer, to that manufacturer. The retailer then crushes and bales up its used corrugated boxes at the back of the store.

DS Smith buys used cardboard from many of the largest retailers in the UK through its recycling businesses.

3. Corrugated packaging

We design, manufacture and deliver corrugated packaging to our customers, delivering the high standards of service and quality they require. Our corrugated packaging customers in 2011/12 were over 70 per cent fast-moving consumer goods (FMCG) manufacturers and the remainder are other industrial customers, such as car makers. Our largest customer comprises c. 3 per cent of Group revenue.

- Total sales volume in 2011/12: 1.2 million tonnes/2.4 billion square metres
- Customers: product manufacturers, e.g. grocery products and home care products through to car parts

Key raw material: paper. c. 34 per cent of our paper requirement is sourced from our own mills and the remainder is bought from third parties.

Total sales volume in 2011/12:

2.4bn sq metres

Volume in our corrugated box business grew at 2 per cent in line with our target of GDP+1 per cent for the markets in which we operate. Return on sales improved a further 90 basis points to 7.2 per cent (2010/11: 6.3 per cent), in line with our target of 7 – 9 per cent. This has been driven by the tight control of costs and a focus on efficiency throughout the business, and also a focus on prompt input-cost recovery through pricing where necessary.

Return on average capital employed increased 310 basis points to 14.6 per cent (2010/11: 11.5 per cent), towards the upper end of the target range of 12 – 15 per cent and well above our estimated weighted average cost of capital of c.10 per cent. This increase was driven by improved profitability and strong control of the capital base, including working capital. Return on average capital employed is our primary financial measure of success, as it underpins the sustainability of both our investment strategy and our dividend policy. This metric is our highest priority. All senior management have a return on capital target included within their incentivisation arrangements. 73 per cent of capital expenditure during the year has been on packaging or recycling, our strategic priority areas.

Average working capital, as a proportion of revenue, fell to 4.9 per cent in 2011/12 (2010/11: 6.4 per cent). The working capital improvement has been driven by focused attention on all three areas of debtors, inventory and creditors.

The Group was highly cash generative in the year with free cash flow of £94.5 million (2010/11: £72.0 million). The ratio of operating cash flow, before investment capital expenditure, as a proportion of operating profit, was 139 per cent, exceeding our target of maintaining this ratio above 120 per cent, with the outperformance primarily driven by the working capital in-flow over the year.

As at 30 April 2012, the Group had a net cash position due to the cash raised through an equity issue in February to fund in part the acquisition of SCA Packaging. Cash flow in the year also benefited from the sale of Spicers, where net proceeds amounted to £184.5 million in this financial year, and are expected to be approximately £171 million once all balancing cash items (such as tax) are fully paid. On completion of the SCA Packaging acquisition, our net debt/EBITDA ratio is expected to be moderately above our medium-term target level of 2.0x. However, as previously announced, it is expected to reduce to the targeted level by the end of the first full financial year after completion.

Underpinning the delivery of all our financial targets has been the Group's decision to be a net purchaser of paper, rather than a fully integrated producer. By being long in packaging and short in paper, we have had the ability to adjust corrugated prices quickly where we have needed to and to take decisions which may have short-term impacts on volume, where they have benefited the financial performance overall.

On customer service, our key measure of on-time, in-full delivery improved from 96 per cent to 97 per cent in line with our target. The reason this metric is important is because it underpins our aim to be a trusted, responsive business partner.

Key Performance Indicators: measuring our progress, delivering value

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

Metric	Definitions[1]	FY 2010/11	FY 2011/12	Target
Customer service On-time, in-full delivery	The proportion of customer orders that are delivered within the required time-slot, in full	96%	97%	97%
Financial Like-for-like volume growth	Volume growth of our corrugated box products, excluding the effect of acquisitions and disposals	+3%	+2%	GDP +1%
Return on sales	Earnings before interest, tax and amortisation, as a percentage of revenue	6.3%	7.2%	7 – 9%
Return on average capital employed	Earnings before interest, tax and amortisation, as a percentage of the average capital employed over the 12 month period	11.5%	14.6%	12 – 15%
Net debt/EBITDA	Net debt at the period end over earnings before interest, tax, depreciation and amortisation for the preceeding 12 month period	1.6x	net cash	≤2.0x
Operating cash flow/operating profit	Cash generated from operations, before investment capital expenditure, as a percentage of earnings before interest and tax	125%	139%	>120%
Employee Accident frequency rate	The number of lost time accidents per million hours worked	8.79	6.85	nil
Environmental CO_2/revenue (kg/£'000)	Total CO_2 emissions (Scope 1 and 2) divided by revenue	518	435	-20% in 10 years

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

An effective strategy driving progress

DS Smith aims to be the leading supplier of recycled packaging because it is an attractive, growing market. By focusing on our financial aims, we will deliver attractive, sustainable returns to our shareholders. This matrix sets out the building blocks of how we intend to achieve this.

Our aim

To become the leader in recycled packaging for consumer goods

Our implementation strategy

Improving our business mix	Differentiating by adding value	Efficiency	Developing a winning culture Building on existing foundations

Our strategy in action

Service is core to our business	Innovation is driving profits	Quality is our trademark

Financial aim	Strategic aim	Achievements in 2011/12
Consistent GDP+ growth	• Drive the use of retail-ready packaging • Build our business across Europe	• Underlying volume growth in corrugated box sales +2 per cent • Underlying revenue growth +8 per cent • Announced acquisition of SCA Packaging, building a pan-European footprint
Reduced cyclicality	• Target FMCG customers – to reduce volume cyclicality across products • Reduce exposure to paper production • Reduce the price review period in contracts • Increase the recycling business	• FMCG customer base expanded • Sold one paper mill and announced closure of a second, total reduction c.120kt • Recycling business expansion into central and eastern Europe
Higher operating profit margins	• Delivering a high quality product differentiated by service, quality and innovation • Improve efficiency	• Operating profit margin up 90 basis points (bps) to 7.2 per cent • Disposed of our Office Products Wholesaling division – increased margin target from 6 – 8 per cent to 7 – 9 per cent • Customer service up from 96 per cent to 97 per cent on-time, in-full • €10.0 million cost synergies delivered from Otor • Substantial growth from R-Flute® • £13 million savings delivered from procurement
Returns on capital above our cost of capital	• Grow our packaging and recycling businesses • Reduce working capital from 8 per cent to 5 per cent of revenue • Reduce the proportion of paper manufacturing in the Group	• Business mix towards corrugated packaging, paper output to reduce by c. 120kt • Working capital reduced to under 5 per cent of revenue • ROACE up 310 bps to 14.6 per cent • Announced acquisition of SCA Packaging – expected to deliver a return on investment above our cost of capital in the first full year of ownership

Chief Executive's statement continued

Our innovation programme has been developed in the year to co-ordinate this activity throughout the business. We provide customers with packaging that use less fibre, with less carbon and less cost, through technology. Examples are the continued roll out of R-Flute® in the year, the use of our software solutions "PackRight" and the development of the mechanisation solutions, which maximise the performance of our packaging.

DS Smith has a commitment to provide every employee with a safe and productive working environment. I am very pleased that our accident frequency rate for the continuing business has dropped 22 per cent year-on-year. The rate of improvement is principally due to the roll out of our safety practices in the plants previously part of the Otor business, as well as continued work throughout the Group. Our ultimate target is a zero accident rate and we continue to strive to achieve this. Lastly, on the environment, our CO_2 emissions/revenue improved by 16 per cent.

Delivery against our existing cost-savings targets

In addition to planning for the SCA Packaging acquisition, we have maintained our focus on our previously announced cost savings targets in relation to the existing business.

In respect of the UK efficiency target to deliver £10 million savings by April 2014, we have accelerated our plans with additional restructuring and are ahead of our original plan, with a run-rate of £7.8 million delivered as we exit 2011/12. This is principally due to more co-ordinated working between the paper and the packaging businesses in the UK, for example in the area of logistics where we now operate a more integrated fleet. We have announced the creation of a shared services centre in the UK to improve the efficiency of our back-office support functions, which will become operational over the coming 12 to 18 months.

Our French business had a target of delivering €13.0 million synergies from the Otor acquisition by April 2013, a target which had originally started at €9.3 million, equivalent to 3 per cent of the revenue of the acquired business. In 2011/12 we delivered savings of €10.0 million and are on target to deliver the full amount as planned.

Our procurement team had a target of delivering a run-rate of £10.0 million cost savings by April 2012. I am delighted with the performance of this team, with £13.0 million delivered in 2011/12 alone, of which around half relates to capital expenditure projects. The typical saving from procurement projects has been approximately 10 per cent and this team has become an integrated part of the business. The procurement function will be central to delivering procurement savings following completion of the acquisition of SCA Packaging, and their delivery this year demonstrates the capability within DS Smith.

In December 2010 we set out a target to reduce average working capital from 8 per cent of revenue to 5 per cent, over the three years to April 2014. As set out above, we have now delivered that, two years ahead of schedule, with working capital at an average of 4.9 per cent of revenue in 2011/12.

Culture

Setting out our strategy in 2010, I said that culture would be a key element to its successful implementation. Since then, this has been an area of important focus throughout the Group and we have made considerable progress this year. We have launched a new set of corporate values, which are to be caring, challenging, trusted, responsive and tenacious, and which are brought together under a programme of communication under the banner "OWN IT!". These values apply to all of us throughout the organisation, in both our dealings with customers and with each other. We have undertaken a detailed roll-out programme with every member of staff, in conjunction with their team and line manager, working through how these values apply to them and their work and how they contribute personally to the success of DS Smith. We will be rolling these out to our new colleagues following completion of the SCA Packaging acquisition to help all our people to understand what it means to work for DS Smith.

It has been a great year for DS Smith, with hard work from our employees, all of whom have played their part in delivering the excellent results we are reporting today.

Outlook

Since the start of this new financial year, the good trading performance reported for the year 2011/12 has continued, with good performance from packaging and, as expected, a more challenging market for our modest paper business. Completion on the SCA Packaging acquisition is expected to take place on 30 June 2012. The key drivers in this financial year will be the integration of SCA Packaging and delivery of the associated cost and cash synergies we have previously identified, along with the underlying performance of the enlarged Group.

With regard to SCA Packaging, as previously announced, we continue to expect that in the first 12 months of ownership the acquired business (inclusive of synergies) will deliver a return above the Group's pre-tax cost of capital of c. 10 per cent. The economic conditions across Europe remain challenging. DS Smith is positioned to perform well in this environment, due to our resilient customer base, the opportunity for substantial cost and cash synergies as previously announced, and our track record of delivering sustainable returns in challenging market conditions. Accordingly, the Board views the prospects for the enlarged Group in the coming year with confidence and expects to make continued progress.

Miles Roberts, Group Chief Executive

A sustainable business model, creating value through differentiation on a pan-European scale

Service

DS Smith Recycling prides itself on the level of service offered to customers. We make thousands of collections per day, across the UK. Our transport fleet operates out of 15 recycling facilities. Our customers rely on us regularly collecting their used paper and board, and we then ensure it is recycled, with nothing to landfill.

Tesco has been a customer of DS Smith Recycling in the UK for over 25 years. We were delighted when they chose us to manage their recycling and residual waste streams in Poland as part of a total waste management contract. We now collect from over 400 sites in Poland, covering all major towns and cities. This provides an excellent platform for us to grow in this important developing region.

Innovation

The Impact and Innovation Centres in the UK and France have proved to be a successful format for demonstrating to customers and retailers the benefits that packaging, designed by DS Smith, can bring. In April 2012 the new Impact and Innovation Centre in Poland opened. The 300 m^2 space was adapted to show the supermarket, back of store and warehousing areas in order to present the DS Smith expertise and understanding of the FMCG packaging. Customers are able to inspect wide ranging examples of best practice across all categories, get to grips with leading edge developments and conduct practical experiments with their own packaging in order to generate solutions for better sales and profits.

Quality

DS Smith worked closely with valued customer Chivas Brothers and leading brand Chivas Regal, to create a consumer pack to promote their 4.5L bottle of 12 year old Premium Blended Scotch Whisky.

The bottle is housed in a creatively designed cradle for dispensing, held securely within the pack. The result is an impressive EFIA 2011 award-winning corrugated pack that is post printed in 5 colours with a varnish. The print includes a stylish metallic silver look, produced to complement the gift carton pack.

DS Smith will have a pan-European footprint, following the acquisition of SCA Packaging on 30 June 2012

Our enlarged business

The acquisition of SCA Packaging – an exceptional opportunity to accelerate our strategy

On 30 June 2012 DS Smith will acquire SCA Packaging
DS Smith announced the proposed acquisition of SCA Packaging on 17 January 2012. The acquisition will complete on 30 June 2012.

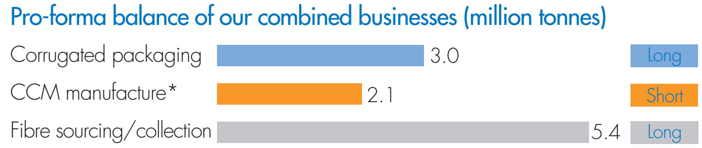
The transaction accelerates our strategy to become the leading supplier of recycled packaging for consumer goods. There are many compelling strategic benefits to the deal, including:

1. Geographic fit. We will be able to access new markets through an expanded network for corrugated packaging across Europe;
2. Delivering more to our customers, who want a pan-European provider;
3. Offering even more innovation as we combine the DS Smith research and development with that of SCA Packaging;
4. Cost synergies from procurement and operating efficiencies of €75 million (by the end of the third full year of ownership); and
5. Capex and working capital synergies of at least €40 million (by the end of the third full year of ownership).

The acquisition is expected to deliver a return on investment above our cost of capital in the first full year of ownership, with further improvement in the second and third years. Return on average capital employed is our key measure.

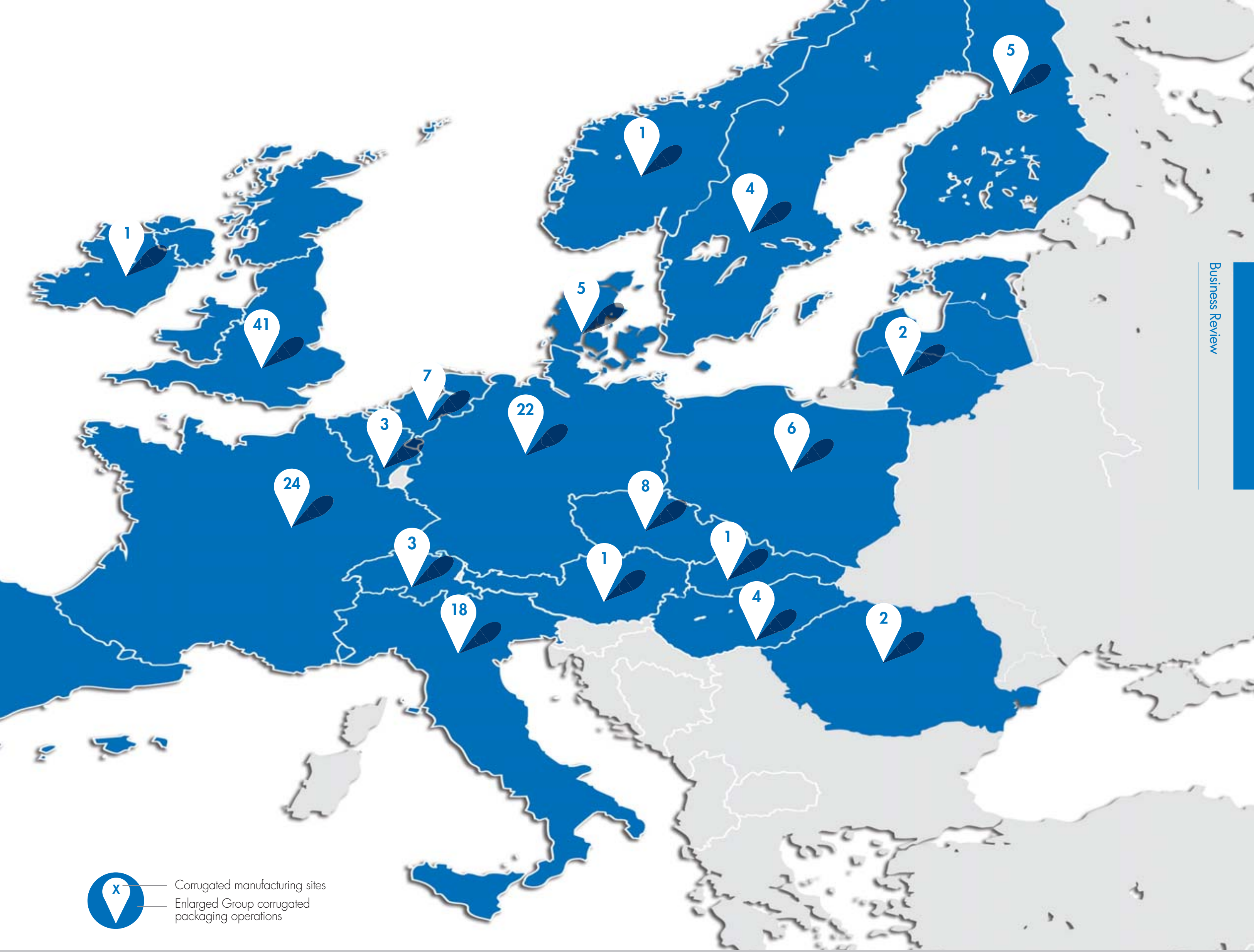
How we fit together
Following the acquisition of SCA Packaging, DS Smith will continue to have a similar balance of business as before, with a substantial recycling business and a smaller paper business, both supporting a strong corrugated packaging business.

Pro-forma balance of our combined businesses (million tonnes)



Note: this pro-forma combines SCA Packaging volume metrics for the year ended 31 December 2011 with those for DS Smith for the year ended 30 April 2012.

* Excluding output from Hollins Mill, scehduled to close in calendar H2 2012



SCA Packaging – snapshot

3,348mms
corrugated board in 2011

€2.7bn
revenue in 2011

Over
12,000
employees

1,378kt
testliner in 2011

UK Packaging

	2011/12	2010/11
Revenue – £m	960.2	917.7
Operating profit – £m*	64.4	54.2
Return on sales – %*	6.7	5.9
Return on average capital employed – %*	13.9	10.3

* before exceptional items and amortisation

Market and business background

- In the UK, DS Smith operates three interconnected businesses, being packaging, paper manufacturing and used fibre collection. Prior to the acquisition of SCA Packaging our operations comprised 28 corrugated packaging manufacturing sites, 3 paper mills and 15 recycling depots.
- In 2011/12, DS Smith in the UK sold 1.1 billion m^2 of corrugated packaging and board. The UK market size is estimated at 3.3 billion m^2 (FEFCO 2011). Excluding output from our mills at Hollins (expected to close later in 2012) and Higher Kings (sold in September 2011) we sold approximately 600 thousand tonnes of corrugated case material (CCM) in 2011/12; the UK market is estimated at 2.1 million tonnes (CEPI, to March 2012). We also made an additional 266 thousand tonnes of other paper grades, principally plasterboard liner. Of the CCM that we manufactured in 2011/12, approximately 340 thousand tonnes was used within our packaging business.
- In 2011/12, DS Smith Recycling collected 1.8 million tonnes of old corrugated containers and other used paper, the majority of which is utilised by our UK paper business. The market size for all types of recycled paper and board in the UK is 8 million tonnes.
- In 2011/12, our corrugated box revenue was approximately 75 per cent from FMCG customers. The largest customer in the UK comprised 2 per cent of the division's revenue.

Packaging

In 2011/12, our corrugated business has grown ahead of the market. In the countries in which DS Smith currently operates the market in France has been flat, the market in Poland has continued to show good growth, while the UK market has been difficult (European Federation of Corrugated Board Manufacturers, FEFCO, year to 31 March 2012). Blended market growth in the markets in which we operate was around 1 per cent. Volume growth in our corrugated box business of 2 per cent has been driven by a focus on our customers, with volume gains both with existing and new customers.

The input cost environment has remained volatile, with the market price of recovered fibre rising year-on-year by 11 per cent, for example. Our total Group input costs increased by £124.9 million and we have addressed this through the usual prompt pricing recovery discipline.

UK Packaging

The UK Packaging business, which comprises our recycling operations, paper manufacturing and the design and manufacture of corrugated packaging, has delivered a revenue increase of 5 per cent, principally driven by pricing to recover input costs. The year has been characterised by a robust performance from the corrugated packaging and recycling businesses and firm cost control resulting in an improvement in operating profit of 19 per cent and an improvement in margin of 80 basis points, despite significant headwinds from the paper manufacturing business, where market conditions have been volatile, particularly in the second half of the year.

In recycling, which includes all recycling operations including those outside the UK, overall volumes of fibre collected increased by 3 per cent to 1.8 million tonnes. We are now operating in Poland where we have a sole fibre and waste supply contract with Tesco, collecting from 400 locations across that country. While the volumes from this are modest in the context of the overall business, it gives us an excellent platform for growth in the region. Revenue in the recycling business increased significantly and margins remain good while return on average capital is excellent, reflecting the quality of service we provide.

In the paper business, the volatile pricing environment has meant that, while the business has performed well operationally, financial returns have, as expected, been disappointing. Over the year our focus has been on ensuring that the paper business is aligned to support our corrugated packaging operations with integrated operations where possible to reduce duplicate costs. One example is in logistics, where we have started operating our fleet in a co-ordinated way across paper and packaging together. We have also been working on the performance qualities of the paper produced so that the paper output supports the drive within the packaging operations to deliver lighter weight recycled boxes. In the year we have reduced our UK paper capacity, with the sale of Higher Kings Mill in September 2011, and the announced closure of our Hollins Mill, which is expected to close in the second half of 2012.

In the corrugated packaging business, we have outperformed a difficult market, while swift decision making and pricing discipline has meant that we have succeeded in recovering costs. We have continued to see success from the development of R-Flute® in the UK which has shown volume improvements considerably ahead of the market. We continue to see growth in our FMCG customers, where our focus on delivering high quality, innovative product, with high standards of service has helped us gain market share, principally by expanding our position with existing customers.

The return on average capital employed for UK Packaging improved significantly to 13.9 per cent (2010/11: 10.3 per cent), reflecting both increased profitability and a sustained reduction in working capital.

Our strategy in action:

Service is core to our business

Nestlé Aero Biscuit – Retail Ready Packaging

DS Smith Packaging worked alongside leading FMCG brand, Nestlé, to create striking retail ready packaging for the major product launch of Aero Biscuits.

The eight colour pre-print flexographic pack features a superb replication of the product. ImageRight, part of DS Smith's PackRight suite of tools, ensured colour harmonisation with the shopper pack.

In addition to the exceptional print, the pack includes very effective perforation which offers a balance between strength for machine assembly, supply chain stability and reliability of opening in store.

The high performing pack has been optimised to minimise the amount of material required to meet Nestlé's needs and is 100% recyclable.

High impact design for Coca-Cola

The specialist retail print and display division of DS Smith Packaging, DS Smith Multigraphics, has combined high impact graphics with structural stability to produce a stunning point of purchase display for Coca-Cola Enterprises' campaign for the 2012 Olympics.

The 'Coke Bus' designed to combine the image of a London Routemaster Bus with Olympic graphics provides an innovative modular large scale display that can fit either three, four or five pallets of product. These high quality screen printed units have been developed for wholesale channels.

Continental European Corrugated Packaging

	2011/12	2010/11
Revenue – £m	743.9	599.4
Operating profit – £m*	55.6	39.8
Return on sales – %*	7.5	6.6
Return on average capital employed – %*	14.0	12.5

* before exceptional items and amortisation

Market and business background

- The market for corrugated packaging across continental Europe is estimated at 33 billion m^2 (FEFCO 2011) of which the markets in France comprised c. 15 per cent, Italy c. 17 per cent and Poland c. 8 per cent.
- Our continental European business (prior to the acquisition of SCA Packaging) comprises 27 manufacturing sites in France, Italy, Poland, Czech Republic and Slovakia. In 2011/12, DS Smith in continental Europe sold 1.3 billion m^2 of corrugated packaging and board. DS Smith also sold c. 290 thousand tonnes of recycled paper, of which c. 130 thousand tonnes was CCM, used by our packaging operations and the remainder was other specialist grades, sold externally.
- In 2011/12, our corrugated box revenue was c. 68 per cent from FMCG customers. The largest customer in the continental European division comprised c. 5 per cent of the division's revenue.

The continental European business has delivered an excellent performance, with revenue growth of 24 per cent, 10 per cent on a like-for-like basis. This like-for-like growth was driven by a mix of volume and pricing where our operations outperformed the underlying market, due to our focus on FMCG in those regions. The combination of Otor with the existing DS Smith business has enhanced the market position of the enlarged business. In Poland we saw particularly strong growth driven by our FMCG customers in the region with growth from both existing and new customers. In Italy we also performed well with good volume growth in a declining market despite a strategic decision to reduce our exposure to lower quality corrugated sheet sales.

In France, volumes have been robust with a focus on high quality, innovation-led products for FMCG customers driving our increase in market share. We have been working with our customers, not only to supply corrugated boxes, but also supplying bespoke packaging machinery for the end of packaging lines.

This technology, combined with our boxes manufactured to a high degree of accuracy, can substantially improve the performance of the packaging while using lighter weight material, delivering greater value to our customers. This innovative approach allows us to develop a long-term working partnership with those customers.

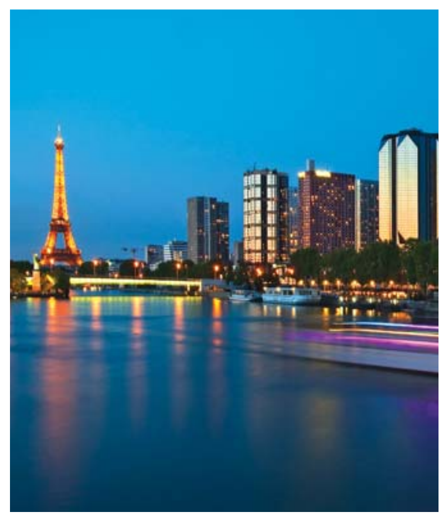
Operating profit increased 40 per cent to £55.6 million (2010/11: £39.8 million), 17 per cent on a like-for-like basis. Operating margin increased 90 basis points to 7.5 per cent (2010/11: 6.6 per cent). This increase has been achieved through a combination of operational gearing, and the benefit of synergies from the Otor acquisition coming through as planned, in particular on procurement.

Return on average capital employed increased 150 basis points to 14.0 per cent (2010/11: 12.5 per cent), towards the top end of the Group target range of 12 – 15 per cent, principally driven by increased profit margin.

Our strategy in action:

Innovation is driving profits

DS Smith Packaging France has worked with long-term customer Danone to develop a new corrugated display unit for their Evian product. The boxes and display unit use pre-print in six colours to give a high quality finish. This was combined with the heavy-duty corrugated base unit for the display to stand on. Overall, the product demonstrates the benefit of different elements of DS Smith working together.



DS Smith Packaging in Poland has worked with a leading beer brand to develop an innovative corrugated container with a waterproof liner for bottled beer, called the Ice Pack. Consumers simply remove the lid and add their own ice to create an ice bucket, with special design to prevent leaking. This is the first product of its type on the market in Poland.

Plastic Packaging

Market and business background

- Our Plastic Packaging business comprises liquid packaging and dispensing (LP&D) and returnable transit packaging (RTP).
- LP&D is principally used in the beverage sector and is also used in some industrial solutions such as oils and in-home products such as laundry detergents. The global market for LP&D products is estimated at c. £500 million. DS Smith has a number two position in the global market, with a particularly strong position in the US. It operates from 11 manufacturing operations in Europe, USA, Australia and New Zealand.
- RTP is used across the retail, automotive, electronics and beverage sectors. RTP operates across 10 locations in Europe.
- We also make modified atmosphere packaging for fresh fruit and vegetables.

	2011/12	2010/11
Revenue – £m	265.3	242.2
Operating profit – £m*	22.0	16.9
Return on sales – %*	8.3	7.0
Return on average capital employed – %*	19.6	14.9

* before exceptional items and amortisation

Our Plastic Packaging division has delivered a very strong performance, with revenue up 10 per cent to £265.3 million (2010/11: £242.2 million). Operating profit increased 30 per cent to £22.0 million (2010/11: £16.9 million) while return on sales increased 130 basis points and return on average capital employed increased 470 basis points.

In the LP&D business, the US business continued to perform well with continued success for our products for tea urns, smoothie dispensers and coffee bags. Margins in this part of the business improved significantly due both to a move to a higher margin mix of products, as some lower margin sales have been replaced by higher quality products, and also due to cost restructuring in the European part of the LP&D business. We have set up a new factory in Thailand to shorten our supply chain to serve the growing market in that region for fruit juice and concentrate exports; this facility is expected to become operational shortly.

The RTP business has seen significant revenue growth in the year, with the extrusion business performing particularly well, supplying products particularly into the pharmaceutical and automotive industries.

Our strategy in action:

Quality is our trademark

Eco-friendly innovation

DS Smith Plastics has developed an environmentally-friendly and innovative bag solution in collaboration with Ecologic for their eco.bottle™ line. The innovative bag was designed to fit the eco.bottle™ outer shell, made from 100% recycled fibre. Through R&D and innovation the bag sealing was developed to withstand and perform under stringent critical-to-quality criteria in the distribution chain. The bag can be filled by any standard commercial bottle filling equipment — eliminating the need for customers to invest in new filling equipment. This bag uses up to 70 per cent less plastic than regular blow-moulded jugs, and its inner pouch and spout can be recycled along with plastic grocery bags in retailer drop-off bins.

Since commercialising the bag for Ecologic in January of 2011, we have supplied approximately 1 million 50-ounce bags with a detergent-style closing cap or twist cap, for the US market, with other sizes under development.

The eco.bottle™ is well suited to a wide array of consumer products ranging from pourable goods to beverages and personal care products, making it attractive to ecological-minded customers. It is 100 per cent recyclable and compostable.

The Group achieved another strong financial performance in 2011/12, despite an economic environment which continues to be challenging and sustained input cost pressures. It has been a period of significant change for the business, with the sale of the Office Products Wholesaling division and the planned acquisition of SCA Packaging, partially funded by a rights issue, and the remainder funded through refinancing. Throughout, we have maintained a rigorous focus on our core business and are delivering on the strategic, medium term financial targets we have set ourselves.

Steve Dryden, Group Finance Director

Overview

The Group achieved another strong financial performance in 2011/12, despite an economic environment which continues to be challenging and sustained input cost pressures. It has been a period of significant change for the business, with the sale of the Office Products Wholesaling division and the planned acquisition of SCA Packaging, partially funded by a rights issue, and the remainder funded through refinancing. Throughout, we have maintained a rigorous focus on our core business and are delivering on the strategic, medium term financial targets we have set ourselves.

Revenue from continuing operations for the year increased by 12 per cent and operating profit increased by 28 per cent. Adjusted earnings per share increased 28 per cent, despite the dilutive effect of the equity issue that completed in February 2012. Free cash flow increased by 31 per cent, principally due to improved management of working capital despite the impact of price increases and higher volumes. These results reflect the resilience of our FMCG customer base and the success of our pricing strategy to recover increased input costs faster, along with the full-year impact of the Otor acquisition and our ongoing focus on controlling costs and reducing working capital.

Trading results

The Group's trading results for 2011/12 are summarised in Table 1 (all results exclude the Office Products Wholesaling division which was sold in December 2011 and is therefore reported as a discontinued operation).

The 2011/12 results were driven by a strong performance across the Group with volume growth and improved return on sales, combined with the full year benefit from the acquisition of Otor which has been successfully integrated.

Revenue from continuing operations for 2011/12 of £1,969.4 million represents an increase of 12 per cent. On a like-for-like basis, excluding the full-year impact of the acquisition of Otor, revenue was up 8 per cent on 2010/11.

Operating profit from continuing operations in 2011/12 increased by 28 per cent to £142.0 million, like-for-like operating profit is up 20 per cent. UK Packaging was up 19 per cent at £64.4 million, whilst Continental European Packaging increased 40 per cent to £55.6 million (17 per cent on a like-for-like basis). This performance was supported by Plastic Packaging which increased operating profit 30 per cent to £22.0 million. Return on sales from continuing operations increased 90 basis points to 7.2 per cent.

Operating profit was up 41 per cent in the first half, 22 per cent on a like-for-like basis. Operating profit was up 15 per cent on a reported basis and 18 per cent on a like-for-like basis in the second half.

The Group's pre-tax return on average capital employed (which is defined as the operating profit divided by the monthly average capital employed) increased from 11.5 per cent in 2010/11 to 14.6 per cent in 2011/12, significantly above the Group's estimated pre-tax cost of capital of c. 10 per cent. The increase in the Group's return on capital employed reflected higher returns in 2011/12 across all continuing operations.

Exceptional items

Acquisition costs in respect of the proposed acquisition of SCA Packaging are in line with our initial estimate of £50 million. Of this, £18.4 million has been recognised as an exceptional cost in the 2011/12 income statement, £16.9 million has been charged to share premium and £7.0 million has been capitalised on the balance sheet and will be amortised through the income statement. The remainder is expected to be incurred in 2012/13.

A net exceptional gain after tax of £3.3 million has been recognised in the year (2010/11: costs of £1.8 million). This comprises a £58.0 million post-tax exceptional gain in discontinued operations arising from the sale of the Office Products Wholesaling division offset by other continuing operations post-tax exceptional costs of £54.7 million (2010/11: £2.0 million). These costs primarily relate to the impairment of intangible and tangible fixed assets (£36.5 million) and restructuring costs within the UK Packaging division (£30.6 million) (after the benefit of a £15.4 million tax credit), as part of our strategy to reduce paper production and to reduce costs to underpin future returns in the Packaging business.

Interest, tax and earnings per share

Net interest expense decreased from £20.0 million in 2010/11 to £18.4 million in 2011/12, the reduction being principally

Table 1 – Trading results summary

	First half		Second half		Full year	
	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11
Revenue – £m	1,034.5	822.3	934.9	937.0	1,969.4	1,759.3
Operating profit* – £m	78.3	55.5	63.7	55.4	142.0	110.9
Return on sales*	7.6%	6.7%	6.8%	5.9%	7.2%	6.3%
Return on average capital employed*	15.4%	12.4%	13.7%	10.8%	14.6%	11.5%

* before amortisation and exceptional items

Table 2 – Cash flow

	2011/12 £m	2010/11 £m
Operating profit	142.0	110.9
Depreciation	63.9	67.1
EBITDA	205.9	178.0
Working capital movement	43.7	0.2
Pension payments/other	(24.1)	(22.0)
Cash generated from operations	225.5	156.2
Capital expenditure	(94.2)	(62.3)
Disposal of fixed assets	8.3	9.9
Tax paid	(25.3)	(16.0)
Net interest paid	(19.8)	(15.8)
Free cash flow	94.5	72.0
SCA Packaging acquisition costs	(7.0)	–
Other exceptional cash costs	(19.5)	(15.1)
Dividends	(31.5)	(22.6)
Acquisition of subsidiary businesses	(2.3)	(165.1)
Divestment of subsidiary businesses	184.5	–
Net cash flow	218.7	(130.8)
Shares issued	449.9	43.6
Net debt acquired	(14.2)	(36.6)
Foreign exchange and fair value movements	24.7	(14.1)
Net debt movement – continuing operations	679.1	(137.9)
Discontinued operations	(6.4)	26.4
Total net debt movement	672.7	(111.5)

due to interest received on the proceeds from the rights issue and the proceeds arising from the disposal of the Office Products Wholesaling division. The employment benefit net finance expense, which is largely a non-cash item, was £4.8 million (2010/11: £7.4 million), reflecting a lower deficit of the defined benefit schemes following the actions taken at the end of last year to reduce the liabilities of the UK scheme.

Profit before tax from continuing operations (excluding amortisation, exceptional items and share of loss of associate) was £118.8 million (2010/11: £83.5 million), an increase of 42 per cent. Reported profit before tax from continuing operations was £21.7 million (2011/10: £77.6 million).

The Group's effective tax rate from continuing operations, excluding exceptional items and associate, at 27.6 per cent, was marginally lower than the previous year's rate of 28.2 per cent, principally due to a reduction in the UK corporation tax rate. A tax credit on exceptional items of £17.3 million resulted from both the tax allowances for SCA Packaging acquisition costs of £1.9 million and a tax credit of £15.4 million on other exceptional items. Reported profit after tax from continuing operations was £8.4 million (2011/10: £53.1 million).

In November 2011 the Group reinstated its investment in Rubezhansk, the Group's associate business in Ukraine, following a successful refinancing. As such, the Group has recognised its share of the associate's result from this date.

Adjusted earnings per share from continuing operations were 12.8 pence (2010/11: 10.0 pence), an increase of 28 per cent.

Discontinued operations

The Office Products Wholesaling division has been classified as a discontinued operation, having been disposed of on 30 December 2011. Post-tax profit for the period to disposal was £9.3 million. Profit on disposal of the Office Products Wholesaling division of £67.1 million has been recognised in the period as an exceptional item. After a tax charge of £9.1 million, the net gain is £58.0 million.

Dividend

The proposed final dividend is 4.0 pence (2010/11: 3.1 pence), giving a total dividend for the year of 5.9 pence (2010/11: 4.5 pence). Dividend cover before amortisation and exceptional items was 2.2 times in 2011/12 (2010/11: 2.9 times).

Rights issue

Gross rights issue proceeds of £466.2 million were received in February 2012, less £16.9 million of costs. The purpose of the rights issue was to contribute towards the financing of the proposed SCA Packaging acquisition along with new and existing debt facilities. The take up for the rights issue was highly successful, with acceptances being received in respect of approximately 98.6 per cent of qualified shareholdings.

Cash flow

The Group generated free cash flow of £94.5 million (2010/11: £72.0 million), a 31 per cent improvement.

Despite increases in prices of paper, energy and corrugated boxes, tight control of working capital resulted in a working capital cash inflow of £43.7 million (2010/11: £0.2 million). Our target was to reduce the monthly average working capital to revenue ratio to 5 per cent by 30 April 2014; we achieved 4.9 per cent in 2011/12, consequently exceeding our target two years ahead of schedule. We believe there are further improvements that can still be made and will continue to maintain focus in this area.

Pension cash contributions were £30.4 million in 2011/12 (2010/11: £32.3 million), principally comprising £14.8 million in respect of the agreed contributions to the UK Group pension scheme deficit (for the future financing of the pension scheme) and a further £14.8 million relating to the disposal of the Office Products Wholesaling division in respect of those employees who will remain in the UK Group pension scheme as deferred members.

Cash generated from operations was £225.5 million (2010/11: £156.2 million), a 44 per cent improvement.

Capital expenditure of £94.2 million (2010/11: £62.3 million) reflects our commitment to invest in processes and technologies to sustain future growth. Growth capital expenditure was £33.0 million (2010/11: £20.0 million). Tax payments were £25.3 million (2010/11: £16.0 million), the increased payments largely resulting from improved profitability on continuing operations across the Group. Net interest paid of £19.8 million was £4.0 million higher than 2010/11, mainly due to a full year's payment of interest on the private placement debt issued to finance the Otor acquisition in August 2010.

Cash dividend cover, defined as free cash flow divided by dividends declared for the year, was 1.9 times (2010/11: 3.6 times).

Net proceeds from acquisitions/disposals of £182.3 million primarily relate to the sale of the Office Products Wholesaling division.

SCA Packaging acquisition costs of £7.0 million were paid during the year.

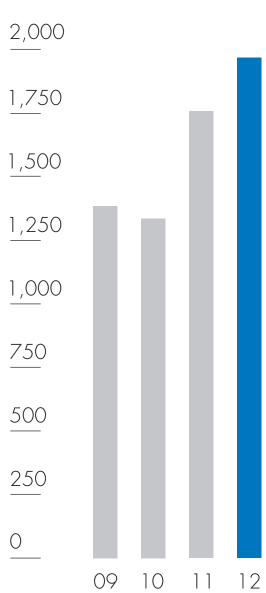
The cash outflow in respect of other exceptional costs was £19.5 million (2010/11: £15.1 million).

Overall, the Group had a reduction in net debt of £672.7 million, principally due to the rights issue proceeds, the proceeds from the disposal of the Office Products Wholesaling division and strong free cash flow. This resulted in a net cash position at the year end of £321.7 million.

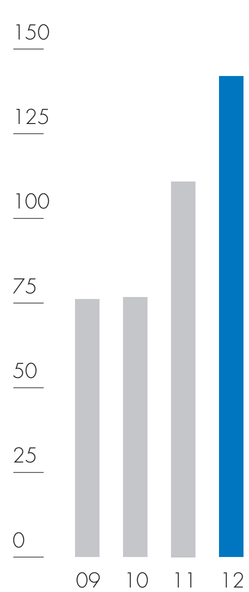
Financial position

Shareholders' funds of £1,057.5 million at 30 April 2012 were up from £584.2 million at 30 April 2011, principally due to an increase in share capital as a result of the rights issue and retained profit for the year. Profit attributable to shareholders was £75.3 million (2010/11: £70.1 million) and dividends of £31.5 million (2010/11: £22.6 million) were paid during the year. In addition, actuarial gains of £16.1 million from the Group's defined benefit pension schemes were credited to reserves. Other items recognised directly in reserves include currency translation losses of £14.2 million, adverse movements on cash flow hedges of £6.6 million,

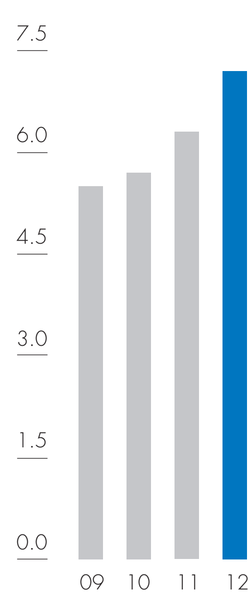
Revenue
£1,969.4m
2011: £1,759.3m



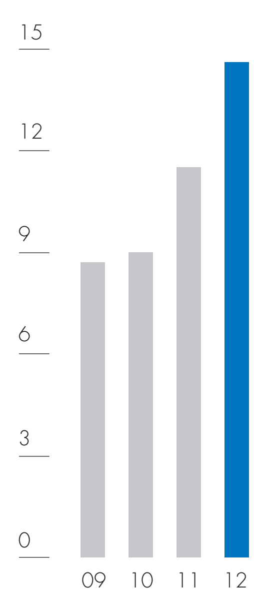
Operating profit*
£142.0m
2011: £110.9m



Returns on sales*
7.2%
2011: 6.3%



Return on average capital employed*
14.6%
2011: 11.5%



* continuing operations, before amortisation and exceptional items

a reclassification from the foreign exchange reserve in relation to the disposal of the Office Products Wholesaling division of £9.8 million and a tax charge relating to these items of £14.3 million.

The Group has committed facilities of c. £1.5 billion. The Group is temporarily in a net cash position (£321.7 million at 30 April 2012), principally due to the net inflow from the disposal of the Office Products Wholesaling division and the rights issue proceeds. These proceeds will be reinvested as part of the proposed SCA Packaging acquisition and, on completion, net debt to EBITDA ratio is expected to be moderately above the target level of 2 times. However, as previously announced, we expect to reduce it to the targeted level by the end of the first full financial year after completion.

The Group's banking covenants for the syndicated loan specify an EBITDA to net interest payable ratio of not less than 4.5 times, a maximum ratio of net debt to EBITDA of 3.25 times and net assets to 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 2012, the most sensitive covenant is EBITDA to net interest payable and this has an EBITDA headroom of £122.1 million (a ratio of 11.1 times).

Just as the DS Smith business model is resilient and focused on cash generation we have made sure the financing strategy is equally resilient. During the financial year 2011/12 and in the year to date we have therefore put in place a diverse mix of bank and US private placement funding and we have renegotiated our covenants to provide further covenant headroom in a downturn scenario. The Group refinanced its medium-term borrowings in September 2011 with a new five-year revolving credit facility of £610 million. Included in Table 3 are acquisition facilities totalling €700 million which are dependent upon completion of the acquisition of SCA Packaging, expected on 30 June 2012. Since the year end we have agreed pricing with debt investors over the issuance of a new private placement with average maturity of nine years at a competitive 4.28 per cent annual finance charge and have fixed interest rates in euro and sterling. The new private placement will repay the shortest maturing element (€300 million three-year bridge finance) of the SCA Packaging acquisition facility and consequently the next significant maturity is not until 2016. We now hedge EBITDA to debt by currency and ensure that in each country in which we operate, we have a substantial banking relationship with a leading bank in that country.

Energy costs

High energy costs continued to be a significant factor for the Group in 2011/12. The Group's total costs for gas, electricity and diesel fuel increased from c. £113 million in 2010/11 to c. £126 million in 2011/12. 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 to provide the Group with a degree of certainty over future energy costs.

Financial capital management

The Group funds its operations from the following sources of cash: operating cash flow, borrowing, shareholders' equity and disposals of non-core 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, the Group Financial Controller, the Group Treasurer and the Group Tax Manager. The Group treasury function operates in accordance with policies and procedures approved by the Board and is 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 2012, the Group's total committed borrowing facilities were c. £1.5 billion. The total gross borrowings (including derivatives) at 30 April 2012 were £331.5 million. At 30 April 2012, the Group's borrowing facilities had a weighted-average maturity of four years and eight months (30 April 2011: four years and two months).

The major treasury risks to which the Group is exposed relate to movements in interest and foreign exchange rates and volatility of 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

Table 3 – Borrowing facilities at 30 April 2012

Facility	Committed funds million	Maturity
Private placement	US$105.0	2012
Private placement	£25.0	2012
Private placement	US$105.0	2014
Acquisition facility – Term Loan A	€300.0	2015
Acquisition facility – Term Loan B	€400.0	2016
Syndicated revolving credit facility	£610.0	2016
Private placement	US$95.0	2016
Private placement	€59.0	2018
Private placement	€59.0	2020

under the oversight of the Treasury Committee. UK purchases of energy represent the 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. Fixed-rate borrowings, taking into account the effect of related swaps, comprised 63 per cent of total borrowing at 30 April 2012 (30 April 2011: 58 per cent).

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. 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 were 97 per cent at 30 April 2012 (30 April 2011: 87 per cent), as a proportion of the Group's euro net investment. Following completion of the SCA Packaging acquisition, the currency profile of the Group's borrowings will be aligned to the currency profile of the enlarged Group's EBITDA.

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 and cash flow hedges are taken out to reduce the risk associated from 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. During April 2012 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 are a growth rate of 3 per cent and an average pre-tax discount rate of 10.1 per cent.

An impairment charge of £36.5 million was recorded in exceptional items during the year. An impairment of £28.0 million has been made in UK Paper, the largest constituent of which was for property, plant and equipment relating to certain specialised plant and machinery which is no longer fully utilised. Following the announcement of the closure of Hollins Mill, £4.5 million of goodwill has been impaired. The remaining charge of £4.0 million relates to other impairments in the Plastics and UK Packaging divisions.

The net book value of goodwill and other intangibles at 30 April 2012 was £309.7 million (30 April 2011: £344.8 million).

Pensions

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

The Group operates one main defined benefit pension scheme in the UK which is now closed to future accrual, and also has some overseas arrangements and a small UK unfunded scheme. The aggregate gross assets of the schemes at 30 April 2012 were £765.1 million and the gross liabilities at 30 April 2012 were £869.3 million, resulting in the recognition of a gross balance sheet deficit of £104.2 million (30 April 2011: £147.5 million), a net deficit of £77.1 million (30 April 2011: £111.8 million) after a deferred tax asset of £27.1 million (30 April 2011: £35.7 million).

A triennial valuation of the main UK scheme was carried out at 30 April 2010 at which point the Group agreed that cash contributions would be £14.8 million per annum, rising by 2 per cent per annum for the remaining 10 years, with a view to closing the deficit within a 10 year recovery period. Pension cash contributions were £30.4 million in 2011/12 (2010/11: £32.3 million), principally comprising £14.8 million in respect of the agreed contributions to the UK Group pension scheme deficit (for the future financing of the pension scheme) and a further £14.8 million relating to the disposal of the Office Products Wholesaling division in respect of those employees who will remain in the UK Group pension scheme as deferred members.

The reduction in the gross balance sheet deficit of £43.3 million is principally attributable to cash contributions.

Guidance for the year 2012/13

Taking into account completion of the SCA Packaging acquisition on 30 June 2012, we expect the average cost of debt for the Group in 2012/13 to be c. 4.5 per cent. Depreciation and capital expenditure are expected to be approximately £160 million. The expected tax rate for the Group as a whole is expected to be 27.6 per cent. The cost of capital for the Group is expected to be approximately 9.5 per cent. The pension interest finance charge is expected to be approximately £6.0 million in 2012/13, rising to approximately £9.0 million in 2013/14 to reflect changes to IAS 19 that are applicable then.

Steve Dryden, Group Finance Director

A sustainable approach

DS Smith collects used paper and cardboard, makes recycled paper, then turns it into packaging – the full recycled loop. We play our part by helping our customers meet their environmental targets. DS Smith also has its own targets that we strive to achieve and exceed.

Our corporate responsibility approach

Health and Safety

Aims

- Ensure the safety of our staff and others affected by our operations.
- Reduce the number of accidents with the ultimate goal of zero accidents.

2011/12 actions and progress

Health and safety is our top priority – in all senior operational meetings it is the first item on the agenda.

- Lost time accidents (LTAs) down 23 per cent.
- Accident frequency rate (AFR) down 22 per cent.
- Accident severity rate down 10 per cent.
- 47 sites had no LTAs in 2011/12.

Environment

Aims

- Reduce our emissions by 20 per cent over the next 10 years, relative to production.
- Contribute to optimising resource usage and minimising waste throughout our supply chains.

2011/12 actions and progress

DS Smith has set the target of reducing CO_2, water and landfill usage, relative to production, by 20 per cent over the next 10 years. Each of our businesses has targets as part of their business plans to achieve this.

- CO_2 emissions per £'000s revenue down 16 per cent.
- Water usage per £'000s revenue down 12 per cent.
- Waste sent to landfill down to 12 per cent from 13 per cent.

Community involvement

Aims

- Develop and maintain good relations with our local communities.

2011/12 actions and progress

DS Smith seeks to focus its charitable activity on projects local to our operations that foster engagement with and between our employees and our communities.

- We have established the DS Smith Charitable Foundation to partner with charities aligned with our activities and values.

Employees

Aims

- Develop our employees to fulfil their potential.
- Promote the alignment of the Group's talent behind the corporate strategy through communication, engagement and effective people management.

2011/12 actions and progress

The Group has set new corporate values under the banner 'OWN IT!'.

- The 'OWN IT!' programme has been rolled out across all employees.

Environment

DS Smith's business model is built on sustainability – by providing corrugated packaging that is largely made of recycled material, and that is fully recyclable. Our plastics products, such as bag-in-box, also offer significant environmental benefits over alternative packaging materials. Therefore, for DS Smith, sustainability is part of our business model.

FTSE4Good

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

Our principles and approach to corporate responsibility

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

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

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

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

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

How DS Smith plays its part in a sustainable economy

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

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

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

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

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

Environmental management and regulation

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

Each of our sites is required to implement an environmental management system (EMS) which is appropriate to its activity. DS Smith has 58 sites accredited under the ISO 14001 standard and 26 that have in place a simplified EMS, appropriate to their lower level of potential environmental impact. As part of their EMS, many Group businesses have procedures in place for assessing their suppliers' environmental policies and management systems, as appropriate.

The Group had a number of minor environmental incidents during the year, following which prompt corrective action and steps to prevent any recurrence were taken. As previously reported, in 2010 the Environment Agency brought a case against DS Smith Paper Limited in relation to alleged breaches of the Higher Kings Mill's Pollution Prevention and Control (PPC) permit that occurred between December 2005 and March 2008. The charges primarily related to the training of staff, record keeping and the operation of the mill's effluent treatment plant. A detailed environmental survey has indicated that these breaches did not result in any significant environmental impact. At the court hearing in October 2010, DS Smith Paper Limited pleaded guilty to a number of the offences, generally relating to record keeping, and pleaded not guilty to charges of intentionally making false entry in a required Environmental Agency record. DS Smith Paper Limited was found guilty on all charges. DS Smith Paper Limited appealed against three of the 19 charges, being those charges (and related fines) of intentionally making false entries in a required Environmental Agency record. The appeal was heard at the Court of Appeal in November 2011 and the initial guilty verdicts in relation to these charges were overturned.

In accordance with our general practice relating to any regulatory breaches, at the time of the incident a full investigation was promptly undertaken of all our UK paper mills to ensure that nothing similar arose. As a result we implemented a range of actions to strengthen our systems including increasing the scope and frequency of our internal audits.

The Group's paper manufacturing operations account for the majority 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. DS Smith Paper's overall compliance with its environmental permits rose to 99.7 per cent in 2011/12 (2010/11: 99.0 per cent) principally due to better performance of our effluent treatment plants. DS Smith Paper 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. DS Smith Paper met the final target of the existing scheme with future targets yet to be identified awaiting Government revision of the scheme.

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

In 2010/11 DS Smith set a target of a 20 per cent reduction in carbon dioxide (CO_2) emissions, water use and of waste to landfill, relative to the activity level of the business, over the following 10 years.

Our businesses include their environmental impact in their budgeting plans in order to track their progress against their targets.

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

The Group reduced its carbon dioxide emissions by 3 per cent in absolute amounts. Relative to revenue, carbon dioxide emissions fell 16 per cent reflecting the effect of price inflation on revenue as well as underlying improvements. As disclosed, the proportion of Scope 1 emissions has increased with a commensurate reduction in Scope 2 emissions. This reflects the change in ownership of the power plant at our Kemsley site, where ownership has transferred from E.ON to DS Smith, and hence a change in reporting in accordance with DEFRA guidelines. Water usage per £'000s revenue fell reflecting a focus on roll-out of best industry practice in this area. The proportion of waste generated by the Group which was sent to landfill fell from 13 per cent to 12 per cent, a relative improvement of 8 per cent.

Energy efficiency

Our two largest paper mills, at Kemsley in the UK and Kaysersberg in France, have on-site CHP plants. These CHP facilities provide energy more efficiently, with lower CO_2 emissions and at significantly lower cost than if it were to be sourced from the external grid. In addition, Kemsley Mill recycles, in the form of energy recovery, a substantial proportion of the reject material, such as plastic and polystyrene, which enters its process mixed in with the waste paper and is separated out during paper manufacture. The mill's own waste-to-energy plant efficiently recovers the energy to produce steam for use in the mill's operations. Further, we applied in April 2010 for planning permission for a sustainable energy plant at Kemsley to reduce the mill's reliance on fossil fuels. The proposed fuel for this plant is hard-to-recycle materials, sourced and pre-treated offsite, which might otherwise go to landfill. The power plant would be built by energy company E.ON and by waste specialist Wheelabrator, with DS Smith providing the site. Planning permission has been granted and an operating permit from the Environment Agency has been received. The project is now subject to securing the necessary contracts for a supply of waste. If the contracts are agreed, it is expected that the plant will be operational by 2017.

Environmental Performance Indicators

	2011/12	2010/11
Energy consumption[1]		
Gigawatt hours	4,078	3,460
Megawatt hours/£'000 revenue	2.01	1.97
Carbon dioxide (CO_2) emissions[2]		
Scope 1 (direct) emissions – '000 tonnes	687	312
Scope 2 (indirect) emissions – '000 tonnes	196	600
Total Scopes 1 and 2 emissions – '000 tonnes	883	912
Kilograms/£'000 revenue	435	518
Water usage		
Million cubic metres	14.9	14.5
Cubic metres/£'000 revenue	7.3	8.3
Waste management[3]		
Waste recycled – '000 tonnes	223	221
Waste sent to landspread – '000 tonnes	100	162
Waste-to-Energy – '000 tonnes	121	99
Waste sent to landfill – '000 tonnes	59	70
Total waste generated	504	553
Kilograms/£'000 revenue	249	314
Per cent of total waste sent to landfill	12%	13%

Methodology: The Group aims to collect and report its environmental data in accordance with the guidelines specified by the Global Reporting Initiative and the Greenhouse Gas Protocol (GHGP), to the extent that this is currently practicable. The figures reported above include data from all of the Group's wholly-owned or majority-owned operations and sites worldwide. The methodology used is consistent for 2010/11 and 2011/12.

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, Food and Rural Affairs (DEFRA) in the Guidelines to DEFRA's GHG Conversion Factors. The factors used for converting electricity usage are the national figures for each country in which the Group operates, also sourced from DEFRA; 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. 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

Verification Statement from Bureau Veritas UK Ltd

For the fourth year we have worked with DS Smith Plc to provide an independent opinion on the Environmental Performance Indicators presented on this page of its 2012 Annual Report. Having completed a process incorporating site visits, document review and interrogation of associated management and reporting systems, it is our opinion that the presented performance indicators provide a fair and accurate representation of DS Smith Plc's performance.

DS Smith Plc should be commended on their approach to data collection, which continues to remain 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 remains 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.

Bureau Veritas encourages DS Smith Plc to continue to improve its data capture and reporting processes at the Group and divisional level.

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

June 2012
Bureau Veritas UK Ltd
London

Health and Safety

Safety is our highest priority. In 2011/12 we have made excellent progress, improving our safety performance in each of our three Key Performance Indicators (KPIs).

The safety of our staff and those affected by our operations is our highest priority. In 2011/12 the Group continued to improve its safety performance. Our businesses benchmark their safety performance internally and through the use of external data. Information on safety performance, including statistics related to our KPIs, is reported to the Board quarterly. The overall goal is to achieve zero accidents and our divisions set interim targets against their KPIs, which reflect the nature of their business and their previous performance.

In September 2010, the Group acquired a business in France, Otor, whose historic health and safety record significantly lagged that of DS Smith, as we reported last year. In December 2011 we sold our Office Products Wholesaling division, Spicers. In 2011/12, we have worked very hard to improve the health and safety performance of the Otor business, along with making improvements throughout the Group as part of our continuing programme. The statistics quoted below compare 2011/12 with 2010/11, where 2010/11 has been adjusted to include a full year ownership of Otor. Statistics relating to Spicers are excluded from all years, as it is no longer part of the Group.

In September 2011, there was an accident at Higher Kings Mill (prior to its disposal) which, sadly, resulted in one fatality. The accident remains under investigation.

In 2011/12, we achieved a 23 per cent reduction in Lost Time Accidents (LTAs); these are accidents that resulted in one shift or more of working time being lost. There was a 22 per cent reduction in the accident frequency rate (AFR), which measures LTAs in proportion to the number of hours worked. There was a 10 per cent 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.

The Group's progress towards a zero accident culture is evidenced by 47 of the Group's 107 sites having no LTAs in 2011/12. In the Group's engagement survey, 84 per cent of respondents agreed that health and safety was taken seriously at their workplace. 84 per cent of respondents also felt empowered to raise concerns about unsafe practices. The Group's safety communications programme, operating under the slogan 'Think Safe, Be Safe', 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. This year we have particularly focused on near-miss reporting, supported by training at site level.

The Group has a well established safety audit programme conducted by internal specialists and external consultants. These audits are used to ensure sites' consistent adherence to safety standards and to investigate possible areas of concern. The resulting action plans set a clear pathway for improvement. Integrating safety into the Group's operational improvement forum has enabled further progress in spreading best practice across the Group, focusing on issues such as re-engineering processes to improve safety and factoring safety issues into procurement decisions.

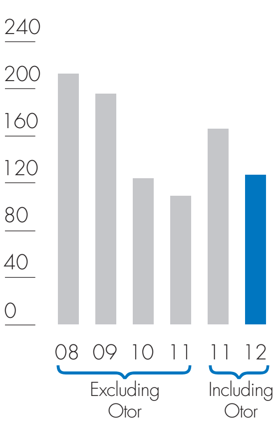
All accidents and situations that might have resulted in an accident are investigated to ensure we learn from these incidents and take steps to prevent a recurrence. In addition to focusing on specific risks, through techniques of risk assessment and root cause analysis, the Group also undertakes extensive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

Safety performance indicators

Lost time accidents

(numbers of accidents resulting in lost time of one shift or more)

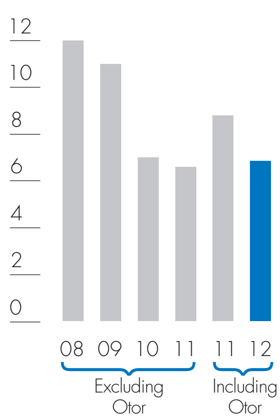
127
2011: 166



Accident frequency rate

(numbers of lost time accidents per million hours worked)

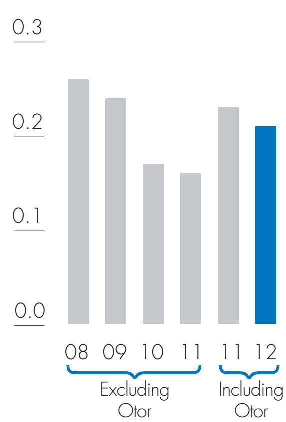
6.85
2011: 8.79



Accident severity rate

(working hours lost as a result of accidents as a percentage of total hours worked)

0.21%
2011: 0.23%



Community involvement

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

We seek to develop and maintain good relations in the local communities in which we operate. 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. For example, staff from our office in Caerphilly are involved in the Keep Wales Tidy initiative.

The DS Smith Charitable Foundation has been established this year to provide support to charities in two areas aligned with the activities and values of the business, being (1) environmental/conservation issues and (2) opportunities into work. Application forms can be found on our corporate website. The DS Smith Charitable Foundation also actively encourages ideas from employees regarding potential partnership charities. The DS Smith Charitable Foundation intends to identify and start working with its first partnership charities later in 2012.

Employees

DS Smith employees are skilled, dedicated and hardworking. We are engaging with our employees to deliver the Group strategy and realise their true potential.

Engagement in our DS Smith story

In 2010 DS Smith ran a Group-wide employee survey to understand better the views and opinions of all employees on a range of topics including the business, their role, their manager, and their working environment. This information was used to formulate action plans for 2011/12 at a local, divisional and Group level. The action plans and progress made towards their completion has been widely communicated and will be measured formally in the next survey later in 2012. Some of the actions at a Group level that have been undertaken as a result of this process are outlined in more detail below under the DS Smith story – OWN IT!

The DS Smith story – OWN IT!

Delivery of the strategic narrative has been accompanied by illustrative stories that recognise and celebrate the success of individuals and teams achieved to date. These success stories help to build pride and belief in the Company and identify examples of best practice, as well as connecting the high level goals and narrative to real-life experiences with which individuals can relate.

Whilst the DS Smith story aims to engage and excite employees in what we want to achieve as a business, the wider OWN IT! programme also acts to realise the potential of our people by enabling them to own their part of the story. Each and every team in DS Smith will be engaging in interactive meetings focused on a local goal that links to one of the strategic goals. These meetings seek small yet significant steps that can be taken to work more efficiently, collaborate more effectively, use or develop latent potential or learn from our past success to improve the business. Each small step is suggested and owned by a member of the team and the accountability for the projects undertaken shared between the team members, including the recognition of a project's successful completion. Once established, this process will promote the continuous identification and implementation of improvements which are directly linked to the Group's strategic goals and supported by behavioural and attitudinal change in line with the values of the business. We look forward to sharing some of these completed projects in our 2012/13 Report.

To help share stories and experiences of best practice across the Group globally, DS Smith has a new internal network portal, which allows employees to read about the success of other teams, form project groups to discuss ideas, and connect virtual teams or those with similar clients or interests. In 2012/13 this will be developed as a route to improved collaboration, better dissemination of best practice and network thinking to harness the 'wisdom of the crowd'. As part of this development, the tool will start thought leadership around key strategic questions to form interest communities who will meet in summits to discuss the leading ideas in those fields based on internal and external learning from practical and theoretical perspectives.

The programme has united employees who work in a range of countries and with a range of different product or service offerings around a single purpose and common strategic goals. There is also a clear declaration of how DS Smith employees act through the common values that form a crucial section of the narrative: DS Smith employees are caring, challenging, trusted, responsive and tenacious. These values clearly draw on the strengths that are already present within DS Smith but also represent the common standards required of each employee in order to realise our vision.

> "Engaging with our employees, listening to their views and responding through our actions is an integral part of becoming a leading business."

Engaging with our employees – OWN IT!

The DS Smith story in action
The DS Smith story is not a stand-alone programme and the principles are embedded in all aspects of the business, including people management practices and initiatives, from recruitment to performance management, talent management and leadership development.

The DS Smith narrative tells of a need to realise the true potential of our employees and it was decided that an objective assessment against fixed competencies would provide a framework to better identify and develop talent throughout the business. Therefore, bespoke DS Smith leadership and technical competencies have been designed that provide a consistency of vocabulary and standards for recruitment, development and assessment across the Group.

This is evidence of the Group's commitment to ensuring equal opportunities and transparency in all recruitment and employment practices.

To continue to develop the consistency of performance appraisals across national and business boundaries within the Group, a new performance management system has been launched with all senior managers across the Group that assesses their performance against personal objectives, the new competencies and how they live out the DS Smith values in their work life. The next steps for 2012/13 will be to expand the new system further within the Group and to continue to develop the predictive measures for identifying potential and talent.

A new training course has also been developed for new and potential leaders across the Group that through a range of modules builds leadership skills that help deliver and live out the messages of the DS Smith narrative. This means there will be a common standard of what makes a 'DS Smith Leader', that they will be equipped to manage, lead and coach as well as act as role models of the values and culture to their colleagues. At present this course is running in the UK and in 2012/13 will be extended to other Group locations.

In addition, training programmes are carried out by the Group's businesses in response to their specific operational performance requirements. 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 studying external vocational and professional qualifications; and schemes for coaching and mentoring managers, using both external and internal resources.

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

Our 5 core values

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

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

Be trusted
We can always be trusted to deliver on our commitments

Be responsive
We seek new ideas and understanding and are quick to react to opportunities

Be tenacious
We get things done

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

How risk is managed at DS Smith

The Board
Overall responsibility

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

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

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

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

Key risks

Dependence on UK, continental European and other global economic conditions

Impact

The demand for packaging will vary according to the economic climate in which the Group operates, in particular the UK and continental Europe. This is particularly true of customers outside the fast-moving consumer goods (FMCG) sector, where purchases are more discretionary in nature. The impact of the current slow-down in these regions on the operations of the business is difficult to predict and could potentially lead to a decline in demand for packaging products. There is no visibility on when the current uncertain economic outlook will improve.

Mitigation

DS Smith seeks to focus on supplying packaging to FMCG customers who, because they supply consumers with grocery and home care products, tend to show more resilient volumes compared to suppliers of discretionary purchases. In the event of a sustained fall in demand, the Group would take mitigating action to protect its profitability, as set out below.

Availability and volatile pricing of raw materials

Impact

In 2011/12 the Group spent c. £900 million on purchasing paper, plastics and other raw materials. The Group also spent c. £126 million on energy. These costs have increased substantially over the prior year, and to date the Group has largely recovered these costs in pricing, typically with the usual three to six month delay depending on the business. However, in the event that, due to competitor behaviour or other factors, DS Smith were unable to recover further price increases on a similar time-scale, the profitability of the Group would be substantially reduced.

Mitigation

The Group is seeking to improve the speed with which we are contractually able to recover input costs, by bringing the UK contract structures, typically with six month price-review periods, into line with our continental European operations which operate on a three month price-review structure. We also seek to differentiate our packaging through a focus on adding value to our customers' supply chains by focusing on service, quality and innovation. A description of our exposure to energy costs specifically is given later in this Risk management section.

Key risks continued

Strategy implementation and acquisition risk

Impact

The Group has a strategy to become the leading supplier of recycled packaging for consumer goods. It aims to achieve this through a combination of cost control, improved procurement processes and through organic investment and acquisition. In particular, on 30 June 2012 DS Smith will complete its acquisition of SCA Packaging, with targeted cost synergies of €75 million and capital savings of €40 million, both to be achieved over three years. Were the Group not able to implement its savings or were the Group not able to find further suitable acquisition targets available at prices that enable the Group to achieve its strategic return on capital targets, or were the Group unable to fund such acquisition or investment on acceptable terms or to integrate the acquired businesses effectively, this could curtail the delivery of the Group's strategy and negatively impact the Group's financial returns.

Mitigation

The management team of DS Smith is being developed with additional resource, both from within the Group and externally, dedicated to operational efficiency, procurement, acquisition and integration activities. There is considerable experience of this work within the senior team, gained both within the Group and from their previous roles.

Restrictions due to level of indebtedness

Impact

As at 30 April 2012 the Group had net cash of £321.7 million. At completion of the SCA Packaging acquisition, the Group will pay consideration proceeds of approximately €1.6 billion from cash reserves and committed banking facilities. The average interest rate on the resultant debt balance is expected to be 4.5 per cent. Were events, either specific to DS Smith, or to the financial systems externally, to mean that capital was not available at competitive rates, this could have a material impact on the profitability of the Group. A one percentage point change in the interest rate paid by the Group would increase interest costs by c. £10 million.

In addition, the Group will temporarily increase its level of indebtedness to above the target level of 2.0x net debt/EBITDA, in order to fund the acquisition of SCA Packaging. The new debt financing arrangements require the Group to dedicate a substantial proportion of operating cash flow to make payments on the debt, and contain certain restrictions on the Group. These include, among other things, the ability to take on further borrowings, pay dividends, make certain disposals or to move assets.

Mitigation

The average term of the facilities committed is four years and eight months and 63 per cent of the Group's debt is at fixed rates for a period of 12 months or more. The Group sources its debt finance from a mixture of private placements with institutional investors and bank debt from a syndicate of 15 institutions. The counterparty risk is carefully monitored such that the failure of one lender would not materially impact on the Group's access to capital. Cash deposits are placed with institutions with a Standard and Poors credit rating of A-minus or above. In countries where this is not possible, deposits are held with strong local banks.

The Group expects to reach its target of ≤2.0x net debt/EBITDA by the end of the first full financial year of ownership of SCA Packaging. A number of the more onerous restrictions are contained only in term loan A, which is expected to be refinanced shortly after completion of the SCA Packaging acquisition.

Please refer to the Financial review section of this Annual Report for a description of our financing arrangements.

Key risks continued

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

Impact

The Group's UK defined benefit pension scheme is sensitive to a number of key factors: the value of the assets, the discount rate used to calculate the scheme's liabilities (based on corporate bond yields) and the mortality assumptions for the members of the scheme. The valuation of the Group's various pension schemes as at 30 April 2012, of which the UK scheme makes up the largest proportion, was a deficit of £104.2 million. While the UK scheme is now closed to future accrual, changes in these assumptions could mean that the deficit increases further. On completion of the SCA Packaging acquisition, the Group has now assumed responsibility for defined benefit pension obligations with an asset value (at 30 September 2011) of approximately £45 million and liabilities of approximately £100 million.

Mitigation

On 30 April 2011 the Group's UK defined benefit pension scheme closed to future accrual. This decision was taken by the trustees in light of the growing deficit of the scheme and the trustees' responsibility to safeguard the accrued benefits to existing members. The Group also reached agreement with the trustees for a profile of future payments to repay the deficit, being annual payments of £14.8 million starting in 2011/12, increasing by 2 per cent per annum, for 10 years.

Environmental risks

Impact

Were a material environmental incident to occur at a DS Smith site, this could result in material financial costs and reputational damage that could undermine our commercial position as a provider of environmental solutions. New regulations relating to environmental standards and to climate change and CO_2 emissions can give rise to significant additional costs of compliance.

Mitigation

As set out in the Corporate Responsibility review section of this Annual Report, the Group has detailed processes in place at all sites to ensure that, as a minimum, we comply with all relevant environmental rules and regulations.

Fall in demand

Impact

The profitability of the Group is sensitive to volume, the mix of sales and product pricing. A fall in demand could arise due to competitive action, product substitution, changes in consumer preferences or an overall decline in the macroeconomic environment. A 5 per cent reduction in corrugated packaging volumes across the Group would theoretically result in a fall in Group operating profit by around £25 million, to the extent not mitigated by cost control.

Mitigation

In the event of falling demand, the Group would take prompt action to address its cost base. Further, the strategy of the Group is to focus on developing packaging for FMCG, as this sector has historically shown substantially less volatility in demand during periods of economic downturn, than industrial users of packaging.

Other risks

Competition in the paper market and the corrugated packaging market

Impact

DS Smith is the largest producer of corrugated case material (CCM) in the UK, and also the largest producer of corrugated packaging. Including the capacity of SCA Packaging, the Group will be one of the largest manufacturers of CCM in Europe and will be the second largest supplier of corrugated packaging in Europe. In the event of material new paper production capacity being installed by our competitors, this could impact the market for CCM, which is largely a commoditised product, both directly or through the impact of imports, which could in turn influence pricing in the corrugated packaging market.

Mitigation

We aim to develop long-standing relationships with our corrugated packaging customers based on the value that we add to their supply chain, and to differentiate DS Smith by the service, quality and innovation that we offer. We are also implementing plans to reduce our costs in the UK Packaging division and to improve procurement.

Other risks continued

Energy costs

Impact

The Group's exposure to energy costs is set out in the Financial review in this Annual Report. The most significant energy risk relates to the purchase of gas in the UK, where a 10 pence per therm increase represents an increase in operating costs of £9 million.

Mitigation

The Group aims to mitigate its exposure to energy costs by a combination of diversifying away from fossil fuels and, where this is not possible, through long-term purchasing strategies. The Group is looking to maximise in-house energy generation from its combined heat and power (CHP) plants in the UK and France.

The Group operates a centralised approach to purchasing energy in the UK and France. The impact of energy costs is managed through the use of long-term contracts and through hedging techniques. The Group monitors its hedging instruments to ensure that it is not overly reliant upon any single counterparty.

Operational failure such as IT systems and controls or facilities failure

Impact

Like most businesses, the Group depends on its IT systems and controls for the management of its operations. Were these to fail for a material length of time, this could disrupt the Group from transacting its business. Were an incident such as a fire to happen at a major site, this could impact on the operations and financial performance of the Group.

Mitigation

The Group manages its IT through a combination of experienced staff and contracted-out teams. The Group has back-up arrangements in place at all its major sites. The Group operates to the highest standards of safety at its facilities. The Group has a large network of sites such that manufacturing of some products could be transferred between sites. The Group is also insured against losses arising from certain incidents that might impact on the operations of our facilities. Note, however, that certain losses are either not insurable or not economically insurable, such as losses due to natural disasters, riots, acts of war or terrorism.

Competition

Impact

The Group operates in a market controlled by laws governing competitive behaviour. Penalties for breaching competition laws could result in substantial fines.

Mitigation

The Group has a rigorous programme of training for all relevant employees, to ensure that they fully understand the applicable laws and the high standards to which they are expected to operate. Furthermore, the Group operates a Workplace Malpractice helpline in those jurisdictions where this is permissible, providing a confidential route for employees to report perceived malpractice of any type.

Industrial relations breakdown

Impact

The Group including SCA Packaging will employ c. 22,000 people. Were an issue to arise that caused a material breakdown in industrial relations, such that there was a prolonged strike or other industrial action within a part of the business, this could have a material impact on the financial performance of the Group.

Mitigation

The Group maintains good relationships with all significant organisations that seek to represent its employees. Furthermore, the Group aims to provide employees with a safe working environment and a culture that fosters excellent performance and encourages self-development. Through being an employer of choice, we aim to avoid material industrial relations issues arising.

Other risks continued

Employee safety

Impact

Employee safety is the Group's top priority. Were an incident to arise where unsafe practice was found to be taking place, this could potentially result in the interruption of some of our operations for a period of time and the Group could incur financial penalties and reputational damage.

Mitigation

The Group has a very detailed and extensive health and safety programme, which is embedded in all its operations. Further details of this programme are set out in the Corporate Responsibility review in this Annual Report.

Product liability

Impact

The Group's products are used, amongst other things, for packaging food and drink products and accordingly are manufactured to conform to the relevant standards. Were any products to be defective, or were the applicable standards to become significantly more onerous, this could give rise to both financial and reputational damage to the Group.

Mitigation

The Group has not been held liable in any material product liability claims in the past several years. The Group observes all applicable safety standards and engages with industry bodies in their research on the use of packaging for food and drink products.

Taxation

Impact

The amount of taxation paid by the Group is dependent on the applicable tax law in the jurisdictions in which we operate and on the geographic mix of the business. Were the tax rate to be increased in those jurisdictions, or the geographic mix of the business to change to be skewed towards higher tax jurisdictions, then the overall tax rate of the Group may rise, impacting on the profits that may be distributed to shareholders.

Mitigation

The Group actively manages its tax affairs in order to minimise the tax paid, within the scope of the tax laws where we operate.

Foreign exchange rate movements

Impact

Following the SCA Packaging acquisition, approximately 65 per cent of the Group's operating profit, per annum, will be derived from non sterling currencies, principally the euro. The Group does not hedge for currency translation effects on revenue or operating profit. As described in the Financial review section of this Annual Report the Group's debt is mainly denominated in euros and this acts as a net investment hedge of the Group's euro net assets.

Mitigation

In relation to currency translation, the conversion rate which is material to the Group is sterling to the euro. A decrease in the value of the euro by 1 cent would reduce operating profit by c. £1.1 million and, after a benefit to the interest cost of c. £0.3 million, pre-tax profit by £0.8 million.

Other social and environmental matters

Impact

The Group's management of other social and environmental risks is described in the Corporate Responsibility review in this Annual Report.

Mitigation

As described in the Corporate Responsibility review.

Directors and Company Secretary

An experienced and dedicated team

	Gareth Davis Chairman	**Miles Roberts** Group Chief Executive	**Steve Dryden** Group Finance Director
Committee membership	Nomination Committee Remuneration Committee	General Purposes Committee Nomination Committee	General Purposes Committee
Skills and experience	Appointed to the Board on 1 June 2010 as a non-Executive Director. He became Chairman of the Board on 4 January 2012 and is Chairman of the Nomination Committee. He was previously Chairman of the Remuneration Committee. He is Chairman of both William Hill PLC and Wolseley Plc. He was previously Group Chief Executive of Imperial Tobacco Group PLC. Age 62.	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 48.	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 44.

Christopher Bunker
Senior Independent Director

Nomination Committee
Remuneration Committee
Audit Committee

Appointed to the Board on 9 December 2003 as a non-Executive Director. He is the Senior Independent Director and is Chairman of the Remuneration 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 65.

Philippe Mellier
Non-Executive Director

Nomination Committee
Remuneration Committee
Audit Committee

Appointed to the Board on 7 September 2006 as a non-Executive Director. He is Group Chief Executive Officer of De Beers Group. He was President of Alstom Transport and an Executive Vice-President of Alstom Group, was previously Chairman and 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 56.

Jonathan Nicholls
Non-Executive Director

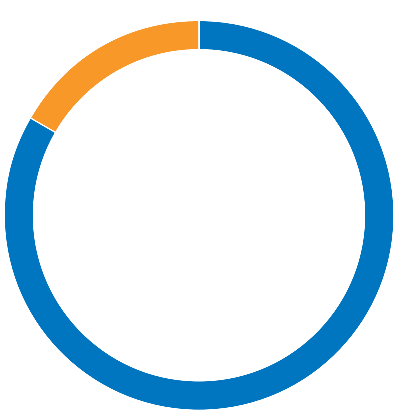
Nomination Committee
Remuneration Committee
Audit Committee

Appointed to the Board on 1 December 2009 as a non-Executive Director and is the Chairman of the Audit Committee. He was previously Group Finance Director of Hanson Plc and, most recently, Group Finance Director of Old Mutual Plc. He is a non-Executive Director and Chairman of the Audit Committees of Great Portland Estates Plc and SIG Plc and was a non-Executive Director of Man Group Plc. Age 54.

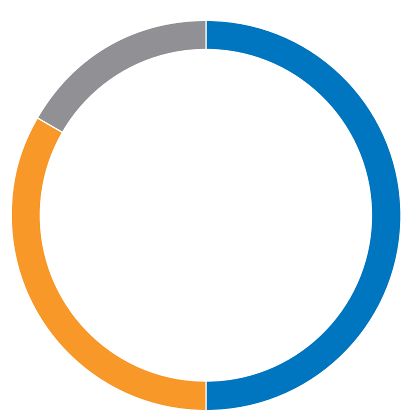
Matt Jowett
Group General Counsel and Company Secretary

Appointed Group General Counsel and Company Secretary on 1 July 2011. He was previously Group General Counsel and Company Secretary of VT Group Plc and prior to that he was Group General Counsel of RMC Group Plc. He began his career at law firm Linklaters. Age 44.

Board nationalities

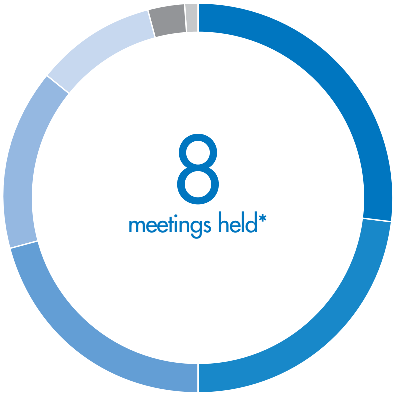


Board tenure



What does good governance mean to DS Smith?

Topics discussed at 2011/12 Board meetings



Governance	27%
Strategy	23%
Financial Management	21%
Operations	15%
Health & Safety / Environment	10%
Human Resources	3%
Other	1%

* A further 6 unscheduled meetings were held during the year, principally to discuss the proposed acquisition of SCA Packaging

Dear Shareholders

DS Smith has gone through a period of great change in the last 12 months with more changes still to come. Managing this change has been a fundamental part of the good governance of this Company and the Company is committed to the principle and application of sound corporate governance. Meeting the ever-changing demands of the business environment and taking into account wider social and political influences whilst at the same time ensuring that our various stakeholders – shareholders, employees, customers and the environment – are all given equal consideration, has been a challenge that your Board has taken very seriously. Ensuring that DS Smith has been able to rise to these demands as a cohesive Group has been at the heart of all your Board's decisions.

This Report shows how the Board looked at the challenges laid down by the UK Corporate Governance Code last year and reviews the Code's impact on the Company during the year. Through the Nomination Committee, a good deal of attention has been paid to the composition of the Board and succession planning, taking into account knowledge and experience, key skills, diversity and the mix between Executive and non-Executive Directors.

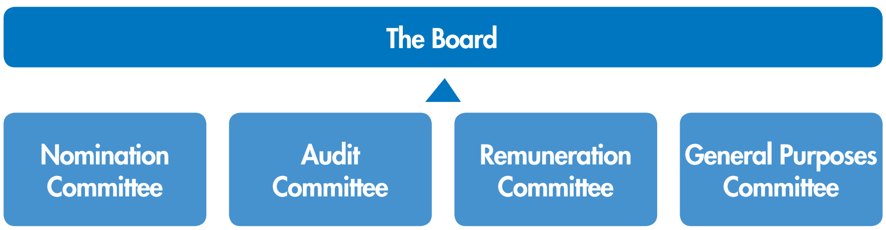
As regards diversity, the Board of DS Smith has considered carefully Lord Davies' recommendations. We have a small Board, comprising two Executive Directors, three non-Executive Directors and a non-Executive Chairman, and therefore believe it difficult to set targets or timescales for the percentage of women, or any other group, on our Board. We are committed to ensuring our Board continues to have both relevant experience and appropriate diversity. We believe the Board would be strengthened by the addition of women with the right skills and experience and will continue to seek to identify suitable candidates. In view of this, we are optimistic that the targets for Board composition set out in the Davies recommendations can be met.

Executive remuneration has again been a hot topic and the Remuneration Committee's Report (on pages 43 to 54) sets out in detail the Company's approach to this important area.

Last year, before the Code came into force, the Board agreed that the Chairman and non-Executive Directors would put themselves up for re-election annually but the Executive Directors would only stand for re-election every three years. Having reviewed best practice and after further discussion, the Board has now resolved that all Directors will stand for re-election annually.

Gareth Davis, Chairman

Committee structure



The Company has complied throughout the financial year with all the provisions of the UK Corporate Governance Code. The Board has regard to corporate governance issues in all of its decision making. Further explanation of how the principles and supporting principles of the Code have been applied is set out below and in the Directors' Remuneration Report. The Company's Auditor has reviewed the compliance with those provisions of the Code specified for their review.

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 offices of Chairman and Group Chief Executive are held separately. During the year, each of the non-Executive Directors has at all times acted independently of management and has no relationships which would materially interfere with the exercise of their independent judgement and decision making. Gareth Davis was regarded as independent when appointed Chairman.

All Board members attend all Board and relevant Committee meetings unless exceptional circumstances prevent them from attending. For meetings where Directors were unable to attend, where practicable, they gave full consideration to the matters being discussed and provided their input to the Chairman.

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, which was reviewed and updated in April 2012. These include the annual budget, substantial acquisitions and disposals, the approval of the full-year and half-year results and a review of the overall system of internal control and risk management.

Each Director has access to all information relating to the Group and to the advice and services of the Company Secretary (who is responsible for ensuring that Board procedures are followed and is also the Company's General Counsel) and, as required, external advice at the expense of the Group. The Directors are provided with opportunities for training to ensure that they are kept up-to-date on relevant new legislation and 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.

The Board carried out a comprehensive appraisal of its performance and that of the Committees and the individual Directors between January and March 2012. The review was carried out by an external facilitator, who has no other connection with the Group, and who was appointed to provide a more independent view and a new focus for the 2012 Board evaluation. The review investigated a variety of aspects associated with Board effectiveness, specifically:

1) the way in which the Board defines its role and approaches its work (strategy, risk and control, performance management, and communication); and

2) the way in which the Board works together (culture and dynamics), and optimises its use of time and its contribution to the Company.

The facilitator obtained feedback from each Director through detailed one-to-one interviews and attendance as an observer at a Board meeting. The feedback was collated into a report which was discussed with each Director and then presented to the Board. All Directors and the Company Secretary participated in the exercise. Individual Directors were encouraged to discuss feedback with the facilitator.

2011/12 Board meetings

Corporate strategy

The main discussions on strategy for 2011/12 were around the disposal of the Office Products Wholesaling division and the acquisition of the packaging division of SCA. The Company's medium-term targets are to remain focused on recycled packaging to consumer companies; reducing cyclicality of returns; and reducing non-integrated paper production.

Board committees

Details of the matters discussed in the Audit, Remuneration and Nomination Committees during 2011/12 are set out in the following pages. In addition to those matters, the Remuneration Committee reviewed and updated its terms of reference in April 2012 and the Audit and Nomination Committees' terms of reference were reviewed and updated in June 2012.

Board visibility

In addition to regular reports from the Group Chief Executive and Group Finance Director the Board received reports from and engaged with divisional managers and key members of the support teams.

	Board	Nomination Committee	Audit Committee	Remuneration Committee	Annual General Meeting and General Meeting
Total number of meetings in 2011/12	14	3	4	4	2
Number of meetings attended in 2011/12					
Executive Directors					
Miles Roberts	14 (14)	–	–	–	2 (2)
Steve Dryden	14 (14)	–	–	–	2 (2)
Non-Executive Directors					
Gareth Davis[1]	14 (14)	2 (3)	2 (3)	4 (4)	2 (2)
Chris Bunker	13 (14)	3 (3)	4 (4)	4 (4)	2 (2)
Peter Johnson[2]	2 (8)	1 (2)	–	–	0 (1)
Philippe Mellier[3]	11 (14)	0 (0)	1 (1)	4 (4)	2 (2)
Jonathan Nicholls[4]	13 (14)	3 (3)	4 (4)	2 (2)	1 (2)

The Board held eight scheduled meetings during the year and six ad hoc meetings were held to discuss specific issues, principally relating to the SCA Packaging acquisition. In addition to the AGM in September there was a General Meeting held in February 2012. Figures in brackets denote the maximum number of meetings that could have been attended.

1. Gareth Davis stepped down as a member of the Audit Committee on his appointment as Chairman of the Board in January 2012
2. Peter Johnson retired from the Board on 4 January 2012
3. Philippe Mellier was appointed as a member of the Audit and Nomination Committees in January 2012
4. Jonathan Nicholls was appointed as a member of the Remuneration Committee in January 2012

The facilitator concluded as follows:

- During the review the Board demonstrated a methodical and thorough approach to its work. The Board demonstrated strategic clarity and conviction, and spends a significant amount of time on risk and control. The Board is assisted by improving financial information, professional internal and external audit processes, and a strong Audit Committee. There is an active and collaborative approach to performance management, and a constructive Remuneration Committee. The dynamics and contribution of the Board are fostered through an open and transparent culture (promoted by the Group Chief Executive and executive team), high quality debate, an even contribution, and respected Board leadership. The Board and the Committees benefit from carefully planned agendas, and effective support from the Company Secretary.
- There is an open Board culture. The Board is focused on its ability to deliver value, and to make a significant difference through its culture and dynamics. The Executive Directors are open and honest in their dealings with the non-Executive Directors, respect their views and listen to their concerns. Non-Executive Directors address the right issues and are both challenging and supportive.
- The responsibilities of the Audit Committee and Board are appropriately drawn. The Remuneration Committee will focus on ensuring the remuneration policy consistently reflects the business strategy and goals. The Nomination Committee needs to continue to focus on bench strength and executive succession planning as a priority.

Three areas were identified by the facilitator for further Board discussion, all of which will become more important following the Company's latest transaction:

- There is a need for a greater level of Board knowledge and discussion regarding the international landscape, the Company's attention to customers, and the relevance of the Board's future composition.
- The understanding of the Board and its visibility of risk and executive succession planning needs to be further developed.
- The Board should give further consideration to having more site visits and using the informal time Directors spend together for further discussions which would complement the formal Board meetings.

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

Following this evaluation the Board recommends the re-election of Directors standing for re-election at the 2012 Annual General Meeting.

Summary of Board and Committee changes in the year

Month	Change
September 2011	Gareth Davis appointed as Deputy Chairman.
October 2011	Peter Johnson stepped down as Chairman (but continued as a non-Executive Director) and Gareth Davis appointed as Interim Chairman.
January 2012	Gareth Davis appointed as Chairman. Peter Johnson retired from the Board. Chris Bunker becomes Chairman of the Remuneration Committee. Jonathan Nicholls appointed to Remuneration Committee. Philippe Mellier appointed to the Audit and Nomination Committees.

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 http://www.dssmith.uk.com/aboutus/corporate-governance or are available on request to the Company Secretary.

Audit Committee

The Audit Committee is chaired by Jonathan Nicholls. The other members are Chris Bunker and Philippe Mellier. In addition to the Committee members, the Chairman, the Group Chief Executive, the Group Finance Director, representatives from Internal Audit and the Group Financial Controller attend parts of these meetings by invitation. The Board is satisfied that Jonathan Nicholls and the members of the Audit Committee have both current and relevant financial experience (as set out on page 35).

The terms of reference of the Audit Committee include all the matters indicated by the Code, except the oversight of business risks which is the direct responsibility of the Board. 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 Auditor;
- the resourcing, plans and effectiveness of Internal Audit performed on behalf of the Company by a major accountancy firm (currently KPMG), which is independent from the Group's Auditor;
- the adequacy and effectiveness of the financial control environment; and
- the Group's compliance with the Code.

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

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

In order to ensure the independence and objectivity of the Auditor, the Committee maintains and regularly reviews the Auditor Independence Policy which covers services which may be provided by, and fees paid to, auditors. Audit fees are negotiated with the Group Finance Director and approved by the Audit Committee. The policy on the supply of non-audit services by external auditors is as follows: The Group should not employ the Auditor to provide non-audit services where either the nature of the work or the extent of such services might impair the Auditor's independence or objectivity. The external Auditor is permitted to undertake some non-audit services, providing 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 Auditor should not exceed 75% of the annual Group audit fee without prior formal approval of the Committee. During 2011/12, total non-audit fees were 136% of the annual Group audit fee. The most significant element related to the proposed acquisition of SCA Packaging, where the use of external auditors was approved by the Audit Committee. Approval for permitted non-audit services is sought as required by this policy which specifies that individual projects which would cost over £100,000 must be referred to the Chairman of the Committee for prior approval. The outcome of these reviews was not only that performance of the relevant non-audit work by the Auditor was the most cost-effective way of conducting business, but also that no conflicts of interest existed between such audit and non-audit work. In addition, £5.4 million was paid to other accounting firms for non-audit work, including £0.9 million for work relating to Internal Audit.

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

During the year, the Committee met privately with the external Auditor after each Committee meeting. The Chairman of the Audit Committee also held separate private meetings during the year with the external Auditor, representatives from Internal Audit and the Group Finance Director. 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 2011, the Committee reviewed the annual financial statements of the Company and received reports from Internal Audit on internal control matters and from the external Auditor on the conduct of their audit, their review of accounting policies, areas of judgement and the financial statements and their comments on statements concerning risk and internal control. A similar review was undertaken in December 2011 when the half-year results were considered. At these meetings and the meeting in April 2012, 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 the meeting in June 2011 it received a report from Internal Audit covering, amongst other things, the work undertaken by the Internal 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 external Auditor and Internal Audit function, the results of which were reported to the Board. The Committee concluded that each area operated satisfactorily during the year;
- it reviewed and updated the terms of reference of the Audit Committee; and
- it oversaw the continuing development and the operation of the Group's Workplace Malpractice Policy.

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

Nomination Committee

Gareth Davis became Chairman of the Nomination Committee on 4 January 2012, taking over from Peter Johnson on his retirement from the Board. The other members of the Nomination Committee are Miles Roberts, Chris Bunker, Philippe Mellier and Jonathan Nicholls.

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 and diversity 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 with the Committee and then with the Board.

The Committee had developed a succession plan for the appointment of a new Chairman to replace Peter Johnson. The Committee regarded the appointment of Gareth Davis as Chairman as the best for the Company, based on his skill, experience and knowledge of the Company. Consequently the Committee did not consider it appropriate to place an external advertisement for the position of Chairman.

The 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 (subject to conditions if appropriate), provided that the Board considers this to be in the best interests of the Company.

Each of the Directors in office reviews their individual position regularly and new Directors review their individual positions prior to joining the Board. 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 reviewed at the next Board meeting and, if considered appropriate, authorised. Directors do not participate in the discussion, or vote regarding their own conflicts. If authorised, any conflicts are entered in the Conflicts Register.

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

Relations with shareholders

The Company has a programme of regular meetings (which sometimes includes the

Non-Executive Directors' objectives

Gareth Davis
Chairman

Objectives for the year

My primary responsibility is leading the Board, to promote openness and effective debate, setting its agenda and ensuring sufficient time is given to strategic issues. I am also responsible for ensuring that the Board acts in the best interests of the Company's stakeholders and guiding the Company's business conduct and ethical standards.

Jonathan Nicholls
Chairman Audit Committee

Objectives for the year

As Chairman of the Audit Committee, my objective is to ensure that the Audit Committee reviews and reports to the Board on the Group's financial reporting, internal control and risk management systems and the independence and effectiveness of the Auditor.

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 and Transparency 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 following the full and half-year results. Together, the Chairman, Group Chief Executive, Group Finance Director, and Head of Investor Relations ensure the Board is 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 who attend the Annual General Meeting make themselves available to meet shareholders after the formal business of the meeting. To ensure compliance with the Code, separate resolutions are proposed on each discrete subject. All Directors will retire and stand for re-election. To reflect the voting preferences of all shareholders wishing to vote at the meeting, the Company will take a poll on all resolutions put to shareholders. The final results are published through a Regulatory Information Service and on the website following the Meeting.

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

Internal control

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

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

- a clearly defined divisionalised organisation structure for monitoring the conduct and operations of individual business units;

Chris Bunker
Chairman Remuneration Committee

Objectives for the year

As Chairman of the Remuneration Committee I believe it is important that our remuneration strategy ensures that we continue to attract, reward and retain the key people to drive the business forward whilst retaining our 'pay for performance' culture. As Senior Independent Director I am available to assist in resolving shareholder concerns should alternative channels be exhausted or inappropriate.

Philippe Mellier
Non-Executive Director

Objectives for the year

As an independent non-Executive Director I feel that keeping an open and transparent culture is very important, whilst at the same time maintaining a methodical and thorough approach to our work.

- 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;
- formal monthly meetings between the Group Chief Executive, the Group Finance Director and divisional management to discuss strategic, operational and financial issues; and
- communicating key corporate values to all employees.

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

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

Going concern

In considering the going concern basis for preparing the financial statements, the Directors have considered the Company's objectives and strategy, risks and uncertainties in achieving its objectives and its review of business performance which are all set out in the Strategic summary, Operating review and Financial review sections of this Annual Report and Accounts. The Group's liquidity and funding arrangements are described in notes 16 and 18 to the financial statements as well as in the capital structure and treasury management section of the Financial Review and the Directors consider that the Group has significant covenant and liquidity headroom in its borrowing facilities for the foreseeable future.

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

The aim of our remuneration policy is to attract, develop and retain leaders who are focused and adequately incentivised to deliver outstanding business results.

Remuneration Committee

Committee membership
Chris Bunker (Remuneration Committee Chairman from 4 January 2012)
Gareth Davis (Remuneration Committee Chairman to 4 January 2012; Committee member from 4 January 2012)
Philippe Mellier
Jonathan Nicholls

Dear Shareholders

As the new Chairman of the Remuneration Committee, I am pleased to introduce our report on remuneration for 2012, for which we seek your support at our Annual General Meeting on 4 September 2012.

The Remuneration Report is designed to provide you with the necessary information to demonstrate the link between our Group's strategy, its performance, and the remuneration outcomes for its senior executives. It is also intended to deliver the remuneration disclosures required by UK regulation.

I know that senior executive remuneration has been the subject of much comment, particularly in the last year or so. In the past the Remuneration Committee has sought the views of shareholders before making any substantial changes to policy and I intend to continue that good practice.

This has been the year in which the Group has changed significantly with the disposal of the Office Products Wholesaling division and the announcement of the acquisition of SCA Packaging. Our remuneration strategy reflects that change to ensure that we continue to attract, reward and retain the key people to drive the business forward whilst retaining our 'pay for performance' culture. Within an increasingly demanding, competitive and international environment we want our employees to be fairly compensated and incentivised to deliver our strategic vision.

For the financial year ahead, following the announcement of such a transformational acquisition, the Committee has considered the impact on the remuneration arrangements and policy for the senior executive team. Whilst no changes requiring shareholder approval are proposed, some amendments to the policy are proposed for the year ahead. These changes are necessary to reflect the revised complexity, breadth and near doubled size of the business and to ensure that the arrangements are aligned with the achievement of our strategic objectives. At the same time, this has to be balanced with the need to align senior executives with the achievement of a fully integrated, enlarged Group focused on the long-term interests of the shareholders and not simply for the delivery of an acquisition.

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

I was appointed as Chairman of the Remuneration Committee in January this year, taking over from Gareth Davis on his appointment as Chairman of the Board. I would like to confirm that both I and the Committee continue to be committed to the principles of good governance and best practice.

Chris Bunker, Chairman of the Remuneration Committee
27 June 2012

Governance

(A) Introduction
The Remuneration Committee (the 'Committee'), is constituted in accordance with the recommendations of the UK Corporate Governance Code (the 'Code'). The Committee is a committee of the Board. Its terms of reference can be found on the Company's website. The Committee's key objectives are to:

- set and agree with the Board a competitive and transparent remuneration framework which is aligned to the Company's strategy and is in the interests of both the Company and its shareholders; and
- determine the specific remuneration packages for each of the Executive Directors, the Chairman and Company Secretary. It also considers the remuneration of senior executives reporting to the Group Chief Executive, taking into account recommendations from him.

Details of the membership of the Remuneration Committee are set out on page 43. All members of the Committee are independent non-Executive Directors.

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.

(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 Code which relate to Directors' remuneration.

This Report has been prepared in accordance with the Companies Act 2006, Schedule 8 of the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 (Schedule 8) and the Listing Rules of the UK Listing Authority. In this Report we describe how the principles of good governance relating to Directors' remuneration, as set out in the Code, are applied in practice. The Committee confirms that throughout the year it has complied with these governance rules and best practice provisions.

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

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

(C) Advisers to the Committee
New Bridge Street (a brand of Aon Hewitt Limited) has been appointed by the Committee to provide advice on the remuneration of Executive Directors and other senior executives. New Bridge Street also provides advice to the Company in connection with the operation of the Company's share-based incentive schemes. The Committee consults with the Chairman of the Company and with the Group Chief Executive, who may attend meetings of the Committee, although they are not involved in deciding their own remuneration. The Committee is assisted by the Company Secretary and the Group Human Resources Director, and also receives advice from Mercer Limited, the Actuary to the Company's pension scheme, in relation to Executive Directors' pensions. New Bridge Street and Mercer are signatories to the Code of Conduct for Remuneration Advisers. Neither New Bridge Street nor any other part of Aon Hewitt provided any 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 are competitive and enable the Company to attract, retain and motivate Executive Directors and other senior managers of sufficient calibre to meet the Company's needs. The Committee regards remuneration policy as an essential tool to underpin the performance culture of the Group and the remuneration packages are designed to align the interests of executives with those of our shareholders. We seek, through a substantial proportion of performance-related variable remuneration, to ensure that outstanding performance is well rewarded and that underperformance is addressed through a structured process of executive development and performance appraisal.

Following the announcement of the acquisition of SCA Packaging, the Committee has considered the impact on the remuneration arrangements and policy for the senior executive team. Whilst no changes requiring shareholder approval have been proposed, some amendments to the policy are proposed for the year ahead. These changes are necessary to reflect the revised complexity, breadth and near doubled size of the business and to ensure that the arrangements are aligned with the achievement of our strategic objectives. At the same time, this has to be balanced with the need to align executives with the achievement of a fully integrated, enlarged Group focused on the long-term interests of the shareholders and not simply for the delivery of an acquisition.

As well as considering the impact of the reconfigured Group on the 2012/13 remuneration policy (details of which are provided below), it has also been necessary for the Committee to consider whether any changes should be made to outstanding awards under our share schemes. As with most rights issues, existing awards will be adjusted to reflect the increased number of shares in issue following the Rights Issue.

The acquisition of SCA Packaging will be completed at the end of June 2012 and the Company has therefore only had limited access to non-publicly available information with regard to SCA Packaging's financial performance. Accordingly, the Remuneration Committee has set provisional targets for the SCA Packaging elements of the 2012/13 incentive schemes and the targets will be reviewed again following completion of the transaction.

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

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

As in previous years, the main elements of the remuneration policy in 2012/13 will be as follows:

- basic salary;
- pension provision;
- annual bonus scheme; and
- long-term incentives, comprising the Performance Share Plan ('PSP') and Share Matching Plan ('SMP').

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 Miles Roberts and Steve Dryden for 2012/13 will account for approximately 64% (2011/12: 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:

Date	Key agenda item
21 June 2011	– Authorise 2011 bonus payments; – Approve targets for 2012 bonus plan; – Approve the 2011 Directors' Remuneration Report; – Review of the Executive Directors' and senior executives' pay/incentive arrangements; – Oversight of remuneration policy for senior management and employees; – Review of the Chairman's fees; – 2011 PSP award – total shareholder return ('TSR'), average adjusted earnings per share ('EPS') and average adjusted return on capital employed ('ROACE') range proposals; – Approve changes to the rules of the PSP and the Deferred Share Bonus Plan ('DSBP') to introduce claw back.
September 2011	– Agree the vesting schedule for the release of 2008 PSP and the release of Miles Roberts' Replacement 2008 LTIP award; – Approve the conversion of existing share awards into Nil Cost Options.
7 March 2012	– Assessment of Committee performance; – Discussion of adjustment of share-based incentive scheme awards following the Rights Issue; – Consideration of the adjustment of the performance conditions for the share-based incentive schemes following the acquisition of SCA Packaging.
24 April 2012	– Revised terms of reference for the Committee; – Review of feedback on the Committee's performance; – Discussion of the provisional adjustment to the performance conditions for the share-based incentive schemes following the acquisition of SCA Packaging.

The Committee has reviewed salaries in the context of the roles, experience and responsibilities of the Executive Directors and senior executives. It is cognisant of the current environment for executive pay and understands investors' view that Executive Director salaries should not normally increase faster than those of the executive team generally. It is also fully aware of the duty it has to shareholders to ensure that the right remuneration arrangements are in place. The Group Chief Executive's basic salary was increased by 6.5% on 1 August 2011 and the Group Finance Director's basic salary was increased by 6.0%. Other senior executives' basic salaries were increased in the range of 0% to 10.7% from 1 August 2011. This compares to an average increase of 3.0% 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.

The last 12 months have seen a transformation at DS Smith as the Group strives to implement its strategy to become a focused, international supplier of recycled packaging for the FMCG market. The 2011 calendar year closed with the completion of the disposal of the Office Products Wholesaling division. This was closely followed in January 2012 by the announcement of the acquisition of SCA Packaging which received overwhelmingly positive support from shareholders at the General Meeting.

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

The Company is consulting with its major shareholders, the Association of British Insurers and RREV prior to finalising the details of the remuneration arrangements summarised below:

Element of remuneration package	**Basic salary and benefits**
Purpose	– Reflect the individual's experience and role within the Group; – Help recruit and retain key senior executives.
Policy for 2012/13	– Increase Executive Directors' basic salary to the mid-market level over the next two years (taking into account the criticality of each individual); – Regard given to individual skills, experience and performance.
Summary of how it operates	– Paid monthly in cash; – Normally reviewed by the Committee annually and fixed for the 12 months commencing 1 August; – Salary is supplemented with normal benefits available to Executive Directors and senior managers including car allowance, life cover and medical insurance.
Element of remuneration package	**Annual bonus**
Purpose	– Incentivise executives to achieve specific, predetermined goals during a one-year period; – Reward ongoing delivery and contribution to strategic initiatives; – Deferred proportion of bonus, awarded in shares, provides a retention element and additional alignment of interests with shareholders.
Policy for 2012/13	– Bonus awards will be measured against the achievement of Group objectives. In 2012/13 there will also be a requirement for the integration and synergy savings to be substantially as indicated in the acquisition prospectus; – At target 50% of maximum bonus will be payable. Maximum bonus is 150% of salary for the Executive Directors and generally 100% for the other most senior executives; – Percentage of bonus deferred and awarded in shares.
Summary of how it operates	– The Executive Directors have objectives related to Group profit before tax and amortisation ('PBTA') and ROACE. Other senior executives are measured against a mix of Group PBTA, ROACE and Business Segment operating profit, as relevant to each individual's job; – Bonus results are determined by the Committee after the year end, based on performance against targets; – 50% of the bonus is paid in cash and 50% is paid in deferred shares; – The deferred shares vest after three years and are paid together with an amount equal to the value of dividends payable on the vested shares during the deferral period. The deferred element is subject to forfeiture for 'bad leavers' who depart prior to vesting.

Element of remuneration package	Performance Share Plan and Share Matching Plan
Purpose	– Drive longer-term performance and retention and align interests of executives and shareholders through building a shareholding; – Retain key executives over a set performance period – usually three years.
Policy for 2012/13	– PSP Awards (Nil Cost Options) made annually, with vesting dependent on the achievement of TSR (50%), EPS (25%) and ROACE (25%) performance conditions. SMP Awards (Nil Cost Options) will vest dependent on the achievement of EPS (50%) and ROACE (50%) performance conditions; – Executive Directors normally receive annual PSP grants to a maximum value of 150% of salary, plus SMP grants to a maximum of 75% of salary (1.5x the first 50% of salary worth of deferred shares earned under the annual bonus plan). Other senior executives generally receive PSP grants at 100% of salary plus SMP grants to a maximum of 50% of salary.
Summary of how it operates	– TSR performance is measured against the Industrial Goods and Services Supersector within the FTSE 250 over the performance period; – EPS performance is measured based on average adjusted EPS achieved over the performance period; – ROACE performance is measured based on average adjusted ROACE achieved over the performance period; – The three conditions are measured independently; – Under the TSR tranche, threshold performance is set at ranking at median relative to the Group, at which point 25% of the award vests. This increases on a straight-line basis to full vesting for ranking at the upper quartile; – Under the EPS tranche, at threshold performance 25% of the award vests, increasing on a straight-line basis to maximum performance or more where full vesting occurs; – Under the ROACE tranche, at threshold performance 25% of the award vests, increasing on a straight-line basis to maximum performance or more where full vesting occurs; – The Committee has the discretion to vary the metrics used each year and their relative weightings.

(E) Basic salaries

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. In reviewing these salaries, the Committee is fully aware of the duty it has to shareholders to ensure that the right remuneration arrangements are in place. It has concluded that the increased international dimension of the enlarged Group, its near doubled size and the complexity this brings means that, subject to satisfactory individual performance, salary levels for Executive Directors and certain senior executives should move to the mid-market level over the next two years. Whilst the increased complexity of the business and responsibilities of the executives should be recognised, this should be aligned with the successful achievement of the integration of the new businesses. 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 their experience in the particular job. The Committee also considers relevant information on the remuneration of other senior 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 Miles Roberts and Steve Dryden are £570,000 and £357,000 respectively. These were fixed following a review on 1 August 2011 and reflected the Committee's views of the excellent achievement of each Executive Director as well as the Company's strong performance.

(F) Annual bonus

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

The annual bonus payable to Miles Roberts and Steve Dryden for the financial year 2011/12 was 50% based on PBTA with the other 50% based on ROACE. The outcome of the results for the financial year 2011/12 means that Miles Roberts earned a bonus of 100% of salary (£570,000) and Steve Dryden earned a bonus of 100% of salary (£357,000). Full bonus was achieved for both the PBTA and ROACE 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 and a very significant improvement on the results for 2010/11.

The Committee has reviewed the maximum potential bonus for 2012/13 for the Executive Directors, which is being increased from 100% to 150% of basic annual salary, of which half will be deferred in shares. The Committee has set a range of demanding targets to reflect the Company's announced strategic objectives of substantially improved earnings quality, particularly with regard to PBTA growth and improved ROACE. The growth targets set are significantly higher than in the past reflecting the prospects for the business following the disposal and acquisition. The threshold above which payment starts to be made will be significantly above 2011/12 actual performance and target performance will be significantly ahead of the Group's historic best performance.

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. No bonus payments are made to 'bad leavers' if an executive has left (or is under notice) at the time of payment and the deferred element will also lapse. Claw back provisions have been introduced into the annual bonus plan and the DSBP so that individuals are liable to repay/forfeit some or all of their bonus if there is a material misstatement of results or if there is serious misconduct.

(G) Performance Share Plan awards

The Company operates a 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.

The 2011 award to Executive Directors was 150% of salary. Award levels for the other most senior executives were generally at the 100% of salary level. It is intended to award at the same levels in 2012. Following the acquisition of SCA Packaging, the Committee intends to review the membership of the PSP.

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.

It is proposed that for the 2012 awards the same balance of metrics as for the 2011 awards will be used. The TSR targets will remain the same and these, together with the revised EPS and ROACE targets, are set out in the table below:

Percentage vesting as a proportion	Relative TSR[1] (50% of award)	Average EPS[2] (25% of award)	Average adjusted ROACE[3] (25% of award)
100%	Upper quartile	23p	13.3%
Between 25% and 100%	Between median and upper quartile	Between 19.2p and 23p	Between 11.6% and 13.3%
25%	Median	19.2p	11.6%

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

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

Claw back provisions have been introduced into the PSP and the SMP (described below) so that individuals are liable to repay/forfeit some or all of their awards if there is a material misstatement of results or if there is serious misconduct. Awards lapse in the case of 'bad leavers'.

(H) Share Matching Plan

This Plan was approved by shareholders in 2011. The number of shares in a matching award will be based on the number of shares in the related DSBP. The maximum match for the Executive Directors will be 1.5:1 (on the first 50% of deferred shares earned under the annual bonus) for a stretch level of performance and the maximum will be 1:1 for other participants. 25% of the maximum match (i.e. 0.375:1 for Executive Directors, 0.25:1 for others) will be available for achieving a threshold level of performance. The performance measures applying to the Matching Shares are EPS and ROACE. The growth targets set are significantly higher than in the past reflecting the prospects for the business following the previously described disposal and acquisition. The potential total value of matching awards will not increase as a consequence of the change to the quantum of the annual bonus plan.

Matching awards normally vest three years after grant, to the extent that the applicable performance conditions have been satisfied, the related DSBP award has not lapsed and provided the participant is still employed within the Group.

If a DSBP award lapses before the vesting of the related matching award then that matching award will lapse at the same time.

(I) Shareholding guidelines

Senior executives are expected to retain in shares half of the after-tax gains on the vesting of long-term incentive plan awards until they have built up a holding of 150% of base salary for the Group Chief Executive, 100% for the Group Finance Director and 75% for the rest of the Group Steering Team. There is also a 50% of base salary target for other senior executives. In addition, irrespective of the retention of shares, the Committee expects that these levels of share ownership should normally be achieved by 2015 or within four years of appointment if later. If these levels are not achieved, the Committee reserves the right not to make, or to scale back, further awards.

The interests of the Directors in the share capital of the Company and awards made under the PSP (last award 2011) and DSBP (last award 2011) are shown on pages 52 to 54.

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. All of the non-Executive Directors have met their minimum shareholding requirements. The Directors' interests in shares can be seen on page 54.

(J) Pension and benefits

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

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

Steve Dryden participates in the Group's Registered Defined Contribution Scheme with 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.

Steve Dryden has elected to pay contributions at a level that qualifies for the maximum Company contribution. Steve 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.

(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 contracts for Miles Roberts and Steve 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 Miles Roberts' case, to basic salary and pensions allowance for any unexpired period of notice and, in Steve 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.

Miles Roberts has no external appointments. Steve Dryden is a non-Executive Director of Fiberweb plc and received fees of £38,000 for the year ended 30 April 2012 (2010/11: £38,000).

(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.

	Date of contract	Unexpired period	Notice period
Chairman Gareth Davis	4 January 2012[1]	11 months	Six months' notice by the Company and three months by Gareth Davis.
Senior Independent Director Chris Bunker	8 December 2009	Five months	Six months' notice by the Company and three months by Chris Bunker.
Philippe Mellier	7 September 2009	Two months	Six months' notice by the Company and three months by Philippe Mellier.
Jonathan Nicholls	1 December 2009	Five months	Six months' notice by the Company and three months by Jonathan Nicholls.

1. Date of appointment as a Director was 30 June 2009

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

The fees for the Chairman and the non-Executive Directors were increased, following a comprehensive review, with effect from 1 August 2011. The review took into account market practice with reference to the comparator group. Neither the non-Executive Directors nor the Chairman are eligible for pension scheme membership and they do not participate in any of the Group's annual bonus or other incentive arrangements.

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

Chairman's and non-Executive Directors' fees	Base fee (£)	Senior Independent non-Executive Director fee (£)	Chairman of Audit Committee fee (£)	Chairman of Remuneration Committee fee (£)	Total (£)
Gareth Davis	190,000	–	–	–	190,000
Chris Bunker	47,500	7,500	–	7,500	62,500
Philippe Mellier	47,500	–	–	–	47,500
Jonathan Nicholls	47,500	–	8,500	–	56,000

The Company's Articles of Association enable the Board to set the remuneration of non-Executive Directors within the limits set by shareholders. The current aggregate limit is £750,000 and the aggregate amount paid in the financial year to the non-Executive Directors was £414,742. 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.

(N) Directors' emoluments (auditable)

	Salary/fees £'000	Annual bonus £'000	Deferred bonus £'000	Benefits £'000	Pensions supplement £'000	2012 total £'000	2011 total £'000
Chairman Gareth Davis[1]	133	–	–	–	–	133	48
Group Chief Executive Miles Roberts	561	285	285	20	169	1,320	1,435
Group Finance Director Steve Dryden	352	179	179	12	86	808	765
Non-Executives Chris Bunker	56	–	–	–	–	56	50
Philippe Mellier	48	–	–	–	–	48	50
Jonathan Nicholls	53	–	–	–	–	53	53
Total	1,203	464	464	32	255	2,418	2,401

1. Appointed Chairman on 4 January 2012

Past Directors	Salary/fees £'000	Annual bonus £'000	Deferred bonus £'000	Benefits £'000	Compensation for loss of office £'000	2012 total £'000	2011 total £'000
Peter Johnson	122	–	–	17	–	139	194
Total	122	–	–	17	–	139	194

Included in the pension supplement figure for Steve Dryden is the non-pensionable cash supplement of £65,000 during the year, as detailed in section (J).

Governance

(O) Directors' interests under the Performance Share Plan (auditable)

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

Executive Directors	Interests under the PSP at 30 April 2011	Awards granted/ commitments made during year	Awards crystallised in year	Dividend equivalent	Awards lapsed in year	Date of award	Market price on date of award (p)	Market price at date of exercise (p)	Interests under the PSP at 30 April 2012	Vesting date if performance conditions met	Expiry date
Miles Roberts	828,526	–	–	–	–	16 Jul 10	140.6	–	828,526	16 Jul 13	16 Jul 20
	–	438,595	–	–	–	8 Jul 11	265.6	–	438,585	8 Jul 14	8 Jul 21
Steve Dryden	538,232	–	98,855	11,221	(439,377)	17 Sept 08	133.5	–	110,076	17 Sept 11	17 Sept 18
	674,686	–	–	–	–	22 Jul 09	71.0	–	674,686	22 Jul 12	22 Jul 19
	511,053	–	–	–	–	16 Jul 10	140.6	–	511,053	16 Jul 13	16 Jul 20
	–	275,944	–	–	–	8 Jul 11	265.6	–	275,944	8 Jul 14	8 Jul 21

During the year the Company made a nine-for-eight rights issue and the Directors' interests in the PSP have been adjusted accordingly.

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.

The vesting of each award granted in 2010 is split 50% based on the Company's TSR compared to the constituents of the FTSE 250 Industrial Goods and Services Supersector, 25% based on average adjusted EPS and 25% based on the average ROACE. 25% of the TSR part vests if the Company is ranked median, rising until 100% vests if the Company is ranked in the upper quartile. The threshold (at which 25% vests) and maximum targets are 10.2p and 12.1p for EPS and 11.1% and 12.2% for ROACE. The EPS targets have been adjusted to reflect the increased shares in issue following the Rights Issue.

The vesting of each award granted in 2011 is split 50% based on the Company's TSR compared to the constituents of the FTSE 250 Industrial Goods and Services Supersector, 25% based on average adjusted EPS and 25% based on the average ROACE. 25% of the TSR part vests if the Company is ranked median, rising until 100% vests if the Company is ranked in the upper quartile. The threshold (at which 25% vests) and maximum targets are 15.2p and 17.2p for EPS and 12.5% and 15.0% for ROACE. The EPS targets have been adjusted to reflect the increased shares in issue following the Rights Issue.

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

(P) 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 2011	Awards granted/ commitments made during year	Awards crystallised in year	Awards lapsed in year	Date of award	Market price on date of award (p)	Market price at date of exercise (p)	Interests under the Plan at 30 April 2012	Vesting date if performance conditions met	Expiry date
Miles Roberts	–	109,029	–	–	8 Jul 11	267.1	–	109,029	8 Jul 14	8 Jul 21
Steve Dryden	85,223	–	–	–	16 Jul 10	140.5	–	85,223	16 Jul 13	16 Jul 20
	–	68,596	–	–	8 Jul 11	267.1	–	68,596	8 Jul 14	8 Jul 21

During the year the Company made a nine-for-eight rights issue and the Directors' interests in the Plan have been adjusted accordingly.

(Q) Directors' interests under the Replacement 2008 LTIP, Replacement Deferred Shares Award, Recruitment Award and Substitute Share Bonus Award (auditable)

Executive Directors	Scheme	Interests as at 30 April 2011	Awards crystallised in year	Awards lapsed in year	Date of award	Market price on date of award (p)	Market price at date of exercise (p)	Interests under the Plan at 30 April 2012	Vesting date if performance conditions met	Expiry date
Miles Roberts	Replacement 2008 LTIP	627,718	–	–	16 Jul 10	140.52	–	**627,718**	17 Oct 11	16 Jul 20
	Replacement Deferred Shares Award	154,863	–	–	16 Jul 10	140.52	–	**154,863**	1 Sept 12	16 Jul 20
	Recruitment Award	828,526	–	–	16 Jul 10	140.52	–	**828,526**	19 Oct 12	16 Jul 20
	Substitute Share Bonus Award	116,148	–	–	16 Jul 10	140.52	–	**116,148**	1 Sept 13	16 Jul 20

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

The awards made to him were as follows:

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

During the year the Company made a nine-for-eight rights issue and the interests in the above plans have been adjusted accordingly.

(R) All-employee share schemes

In the UK a Sharesave Plan was introduced in January 2011. Executive Directors are eligible (along with all UK employees of the Company and participating subsidiaries of the Group) to participate in this Plan. Under this HMRC approved Plan options are granted to participants who have contracted to save up to £250 per month over a period of three years at a discount of up to of 20% to the average closing mid-market price of a DS Smith Plc ordinary share on the three dealing days prior to invitation. Options cannot normally be exercised until a minimum of three years has elapsed. In common with most plans of this type there are no performance conditions applicable to options granted under this Plan. A similar Plan is planned to be rolled out to other regions.

Executive Directors	Options held at 30 April 2011	Options granted during year	Options exercised in year	Options lapsed in year	Options held at 30 April 2012	Exercise price (p)	Dates from which exercisable	Expiry date
Miles Roberts	7,551	–	–	–	**7,551**	119.2	1 Apr 14	30 Sept 14
Steve Dryden	7,551	–	–	–	**7,551**	119.2	1 Apr 14	30 Sept 14

During the year the Company made a nine-for-eight rights issue and the Directors' interests in the Plan have been adjusted accordingly.

(S) Directors' interests in shares

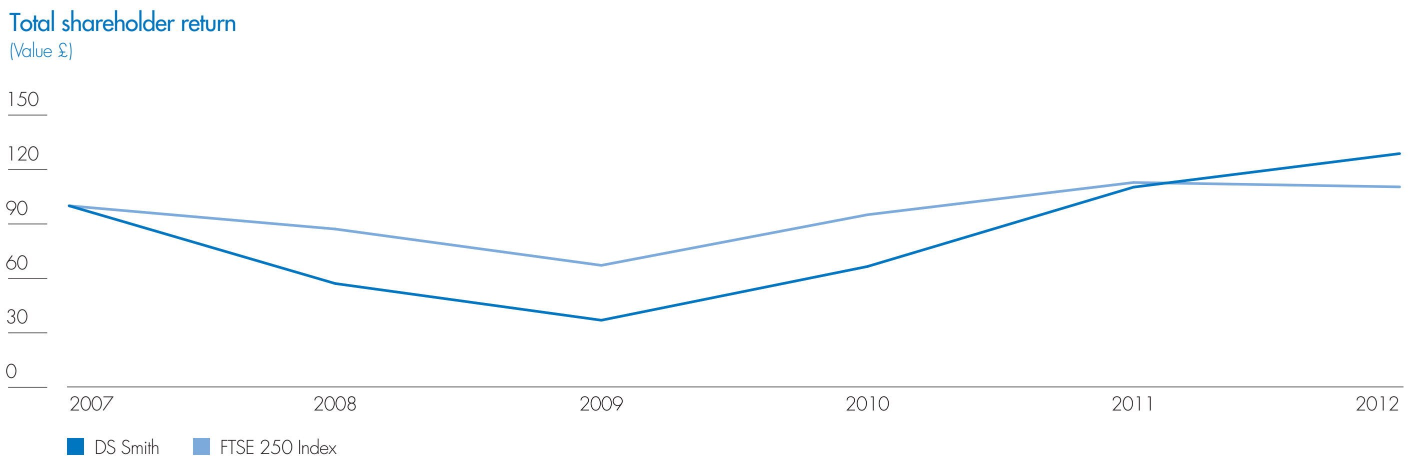
The beneficial interests of the Directors and their families in the ordinary shares of the Company were as shown below. Each Director took up his full entitlement under the terms of the Rights Issue:

	30 April 2011		30 April 2012	
Name of Director	Beneficial	Non-beneficial	Beneficial	Non-beneficial
Gareth Davis	40,000	–	85,000	–
Miles Roberts	109,549	–	232,791	–
Steve Dryden	91,994	–	195,487	–
Chris Bunker	20,000	–	42,500	–
Philippe Mellier	20,000	–	42,500	–
Jonathan Nicholls	19,130	–	109,307	–

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 PSP, the DSBP, the Substitute Share Bonus Award, the Replacement Deferred Share Award, the Replacement 2008 LTIP and the Recruitment Award will be provided by the David S Smith Group General Employee Benefit Trust (the 'Trust'), which buys shares on the market to do so. The Trust will also be used to fulfil certain entitlements under the Executive Share Option Scheme and the Sharesave Plan (along with new issue shares for other entitlements).

(T) Total shareholder return performance

The following graph illustrates the Company's TSR performance since 1 May 2007, 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.



Source: Thomson Reuters

This graph looks at the value, by 30 April 2012, of £100 invested in DS Smith over the last five financial years compared with that of £100 invested in the FTSE 250 Index. The other points plotted are the values at intervening financial year ends.

On behalf of the Board
Chris Bunker, Chairman of the Remuneration Committee
27 June 2012

	Ordinary shares held as at 30 April 2012	%	Ordinary shares held as at 22 June 2012	%
Standard Life Investments Ltd	112,659,283	12.2%	125,823,436	13.6%
Scottish Widows Investment Partnership	99,907,471	10.8%	94,424,467	10.2%
Schroder Investment Management Ltd	45,445,598	4.9%	45,445,598	4.9%
Dimensional Fund Advisers	38,453,324	4.1%	38,453,324	4.1%
Legal & General Group Plc	15,673,009	1.6%	36,711,917	3.9%

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

The Directors submit their Annual Report and the audited financial statements for the financial year ended 30 April 2012. 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 2011/12, was engaged in the international supply of recycled packaging for consumer goods.

A full review of the activities during the financial year ended 30 April 2012 is set out on pages 1 to 33. The principal risks and uncertainties facing the Group are discussed on pages 29 to 33. A discussion of future developments and key performance indicators that management use is set out in the Business Review on page 6. Financial information, including financial instruments, is shown on pages 17 to 21. The principal subsidiary undertakings are listed in note 31 on page 101.

Business review

The information that fulfils the requirements of the Business Review can be found in the Business Review on pages 1 to 33, 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 36 to 42 (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 shown in the table above.

Cautionary statement

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

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

Results for the year

The financial results are shown on pages 60 to 102.

Dividends

An interim dividend of 2.8 pence net per ordinary share was paid on 23 January 2012 and the Directors recommend a final dividend of 4.0 pence net per ordinary share which, together with the restated interim dividend of 1.9 pence, increases the total dividend for the year, restated for the rights issue, at 5.9 pence (2010/11: 4.5 pence). Subject to approval of shareholders at the Annual General Meeting to be held on 4 September 2012, the final dividend will be paid on 1 November 2012 to shareholders on the register at the close of business on 5 October 2012. The dividends per ordinary share stated above are those actually paid or to be paid. Historic dividends per share have been restated in the five year summary on page 107.

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. Following the Rights Issue announced on 17 January 2012, 490,751,669 new ordinary shares of 10 pence each were issued at a price of £0.95 per share, resulting in net proceeds on issue of approximately £450.2 million. These new shares ranked equally in all respects with the existing ordinary shares. Pursuant to the Company's employee share option schemes, 643,178 ordinary shares of 10 pence each were issued during the year. No shares pursuant to the Company's employee share option schemes were issued between 30 April 2012 and 27 June 2012 inclusive. The Company has not utilised its authority to make market purchases of shares granted to it at the 2011 Annual General Meeting but will be seeking to renew such authority at this year's Meeting.

Acquisitions and divestments

SCA Packaging Kuban acquisition and disposal

The Group acquired 100% of the equity of SCA Packaging Kuban in July 2011 for €5.0 million cash consideration and €1.5 million deferred consideration payable in December 2011, exclusively with a view to resale. The business was subsequently sold in December 2011 to the Group's associate, Rubezhansk, for €6.5 million with nil profit or loss on disposal.

SCA Packaging acquisition

On 17 January 2012 the Directors announced arrangements regarding the proposed acquisition of the packaging division of Svenska Cellulosa Aktiebolaget SCA (publ) excluding the kraftliner assets ('SCA Packaging') for €1.7 billion on a cash, debt and, to the extent legally possible and commercially practicable, pension free basis ('the Acquisition'). Net consideration will be approximately €1.6 billion after taking into account a pension price adjustment. In addition, there will also be customary post-completion adjustments.

On 25 May 2012, the European Commission granted competition clearance for the Acquisition. The clearance requires DS Smith Plc to divest three sites after the Acquisition, currently representing approximately

1% of the enlarged Group profit. Completion is expected to take place on 30 June 2012.

The Group incurred Acquisition related costs of £18.4 million on professional advisory fees and due diligence costs. These fees have been included in administrative expenses in the Group's Consolidated Income Statement. Due to the nature of these costs, they have been reported as exceptional costs.

Other acquisition
The Group made additional minor acquisitions of subsidiary businesses of £2.3 million, of which the majority relates to the acquisition of an additional 35% shareholding in Rapak AD, which brings the Group's holding in Rapak AD at 30 April 2012 to 85%.

Disposal
On 30 December 2011 the Office Products Wholesaling division was sold to Unipapel SA. Office Products Wholesaling principally comprises Spicers Limited, Spicers (Ireland) Limited, Spicers France SAS, Spicers Belgium NV and Spicers Nederland BV.

Discontinued operations relates to the disposal of the Office Products Wholesaling division. The gain on sale of the discontinued operation was £67.1 million before tax (£58.0 million after tax).

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

Directors
The biographies of the present Directors are on pages 34 and 35. All the Directors served throughout the year except as follows: Peter Johnson resigned as Chairman of the Board on 7 October 2011 and resigned as a Director on 4 January 2012. Gareth Davis was appointed as Deputy Chairman of the Board on 7 October 2011 and was confirmed as Chairman on 4 January 2012. Other than as previously disclosed in this Report and in respect of existing service agreements, no Director, either during or at the end of the financial year, has been materially interested in any significant contract or arrangement in relation to the Group's business.

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

Re-election of Directors
The Articles require that all Directors who have either been appointed by the Board since the last 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. However, in accordance with the UK Corporate Governance Code, which recommends that all directors of FTSE 350 companies be subject to annual re-election, the Board has resolved that all Directors will retire and stand for re-election at the forthcoming Annual General Meeting on 4 September 2012 and annually thereafter.

Formal performance evaluation has confirmed that the individual performance of the Directors offering themselves for re-election has been effective and they have demonstrated commitment to the role.

Directors' interests in shares
The interests of the Directors and their immediate families in the ordinary shares of 10 pence each of the Company (in terms of shares, options and conditional share awards), were as shown in the tables 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.

Group Company Secretary
Matt Jowett was appointed as Group General Counsel and Company Secretary of the Company on 1 July 2011 in place of Carolyn Cattermole, who stepped down on 30 June 2011.

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

Pension fund
The Group had, in the year under review, four UK pension arrangements: one defined benefit scheme (which closed to future service benefits with effect from 30 April 2011 and all affected members of the defined benefit scheme were offered membership of the Group's defined contribution scheme for future service), one defined contribution scheme, which was introduced for new employees joining the Group on or after 1 May 2005, one Group personal pension plan (which closed and all members were invited to transfer into the Group's defined contribution scheme on 1 March 2012) and a statutory Stakeholder arrangement.

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

The defined contribution scheme is a trust-based arrangement offering members a range of investments. The trustees have selected Friends Life as the preferred provider. The Group personal pension plan was a contract-based arrangement offering members a range of investments with AVIVA 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 AllenbridgeEpic Investment Advisers is appointed as an independent adviser to the Investment Sub-Committee of the defined benefit scheme.

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

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 18.

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

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

Charitable and political donations
The Group contributed £78,000 (2010/11: £76,000) to charities. No payments were made to political parties. Donations were made by operating divisions to support their local communities. The Group also supported a number of other charities across a range of causes.

During the year the DS Smith Charitable Foundation was established to provide support to charities in areas aligned with the activities and values of the business.

Annual General Meeting
The notice of the Annual General Meeting of the Company to be held on 4 September 2012, together with explanations of the Resolutions to be proposed and details of the proxy appointment deadline and voting record date, appears at the back of this Annual Report.

Auditor
Each Director confirms that:

(a) so far as he is aware, there is no relevant audit information of which the Company's Auditor is 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 Auditor is aware of that information.

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

By Order of the Board

Matt Jowett, Group General Counsel and
Company Secretary
27 June 2012

Directors' responsibilities statement

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

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

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

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

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

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

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

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

Responsibility statement

We confirm that to the best of our knowledge:

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

By Order of the Board

Miles Roberts, Group Chief Executive
27 June 2012

Steve Dryden, Group Finance Director
27 June 2012

Independent Auditor's Report to the members of DS Smith Plc

We have audited the financial statements of DS Smith Plc for the year ended 30 April 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity, the Parent Company Balance Sheet, the related notes 1 to 31 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 April 2012 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Separate opinion in relation to IFRSs as issued by the IASB

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement contained within Corporate Governance in relation to going concern; 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; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

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

27 June 2012

Consolidated Income Statement

Year ended 30 April 2012

Continuing operations	Note	Before exceptional items 2012 £m	Exceptional items (note 4): SCA Packaging acquisition costs 2012 £m	Exceptional items (note 4): Other exceptional items 2012 £m	After exceptional items 2012 £m	Before exceptional items 2011 £m*	Exceptional items 2011 £m*	After exceptional items 2011 £m*
Revenue	2	1,969.4	–	–	1,969.4	1,759.3	–	1,759.3
Cost of sales		(1,505.4)	–	–	(1,505.4)	(1,341.0)	(1.0)	(1,342.0)
Gross profit		464.0	–	–	464.0	418.3	(1.0)	417.3
Operating expenses	3, 4	(322.0)	–	(70.1)	(392.1)	(307.4)	9.1	(298.3)
Operating profit before amortisation and acquisition related costs	2	142.0	–	(70.1)	71.9	110.9	8.1	119.0
Amortisation of intangible assets and acquisition related costs	4, 10	(8.1)	(18.4)	–	(26.5)	(6.8)	(7.2)	(14.0)
Operating profit		133.9	(18.4)	(70.1)	45.4	104.1	0.9	105.0
Finance income	5	2.1	–	–	2.1	0.8	–	0.8
Finance costs	5	(20.5)	–	–	(20.5)	(20.8)	–	(20.8)
Employment benefit net finance expense	23	(4.8)	–	–	(4.8)	(7.4)	–	(7.4)
Net financing costs		(23.2)	–	–	(23.2)	(27.4)	–	(27.4)
Profit after financing costs		110.7	(18.4)	(70.1)	22.2	76.7	0.9	77.6
Share of loss of associate	12	(0.5)	–	–	(0.5)	–	–	–
Profit before income tax, amortisation and acquisition related costs		118.3	–	(70.1)	48.2	83.5	8.1	91.6
Amortisation of intangible assets and acquisition related costs	4, 10	(8.1)	(18.4)	–	(26.5)	(6.8)	(7.2)	(14.0)
Profit before income tax		110.2	(18.4)	(70.1)	21.7	76.7	0.9	77.6
Income tax (expense)/credit	7	(30.6)	1.9	15.4	(13.3)	(21.6)	(2.9)	(24.5)
Profit for the year from continuing operations		79.6	(16.5)	(54.7)	8.4	55.1	(2.0)	53.1
Discontinued operations								
Profit for the year from discontinued operations	29	9.3	–	58.0	67.3	17.4	0.2	17.6
Profit for the year		88.9	(16.5)	3.3	75.7	72.5	(1.8)	70.7
Profit for the year attributable to:								
Owners of the parent		88.5	(16.5)	3.3	75.3	71.9	(1.8)	70.1
Non-controlling interests		0.4	–	–	0.4	0.6	–	0.6

Earnings per share**	Note	2012	2011
*Adjusted from continuing operations****			
Basic	8	12.8p	10.0p
Diluted	8	12.7p	9.8p
From continuing operations			
Basic	8	1.2p	8.6p
Diluted	8	1.2p	8.4p
From continuing and discontinued operations			
Basic		11.1p	11.5p
Diluted		10.9p	11.2p

* restated following the sale of the Office Products Wholesaling division and subsequent classification as a discontinued operation (note 29)

** restated for rights issue (note 22)

*** adjusted for amortisation and exceptional items

Consolidated Statement of Comprehensive Income

Year ended 30 April 2012

	Note	2012 £m	2011 £m
Actuarial gains on defined benefit pension schemes	23	16.1	14.4
Foreign currency translation differences		(14.2)	1.9
Reclassification from translation reserve to income statement arising on divestment		(9.8)	–
Movements in cash flow hedges		(6.6)	15.4
Income tax on other comprehensive income	7	(14.3)	(10.3)
Other comprehensive (expense)/income for the year, net of tax		(28.8)	21.4
Profit for the year		75.7	70.7
Total comprehensive income for the year		46.9	92.1
Total comprehensive income attributable to:			
Owners of the parent		47.0	91.4
Non-controlling interests		(0.1)	0.7

Consolidated Statement of Financial Position

At 30 April 2012

	Note	2012 £m	2011 £m
Assets			
Non-current assets			
Intangible assets	10	309.7	344.8
Property, plant and equipment	11	598.3	640.5
Investment in associate	12	9.5	–
Other investments		–	0.3
Deferred tax assets	20	46.1	59.6
Other receivables	14	2.4	3.8
Derivative financial instruments	19	7.6	13.2
Total non-current assets		973.6	1,062.2
Current assets			
Inventories	13	146.8	226.4
Other investments		0.1	0.2
Income tax receivable		0.7	1.6
Trade and other receivables	14	291.7	450.4
Cash and cash equivalents	17	664.5	114.3
Derivative financial instruments	19	3.1	8.5
Total current assets		1,106.9	801.4
Total assets		2,080.5	1,863.6
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	18	(227.6)	(407.9)
Post-retirement benefits	23	(104.2)	(147.5)
Other payables	15	(9.9)	(9.3)
Provisions	21	(7.4)	(9.6)
Deferred tax liabilities	20	(51.9)	(62.9)
Derivative financial instruments	19	(3.4)	(36.2)
Total non-current liabilities		(404.4)	(673.4)
Current liabilities			
Bank overdrafts	17	(11.3)	(26.1)
Interest-bearing loans and borrowings	18	(93.4)	(4.4)
Trade and other payables	15	(431.6)	(535.7)
Income tax liabilities		(25.4)	(24.4)
Provisions	21	(36.7)	(8.2)
Derivative financial instruments	19	(20.2)	(7.2)
Total current liabilities		(618.6)	(606.0)
Total liabilities		(1,023.0)	(1,279.4)
Net assets		1,057.5	584.2
Equity			
Issued capital	22	92.7	43.6
Share premium		710.2	309.1
Reserves		256.6	233.6
Total equity attributable to equity shareholders of the Company		1,059.5	586.3
Non-controlling interests		(2.0)	(2.1)
Total equity		1,057.5	584.2

Approved by the Board of Directors of DS Smith Plc, (company registered number 1377658) on 27 June 2012 and signed on its behalf by

M W Roberts, Director S W Dryden, Director

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

Consolidated Statement of Changes in Equity

Year ended 30 April 2012

	Note	Share capital £m	Share premium £m	Hedging reserve £m	Translation reserve £m	Own shares £m	Retained earnings £m	Total reserves attributable to equity shareholders £m	Non-controlling interests £m	Total equity £m
At 1 May 2010		39.3	263.1	(7.4)	33.0	(4.2)	151.0	474.8	(1.6)	473.2
Profit for the year		–	–	–	–	–	70.1	70.1	0.6	70.7
Actuarial gains on defined benefit pension schemes	23	–	–	–	–	–	14.4	14.4	–	14.4
Foreign currency translation differences		–	–	–	1.8	–	–	1.8	0.1	1.9
Cash flow hedges fair value changes		–	–	18.5	–	–	–	18.5	–	18.5
Movement from cash flow hedge reserve to income statement		–	–	(3.1)	–	–	–	(3.1)	–	(3.1)
Income tax on other comprehensive income		–	–	(5.0)	3.0	–	(8.3)	(10.3)	–	(10.3)
Total comprehensive income		–	–	10.4	4.8	–	76.2	91.4	0.7	92.1
Acquisitions/divestments		–	–	–	–	–	–	–	2.5	2.5
Acquisition of non-controlling interests without a change in control		–	–	–	–	–	(5.2)	(5.2)	(3.3)	(8.5)
Issue of share capital		4.3	46.0	–	–	–	–	50.3	–	50.3
Ordinary shares purchased		–	–	–	–	(6.5)	–	(6.5)	–	(6.5)
Employee share trust		–	–	–	–	1.3	–	1.3	–	1.3
Share-based payment expense		–	–	–	–	–	2.4	2.4	–	2.4
Dividends paid	9	–	–	–	–	–	(22.6)	(22.6)	–	(22.6)
Transactions with non-controlling interests (Toscana Ondulati SpA)	22	–	–	–	–	–	0.4	0.4	(0.4)	–
Other changes in equity in the year		4.3	46.0	–	–	(5.2)	(25.0)	20.1	(1.2)	18.9
At 30 April 2011		43.6	309.1	3.0	37.8	(9.4)	202.2	586.3	(2.1)	584.2
Profit for the year		–	–	–	–	–	75.3	75.3	0.4	75.7
Actuarial gains on defined benefit pension schemes	23	–	–	–	–	–	16.1	16.1	–	16.1
Foreign currency translation differences		–	–	–	(13.7)	–	–	(13.7)	(0.5)	(14.2)
Reclassification from translation reserve to income statement arising on divestment		–	–	–	(9.8)	–	–	(9.8)	–	(9.8)
Cash flow hedges fair value changes		–	–	(10.0)	–	–		(10.0)	–	(10.0)
Movement from cash flow hedge reserve to income statement		–	–	3.4	–	–	–	3.4	–	3.4
Income tax on other comprehensive income		–	–	1.7	(7.9)	–	(8.1)	(14.3)	–	(14.3)
Total comprehensive (expense)/income		–	–	(4.9)	(31.4)	–	83.3	47.0	(0.1)	46.9
Issue of share capital		49.1	401.1	–	–	–	–	450.2	–	450.2
Ordinary shares purchased		–	–	–	–	(0.3)	–	(0.3)	–	(0.3)
Employee share trust		–	–	–	–	1.8	–	1.8	–	1.8
Share-based payment expense		–	–	–	–	–	6.2	6.2	–	6.2
Dividends paid	9	–	–	–	–	–	(31.5)	(31.5)	–	(31.5)
Transactions with non-controlling interests	22	–	–	–	–	–	(0.2)	(0.2)	0.2	–
Other changes in equity in the year		49.1	401.1	–	–	1.5	(25.5)	426.2	0.2	426.4
At 30 April 2012		92.7	710.2	(1.9)	6.4	(7.9)	260.0	1,059.5	(2.0)	1,057.5

Consolidated Statement of Cash Flows

Year ended 30 April 2012

Continuing operations	Note	2012 £m	2011 £m*
Operating activities			
Cash generated from operations	25	199.0	141.1
Interest received		0.4	0.4
Interest paid		(20.2)	(16.2)
Tax paid		(25.3)	(16.0)
Cash flows from operating activities		153.9	109.3
Investing activities			
Acquisition of subsidiary businesses	29	(2.3)	(158.9)
Divestment of subsidiary business	29	184.5	4.8
Capital expenditure		(94.2)	(62.3)
Proceeds from sale of property, plant and equipment and intangible assets		8.0	4.6
Proceeds from sale of investments in associate and other investments		0.3	0.5
Cash flows from/(used in) investing activities		96.3	(211.3)
Financing activities			
Proceeds from issue of share capital		450.2	50.1
Purchase of own shares		(0.3)	(6.5)
Acquisition of non-controlling interest		–	(9.3)
(Repayment of)/increase in borrowings		(72.0)	121.6
Repayment of finance lease obligations		(2.7)	(2.5)
Dividends paid	9	(31.5)	(22.6)
Cash flows used in financing activities		343.7	130.8
Increase in cash and cash equivalents from continuing operations		593.9	28.8
Discontinued operations			
Cash (used in)/generated from discontinued operations	29	(29.0)	26.2
Increase in cash and cash equivalents		564.9	55.0
Net cash and cash equivalents at 1 May		88.2	32.8
Exchange gains on cash and cash equivalents		0.1	0.4
Net cash and cash equivalents at 30 April	17	653.2	88.2

* restated following the sale of the Office Products Wholesaling division which is classified as a discontinued operation (note 29)

Notes to the Consolidated Financial Statements

1. Significant accounting policies

(a) Basis of preparation

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('adopted IFRSs'), and have also applied IFRSs as issued by the International Accounting Standards Board (IASB). The Company has elected to prepare its parent Company financial statements in accordance with UK GAAP; these are presented on pages 102 to 106.

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

The consolidated financial statements have been prepared on a going concern basis as set out on page 42 of the Corporate Governance section.

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

No changes have been made to the Group's accounting policies in the year ended 30 April 2012. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The accounting policies have been applied consistently by all Group entities.

(b) Basis of consolidation

(i) Subsidiaries

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

(ii) Associates

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

(iii) Non-controlling interests

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

(c) Revenue

Revenue comprises the fair value of the sale of goods and services, net of value added tax, rebates and discounts and after eliminating sales within the Group. Revenue from the sale of goods is recognised 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 balance sheet date. Excess emission quotas acquired as part of a business combination are recognised as an intangible asset at their fair value on the date of acquisition.

(ii) Other

Other government grants are recognised in the 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 paid during the year are recognised directly in equity.

(f) Foreign currency translation

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

The assets and liabilities of all the Group entities that have a functional currency other than sterling are translated at the closing exchange rate at the 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 acquisition method. Goodwill 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. The useful life of goodwill is considered to be indefinite. Goodwill is allocated to cash-generating units and is tested annually for impairment.

(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 and impairment losses.

(iii) Computer software

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

(iv) Intellectual property

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

(v) Other intangible assets

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

(vi) Amortisation

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

The estimated useful lives are as follows:

Intellectual property	Up to 20 years
Customer relationships	10 years
Computer software	3 – 5 years

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

(h) Property, plant and equipment and other investments

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

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

The estimated useful lives are as follows:

Freehold and long leasehold properties	10 – 50 years
Plant and equipment, fixtures and fittings (including IT hardware)	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 and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

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

(ii) Reversals of impairment

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

(j) Derivative financial instruments

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

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

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

1. Significant accounting policies continued

(j) Derivative financial instruments continued

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

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

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) 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.

(l) Trade and other receivables

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

(m) Inventories

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

(n) Cash and cash equivalents

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.

(o) Borrowings

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

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

(p) Employee benefits

(i) Defined contribution schemes

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

(ii) Defined benefit schemes

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

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

(iii) Share-based payment transactions

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

For options remaining outstanding under the Executive Share Option Scheme (1999), which ceased to be operated from September 2008 (see note 24), 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.

1. Significant accounting policies continued

(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 a reliable estimate can be made of the amount of the obligation, and it is probable that an outflow of economic benefits will be required to settle the obligation 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
(i) Finance leases
Assets held under finance leases are recognised as assets of the Group at the inception of the lease at the lower of their fair value and the present value of the minimum lease payments. Depreciation on leased assets is charged to the Consolidated Income Statement on the same basis as owned assets. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the Consolidated Income Statement as it is incurred.

(ii) Operating leases
Operating lease rentals are charged to the Consolidated Income Statement on a straight-line basis over the lease term. Any premium or discount on the acquisition of a lease is spread over the life of the lease on a straight-line basis.

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

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

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

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

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

(u) Assets held for sale
Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

Any impairment loss on a disposal group is first allocated to goodwill, and then to 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.

(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 profit or loss over time. These assumptions are subject to periodic review. See note 23 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 has applied a 'net liability' approach. Under a 'net liability' approach, no assets or government grants are recognised when allowances are initially received. This is because they are ascribed a nominal value of nil. As allowances granted to the Group are used to offset the liability from CO_2 emissions, no accounting entries are required so long as the related emissions generated are within the allowance received from the government. If such emissions are in excess of the allowance received (known as a shortfall position) a provision is made at the current market price for carbon credits. In the case where emission quotas are acquired through an acquisition, any surplus emission quotas are fair valued in accordance with IFRS 3 'Business Combinations'.

1. Significant accounting policies continued

(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.

IAS 19 (revised 2011) 'Employee Benefits' is considered to be the most significant of the upcoming changes which is effective for the year ended 30 April 2014 and requires the replacement of the expected rate of return on assets and interest charge on pension scheme liabilities with a net financing cost based on the discount rate. The Group does not anticipate that the adoption of the remaining standards and interpretations that are effective for the year ending 30 April 2014 will have a material effect on its financial statements on initial adoption. None of these standards have currently been endorsed by the EU.

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

2. Segment reporting

Operating segments

IFRS 8 'Operating Segments', requires operating segments to be identified on the same basis as is used internally for the review of performance and allocation of resources by the Group Chief Executive (who is the Chief Operating Decision Maker as defined by IFRS 8). Further details of these business segments are given in the Business Review. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Central administration costs are allocated to the individual segments on a consistent basis year on year. Assets and liabilities have been analysed by segment at a capital employed level, which excludes items of a financing nature, taxation balances, post-retirement benefit liabilities and non-current asset investments. Debt and associated interest is managed at a Group level and therefore has not been allocated across the business areas. The Office Products and Wholesaling division has been classified as a discontinued operation and was sold during the year ended 30 April 2012 (note 29).

Year ended 30 April 2012	Note	UK Packaging £m	Continental European Corrugated Packaging £m	Plastic Packaging £m	Total Continuing Operations £m	Discontinued Operation £m	Total Group £m
External revenue		960.2	743.9	265.3	1,969.4	455.8	2,425.2
EBITDA		96.0	79.6	30.3	205.9	14.8	220.7
Depreciation	11	(31.6)	(24.0)	(8.3)	(63.9)	(0.6)	(64.5)
Operating profit *		64.4	55.6	22.0	142.0	14.2	156.2
Amortisation	10	(2.8)	(4.6)	(0.7)	(8.1)	(0.2)	(8.3)
Other exceptional items		(67.5)	(6.3)	(6.3)	(80.1)	67.1	(13.0)
Segment result		(5.9)	44.7	15.0	53.8	81.1	134.9
Unallocated items							
Exceptional gain – investment in associate	4				10.0		
Exceptional costs – SCA Packaging acquisition costs	4				(18.4)		
Total operating profit (continuing operations)					45.4		
Analysis of total assets and total liabilities							
Segment assets		513.7	696.9	138.3	1,348.9		
Unallocated items							
Investments, associate and other assets					9.6		
Derivative financial instruments					10.7		
Cash and cash equivalents					664.5		
Tax balances					46.8		
Total assets					2,080.5		
Segment liabilities		(239.2)	(220.9)	(16.6)	(476.7)		
Unallocated items							
Borrowings and accrued interest					(341.2)		
Derivative financial instruments					(23.6)		
Tax balances					(77.3)		
Post-retirement benefits					(104.2)		
Total liabilities					(1,023.0)		

* adjusted for amortisation and exceptional items

2. Segment reporting continued
Operating segments continued

Year ended 30 April 2011	Note	UK Packaging £m	Continental European Corrugated Packaging £m	Plastic Packaging £m	Total Continuing Operations £m	Discontinued Operation £m	Total Group £m
External revenue		917.7	599.4	242.2	1,759.3	715.2	2,474.5
EBITDA		88.3	62.9	26.8	177.8	28.8	206.8
Depreciation		(34.1)	(23.1)	(9.9)	(67.1)	(3.6)	(70.7)
Operating profit *		54.2	39.8	16.9	110.9	25.2	136.1
Amortisation		(2.6)	(3.1)	(1.1)	(6.8)	(1.1)	(7.9)
Exceptional items	4	9.5	(8.4)	(0.2)	0.9	0.3	1.2
Segment result		61.1	28.3	15.6	105.0	24.4	129.4
Analysis of total assets and total liabilities							
Segment assets		703.4	566.8	161.1	1,431.3	234.6	1,665.9
Unallocated items							
Investments, associate and other assets							0.5
Derivative financial instruments							21.7
Cash and cash equivalents							114.3
Tax balances							61.2
Total assets							1,863.6
Segment liabilities		(211.0)	(168.9)	(46.9)	(426.8)	(126.1)	(552.9)
Unallocated items							
Borrowings and accrued interest							(448.3)
Derivative financial instruments							(43.4)
Tax balances							(87.3)
Post-retirement benefits							(147.5)
Total liabilities							(1,279.4)

* adjusted for amortisation and exceptional items

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

	External revenue		Non-current assets		Capital expenditure	
Continuing operations	2012 £m	2011 £m*	2012 £m	2011 £m*	2012 £m	2011 £m*
UK	988.4	949.6	479.7	545.2	61.3	30.2
France	606.6	503.4	78.1	301.5	29.5	19.6
Rest of Western Continental Europe	180.7	117.6	308.7	69.1	12.3	4.4
Eastern Continental Europe	109.9	110.7	54.6	48.6	9.6	5.4
Rest of the World	83.8	78.0	35.4	35.8	2.8	3.6
	1,969.4	1,759.3	956.5	1,000.2	115.5	63.2

* restated following the sale of the Office Products Wholesaling division which is classified as a discontinued operation (note 29)

3. Operating profit

Continuing operations	2012 £m	2011 £m*
Operating expenses		
Distribution	156.1	145.5
Administrative	236.0	152.8
	392.1	298.3

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

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

Continuing operations	2012 £m	2011 £m*
Depreciation – owned assets	62.3	65.8
– leased assets	1.6	1.3
Amortisation of intangible assets	8.1	6.8
Hire of plant and machinery	12.0	12.2
Other operating lease rentals	8.3	6.4
Research and development	3.8	3.8
Gain on sale of land and buildings	–	(0.7)

* restated following the sale of the Office Products Wholesaling division which is classified as a discontinued operation (note 29)

A description of the work of the Audit Committee is set out in the Corporate Governance section on pages 39 to 40 and includes an explanation of how the Auditor's objectivity and independence is safeguarded when non-audit services are provided by the Auditor.

	2012			2011		
Auditor's remuneration	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Fees payable to the Company's auditor for audit of the Company's annual accounts	0.1	–	0.1	0.2	–	0.2
Fees payable to the Company's auditor and their associates for other services:						
Audit of the Company's subsidiaries, pursuant to legislation	0.3	0.5	0.8	0.4	0.8	1.2
Corporate finance services	1.2	–	1.2	1.2	–	1.2
Tax and other services	0.1	–	0.1	0.1	0.2	0.3
	1.7	0.5	2.2	1.9	1.0	2.9

Auditor's remuneration includes continuing and discontinued operations. Total non-audit fees were £1.3m (2010/11: £1.5m).

4. Exceptional items

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

Continuing operations	SCA Packaging acquisition costs 2012 £m	Other exceptional items 2012 £m	Total exceptional items 2012 £m	Total exceptional items 2011 £m*
Restructuring costs				
UK Packaging	–	(30.6)	(30.6)	(0.9)
Continental European Corrugated Packaging	–	(6.3)	(6.3)	(2.3)
Plastic Packaging	–	(5.4)	(5.4)	(0.5)
Total restructuring costs	–	(42.3)	(42.3)	(3.7)
Acquisition related costs	(18.4)	–	(18.4)	(7.2)
Pension curtailment	–	–	–	30.3
Impairment of assets	–	(36.5)	(36.5)	(15.9)
Investment in associate	–	10.0	10.0	–
Disposal costs	–	–	–	(2.6)
Other	–	(1.3)	(1.3)	–
Total pre-tax exceptional items (recognised in operating profit)	(18.4)	(70.1)	(88.5)	0.9
Income tax credit/(charge) on exceptional items	1.9	15.4	17.3	(2.9)
Total post-tax exceptional items	(16.5)	(54.7)	(71.2)	(2.0)

* restated following the sale of the Office Products Wholesaling division which is classified as a discontinued operation (note 29)

2011/12

SCA Packaging acquisition costs of £18.4m relate to the planned acquisition of the packaging division of Svenska Cellulosa Aktiebolaget SCA and consist of professional advisory fees, due diligence costs and other acquisition related costs. Due to the nature of these costs, they have been reported as exceptional costs.

The UK Packaging restructuring costs of £30.6m primarily relate to the restructuring of the UK Packaging business, and the exit costs from the closure and sale of two paper mills. Continental European Corrugated Packaging costs of £6.3m relate to restructuring in France and Plastic Packaging costs of £5.4m primarily relate to restructuring in the UK and Germany.

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

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

2010/11

The UK Packaging restructuring costs of £0.9m relate to two small packaging plants in the UK and Plastic Packaging costs of £0.5m relate to restructuring in France. Following the acquisition of Otor in September 2010, a restructuring programme was put in place in France to facilitate Otor's integration with the Group. This resulted in restructuring costs of £2.3m within Continental European Corrugated Packaging.

The acquisition related costs relate to the acquisition of Otor. The pension curtailment gain primarily relates to the closure of the UK Group Scheme to future accrual and is described in note 23. Impairment charges relate to intangible assets and property, plant and equipment within the UK Packaging and the Plastic Packaging segments. Disposal costs predominantly relate to the disposal of Çopikas, the Group's subsidiary in Turkey, and a small packaging business in the UK.

Notes to the Consolidated Financial Statements continued

5. Finance income and costs

Continuing operations	2012 £m	2011 £m*
Interest on loans and overdrafts	19.6	18.3
Finance lease interest	0.3	0.2
Other	0.6	2.3
Finance costs	20.5	20.8
Interest income from financial assets	(1.6)	(0.5)
Other	(0.5)	(0.3)
Finance income	(2.1)	(0.8)

* restated following the sale of the Office Products Wholesaling division which is classified as a discontinued operation (note 29)

Included within other finance costs is £nil (2011: £1.2m) of hedge ineffectiveness on net investment hedges and fair value hedges.

6. Personnel expenses

Continuing operations	2012 £m	2011 £m*
Wages and salaries	294.4	293.2
Social security costs	34.8	26.3
Contributions to defined contribution pension plans	6.5	1.5
Service costs for defined benefit schemes (note 23)	0.9	8.3
Share-based payment expense (note 24)	4.0	2.9
Personnel expenses	340.6	332.2

Average number of employees during the financial year by geographical region

	2012 Number	2011 Number*
UK	5,216	5,336
France	2,717	1,954
Rest of Western Continental Europe	443	487
Eastern Continental Europe	1,241	1,120
Rest of the World	533	519
Average number of employees	10,150	9,416

* restated following the sale of the Office Products Wholesaling division which is classified as a discontinued operation (note 29)

7. Income tax expense

Continuing operations	2012 £m	2011 £m*
Current tax expense		
Current year	(36.6)	(21.4)
Adjustment in respect of prior years	5.4	–
	(31.2)	(21.4)
Deferred tax expense		
Origination and reversal of temporary differences	(1.8)	(7.0)
Reduction in UK tax rate from 28% to 26%	3.0	2.7
Adjustment in respect of prior years	(0.6)	4.1
Total income tax expense before exceptional items	(30.6)	(21.6)
Tax relating to SCA Packaging acquisition costs (note 4)	1.9	–
Tax relating to other exceptional items (note 4)	15.4	(2.9)
Total income tax expense in the income statement from continuing operations	(13.3)	(24.5)
Discontinued operations		
Total income tax expense before exceptional items	(4.8)	(7.0)
Tax relating to other exceptional items	(9.1)	–
Total income tax expense in the income statement from discontinued operations	(13.9)	(7.0)

* restated following the sale of the Office Products Wholesaling division which is classified as a discontinued operation (note 29)

7. Income tax expense continued

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

	2012 £m	2011 £m
Profit before income tax –		
Continuing operations	21.7	77.6
Discontinued operations	81.2	24.6
Share of loss of associate	0.5	–
Profit before tax and share of loss of associate	103.4	102.2
Income tax at the domestic corporation tax rate of 25.83% (2010/11: 27.83%)	(26.7)	(28.4)
Effect of tax rates in overseas jurisdictions	(7.0)	(4.9)
Non-deductible expenses	(9.1)	(5.3)
Gain on disposal of Office Products Wholesaling division	8.2	–
Utilisation/(origination) of tax losses not recognised	0.1	(0.5)
Adjustment in respect of prior years	3.2	4.2
Effect of change in UK corporation tax rate	3.1	2.7
Other	1.0	0.7
Income tax expense – total Group	(27.2)	(31.5)
Income tax expense from continuing operations	(13.3)	(24.5)
Income tax expense from discontinued operations	(13.9)	(7.0)

The Emergency Budget on 22 June 2010 announced that the UK current tax rate would reduce from 28% to 24% over a period of four years from 2011. In the 2012 Budget, a reduction from 1 April 2012 to 24%, a reduction from 1 April 2013 to 23% and further changes to reduce the rate to 22% by April 2014 were announced. The rate reduction to 24% was substantively enacted on 26 March 2012 and was effective from 1 April 2012. Accordingly the rate applying to UK assets and liabilities has also been reduced from 26% to 24%, creating a rate adjustment, which is partly reflected in the Consolidated Income Statement, and partly in the Consolidated Statement of Comprehensive Income or Equity.

The rate reduction from 24% to 22% has not yet been substantively enacted; had it been, the effect would have been to reduce the net deferred tax asset in the UK by £2.2m, of which it is estimated that £3.0m would have been credited to the Consolidated Income Statement and £5.2m would have been charged to the Consolidated Statement of Comprehensive Income.

Tax on other comprehensive income and equity

	Gross 2012 £m	Tax credit/ (charge) 2012 £m	Net 2012 £m	Gross 2011 £m	Tax credit/ (charge) 2011 £m	Net 2011 £m
Actuarial gains on defined pension schemes	16.1	(8.1)	8.0	14.4	(8.3)	6.1
Foreign currency translation differences and reclassification from translation reserve to income statement arising on divestment	(24.0)	(7.9)	(31.9)	1.9	3.0	4.9
Movements in cash flow hedges	(6.6)	1.7	(4.9)	15.4	(5.0)	10.4
Other comprehensive (expense)/income	(14.5)	(14.3)	(28.8)	31.7	(10.3)	21.4
Issue of share capital	450.2	–	450.2	50.3	–	50.3
Ordinary shares purchased	(0.3)	–	(0.3)	(6.5)	–	(6.5)
Employee share trust	1.8	–	1.8	–	–	–
Share-based payment expense	4.0	2.2	6.2	2.9	0.8	3.7
Acquisitions/disposals	–	–	–	2.5	–	2.5
Acquisition of non-controlling interests without a change in control	–	–	–	(8.5)	–	(8.5)
Dividends paid to Group shareholders	(31.5)	–	(31.5)	(22.6)	–	(22.6)
Other comprehensive income/(expense) and equity	409.7	(12.1)	397.6	49.8	(9.5)	40.3

Financial Statements

Notes to the Consolidated Financial Statements continued

8. Earnings per share

Basic earnings per share from continuing operations

	2012	2011*
Profit from continuing operations attributable to ordinary shareholders	£8.0m	£52.5m
Weighted average number of ordinary shares at 30 April	680.6m	613.1m
Basic earnings per share	1.2p	8.6p

Diluted earnings per share from continuing operations

	2012	2011*
Profit from continuing operations attributable to ordinary shareholders	£8.0m	£52.5m
Weighted average number of ordinary shares at 30 April	680.6m	613.1m
Potentially dilutive shares issuable under share-based payment arrangements	13.5m	12.5m
Weighted average number of ordinary shares (diluted) at 30 April	694.1m	625.6m
Diluted earnings per share	1.2p	8.4p

Basic earnings per share from discontinued operations

	2012	2011*
Profit attributable to ordinary shareholders	£67.3m	£17.6m
Weighted average number of ordinary shares at 30 April	680.6m	613.1m
Basic earnings per share	9.9p	2.9p

Diluted earnings per share from discontinued operations

	2012	2011*
Profit attributable to ordinary shareholders	£67.3m	£17.6m
Weighted average number of ordinary shares at 30 April	680.6m	613.1m
Potentially dilutive shares issuable under share-based payment arrangements	13.5m	12.5m
Weighted average number of ordinary shares (diluted) at 30 April	694.1m	625.6m
Diluted earnings per share	9.7p	2.8p

The number of shares excludes the weighted average number of the Company's own shares held as treasury shares during the year of 7.0m (2010/11: 3.4m).

Adjusted earnings per share from continuing operations

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

	2012			2011*		
	£m	Basic – pence per share	Diluted – pence per share	£m	Basic – pence per share	Diluted – pence per share
Basic earnings	8.0	1.2p	1.2p	52.5	8.6p	8.4p
Add back amortisation	8.1	1.2p	1.2p	6.8	1.1p	1.1p
Add back exceptional items, after tax	71.2	10.4p	10.2p	2.0	0.3p	0.3p
Adjusted earnings	87.3	12.8p	12.6p	61.3	10.0p	9.8p

* restated for the bonus effect of the rights issue (note 22)

9. Dividends proposed and paid

	2012		2011	
	Pence per share	£m	Pence per share*	£m
Interim dividend – paid	*1.9p	12.1	1.4p	8.7
Final dividend – proposed	4.0p	36.8	3.1p	19.6
	5.9p	48.9	4.5p	28.3

	2012 £m	2011 £m
Paid during the year	31.5	22.6

* restated for the bonus element of the rights issue (note 22)

A final dividend in respect of 2011/12 of 4.0 pence per share (£36.8m) has been proposed by the Directors after the balance sheet 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					
At 1 May 2011	316.3	39.4	18.0	38.1	411.8
Acquisitions	0.3	–	–	–	0.3
Additions	–	4.3	0.2	0.9	5.4
Adjustment relating to business combination in previous year	2.1	–	–	–	2.1
Divestments	(8.8)	(16.9)	(2.1)	–	(27.8)
Disposals	–	(0.6)	–	(1.9)	(2.5)
Currency translation	(10.9)	(1.7)	(0.7)	(2.2)	(15.5)
At 30 April 2012	299.0	24.5	15.4	34.9	373.8
Amortisation and impairment					
At 1 May 2011	(21.2)	(30.0)	(7.7)	(8.1)	(67.0)
Amortisation	–	(2.2)	(1.0)	(5.1)	(8.3)
Impairment	(6.6)	(0.7)	–	–	(7.3)
Divestments	–	13.1	0.8	–	13.9
Disposals	–	0.5	–	1.7	2.2
Currency translation	0.4	1.4	0.2	0.4	2.4
At 30 April 2012	(27.4)	(17.9)	(7.7)	(11.1)	(64.1)
Carrying amount					
At 1 May 2011	295.1	9.4	10.3	30.0	344.8
At 30 April 2012	271.6	6.6	7.7	23.8	309.7

The amortisation charge for the year of £8.3m (2010/11: £7.9m) is included within continuing operating expenses (£8.1m) and profit from discontinued operations (£0.2m).

The impairment charge for the year of £7.3m (2010/11: £3.4m) is included within exceptional items and relates to impairments in the UK Packaging segment.

The other items above mainly relate to customer relationships. Also within other items are 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.

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

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

Notes to the Consolidated Financial Statements continued

10. Intangible assets continued

	Goodwill £m	Software £m	Intellectual property £m	Other £m	Total £m
Cost					
At 1 May 2010	216.1	35.6	13.3	14.8	279.8
Acquisitions	95.9	2.5	4.1	19.9	122.4
Additions	–	3.6	0.1	1.6	5.3
Disposals	(2.8)	(3.2)	–	–	(6.0)
Currency translation	7.1	0.9	0.5	1.8	10.3
At 30 April 2011	316.3	39.4	18.0	38.1	411.8
Amortisation and impairment					
At 1 May 2010	(19.0)	(31.2)	(5.8)	(2.6)	(58.6)
Amortisation	–	(1.9)	(1.2)	(4.8)	(7.9)
Impairment	(2.2)	–	–	(1.2)	(3.4)
Disposals	–	3.3	–	–	3.3
Currency translation	–	(0.2)	(0.7)	0.5	(0.4)
At 30 April 2011	(21.2)	(30.0)	(7.7)	(8.1)	(67.0)
Carrying amount					
At 1 May 2010	197.1	4.4	7.5	12.2	221.2
At 30 April 2011	295.1	9.4	10.3	30.0	344.8

Impairment tests for cash-generating units containing goodwill

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

	2012 £m	2011 £m
UK Packaging	130.9	137.3
Continental European Corrugated Packaging	102.6	110.2
Plastic Packaging	38.1	40.3
	271.6	287.8
Segments with no CGUs containing individually significant goodwill	–	7.3
Total goodwill	271.6	295.1

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 2014 as approved by the Directors. Cash flows beyond the forecast period were extrapolated assuming a growth rate of 3% (2010/11: 3%); and
- the pre-tax discount rate for the Group is 10.1% (2010/11: 11.0%). The Group believes that the risk profiles across the significant markets in which it operates are not significantly different, hence the same discount rate is applied across all CGUs (except for the Group's investment in associate).

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. Based on this analysis the Directors believe that no reasonably possible change in any of the key assumptions detailed above would cause the carrying value of CGUs to exceed their recoverable amounts. Therefore at 30 April 2012 no impairment charge is required against the carrying value of goodwill above those specific impairments detailed above.

11. Property, plant and equipment

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

The depreciation charge for the year of £64.5m (2010/11: £70.7m) is included within continuing operating expenses (£63.9m) and profit from discontinued operations (£0.6m). The impairment charge for plant and equipment is recognised in profit and loss in exceptional items of which the majority relates to the UK Packaging segment.

The amounts above include land and buildings held under finance lease agreements. At 30 April 2012, the carrying amount of land and buildings held under finance leases was £4.5m (30 April 2011: £16.9m).

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

	Land and buildings £m	Plant and equipment £m	Fixtures and fittings £m	Under construction £m	Total £m
Cost					
At 1 May 2010	328.2	1,116.2	58.3	15.4	1,518.1
Acquisitions	30.4	26.7	0.7	3.9	61.7
Additions	1.1	46.7	2.0	12.9	62.7
Disposals	(4.6)	(9.3)	(4.0)	–	(17.9)
Transfers	1.3	6.5	0.3	(8.1)	–
Currency translation	7.6	15.7	0.7	0.3	24.3
At 30 April 2011	364.0	1,202.5	58.0	24.4	1,648.9
Depreciation and impairment					
At 1 May 2010	(89.1)	(790.9)	(47.3)	–	(927.3)
Depreciation	(7.3)	(61.0)	(2.4)	–	(70.7)
Disposals	2.3	12.0	3.9	–	18.2
Impairment	(3.9)	(8.0)	–	(0.6)	(12.5)
Currency translation	(3.4)	(12.0)	(0.7)	–	(16.1)
At 30 April 2011	(101.4)	(859.9)	(46.5)	(0.6)	(1,008.4)
Carrying amount					
At 1 May 2010	239.1	325.3	11.0	15.4	590.8
At 30 April 2011	262.6	342.6	11.5	23.8	640.5

Notes to the Consolidated Financial Statements continued

12. Investment in associate

	2012 £m	2011 £m
At 1 May	–	–
Reinstatement of investment in associate at fair value	10.0	–
Share of loss of associate after interest and tax	(0.5)	–
At 30 April	9.5	–

	Nature of business	Principal country of operation	Financial year end	Ownership interest 2012	Ownership interest 2011
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 due to a breach in Rubezhansk's banking covenants caused by foreign exchange losses following the significant decline in the Ukrainian Hryvnia against the US dollar.

Whilst the uncertainty of the financial position continued at Rubezhansk, the Group did not recognised any profits in respect of its investment in the associate.

In November 2011, revised facilities were agreed with the banks and hence it was considered appropriate to re-instate the investment in associate in the Group balance sheet at fair value of £10.0m and resume recognition of the Group's share of profit or loss from that date.

The Group accounts for its investment in Rubezhansk as an associate because the Group has the ability to exercise significant influence over the investment due to the Group's 49.6% equity holding. The Group does not have control over Rubezhansk under IAS 27 'Consolidated and Separate Financial Statements' because it does not, by virtue of its shareholding or other agreement, have more than half the voting rights.

Summary of financial information of associate

	31 December 2011 £m	31 December 2010 £m
Rubezhansk		
Assets	190.0	173.7
Liabilities	(59.2)	(62.1)
Revenue	121.2	93.5
Profit after tax	10.7	13.3

13. Inventories

	2012 £m	2011 £m
Raw materials and consumables	83.4	96.4
Work in progress	5.7	5.4
Finished goods	57.7	124.6
	146.8	226.4

Provisions against inventories at 30 April 2012 were £15.2m (30 April 2011: £20.9m).

14. Trade and other receivables

	2012		2011	
	Non-current £m	Current £m	Non-current £m	Current £m
Trade receivables	–	268.1	–	427.4
Provisions for bad and doubtful receivables	–	(9.3)	–	(17.5)
Prepayments and other receivables	2.4	32.9	3.8	40.5
	2.4	291.7	3.8	450.4

15. Trade and other payables

	2012 Non-current £m	2012 Current £m	2011 Non-current £m	2011 Current £m
Trade payables	–	278.1	–	363.2
Non-trade payables and accrued expenses	9.9	153.5	9.3	172.5
	9.9	431.6	9.3	535.7

16. Net cash/(debt)

	2012 £m	2011 £m
Non-current liabilities	(227.6)	(407.9)
Current liabilities	(93.4)	(4.4)
Derivative financial instruments	(10.5)	(26.9)
Net cash and cash equivalents	653.2	88.2
Net cash/(debt)	321.7	(351.0)

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

	At 1 May 2011 £m	Movement into current debt £m	Continuing operations cash flow £m	Discontinued operations cash flow £m	Acquisitions and disposals £m	Foreign exchange and fair value movements £m	At 30 April 2012 £m
Cash and cash equivalents	114.3	–	582.2	(6.4)	(23.3)	(2.3)	664.5
Overdrafts	(26.1)	–	11.7	–	0.7	2.4	(11.3)
Net cash and cash equivalents	88.2	–	593.9	(6.4)	(22.6)	0.1	653.2
Interest-bearing loans and borrowings due – after one year	(399.1)	91.5	70.7	–	3.8	7.9	(225.2)
Interest-bearing loans and borrowings due – within one year	(1.4)	(91.5)	1.3	–	0.5	(0.6)	(91.7)
Finance leases	(11.8)	–	2.7	–	4.1	0.9	(4.1)
Derivative financial instruments							
— assets	7.3	–	–	–	–	0.6	7.9
– liabilities	(34.2)	–	–	–	–	15.8	(18.4)
	(439.2)	–	74.7	–	8.4	24.6	(331.5)
Net (debt)/cash	(351.0)	–	668.6	(6.4)	(14.2)	24.7	321.7

17. Cash and cash equivalents

	2012 £m	2011 £m
Bank balances	44.9	97.0
Short-term deposits	619.6	17.3
Cash and cash equivalents (consolidated statement of financial position)	664.5	114.3
Overdrafts	(11.3)	(26.1)
Net cash and cash equivalents (consolidated statement of cash flows)	653.2	88.2

18. Interest-bearing loans and borrowings

	2012		2011	
	Current £m	Non-current £m	Current £m	Non-current £m
Borrowings measured at amortised cost				
Bank and other loans	(0.2)	(0.4)	(1.4)	(72.0)
Note purchase agreements	–	(142.4)	–	(149.7)
Finance lease liabilities	(1.7)	(2.4)	(3.0)	(8.8)
	(1.9)	(145.2)	(4.4)	(230.5)
Borrowings in a fair value hedge relationship				
Note purchase agreements	(91.5)	(82.4)	–	(177.4)
	(93.4)	(227.6)	(4.4)	(407.9)

Bank loans, other loans and overdrafts of certain subsidiaries totalling £0.3m (2011: £1.5m) are secured over certain 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:

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

	2011				
	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	(2.5)	(17.8)	(67.9)	(151.6)	(239.8)
Floating-rate	(1.9)	(78.3)	(76.4)	(15.6)	(172.5)
Total interest-bearing loans and borrowings	(4.4)	(96.1)	(144.3)	(167.5)	(412.3)

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

18. Interest-bearing loans and borrowings continued

	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m
At 30 April 2011					
Interest-bearing loans and borrowings					
Fixed-rate	44.9	179.0	15.9	–	239.8
Floating-rate	26.4	146.1	–	–	172.5
	71.3	325.1	15.9	–	412.3
Net cash and cash equivalents (including bank overdrafts)					
Floating-rate	(11.1)	(51.1)	(10.3)	(15.7)	(88.2)
Net borrowings/(cash) at 30 April 2011	60.2	274.0	5.6	(15.7)	324.1

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

	2012 £m	2011 £m
Expiring within one year	–	17.8
Expiring between one and two years	–	–
Expiring between two and five years	610.0	287.5
	610.0	305.3

At 30 April 2012, 73% (30 April 2011: 79%) of the Group's interest-bearing loans and borrowings, after taking into account the effect of cross-currency swaps, were denominated in euros in order to hedge the underlying assets of the Group's 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.

Bank loan facilities

In August 2010, the Group entered into a term loan facility of €81m with three banks, which would have matured on 29 August 2013. This facility was repaid in full in September 2011.

In August 2008, the Group entered into a syndicated revolving credit facility of £287.5m, which would have expired on 29 August 2013. In September 2011 this facility was increased to £610.0m with a new expiry date of 23 September 2016. Advances drawn down under the facility bear interest at a margin over LIBOR or EURIBOR.

Note purchase agreements

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

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

In August 2010, the Group issued €59m of 4.395% senior notes, which will mature on 13 August 2018 and €59m of 4.825% senior notes which will mature on 11 August 2020.

Finance lease liabilities

	2012			2011		
	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	1.8	(0.2)	1.7	3.1	(0.1)	3.0
Between one and five years	1.5	(0.2)	1.3	6.0	(0.8)	5.2
More than five years	1.4	(0.2)	1.1	3.7	(0.1)	3.6
Finance lease liabilities	4.7	(0.6)	4.1	12.8	(1.0)	11.8

19. Financial instruments

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

The derivative financial instruments set out in this note have been entered into 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.

	2012		2011	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Financial assets				
Cash and cash equivalents	664.5	664.5	114.3	114.3
Available-for-sale:				
Other investments	0.1	0.1	0.5	0.5
Loans and receivables:				
Trade and other receivables	294.1	294.1	454.2	454.2
Derivative financial instruments:				
Other financial assets in designated hedge accounting relationships	10.7	10.7	21.7	21.7
Total financial assets	969.4	969.4	590.7	590.7
Financial liabilities				
Financial liabilities at amortised cost:				
Trade and other payables	(441.5)	(441.5)	(545.0)	(545.0)
Bank and other loans	(0.6)	(0.6)	(73.4)	(73.4)
Note purchase agreements	(316.3)	(345.7)	(327.1)	(346.1)
Finance lease liabilities	(4.1)	(4.1)	(11.8)	(11.8)
Bank overdrafts	(11.3)	(11.3)	(26.1)	(26.1)
Derivative financial instruments:				
Other financial liabilities in designated hedge accounting relationships	(23.6)	(23.6)	(43.4)	(43.4)
Total financial liabilities	(797.4)	(826.8)	(1,026.8)	(1,045.8)

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

19. 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 at 30 April in respect of derivative financial instruments are as follows:

	Assets		Liabilities		Net	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
Derivatives held to:						
Manage the interest rate and currency exposures on borrowings and net investments	7.9	7.3	(18.4)	(34.2)	(10.5)	(26.9)
Derivative financial instruments included in net debt	7.9	7.3	(18.4)	(34.2)	(10.5)	(26.9)
Derivatives held to hedge future transactions						
Energy costs	1.8	14.1	(3.8)	(7.9)	(2.0)	6.2
Foreign exchange on purchases and sales of goods and services	1.0	0.3	(1.4)	(1.3)	(0.4)	(1.0)
Total derivative financial instruments	10.7	21.7	(23.6)	(43.4)	(12.9)	(21.7)
Current	3.1	8.5	(20.2)	(7.2)	(17.2)	1.3
Non-current	7.6	13.2	(3.4)	(36.2)	4.3	(23.0)
	10.7	21.7	(23.6)	(43.4)	(12.9)	(21.7)

(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.

	2012 £m	2011 £m
At 1 May	3.0	(7.4)
Unrealised fair value (loss)/gain on designated cash flow hedges		
Forward exchange contracts	(0.5)	(0.6)
Cross-currency and interest rate swaps	0.8	0.3
Commodity contracts	(7.8)	13.0
Loss/(gain) in equity recycled to the income statement		
Forward exchange contracts	0.8	(1.0)
Cross-currency and interest rate swaps	–	1.9
Commodity contracts	1.8	(3.2)
At 30 April	(1.9)	3.0

	2012 £m	2011 £m
Revenue	(0.7)	0.6
Cost of sales	4.1	(3.7)
Income tax	(0.8)	0.8
Total loss/(gain) in equity recycled to the income statement during the year	2.6	(2.3)

(ii) Fair value hedges

At 30 April 2012, 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 in 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 £0.8m (2010/11: loss of £13.5m) offset by a pre-tax gain on the fair value of the debt of £0.6m (2010/11: gain of £12.6m).

(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 £14.8m (2010/11: loss of £4.7m). The gain is matched by a similar loss in equity on the retranslation of the hedged foreign subsidiary's net assets. During the year, hedge ineffectiveness arising from hedges of net investments resulted in a loss of £0.1m recognised in the Consolidated Income Statement (2010/11: loss of £0.3m).

19. Financial instruments continued

(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 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, the Group Financial Controller, the Group Treasurer and the Group Tax Manager. The Group Treasury Function operates in accordance with policies and procedures approved by the Board and controlled by the Group Treasurer. The function arranges funding for the Group, provides a service to operations and implements strategies for 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 2012, 63% (30 April 2011: 58%) of the Group's interest-bearing loans and borrowings were fixed. 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.

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

	2012		2011	
	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	5.3	–	(0.8)	–

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 2012, losses of £0.1m (30 April 2011: losses of £0.9m) (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 2012, losses of £0.3m (30 April 2011: losses of £0.6m) (net of tax) are 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.

19. Financial instruments continued

(d) Risk identification and risk management continued

(ii) Market risk continued

Foreign exchange risk on transactions continued

The Group's main currency exposures are from the Euro and US dollar. The following significant exchange rates applied during the year:

	2012 Average	2012 Closing	2011 Average	2011 Closing
US dollar	1.592	1.624	1.565	1.668
Euro	1.167	1.227	1.176	1.124

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 is offset by equal and opposite movements in the foreign assets that the instruments hedge.

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

	2012 Impact on profit £m	2012 Impact on total equity £m	2011 Impact on profit £m	2011 Impact on total equity £m
10% strengthening of sterling	0.4	(0.4)	(0.5)	0.5
10% weakening of sterling	(0.5)	0.4	0.6	(0.7)

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 2012, losses of £1.5m (30 April 2011: gains of £4.5m) (net of tax) are 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 will occur within two years.

The following table details the Group's sensitivity to a 10% increase in these prices, which is management's assessment of the reasonably possible 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 year.

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

	2012 Impact on profit £m	2012 Impact on total equity £m	2011 Impact on profit £m	2011 Impact on total equity £m
10% increase in UK electricity prices	–	0.3	–	1.7
10% increase in UK gas prices	–	2.9	–	6.8

(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 2012 was £969.4m (30 April 2011: £590.7m) and is analysed in note 19(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 (note 14).

Trade receivables	Net carrying amount (note 14) £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
At 30 April 2012	259.5	236.3	16.6	4.7	1.2	0.5	0.2
At 30 April 2011	409.9	326.7	76.0	5.3	1.3	0.3	0.3

19. Financial instruments continued
(d) Risk identification and risk management continued
(iii) Credit risk continued

Movement in the allowance for bad and doubtful receivables	2012 £m	2011 £m
At 1 May	(17.5)	(17.7)
Uncollectible amounts written off, net of receivables	0.4	1.1
(Increase)/decrease in allowance recognised in the income statement	(0.3)	1.8
Disposals/(acquisitions)	7.1	(2.5)
Currency translation	1.0	(0.2)
At 30 April (note 14)	(9.3)	(17.5)

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.

(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 and by continuously monitoring forecast and actual cash flows and by matching these to the maturity profile of financial assets and liabilities.

The following table is an analysis of the undiscounted contractual maturities of financial liabilities (including the effect of cross-currency and interest rate swaps).

At 30 April 2012	Carrying amount £m	Contractual repayments Total £m	1 year or less £m	1–5 years £m	More than 5 years £m
Non-derivative financial liabilities					
Trade and other payables	441.5	441.5	431.6	9.9	–
Bank and other loans	0.6	0.6	0.2	0.4	–
Note purchase agreements	316.3	309.1	89.7	123.2	96.2
Finance lease liabilities	4.1	4.1	1.7	1.3	1.1
Bank overdrafts	11.3	11.3	11.3	–	–
Total non-derivative financial liabilities	773.8	766.6	534.5	134.8	97.3

At 30 April 2011	Carrying amount £m	Contractual repayments Total £m	1 year or less £m	1–5 years £m	More than 5 years £m
Non-derivative financial liabilities					
Trade and other payables	545.0	545.0	535.7	9.3	–
Bank and other loans	73.4	73.4	1.4	72.0	–
Note purchase agreements	327.1	312.8	–	150.9	161.9
Finance lease liabilities	11.8	11.8	3.0	5.2	3.6
Bank overdrafts	26.1	26.1	26.1	–	–
Total non-derivative financial liabilities	983.4	969.1	566.2	237.4	165.5

The tables above exclude interest expense estimated to be £14.8m in 2012/13, £9.2m in 2013/14, £9.0m in 2014/15, £8.3m in 2015/16, £6.4m in 2016/17 and £11.6m in 2017/18 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 at 30 April 2012.

Refer to note 27 for an analysis of the Group's future operating lease payments and to note 28 for a summary of the Group's capital commitments.

19. Financial instruments continued

(d) Risk identification and risk management continued

(iv) Liquidity risk continued

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 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.

		Contractual payments/(receipts)			
At 30 April 2012	Carrying amount £m	Total £m	1 year or less £m	1–5 years £m	More than 5 years £m
Derivative financial liabilities					
Energy derivatives	2.0	2.0	0.9	1.1	–
Interest rate and currency swaps:					
Outflow	18.4	213.0	75.6	137.4	–
Inflow	(7.9)	(203.3)	(62.6)	(140.7)	–
Foreign exchange:					
Outflow	1.4	59.3	45.9	13.4	–
Inflow	(1.0)	(58.9)	(45.5)	(13.4)	–
Total net derivative financial liabilities/(assets)	12.9	12.1	14.3	(2.2)	–

		Contractual payments/(receipts)			
At 30 April 2011	Carrying amount £m	Total £m	1 year or less £m	1–5 years £m	More than 5 years £m
Derivative financial liabilities					
Energy derivatives	(6.2)	(6.2)	(2.4)	(3.8)	–
Interest rate and currency swaps:					
Outflow	34.2	241.6	11.1	173.5	57.0
Inflow	(7.3)	(211.6)	(13.4)	(139.6)	(58.6)
Foreign exchange:					
Outflow	1.3	40.3	37.8	2.5	–
Inflow	(0.3)	(39.3)	(36.8)	(2.5)	–
Total net derivative financial liabilities/(assets)	21.7	24.8	(3.7)	30.1	(1.6)

20. 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	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
Property, plant and equipment and intangible assets	–	–	(51.9)	(62.9)	(51.9)	(62.9)
Employee benefits including pensions	34.0	41.3	–	–	34.0	41.3
Other items	12.1	18.3	–	–	12.1	18.3
Tax assets/(liabilities)	46.1	59.6	(51.9)	(62.9)	(5.8)	(3.3)

The Group has total unrecognised deferred tax assets relating to tax losses of £4.2m (30 April 2011 £4.4m). These losses have no time restriction over when they can be utilised. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise these benefits.

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

	Property, plant and equipment and intangible assets		Employee benefits including pensions		Other		Total	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
At 1 May	(62.9)	(60.5)	41.3	61.1	18.3	20.3	(3.3)	20.9
Acquired	0.5	(7.6)	–	–	–	–	0.5	(7.6)
Credit/(charge) for the year	7.7	6.3	(1.4)	(12.3)	–	–	6.3	(6.0)
Recognised directly in equity	–	–	(5.9)	(7.5)	(6.2)	(2.0)	(12.1)	(9.5)
Currency translation	2.8	(1.1)	–	–	–	–	2.8	(1.1)
At 30 April	(51.9)	(62.9)	34.0	41.3	12.1	18.3	(5.8)	(3.3)

At 30 April 2012, 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.

21. Provisions

	Employee benefits £m	Restructuring £m	Other £m	Total £m
At 30 April 2011	3.4	10.3	4.1	17.8
Divested	–	(3.2)	(0.6)	(3.8)
Charged	–	23.3	34.7	58.0
Utilised	(0.2)	(7.4)	(16.0)	(23.6)
Released	–	–	(1.0)	(1.0)
Reclassified	(2.5)	–	–	(2.5)
Currency translation	(0.2)	(0.3)	(0.3)	(0.8)
At 30 April 2012	0.5	22.7	20.9	44.1
Non-current	–	3.2	4.2	7.4
Current	0.5	19.5	16.7	36.7
	0.5	22.7	20.9	44.1

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

22. Capital and reserves

Share capital

	Number of shares 2012 Millions	2011 Millions	2012 £m	2011 £m
Ordinary equity shares of 10 pence each:				
Issued, allotted, called up and fully paid	927.0	435.6	92.7	43.6

On 22 February 2012 the Company issued 490,751,669 new ordinary shares in respect of a 9 for 8 rights issue at a price of 95 pence per share. The gross proceeds of the rights issue were £466.2m. The related transaction costs amounting to £16.9m have been netted against proceeds.

Of the remainder issued, the majority relates to a placing in respect of employee share options of 643,178 ordinary shares of 10 pence.

The number of shares in issue up to and including 2011 has been revised to reflect the bonus element of the rights issue as required by IAS 33 *'Earnings Per Share'* which has restated the comparative earnings per share and dividend per share.

The net movement in share capital and share premium is disclosed in the Consolidated Statement of Changes in Equity.

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

The concept of authorised share capital was abolished in October 2009 pursuant to the provisions of the Companies Act 2006; therefore authorised share capital has not been presented at 30 April 2012.

Translation reserve

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

Hedging reserve

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

Share premium

The share premium account represents the difference between the issue price and the nominal value of shares issued.

Own shares

The reserve for the Company's own shares comprises the cost of the Company's shares held by the Group. The Group operates a General Employee Benefit Trust, which acquires shares in the Company that can be used to satisfy the requirements of the Executive Share Option Scheme, Performance Share Plan (PSP), Deferred Share Bonus Plan (DSBP), Replacement 2007 and 2008 Long Term Incentive Plans, Replacement Deferred Share Award, Substitute Share Bonus Award and Recruitment Award. At 30 April 2012, the Trust held 6.3m shares (30 April 2011: 5.2m shares). The market value of the shares at 30 April 2012 was £10.6m (30 April 2011: £11.3m). Dividends receivable on the shares owned by the Trust have been waived.

Non-controlling interests

The Group had a liability of £5.2m at 30 April 2012 (30 April 2011: £5.5m) 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 decreased during the year by £0.2m (2010/11: £0.4m increase). This charge was recorded within finance costs through the income statement and then transferred out of retained earnings into non-controlling interests.

23. 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'). On 30 April 2011, the Group scheme was closed for future accrual. The Group made agreed contributions of £29.8m to the Group scheme in 2011/12 (2010/11: £30.1m). 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 at 30 April 2010. All UK valuations used the projected unit method.

Liability for defined benefit obligations

Principal actuarial assumptions are as follows:

	2012	2011	2010	2009	2008
Discount rate for scheme liabilities	5.0%	5.3%	5.6%	6.4%	5.9%
Inflation	2.4%	2.8%	3.5%	3.3%	3.5%
Future salary increases	N/A	N/A	4.5%	4.3%	4.5%
Future pension increases for pre 30 April 2005 service	2.4%	2.8%	3.5%	3.3%	3.5%
Future pension increases for post 30 April 2005 service	2.2%	2.3%	2.4%	2.3%	2.3%
Expected return on plan assets	5.3%	5.8%	6.5%	6.7%	6.7%

23. Post-retirement benefits continued

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

	Increase in pension liability £m
0.5% decrease in discount rate	(70.0)
0.5% increase in inflation	(61.0)
1 year increase in life expectancy	(22.0)

As part of the actuarial valuation exercise the mortality tables have been amended as follows:

	2012		2011	
	Male	Female	Male	Female
Life expectancy at age 65				
Pensioner currently aged 65	21.1	23.3	21.0	23.2
Member currently aged 45	22.5	24.8	22.4	24.8

A change in the statutory revaluation of deferred pension increases, which will be based on the Consumer Prices Index (CPI) (previously indexation was referenced to the Retail Prices Index (RPI)) has been reflected in the actuarial assumptions for the Group scheme. A similar change in assumptions has been made for future pension increases, but it should be noted that the Trustee of the Group scheme will keep this indexation under review.

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:

	2012		2011		2010		2009		2008	
	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	6.9%	442.1	7.5%	435.9	7.9%	420.1	7.4%	349.8	7.6%	490.8
Bonds, gilts and cash	3.1%	323.0	4.5%	295.6	4.9%	269.0	5.1%	205.5	4.4%	231.0
Total market value of assets		765.1		731.5		689.1		555.3		721.8
Present value of schemes' liabilities		(869.3)		(879.0)		(892.2)		(746.6)		(797.7)
Deficit		(104.2)		(147.5)		(203.1)		(191.3)		(75.9)
Related deferred tax asset		27.1		35.7		57.0		53.3		21.4
Net pension liability		(77.1)		(111.8)		(146.1)		(138.0)		(54.5)

Movements in the liability for defined benefit schemes' obligations recognised in the statement of financial position

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Schemes' liabilities at 1 May	(879.0)	(892.2)	(746.6)	(797.7)	(756.5)
Interest cost	(45.6)	(49.0)	(46.7)	(46.4)	(40.1)
Service cost recognised in the income statement	(0.9)	(9.3)	(9.6)	(11.7)	(9.8)
Member contributions	–	(4.4)	(5.6)	(6.2)	(6.4)
Curtailment gains	0.7	35.3	–	–	–
Pension payments	42.3	51.7	47.4	31.6	28.0
Pension Protection Fund Payments	1.0	1.0	1.1	1.5	–
Actuarial gains/(losses)	6.5	(1.1)	(132.3)	84.0	(10.8)
Currency translation	2.2	(0.5)	(0.5)	(1.7)	(2.1)
Divestment/(acquisition)	6.0	(10.5)	–	–	–
Reclassified	(2.5)	–	–	–	–
Reclassification to held for sale	–	–	0.6	–	–
Schemes' liabilities at 30 April	(869.3)	(879.0)	(892.2)	(746.6)	(797.7)

23. Post-retirement benefits continued

Movements in the fair value of defined benefit schemes' assets recognised in the statement of financial position

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Schemes' assets at 1 May	731.5	689.1	555.3	721.8	737.9
Employer contributions	30.4	32.3	17.1	16.9	16.8
Member contributions	–	4.4	5.6	6.2	6.4
Other contributions	–	–	–	–	0.7
Expected return on schemes' assets	41.8	41.6	35.2	47.9	48.9
Actuarial gains/(losses)	9.6	15.5	122.0	(207.4)	(62.2)
Divestment	(4.8)	–	–	–	–
Pension payments	(42.3)	(51.7)	(45.7)	(31.4)	(27.8)
Currency translation	(1.1)	0.3	(0.4)	1.3	1.1
Schemes' assets at 30 April	765.1	731.5	689.1	555.3	721.8

Expense recognised in the income statement

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Current service cost	(0.9)	(8.3)	(7.9)	(9.7)	(8.3)
Past service cost	–	–	(0.6)	(0.8)	(1.1)
Pension Protection Fund levy	–	(1.0)	(1.1)	(1.2)	(0.4)
Total service cost	(0.9)	(9.3)	(9.6)	(11.7)	(9.8)
Interest cost on schemes' liabilities	(45.6)	(49.0)	(46.7)	(46.4)	(40.1)
Expected return on schemes' assets	41.8	41.6	35.2	47.9	48.9
Pension Protection Fund levy	(1.0)	–	–	–	–
Employment benefit net finance (expense)/income	(4.8)	(7.4)	(11.5)	1.5	8.8

The expected rates of return on scheme assets have been derived based on the weighted average of the expected returns on the individual asset classes.

In 2011/2012, the Pension Protection Fund levy was included as part of the employment benefit net finance expense. In 2010/2011 and previously it was included in total service cost.

As a result of the disposal of the Office Products Wholesaling division, a curtailment gain of £0.7m (2010/11: £35.3m) was recognised. This is included as part of the profit on disposal.

Analysis of amounts recognised in the statement of comprehensive income

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Actual return less expected return on pension schemes' assets	9.6	15.5	122.0	(207.4)	(62.2)
Experience gains arising on schemes' liabilities	–	–	–	–	16.1
Changes in assumptions underlying present value of schemes' liabilities	6.5	(1.1)	(132.3)	84.0	(26.9)
Actuarial gains/(losses) recognised in the statement of comprehensive income	16.1	14.4	(10.3)	(123.4)	(73.0)

The cumulative amount of actuarial losses recognised in other comprehensive income since the date of transition to IFRS is £136.0m (2010/11: £152.1m).

History of experience gains and losses

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Difference between expected and actual returns on schemes' assets	9.6	15.5	122.0	(207.4)	(62.2)
Above as a percentage of schemes' assets	1%	2%	18%	(37%)	(9%)
Experience gains arising on schemes' liabilities	–	–	–	–	16.1
Above as a percentage of the present value of schemes' liabilities	–	–	–	–	2%
Total amount recognised in the consolidated statement of comprehensive income	16.1	14.4	(10.3)	(123.4)	(73.0)
Above as a percentage of the present value of schemes' liabilities	2%	2%	(1%)	(17%)	(9%)

The actual return on scheme assets was £51.4m (2010/11: £57.1m). The Group expects to pay approximately £15m in contributions to the Group defined benefit pension schemes in the year ending 30 April 2013.

Notes to the Consolidated Financial Statements continued

24. Share-based payment expense

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

(i) A Performance Share Plan (PSP). Awards under the PSP normally become exercisable after three years subject to remaining in service and the satisfaction of performance conditions measured over the three financial years commencing with the year of grant. Awards have been made under the PSP in 2008, 2009, 2010 and 2011. The performance conditions are as detailed below.

- 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 three 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 three Business Segments, the two measures are TSR and ROACE for the relevant segment.

- The 2010 and 2011 awards are subject to three performance measures:

  (i) 50% of each award based on a TSR component as per above;

  (ii) 25% of each award based on average adjusted EPS; and

  (iii) 25% of each award based on average adjusted ROACE.

(ii) Replacement 2007 and 2008 Long Term Incentive Plans for Mr M W Roberts. The Replacement 2007 LTIP vested on 10 October 2010 and the Replacement 2008 LTIP became exercisable on 17 October 2011. The Replacement 2008 LTIP vested in full on 17 October 2011 but has not yet been exercised. The Replacement 2008 LTIP award was subject to a performance condition measuring the TSR of McBride Plc up to the date Mr Roberts joined the Company and thereafter the Company's TSR against a comparator group of companies comprising the FTSE 250 Index (excluding investment trusts) constituted as at the date of grant of the award over a three-year performance period commencing on 1 July 2008.

(iii) The Replacement Deferred Shares Award and the Substitute Share Bonus Award are subject to substantially the same terms as the Company's Deferred Share Bonus Plan, except that they will vest on 1 September 2012 and 1 September 2013 respectively. Mr Roberts will be entitled to a cash payment on vesting, representing a value equivalent to the dividends which would have been paid on his vested shares while they were subject to his awards. There are no performance conditions governing the vesting of the Replacement Deferred Shares Award and the Substitute Share Bonus Award because the awards they replicate had no performance conditions attaching to them.

(iv) The Recruitment Award is subject to substantially the same terms as the awards made under the Company's PSP in 2009. The award is due to vest on 19 October 2012.

(v) A Deferred Share Bonus Plan (DSBP) is operated for Executive Directors and, from 2012/13, for senior executives. Shares awarded under the Plan will vest automatically if the Director or senior executive is still employed by the Company three years after the grant of the award.

(vi) A Share Matching Plan (SMP) is operated for Executive Directors and senior executives with the first award due to be made in 2012/13. The award will 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. The performance conditions, which will be set on award, will be against EPS and ROACE.

(vii) An Executive Share Option Scheme (ESOS). This scheme ceased to be operated from September 2008. In normal circumstances, the vesting of any options granted under the ESOS is subject to remaining in service and to the growth in the Company's normalised earnings per share equaling or exceeding the growth in the UK Retail Prices Index plus an average of 3% per annum over the three financial years commencing with the year of grant.

(viii) A Sharesave Plan was introduced in the UK in January 2011. All UK employees of the Company and participating subsidiaries of the Group are eligible to participate in this Plan. Under this HMRC approved Plan options are granted to participants who have contracted to save up to £250 per month over a period of three years at a discount of up to 20% to the average closing mid-market price of a DS Smith Plc ordinary share on the three dealing days prior to invitation. Options cannot normally be exercised until a minimum of three years has elapsed. In common with most plans of this type there are no performance conditions applicable to options granted under this Plan.

Full details of the awards described in (i), (ii), (iii), (iv) and (v) and (vi) are set out in the Remuneration Report.

24. Share-based payment expense continued

Options outstanding and exercisable under share arrangements at 30 April 2012 were:

	Options outstanding				Options exercisable	
	Number of shares	Option price range (p)	Weighted average remaining contract life (years)	Weighted average exercise price (p)	Number exercisable	Weighted average exercise price (p)
Executive Share Option Scheme (1999)	333,810	100.5-109.5	3.2	103.7	333,810	103.7
Performance Share Plan	15,160,401	Nil	0.9	Nil	324,552	Nil
Replacement 2008 Long Term Incentive Plan	627,718	Nil	Nil	Nil	627,718	Nil
Replacement Deferred Shares Award	154,863	Nil	0.3	Nil	Nil	Nil
Recruitment Award	828,526	Nil	0.5	Nil	Nil	Nil
Substitute Share Bonus Award	116,148	Nil	1.3	Nil	Nil	Nil
Deferred Share Bonus Plan	262,848	Nil	1.9	Nil	Nil	Nil
Sharesave Plan	6,927,641	119.2	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 (1999)		Performance Share Plan		Replacement 2008 Long Term Incentive Plan		Replacement Deferred Shares Award	
2012	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)
At 1 May 2011	148.6	1,077	Nil	11,719	Nil	432	Nil	107
Adjustment for rights issue*	(46.2)	486	Nil	4,056	Nil	196	Nil	48
Granted	Nil	–	Nil	2,677	Nil	–	Nil	–
Exercised	102.6	(867)	Nil	(493)	Nil	–	Nil	–
Lapsed	102.0	(362)	Nil	(2,799)	Nil	–	Nil	–
At 30 April 2012	103.7	334	Nil	15,160	Nil	628	Nil	155
Exercisable at 30 April 2012	103.7	334	Nil	324	Nil	628	Nil	Nil

	Recruitment Award		Substitute Share Bonus Award		Deferred Share Bonus Plan		Sharesave Plan	
2012 continued	Weighted average exercise price (p)	Weighted average exercise price (p)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)
At 1 May 2011	Nil	571	Nil	80	Nil	59	–	–
Adjustment for rights issue*	Nil	257	Nil	36	Nil	26	–	–
Granted	Nil	–	Nil	–	Nil	178	119.2	7,977
Exercised	Nil	–	Nil	–	Nil	–	Nil	(49)
Lapsed	Nil	–	Nil	–	Nil	–	Nil	(1,000)
At 30 April 2012	Nil	828	Nil	116	Nil	263	119.2	6,928
Exercisable at 30 April 2012	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

* The exercise prices and number of shares under option have been adjusted to reflect the bonus element of the rights issue in February 2012 (note 22)

24. Share-based payment expense continued

2011	Executive Share Option Scheme (1999) Weighted average exercise price (p)	Options ('000s)	Performance Share Plan Weighted average exercise price (p)	Options ('000s)	Replacement 2008 Long Term Incentive Plan Weighted average exercise price (p)	Options ('000s)	Replacement Deferred Shares Award Weighted average exercise price (p)	Options ('000s)
At 1 May 2010	161.6	5,188	Nil	9,939	Nil	–	Nil	–
Granted	Nil	–	Nil	4,096	Nil	432	Nil	107
Exercised	147.6	(2,929)	Nil	(217)	Nil	–	Nil	–
Lapsed	200.4	(1,182)	Nil	(2,099)	Nil	–	Nil	–
At 30 April 2011	148.6	1,077	Nil	11,719	Nil	432	Nil	107
Exercisable at 30 April 2011	148.6	1,077	Nil	Nil	Nil	Nil	Nil	Nil

2011 continued	Recruitment Award Weighted average exercise price (p)	Options ('000s)	Substitute Share Bonus Award Weighted average exercise price (p)	Options ('000s)	Long Term Incentive Plan Weighted average exercise price (p)	Options ('000s)	Deferred Share Bonus Plan Weighted average exercise price (p)	Options ('000s)	Replacement Deferred Share Bonus Plan Weighted average exercise price (p)	Options ('000s)
At 1 May 2010	Nil	–	Nil	–	Nil	691	Nil	222	Nil	75
Granted	Nil	571	Nil	80	Nil	–	Nil	59	Nil	–
Exercised	Nil	–	Nil	–	Nil	–	Nil	(222)	Nil	(75)
Lapsed	Nil	–	Nil	–	Nil	(691)	Nil	–	Nil	–
At 30 April 2011	Nil	571	Nil	80	Nil	Nil	Nil	59	Nil	Nil
Exercisable at 30 April 2011	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

The average share price of the Company during the financial year was 150.2 pence (2010/11: 169.6 pence).

The fair value of awards granted in the period relates to the PSP, DSBP, Replacement Long Term Incentive Plans, the Recruitment Award and Sharesave Plan schemes.

The fair value of the PSP award granted during the year, determined using the stochastic valuation model, was £3.9m. The significant inputs into the model were: a share price of £2.662 for the PSP at the grant date; the exercise prices shown above; an expected initial volatility of the share price of 29.2% and long term volatility of 28.7%; the scheme life disclosed above; an annual risk-free interest rate of 1.3% and an expected dividend yield of nil%. The volatility of share price returns measured as the standard deviation of expected share price returns is based on statistical analysis of average weekly share prices from 1 January 1970.

The fair value of Sharesave options granted during the period, determined using the stochastic valuation model, was £2.4m. The significant inputs into the model were: a share price of £2.127; the exercise prices shown above; an expected initial volatility of the share price of 33.9% and long term volatility of 28.7%; the options life disclosed above; an annual risk-free interest rate of 2.2%; and an expected dividend yield of 2.9. 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 from 1 January 1970.

The total charge for the year relating to share-based payments recognised as personnel expenses was £4.0m (2010/11: £2.9m).

25. Cash generated from operations

Continuing operations	2012 £m	2011 £m*
Profit for the year	8.4	53.1
Adjustments for:		
Pre-tax exceptional items charged/(credited) to income statement	70.1	(8.1)
Amortisation and acquisition related costs	26.5	14.0
Cash outflow for SCA Packaging acquisition costs	(7.0)	–
Cash outflow for other exceptional items	(19.5)	(15.1)
Depreciation	63.9	67.1
Loss/(profit) on sale of non-current assets	0.8	(0.6)
Share of loss of associate	0.5	–
Employment benefit net finance expense	4.8	7.4
Share-based payment expense	4.0	2.9
Finance income	(2.1)	(0.8)
Finance costs	20.5	20.8
Other non-cash items	(0.1)	0.6
Income tax expense	13.3	24.5
Provisions and employee benefits	(28.8)	(24.9)
Cash generation before working capital movements	155.3	140.9
Changes in:		
Inventories	2.1	(18.7)
Trade and other receivables	2.9	(16.1)
Trade and other payables	38.7	35.0
Working capital movement	43.7	0.2
Cash generated from continuing operations	199.0	141.1

* restated following the sale of the Office Products Wholesaling division which is classified as a discontinued operation (note 29)

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

	2012 £m	2011 £m*
Continuing operations		
Operating profit before amortisation and exceptional items	142.0	110.9
Depreciation	63.9	67.1
Adjusted EBITDA	205.9	178.0
Working capital movement	43.7	0.2
Provisions and employee benefits	(28.8)	(24.9)
Other	4.7	2.9
Cash generated from operations before exceptional cash items	225.5	156.2
Capital expenditure	(94.2)	(62.3)
Proceeds from sales of assets and investments	8.3	9.9
Tax paid	(25.3)	(16.0)
Net interest paid	(19.8)	(15.8)
Free cash flow	94.5	72.0
Exceptional cash costs – SCA Packaging acquisition	(7.0)	–
Exceptional cash costs – other	(19.5)	(15.1)
Dividends paid to Group shareholders	(31.5)	(22.6)
Acquisition of subsidiary businesses	(2.3)	(165.1)
Divestment of subsidiary business	184.5	–
Net cash flow	218.7	(130.8)
Proceeds from issue of share capital	450.2	50.1
Purchase of own shares	(0.3)	(6.5)
Net cash/debt acquired/disposed	(14.2)	(36.6)
Net movement on cash/(debt)	654.4	(123.8)
Foreign exchange and fair value movements (note 16)	24.7	(14.1)
Net debt movement – continuing operations	679.1	(137.9)
Net debt movement – discontinued operations	(6.4)	26.4
Opening net debt	(351.0)	(239.5)
Closing net cash/(debt)	321.7	(351.0)

* restated following the sale of the Office Products Wholesaling division which is classified as a discontinued operation (note 29)

27. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2012 £m	2011 £m
Less than one year	15.0	25.5
Between one and five years	33.0	60.6
More than five years	2.8	32.2
	50.8	118.3

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

At 30 April 2012, the Group's future minimum sub-lease receipts totalled £0.5m (30 April 2011: £0.8m).

28. Capital commitments

At 30 April 2012, the Group had committed to incur capital expenditure of £31.0m (30 April 2011: £25.4m).

29. Acquisitions and divestments

(a) Office Products Wholesaling

On 30 December 2011 the Office Products Wholesaling division was sold to Unipapel SA. Office Products Wholesaling principally comprised Spicers Limited, Spicers (Ireland) Limited, Spicers France SAS, Spicers Belgium NV and Spicers Nederland BV. The comparative Consolidated Income Statement has been restated to present the Office Products Wholesaling division as discontinued operations. The Consolidated Statement of Cash Flows has also been restated, presenting a single amount of net cash flow from discontinued operations.

Discontinued operations

	2012 £m	2011 £m
Revenue	455.8	715.2
Cost of sales	(344.2)	(543.9)
Gross profit	111.6	171.3
Operating expenses	(97.4)	(146.1)
Operating profit before amortisation and exceptional items	14.2	25.2
Amortisation of intangible assets	(0.2)	(1.1)
Operating profit	14.0	24.1
Net financing income	0.1	0.2
Profit before income tax	14.1	24.3
Income tax expense	(4.8)	(6.9)
Profit for the year from discontinued operations	9.3	17.4

Cash generated from discontinued operations

	2012 £m	2011 £m
Net cash from operating activities	(9.0)	30.9
Cash and cash equivalents disposed	(22.6)	–
Net cash used in investing activities	2.8	(4.1)
Net cash used in financing activities	(0.2)	(0.6)
Net cash flows for the year	(29.0)	26.2

Effect of disposal on the financial position of the Group

	2012 £m
Intangible assets	13.9
Property, plant and equipment	31.2
Inventories	68.1
Trade and other receivables	140.4
Trade and other payables	(109.4)
Other liabilities	(2.6)
Net assets and liabilities disposed	141.6
Total disposal consideration	204.7
Reclassification from foreign exchange reserve arising on disposal	9.8
Transaction costs	(5.8)
Profit on disposal before tax	67.1
Tax charge on profit on disposal	(9.1)
Profit on disposal after tax	58.0
Cash inflow on disposal	
Consideration received	204.7
Defined benefit pension scheme contribution paid on disposal	(16.3)
Transaction costs paid	(3.9)
Net cash inflow	184.5

29. Acquisitions and divestments continued

(b) SCA Packaging Kuban acquisition and disposal

The Group acquired 100% of the equity of SCA Packaging Kuban in July 2011 for €5.0m cash consideration and €1.5m deferred consideration payable in December 2011, exclusively with a view to resale. The business was subsequently sold in December 2011 to the Group's associate, OJSC Rubezhansk Paper and Packaging Mill for €6.5m with nil profit or loss on disposal.

(c) Other acquisitions

The Group made additional minor acquisitions of subsidiary businesses, net of cash and cash equivalents of £2.3m, of which the majority relates to a the acquisition of an additional 35% shareholding in Rapak AD, which brings the Group's holding in Rapak AD at 30 April 2012 to 85%.

Acquisition related costs

SCA Packaging

On 17 January 2012 the Directors announced arrangements regarding the proposed acquisition of the packaging division of Svenska Cellulosa Aktiebolaget SCA (publ) excluding its kraftliner assets ('SCA Packaging') for €1.7bn on a cash, debt and, to the extent legally possible and commercially practicable, pension free basis. Net consideration will be approximately €1.6bn after taking into account a pension price adjustment. In addition, there will also be customary post-completion adjustments.

On 25 May 2012, the European Commission granted competition clearance for the acquisition. The clearance requires the Group to divest three sites after the acquisition, currently representing approximately 1% of the enlarged Group profit. Completion is expected on 30 June 2012.

The Group incurred acquisition related costs of £18.4m on professional advisory fees and due diligence costs connected with the acquisition. These fees have been included in administrative expenses in the Group's Consolidated Income Statement. Due to the nature of these costs, they have been reported as exceptional costs.

2010/11

Otor

On 1 September 2010, the Group acquired 100% of the voting share capital of Otor Finance S.A., a holding company which owns and controls 80% of Otor S.A. On this date and as part of the same acquisition, the Group acquired an additional 15% of the voting share capital of Otor S.A. As a result, the Group's total voting and ownership interest in Otor S.A. at acquisition date was 95%. Total consideration transferred comprised cash of £156.6m. In October 2010 the Group increased its ownership interest to 100%. Professional advisory fees and due diligence costs connected with the acquisition of Otor in 2010/11 were £7.2m.

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

30. Related parties

Identity of related parties

In the normal course of business the Group undertakes a wide variety of transactions with certain of its subsidiaries and associates.

The key management personnel of the Company comprise the Chairman, Executive Directors and non-Executive Directors. The compensation of key management personnel can be found in the Remuneration Report. Certain key management also participate in the Group's share option programme (note 24). Included within the share-based payment expense is a charge of £1.2m (2011: £1.3m) relating to key management.

Other related party transactions

	2012 £m	2011 £m
Purchases from associate	0.2	0.3
Amounts due to associate	(0.1)	–

31. DS Smith Group companies

Control of the Group

The Group's ultimate parent company is DS Smith Plc.

List of key consolidated companies

	Country of incorporation or registration	Ownership interest at 30 April 2012
UK Packaging		
DS Smith Paper Limited	England	100%*
DS Smith Logistics 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%*
DS Smith Packaging France S.A.S.	France	100%*
Otor S.A.	France	100%*
Toscana Ondulati SpA	Italy	92%*
Plastic Packaging		
DS Smith Plastics Limited	England	100%*
DS Smith Cartón Plástico s.a.	Spain	100%*
D.W. Plastics NV	Belgium	100%*
DS Smith Ducaplast S.A.S.	France	100%*
David S. Smith America Inc.	USA	100%*
DSS Rapak Inc.	USA	100%*
StePac L.A. Limited	Israel	100%*
Rapak GmbH	Germany	100%*
Rapak Asia Pacific Limited	New Zealand	100%*

* indirectly held by DS Smith Plc

A complete list of the Group's companies is available from the registered office.

Company Balance Sheet Prepared in Accordance with UK GAAP

At 30 April 2012

	Note	2012 £m	2011 £m*
Fixed assets			
Tangible assets	3	1.5	2.2
Investments	4	534.1	357.0
		535.6	359.2
Current assets			
Debtors: amounts falling due within one year	5	13.8	19.2
Debtors: amounts falling due after more than one year	5	980.2	1,950.8
Cash at bank and in hand		648.9	32.5
		1,642.9	2,002.5
Creditors: amounts falling due within one year			
Trade and other creditors	6	(53.2)	(29.5)
Borrowings	6	(91.6)	(62.5)
Net current assets		1,498.1	1,910.5
Total assets less current liabilities		2,033.7	2,269.7
Creditors: amounts falling due after more than one year			
Trade and other creditors	6	(3.1)	(36.1)
Borrowings	6	(945.6)	(1,644.8)
Provisions for liabilities	7	(17.1)	(4.0)
Net assets		1,067.9	584.8
Capital and reserves			
Called up share capital	8	92.7	43.6
Share premium account	9	710.2	309.1
Profit and loss account	9	265.0	232.1
Shareholders' funds		1,067.9	584.8

* Restated for change in accounting policy (note 1a)

Approved by the Board of Directors of DS Smith Plc (company registered number 1377658) on 27 June 2012 and signed on its behalf by

M W Roberts, Director S W Dryden, Director

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

Notes to the Company Balance Sheet

1. Significant accounting policies

A summary of the significant accounting policies, which have been applied consistently, is set out below:

(a) Accounting basis

The financial statements of DS Smith Plc (the Company) have been prepared on a going concern basis and under the historical cost convention and have been prepared in accordance with the Companies Act 2006 and UK Generally Accepted Accounting Practice (GAAP).

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

Under FRS 1 'Cash Flow Statements', the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the parent undertaking includes the Company in its own consolidated financial statements.

The Company has also taken advantage of the exemption in FRS 29 'Financial Instruments: Disclosures', not to present Company only information as the disclosures provided in the notes to the consolidated financial statements comply with the requirements of this standard.

The Company balance sheet at 30 April 2011 has been restated to remove the net defined benefit pension liability. In accordance with FRS 17 'Retirement Benefits', the Company has chosen to take the multi-employer exemption from disclosing the assets and liabilities of the scheme as it is not possible to separately identify those that relate to the Company employees. This exemption is considered to be consistent with current market practice and therefore restatement is considered appropriate. The net pension liability of £99.1m at 30 April 2011 has been reduced to £nil and there is a corresponding increase in shareholders' funds to £584.8m.

(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', 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 Company participates in a funded, defined benefit scheme in the UK, the DS Smith Group Pension scheme ('the Group scheme'). On 30 April 2011, the scheme was closed for future accrual.

As the Company is unable to identify its share of scheme assets and liabilities on a consistent and reasonable basis, the Company treats contributions to defined benefit schemes as if they were contributions to a defined contribution scheme in accordance with the exemption permitted by FRS 17 'Retirement Benefits'. As a result the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the relevant accounting period.

(h) Financial instruments

Financial instruments are reported in accordance with FRS 26 'Financial Instruments: Recognition and Measurement'.

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

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

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

Any gains or losses arising from the hedging instruments are offset against the hedged items.

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

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

(i) Share options

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

It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

Where applicable, the fair value of employee services received by subsidiary undertakings within the DS Smith Plc Group in exchange for options granted by the Company is recognised as an expense in the financial statements of the subsidiary by means of a recharge from the Company.

Notes to the Company Balance Sheet continued

2. Employee information

The average number of employees employed by the Company during the year was 41 (2010/11: 38).

	2012 £m	2011 £m
Wages and salaries	6.8	7.9
Social security costs	1.8	2.5
Pension costs	0.3	0.3
Total	8.9	10.7

Note 24 to the consolidated financial statements sets out the disclosure information required for the Company's share-based payments.

3. Tangible fixed assets

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 May 2011	1.4	1.7	3.1
Additions	–	1.1	1.1
Disposals	(1.4)	–	(1.4)
At 30 April 2012	–	2.8	2.8
Depreciation			
At 1 May 2011	–	(0.9)	(0.9)
Depreciation charge for the year	–	(0.4)	(0.4)
At 30 April 2012	–	(1.3)	(1.3)
Carrying amount			
At 1 May 2011	1.4	0.8	2.2
At 30 April 2012	–	1.5	1.5

4. Fixed asset investments

	Shares in Group undertakings £m
At 1 May 2011	357.0
At 30 April 2012	534.1

The Company's principal trading subsidiary undertakings at 30 April 2012 are shown in note 31 of the consolidated financial statements.

5. Debtors

	2012 £m	2011 £m
Amounts falling due within one year		
Amounts owed by subsidiary undertakings	0.4	0.7
Corporation tax	2.5	8.9
Other debtors	4.8	1.3
Prepayments and accrued income	3.7	0.1
Derivative financial instruments	2.4	8.2
	13.8	19.2
Amounts falling due after more than one year		
Amounts owed by subsidiary undertakings	966.0	1,935.3
Deferred tax asset	6.9	2.2
Derivative financial instruments	7.3	13.3
	980.2	1,950.8
Total debtors	994.0	1,970.0

6. Creditors

	2012 £m	2011 £m
Trade and other creditors falling due within one year		
Amounts owed to subsidiary undertakings	0.5	–
Other tax and social security payables	6.6	5.4
Accruals and deferred income	26.9	18.1
Derivative financial instruments	19.2	6.0
	53.2	29.5
Trade and other creditors falling due after more than one year		
Derivative financial instruments	3.1	36.1
	3.1	36.1
Borrowings falling due within one year		
Bank loans and overdrafts	0.1	62.5
Other loans	91.5	–
	91.6	62.5
Borrowings falling due after more than one year		
Bank loans	–	72.0
Loans from subsidiary undertakings	720.8	1,246.7
Other loans	224.8	326.1
	945.6	1,644.8
Total creditors	1,093.5	1,772.9

Notes to the Company Balance Sheet continued

7. Provisions for liabilities

	Restructuring £m	Other £m	Total £m
At 1 May 2011	1.9	2.1	4.0
Charged to the income statement	3.1	26.0	29.1
Utilised	(1.4)	(14.6)	(16.0)
At 30 April 2012	3.6	13.5	17.1

8. Share capital

	Number of shares			
	2012 Millions	2011 Millions	2012 £m	2011 £m
Ordinary equity shares of 10 pence each				
Issued, allotted, called up and fully paid	927.0	435.6	92.7	43.6

On 22 February 2012 the Company issued 490,751,669 new ordinary shares in respect of a 9 for 8 rights issue at a price of 95 pence per share. The gross proceeds of the rights issue were £466.2m. The related transaction costs amounting to £16.9m have been netted against proceeds.

Of the remainder issued, the majority relates to a placing in respect of employee share options of 643,178 ordinary shares of 10 pence.

The net movement in share capital and share premium is disclosed in the Consolidated Statement of Changes in Equity.

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

The concept of authorised share capital was abolished in October 2009 pursuant to the provisions of the Companies Act 2006; therefore authorised share capital has not been presented at 30 April 2012.

9. Reserves

	Share premium account £m	Profit and loss account			
		Own shares £m	Hedging reserve £m	Other £m*	Total £m
At 1 May 2011	309.1	(9.4)	3.4	238.1	232.1
Issue of share capital	401.1	–	–	–	–
Profit for the year	–	–	–	67.8	67.8
Dividends paid				(31.5)	(31.5)
Purchase of own shares	–	(0.3)	–	–	(0.3)
Changes in the fair value of cash flow hedges (including tax)	–	–	(11.1)	–	(11.1)
Share-based payment expense				6.2	6.2
Employee share trust	–	1.8	–	–	1.8
At 30 April 2012	710.2	(7.9)	(7.7)	280.6	265.0

The Company made a profit for the year of £67.8m (2010/11: profit of £25.4m* restated) including the recognition of intra-group dividends.

* Restated for change in accounting policy (note 1a)

10. Contingent liabilities

The Company has guaranteed the gross overdrafts and loans of certain subsidiary undertakings, which at 30 April 2012 amounted to £26.3m (30 April 2011: £17.4m).

11. Related party disclosure

The Company has identified the Directors of the Company, its key management and the UK pension scheme as related parties for the purpose of FRS 8 'Related Party Disclosures'. Details of the relevant relationships with these related parties are disclosed in the Directors' Remuneration Report, and note 30 of the consolidated financial statements respectively.

As permitted by FRS 8, no related party disclosures in respect of transactions between the Company and its wholly owned subsidiaries have been included.

Five-Year Financial Summary

	Year ended 30 April 2008 £m	Year ended 30 April 2009 £m	Year ended 30 April 2010 £m	Year ended 30 April 2011 £m	Year ended 30 April 2012 £m
Revenue					
UK Packaging	753.2	785.8	750.2	917.7	960.2
Continental European Corrugated Packaging	346.0	363.4	355.4	599.4	743.9
Plastic Packaging	223.4	236.9	231.3	242.2	265.3
Group revenue – continuing operations	1,322.6	1,386.1	1,336.9	1,759.3	1,969.4
Operating profit					
UK Packaging	69.6	37.6	37.0	54.2	64.4
Continental European Corrugated Packaging	20.6	30.6	23.1	39.8	55.6
Plastic Packaging	11.5	7.9	16.6	16.9	22.0
Group operating profit[1] – continuing operations	101.7	76.1	76.7	110.9	142.0
Amortisation	(2.2)	(2.2)	(2.9)	(6.8)	(8.1)
Share of profit/(loss) of associates	3.4	0.6	0.2	–	(0.5)
Net finance cost	(23.2)	(25.9)	(15.3)	(20.0)	(18.4)
Employee benefit net finance income/(expense)	8.8	1.5	(11.4)	(7.4)	(4.8)
Profit before taxation and exceptional items	88.5	50.1	47.3	76.7	110.2
Acquisition related costs and other exceptional items	(1.9)	(52.6)	(11.5)	0.9	(88.5)
Profit before income tax – continuing operations	86.6	(2.5)	35.8	77.6	21.7
Adjusted return on sales[1]	7.7%	5.5%	5.7%	6.3%	7.2%
Average capital employed[2]	792.3	877.6	854.2	960.9	973.6
Adjusted return on average capital employed[1,4]	12.8%	8.7%	9.0%	11.5%	14.6%
Adjusted earnings per share[1,3]	11.3p	6.4p	6.3p	10.0p	12.8p
Dividends per share[3]	6.1p	3.0p	3.2p	4.5p	5.9p

1. from continuing operations, before amortisation and exceptional items
2. average capital employed is the average monthly capital employed
3. as restated – see note 22
4. adjusted return on average capital employed is defined as operating profit before amortisation and exceptional items divided by average capital employed

Notice of Annual General Meeting 2012

Notice is hereby given that the Annual General Meeting of DS Smith Plc will be held at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD, on Tuesday 4 September 2012 at 2.00pm to consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 12 will be proposed as ordinary resolutions and resolutions 13 to 15 will be proposed as special resolutions.

1. To receive and adopt the Directors' Report, the Auditor's Report and financial statements for the year ended 30 April 2012.
2. To declare a final dividend on the ordinary shares.
3. To approve the Report on Remuneration.
4. To re-elect Mr G Davis as a Director of the Company.
5. To re-elect Mr M W Roberts as a Director of the Company.
6. To re-elect Mr S W Dryden 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 J C Nicholls as a Director of the Company.
10. To re-appoint Deloitte LLP as Auditor of the Company to hold office until the conclusion of the next general meeting at which accounts are to be laid before the Company.
11. To authorise the Directors to determine the remuneration of the Auditor.
12. That:
    (a) the Directors be authorised to allot shares in the Company or grant rights to subscribe for, or convert any security into, shares in the Company:
        (i) in accordance with article 7 of the Company's Articles of Association ('the Articles'), up to a maximum nominal amount of £30,899,204.50 (such amount to be reduced by the nominal amount of any equity securities (as defined in article 8 of the Articles) allotted under paragraph ii below in excess of £30,899,204.50); and
        (ii) comprising equity securities (as defined in article 8 of the Articles), up to a maximum nominal amount of £61,798,409.10 (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 (as defined in article 8 of the Articles).
    (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 2013; and
    (c) all previous unutilised authorities under 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).
13. That:
    (a) in accordance with article 8 of the Articles, the Directors be given power, under sections 570 and 573 of the Companies Act 2006, to allot equity securities for cash;
    (b) the power under paragraph (a) above (other than in connection with a rights issue, as defined in article 8 of the Articles) shall be limited to the allotment of equity securities having a nominal amount not exceeding in aggregate £4,634,880.60;
    (c) 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 2013; and
    (d) all previous unutilised authorities under sections 570 and 573 of the Companies Act 2006 shall cease to have effect.
14. 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 92,697,610;
    (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 Buyback 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 next Annual General Meeting of the Company after the passing of the resolution or, if earlier, at the close of business on 1 November 2013, 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.

15. That, in accordance with the Company's Articles, a general meeting (other than an Annual General Meeting) may be called on not less than 14 clear days' notice.

By Order of the Board

Matt Jowett, Company Secretary

Beech House, Whitebrook Park, 68 Lower Cookham Road, Maidenhead, Berkshire SL6 8XY

23 July 2012

NOTES

(i) Only those Members registered in the Register of Members of the Company as at 6pm on 2 September 2012 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 and the Registrars must receive any electronic appointment of proxy not later than 48 hours before the time of the Meeting. Completion and return of the Form or appointing a proxy electronically 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 4 September 2012 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 10 July 2012 (being the latest practicable date prior to publication of this document), the Company's issued share capital consists of 926,976,137 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 10 July 2012 are 926,976,137.

(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, 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.

(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) 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 from the date of this Notice and until the conclusion of the Meeting:

(a) service contracts of the Executive Directors; and

(b) letters of appointment of the Chairman and the non-Executive Directors.

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

(xv) You may not use any electronic address provided either in this Notice of Meeting or any related documents (including the Form of Proxy) to communicate with the Company for any purposes other than those expressly stated.

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 Auditor and the financial statements of the Company for the year ended 30 April 2012. 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 4.0 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 43 to 54.

Resolution 4-9:
Re-election of Directors

The Articles of Association of the Company require that all Directors retire from office at least once every three years but if eligible can submit themselves for re-election by shareholders. However, in accordance with the UK Corporate Governance Code, which recommends that directors of companies in the FTSE 350 be subject to annual re-election, the Directors have resolved that all Directors will retire and stand for re-election at the forthcoming Annual General Meeting.

Mr Davis is Chairman of the Board and of the Nomination Committee. Mr Roberts is the Group Chief Executive, a member of the Nomination Committee and Chairman of the General Purposes Committee. Mr Dryden is the Group Finance Director and a member of the General Purposes Committee. Mr Bunker is the Senior Independent Director, Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees. Mr Mellier is a member of the Audit, Nomination and Remuneration Committees. Mr Nicholls is Chairman of the Audit Committee and a member of the Nomination and Remuneration Committees.

Having considered the performance of and contribution made by each of the Directors and following formal performance evaluation, the Board remains satisfied that and the Chairman confirms that the performance of each Director standing for re-election continues to be effective and to demonstrate commitment to the role and as such the Board recommends their re-election. A biography of each Director appears on pages 34 and 35 of the Annual Report and appears on the Company's website at www.dssmith.uk.com.

Resolutions 10-11:
Re-appointment of Auditor and Auditor's remuneration
The auditor 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 Auditor, Deloitte LLP, until the next Annual General Meeting and Resolution 11 gives authority to the Directors to determine the Auditor's remuneration.

Resolution 12:
Authority to allot shares
At the Annual General Meeting held on 6 September 2011, shareholders authorised the Directors, under section 551 of the Companies Act 2006, to allot shares without the prior consent of shareholders for a period expiring at the conclusion of the Annual General Meeting to be held in 2012 or, if earlier, on 1 November 2012. 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 2013.

Paragraph (a)(i) of Resolution 12 will allow the Directors to allot ordinary shares up to a maximum nominal amount of £30,899,204.57 representing approximately one third (33.33%) of the Company's existing issued share capital and calculated as at 10 July 2012 (being the latest practicable date prior to publication of this circular). In accordance with institutional guidelines issued by the Association of British Insurers, paragraph (a)(ii) of Resolution 12 will allow Directors to allot, including the ordinary shares referred to in paragraph (a)(i) of Resolution 12, 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 £61,798,409.13, representing approximately two thirds (66.67%) of the Company's existing issued share capital and calculated as at 10 July 2012 (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, as recommended by the Association of British Insurers.

Resolution 12 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 2013.

Resolution 13:
Directors' powers to disapply pre-emption rights
Also at last year's meeting, a special resolution was passed, under sections 570 and 573 of the Companies Act 2006, 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. 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 £4,634,880.69 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 10 July 2012 (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 13 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 2013.

Resolution 14:
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 14 specifies the maximum number of shares which may be purchased (representing approximately 10% of the Company's issued share capital at 10 July 2012, 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 14, 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 10 July 2012 (being the latest practicable date prior to publication of this notice) is 7,261,451 of which 333,810 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 0.04% 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 0.03%. The authority will expire at close of business on 1 November 2013 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 15:
Notice of general meetings

The notice period required by the Companies Act 2006 for general meetings of the Company is 21 days unless shareholders approve a shorter notice period, which cannot however be less than 14 clear days. (Annual General Meetings must always be held on at least 21 clear days' notice.)

At last year's Annual General Meeting, shareholders authorised the calling of general meetings other than an Annual General Meeting on not less than 14 clear days' notice and it is proposed that this authority be renewed. The authority granted by this resolution, if passed, 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.

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 4 September 2012.

Location

At the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD.

Timing

The Meeting will start promptly at 2.00pm and shareholders wishing to attend are advised to be in the venue no later than 1.50pm. The reception area will be open from 1.30pm, from which time tea and coffee will be served.

Travel information

A map on the reverse of the Admittance Card shows the location of the offices of Allen & Overy LLP 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 to the right 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 offices of Allen & Overy LLP have wheelchair access. If you are planning to come to the Meeting and are a wheelchair user, please call 020 3088 4040 when nearing the building.

Enquiries and questions

Shareholders who intend to ask a question related to the business of the Meeting are asked to provide their name, address and question at the Registration desk. Staff from Equiniti will be on hand to provide advice and assistance.

Shareholder Information

Financial diary

4 September 2012
Annual General Meeting

3 October 2012
Ex-dividend date for final dividend

1 November 2012
Payment of final dividend

6 December 2012*
Announcement of half-year results for the six months ended 31 October 2012

3 April 2013*
Ex-dividend date for interim dividend

1 May 2013*
Payment of interim dividend

27 June 2013*
Announcement of final results for the year ended 30 April 2013

* 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.

Registered Office and advisers

Secretary and Registered Office

Matt Jowett
Beech House
Whitebrook Park
68 Lower Cookham Road
Maidenhead
Berkshire SL6 8XY
Registered in England No: 1377658

Auditor

Deloitte LLP
2 New Street Square
London EC4A 3BZ

Solicitors

Allen & Overy LLP
One Bishops Square
London E1 6AD

Principal clearing bank

The Royal Bank of Scotland
135 Bishopsgate
London EC2M 3UR

Stockbroker

J.P. Morgan Cazenove
10 Aldermanbury
London EC2V 7RF

Registrars

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Registrars queries

Information on how to manage your shareholdings can be found at https://help.shareview.co.uk. The pages at this web address provide answers to commonly asked questions regarding shareholder registration, links to downloadable forms and guidance notes.

If your question is not answered by the information provided, you can send your enquiry via secure email from these pages. You will be asked to complete a structured form and to provide your Shareholder Reference, Name and Address. You will also need to provide your email address if this is how you would like to receive your response.

Alternatively, telephone: 0871 384 2197. Lines are open 8.30am to 5.30pm Monday to Friday. Calls to this number will be charged at 8 pence per minute from a BT landline. Other telephone providers' costs may vary. Overseas telephone: +44 121 415 7047.

DS Smith Plc

DS Smith Plc
Beech House
Whitebrook Park
68 Lower Cookham Road
Maidenhead
Berkshire SL6 8XY

Telephone +44 (0) 1628 583 400
Fax +44 (0) 1628 583 401

E-mail ir@dssmith.co.uk
www.dssmith.uk.com

Principal Offices

Corporate Head Office

DS Smith Plc
Beech House
Whitebrook Park
68 Lower Cookham Road
Maidenhead
Berkshire SL6 8XY
Telephone +44 (0) 1628 583 400

Businesses

DS Smith Kaysersberg
CS 10
77 Route de Lapoutroie
68240 Kaysersberg
France
Telephone +33 (0) 3 89 78 30 00

DS Smith Packaging
Beech House
Whitebrook Park
68 Lower Cookham Road
Maidenhead
Berkshire SL6 8XY
Telephone +44 (0) 1753 754 380

DS Smith Packaging France
8 Terrasse Bellini
92800 Puteaux
France
Telephone +33 (0) 1 49 01 48 48

DS Smith Paper
Head Office
Kemsley Mill
Sittingbourne
Kent ME10 2TD
Telephone +44 (0) 1795 518 900

DS Smith Plastics
Butlers Leap
Clifton Road
Rugby
Warwickshire CV21 3RQ
Telephone +44 (0) 1788 532 861

DS Smith Recycling
Ty Gwyrdd
11 Beddau Way
Caerphilly
Mid Glamorgan CF83 2AX
Telephone +44 (0) 2920 718 400

MIX
Paper from responsible sources
FSC www.fsc.org FSC® C022913

Printed in the UK by Pureprint Group using their pureprint® environmental print technology on Core Silk made from FSC® certified fibre.

Pureprint Group is a carbon neutral company registered to EMAS, the Eco Management Audit Scheme and certified to ISO 14001 Environmental Management System.

Design and production by Black Sun Plc (London)
www.blacksunplc.com
+44 (0) 20 7736 0011