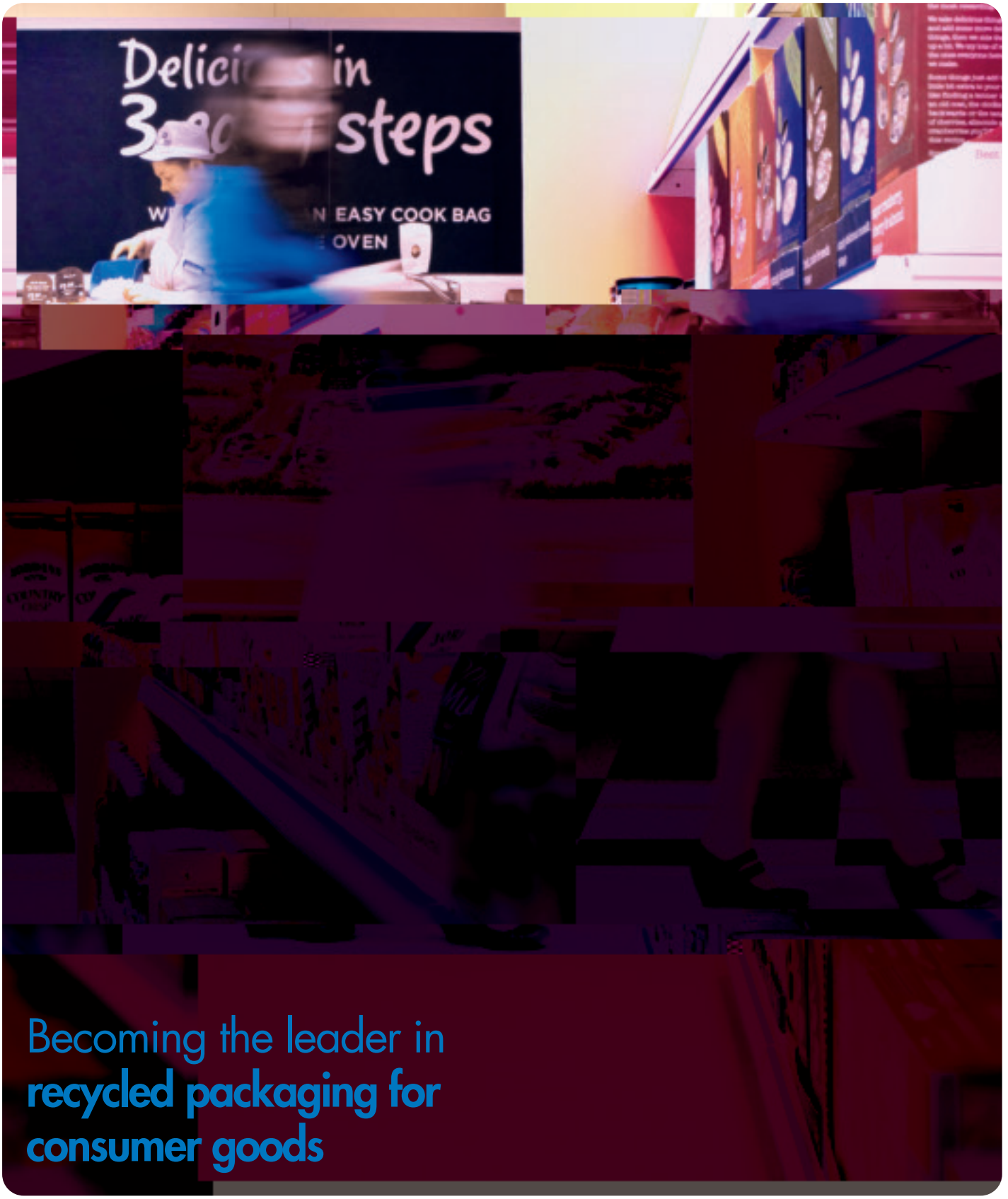
Annual Report 2011

DS Smith Plc



Becoming the leader in **recycled packaging for consumer goods**

We will succeed by focusing on our strategy and through employing our energy and expertise to deliver it.

Miles Roberts, Group Chief Executive

Improving our business mix

p4 to drive growth, reduce cyclicality and improve our return on capital.

Differentiating by adding value

p6 and by focusing on our customers' needs.

A sustainable approach

p31 Our business model is about sustainable solutions. We take our own corporate and social responsibilities seriously.

Effective governance

p40 Full details of our corporate governance approach are set out here.

Strong financials

p60 2010/11 has been a successful year of change for DS Smith. Full details are in these financial statements.

DS Smith Plc at a glance

DS Smith has revenue of £2.5 billion and employs over 12,000 people

Our business

Packaging

DS Smith is focused on becoming the leading supplier of recycled packaging for consumer goods

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DS Smith operates an integrated model in the UK, from waste paper collection, through the manufacture of recycled paper, to the design and production of corrugated packaging.

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! c. ,KKK'

- o1 in the UK for collection of waste paper
- o1 in the UK for recycled paper manufacture
- o1 in the UK for corrugated packaging

DS Smith Packaging FRANCE

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On the continent we have corrugated packaging manufacturing in France, Italy, Poland, Czech Republic and Slovakia. Our footprint in France has expanded this year with the acquisition of Otor, now DS Smith Packaging France. We also have an associate corrugated packaging business in Ukraine.

.~ million
! c4 , KK'

- o1 in France for corrugated packaging supplied to fast moving consumer goods (F CG) customers
- o1 in Ukraine for corrugated packaging
- Strong local positions in Italy, Poland and Slovakia

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DS Smith focuses on two plastic packaging markets:

- Returnable transit packaging (RTP), which are reusable container and pallet systems, extruded sheet, and bottle crates;
- Liquid packaging and dispensing (LP&D), being the bags and taps for bag-in-box packaging systems.

million
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- leading European supplier in the RTP market
- o globally in bag-in-box systems and in ection-moulded taps and dispensers

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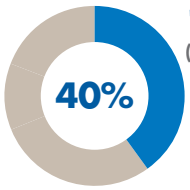

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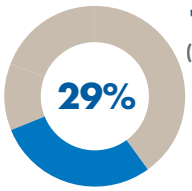
(2009/10: £37.0 million)



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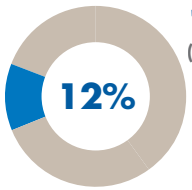
(2009/10: £23.1 million)



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(2009/10: £16.6 million)

Office Products Wholesaling

SPICERS

Spicers is the leading European wholesaler of office products, with leading market positions in the UK, France, Ireland and the Benelux region, and with developing businesses in Germany, Spain and Italy. Spicers provides a wholesaling service to its customer base of office products dealers and re-sellers, who themselves supply small and medium sized offices. Spicers supplies approximately 1 ,KKK' active re-sellers throughout the business, and has a range of over K,KKK' products.

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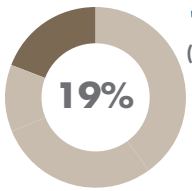

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(2009/10: £21.4 million)

Efficiency

p8 by restructuring and integrating operations.

Developing a winning culture, building on our foundations

p10 to align our people with our strategy and position DS Smith for the future.

Contents

2 Our Strategy

Governance
Introducing the Board of Directors, our

Our Strategy

"When I joined DS Smith in May 2010 I knew that it had the potential to be a great company with much better financial returns for shareholders. Following work with the senior management team, I explained the new strategy for the Group in December 2010. The aim of this strategy is to make DS Smith operate as one business and to transform the profile of our financial returns. DS Smith will be a Group that delivers consistent growth ahead of GDP, has reduced cyclicality, higher margins and a return on capital above our cost of capital. Set out over the next few pages is how we will achieve that."

Our aims

I want DS Smith to deliver financial returns that are sustainable and attractive to shareholders. That means organic volume growth in excess of GDP growth, less cyclicality in profitability and returns, higher margins to make the Group more financially resilient, and consistent delivery of a return on capital above our cost of capital.

In order to evaluate the business, the Group management team have first reviewed our current business mix and critically considered which markets and businesses will provide the sort of sustainable returns that are attractive to shareholders and those that will not. We have then considered how we differentiate ourselves, so that we win in the markets in which we choose to compete, and how we match our offering with our customers' needs. These factors will drive margins and produce greater resilience across the business. Next we have considered the efficiency and effectiveness of the Group, including cost efficiency, capital efficiency and the structure of our business organisation as well as our commercial contracts. We have further considered the culture of the organisation and also how to align our employees with the tasks ahead. Finally, we have considered how to achieve this while minimising implementation risk.

Our focus

The Group aspires to be the leading supplier of recycled packaging for consumer goods. This is the area of the business that we will seek to develop through investment of our time and capital.

In order to achieve this we intend to focus on our packaging business, particularly building on our fast moving consumer goods (FMCG) customers. We will expand our recycling business that supports and is integral to our recycled packaging. We will reduce our exposure to paper manufacturing where it is not aligned with packaging, and look to streamline the Group. We will also realise significant cost and capital efficiencies through changing the organisational structure and ways of working.

The next few pages take you through each of these themes in turn, showing why we think that recycled packaging for consumer goods is the right business to achieve our aims, how we will differentiate ourselves and the steps that we are taking to deliver the efficiency, cultural shift and risk management that we need.

Miles Roberts
Group Chief Executive

How we should be measured

We have set testing targets for the next three years. We aim to satisfy our four stakeholders – customers, employees, the environment and shareholders – by creating a higher margin business with reduced cyclicality, and returns on capital that consistently exceed our cost of capital.

	Metric	FY 2009/10	FY 2010/11	Target
Customer service	On-time, in-full delivery	94%	**96%**	**97%**
Financial	Like-for-like volume growth	Flat	**+3%**	**+3%**
	Return on sales	4.7%	**5.5%**	**6 – 8%**
	Return on capital employed	10.1%	**12.7%**	**12 – 15%**
	Net debt/EBITDA	1.4x	**1.6x**	**≤2.0x**
	Operating cash flow[1]/operating profit	>150%	**125%**	**>120%**
Employee	Accident frequency rate	7.7	**7.2**	**nil**
Environmental	CO_2/revenue (kg/£'000)	426	**369**	**-20% in 10 years**

1 before growth capital expenditure

Overview

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

How our strategy is delivering the financial profile that we aim for

Financial aim	Strategic aim	Achievements in 2010/11
Consistent GDP+ growth	• Drive the use of retail-ready packaging by our FMCG customers • Build our business in Eastern Europe	• Underlying volume growth in packaging +8% • Underlying Group volume growth +3% • Underlying revenue growth +10%
Reduced cyclicality	• Target FMCG customers – who themselves tend to see consistent demand for their products – to reduce volume cyclicality • Reduce exposure to paper production, which is subject to cyclicality in both price and volume • Reduce the price-review period in contracts – to reduce cyclicality in our profits • Increase the recycling business, which tends to deliver consistent returns	• FMCG customer base expanded with Otor acquisition • Consultation started on proposed closure of one paper mill in the UK, potentially reducing annual output by 95 thousand tonnes • Contractual price review periods reduced to four months • Recycling business has started work on its expansion into Central and Eastern Europe
Higher operating profit margins	• Focus on delivering a high quality product differentiated by service, quality and innovation • Improve efficiency	• Operating profit margin up 80 basis points (bps) to 5.5% • Customer service, measured by our Group on-time, in-full performance, up from 94% to 96% • On track to deliver cost savings totalling £20 million from the UK business and from procurement over the next three years
Returns on capital above our cost of capital	• Grow our packaging and recycling businesses, which have higher returns on capital • Reduce working capital by c. £75 million from 8% to 5% of revenue • Reduce the proportion of paper manufacturing in the Group – the most capital-intensive and low return area of the business – where strategically possible	• Otor acquisition moved our business mix towards corrugated packaging • Working capital productivity improved by £24 million • ROACE up 260bps to 12.7%

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We see sustained growth in corrugated packaging for consumer goods

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Recycling gives us access to our raw material

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We will focus on our strategic priorities

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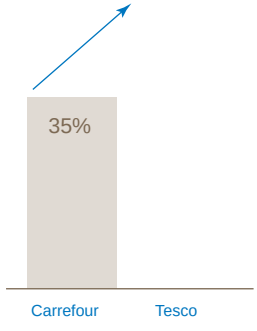

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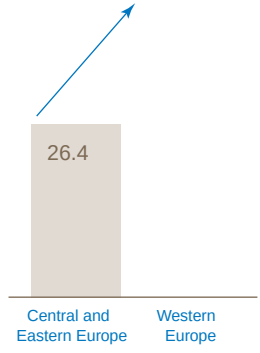

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R-Flute® drives sales, lowers costs and reduces carbon emissions

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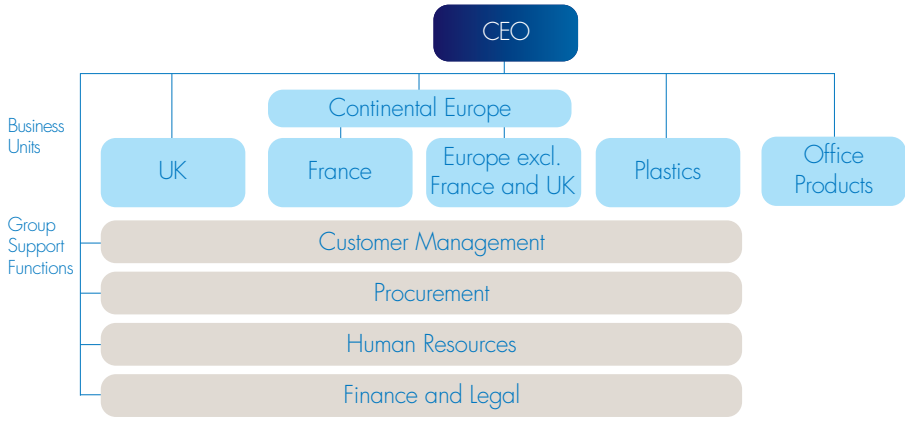
A new structure to support the business functions...



...and to drive financial performance

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to align our people with our strategy and position DS Smith for the future.

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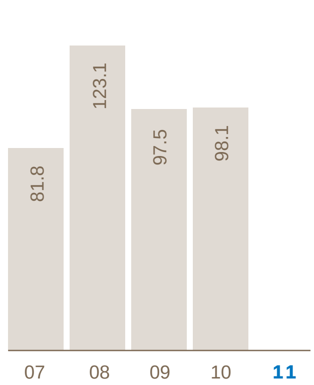
We have had a strong year and our focus on recycled consumer packaging is proving successful:

• Turnover up 19.5becNkoNbhoNbucNkoNbscNNJ M lolnNgkhljjjkNdi • RNb0cNnrmoqkNI iNkOmqN–M Nb cNhlscNkoNbscNko

Adjusted operating profit

£136.1m

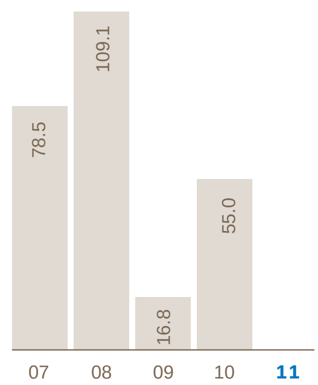
2010: £98.1m



Profit before tax

£102.2m

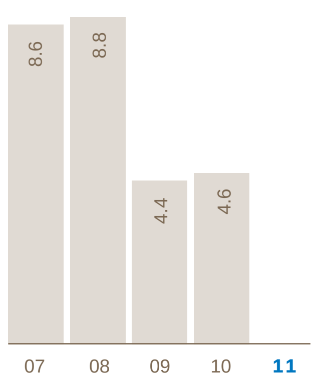
2010: £55.0m



Total dividend per share

6.5p

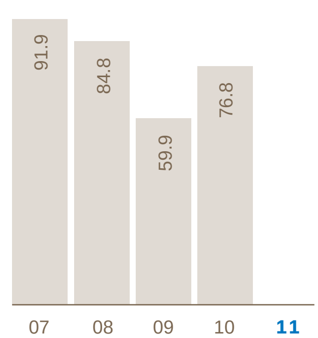
2010: 4.6p



Free cash flow

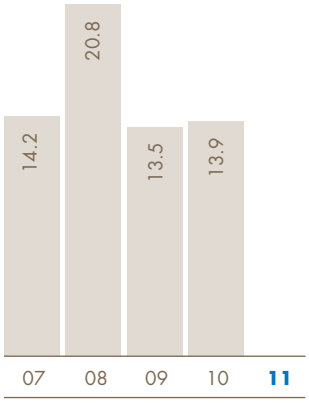
£100.7m

2010: £76.8m



Adjusted earnings per share

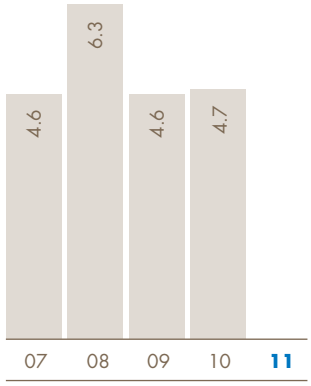
18.9p
2010: 13.9p



Definition
Earnings divided by weighted average number of shares, adjusted to exclude amortisation and exceptional items

Adjusted return on sales

5.5%
2010: 4.7%



Definition
Adjusted operating profit as a percentage of revenue

Target
6% – 8%

Adjusted return on average capital employed

12.7%
2010: 10.1%

Definition
Adjusted operating profit as a percentage of average monthly capital employed

Target
12% – 15%

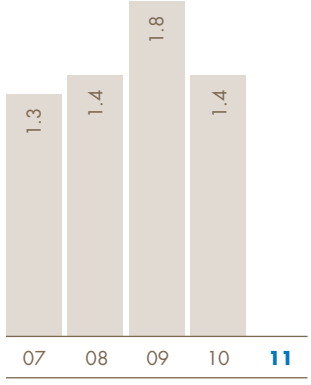
Weighted average cost of capital

11.0%
2010: 11.8%

Definition
Weighted average of the cost of medium term debt and cost of equity

Net debt/EBITDA

1.6 times
2010: 1.4 times



Definition
Net debt as a ratio to EBITDA, including a full year of EBITDA for all acquisitions

Target
≤2.0x

Chairman's Statement

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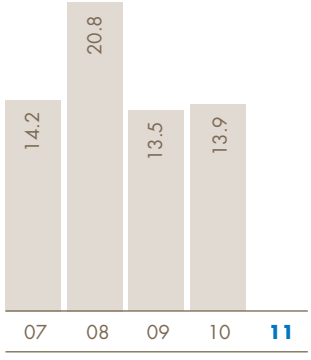
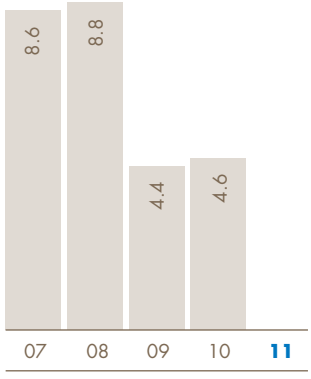
Adjusted earnings per share

18.9p
2010: 13.9p



Total dividend per share

6.5p
2010: 4.6p



I am delighted to report on the considerable progress achieved during 2010/11 under our new Group Chief Executive, Miles Roberts, who joined on 4 May 2010. Trading performance improved significantly, a new and ambitious strategic vision was set, performance measures are established which will generate significant shareholder value, and major corporate developments have been delivered, not least the acquisition of Otor in France.

Corporate developments and strategy

In July 2010 we announced that DS Smith had agreed to purchase Otor, a leading packaging business in France. The acquisition was completed on 1 September 2010. To maintain prudent levels of debt, we issued an additional 39.3 million shares at the time of agreement. This share issue was heavily oversubscribed and placed at a discount of less than 1% to the opening share price on the day. The combined operations in France have been re-branded as DS Smith Packaging France under a management team drawn from both businesses. This transaction has exceeded our expectations both in terms of financial returns and the support we have received from customers.

In December 2010 Miles presented his strategic vision for the Group to our investors. That vision is set out in the preceding pages of this document and will transform the financial profile of the business. The management team have made a strong start in implementing the plan and the results for the year show that this strategy is already yielding results. The Otor acquisition, though it pre-dated the strategic announcement, fits squarely into the vision, as it accelerates our leadership in corrugated packaging solutions for consumer goods customers.

Trading performance

The restructuring and repositioning of the DS Smith Group in the recent difficult years has enabled us to benefit fully from the recovery in the European economy. Our focus on fast moving consumer goods customers, central to the Group's strategy, has served us well as we report like-for-like volume growth of 8% in our packaging business for the year. This growth, together with the benefits of tight cost control, resulted in an adjusted operating profit

of £136.1 million, an increase of 38.7% year-on-year, or 20.0% excluding the benefit of the Otor acquisition. This improvement has been achieved despite significant input cost increases, which we have recovered through pricing. Adjusted earnings per share rose 36.0% to 18.9 pence (2009/10: 13.9 pence).

Dividend

The Board considers the dividend to be an important component of shareholder returns. As part of the review of business strategy, we re-defined our dividend policy to reflect the expected change in our financial profile. In considering dividends, the Board will be mindful of the Group's debt levels, earnings growth potential and opportunities for profitable growth. To sustain a progressive dividend policy, the Board anticipates that dividend cover should average 2.0 to 2.5 times through the cycle.

Accordingly, the Board recommends a final dividend for the year 2010/11 of 4.5 pence per share which, together with the interim dividend of 2.0 pence, gives a total dividend for the year of 6.5 pence (2009/10: 4.6 pence). This represents an increase of 41.3% over the prior year, a cover of 2.9 times in relation to our adjusted earnings per share (2009/10: 3.0 times), and is a significant first step towards our target.

Board changes

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

In addition to welcoming Miles Roberts, our Group Chief Executive, at the start of the financial year, we have had two other Board changes. We are delighted that Gareth Davis joined the Board on 1 June 2010, having previously been Chief Executive of Imperial Tobacco PLC from 1996 to 2010. He also is Chairman of Wolseley plc and of William Hill PLC. As expected, he has brought a great deal of vigour as well as highly relevant experience to the Board discussions.

Bob Beeston retired from the Board in December 2010 having served for ten years, for much of that period as Senior Independent Director. I would like to thank him for his ceaseless challenge and support.

I am also pleased to congratulate another non-Executive Director, Philippe Mellier, on his appointment as Group Chief Executive Officer of De Beers.

After ten years as our Company Secretary, Carolyn Cattermole will be leaving the Group on 30 June 2011. I would like to thank her for the tremendous support she has given the Board and particularly me over these years and wish her well in her future career. I am pleased to report that Matthew Jowett will be joining the Group as Company Secretary and General Counsel, taking over the role from 1 July 2011. He brings substantial international and business experience and we look forward to working with him.

Finally, on behalf of the Board, I would like to thank all our colleagues across the business for their continued hard work and commitment. It has been their support for our efforts to recover rising input costs and sustain growth by focusing on delivering the service, quality and innovation our customers demand that has enabled us to deliver our profit performance.

I am confident that the coming year will be one of considerable further progress.

Peter Johnson
Chairman

Operating Review
Group Chief Executive's Statement

Overview
In the year to 30 April 2011 DS Smith grew revenue by 19.5% (10.0% excluding Otor, the French corrugated packaging business acquired on 1 September 2010), improved adjusted operating profit margin by 80bps to 5.5% (2009/10: 4.7%) and increased adjusted operating profit by 38.7% (20.0% excluding Otor) to £136.1 million (2009/10: £98.1 million).

The Group increased its market share in its key markets and recovered rising input costs in line with our expectations. This progress was achieved by focusing on what matters to our customers – service, quality and innovation – and relentless attention to pricing for input cost recovery.

This has also been a year of significant change for the business, with initiation of our new strategy – to become the leading supplier of recycled packaging for consumer goods – in December 2010 and the acquisition of Otor. With this acquisition we are now the leading supplier of corrugated packaging for fast moving consumer goods (FMCG) customers in France. Otor has also brought with it a number of patented innovations that are now being offered to our customers throughout the Group.

The Group was strongly cash generative in the year, with free cash flow of £100.7 million (2009/10: £76.8 million). Net debt increased by £111.5 million to £351.0 million (2009/10: £239.5 million) due to expenditure of £203.2 million to purchase Otor (including acquired net debt), partly offset by strong operating cash flow and funds raised through the issue of equity in July 2010.

I am very pleased to report that the Group's adjusted return on average capital employed (ROACE) increased substantially in 2010/11 to 12.7% (2009/10: 10.1%), exceeding the Group's estimated cost of capital of around 11.0% on the current business mix. This reflects the improved profitability of the Group and a significant focus on capital management. Divisional management now have their remuneration aligned to return on capital measures as well as to profit.

Delivery against our strategic goals
In December 2010 I set out our strategy to become the leading supplier of recycled packaging for consumer goods, and the resultant expected improvement in our medium-term financial performance. I am pleased that these results demonstrate an encouraging first step towards our financial goals. I also said that we would deliver our strategy through focusing on improving our business mix, differentiating ourselves from our competition, and at the same time concentrating on our efficiency, culture and implementation risk management.

Cost and carbon savings for Kellogg's Nutri-Grain

R-Flute® has helped to achieve consumer impact and significant savings in cost and carbon for Kellogg's Nutri-Grain range. A previous pack was reported to look 'washed out'. The new R-Flute® pack stands out on the shelf, and is easy to find back-of-store, helping to drive on-shelf availability. The change to R-Flute® means that Kellogg's receives 911 fewer pallets of inbound packaging, equating to a massive 24 full loads per year.

24 full lorry loads saved per year

I have been pleased with the progress we have already made on implementing our strategy over the year.

With regard to business mix, the biggest change has been the acquisition of Otor, which transforms our focus on FMCG customers in continental Europe and raises the proportion of revenue from FMCG customers across the packaging business. Our recycling business, another key area for growth, has made considerable progress developing its activities organically in the UK and undertaking preparatory work in Central and Eastern Europe, in advance of further expansion. Our capital expenditure has been applied in line with our strategy, with 80% of our net capital expenditure spent in either packaging or recycling.

We have also made progress in reducing our involvement in non-integrated paper manufacturing, which is also part of our strategy to change our business mix. As previously announced, we plan to reduce our net capacity by c. 250 thousand tonnes per annum. We are making progress on this objective and have announced the commencement of consultation regarding the proposal that we close a UK paper mill and make an investment in our Kemsley Mill, with capital expenditure in line with depreciation, to make high performance papers to support our growing recycled retail-ready packaging offering across Europe. Together, these proposed changes would reduce output by approximately 95 thousand tonnes per annum whilst maintaining Kemsley's position as one of the most efficient production sites across Europe, offering leading standards of service, quality and innovation.

The Group has focused on its customer differentiation over the year, with customer service, as measured by the proportion of orders delivered on-time, in-full (OTIF), now a key performance measure for all parts of the Group. While many parts of the Group were already providing excellent service, considerable focus has been given to this area resulting in our Group average OTIF now standing at 96%, up 2% from 94% at the end of the prior year. We believe that this focus on customer service has been instrumental in growing our packaging volumes ahead of growth in the market as a whole.

The Otor acquisition has broadened the range of innovative designs we are able to offer as Otor brings with it 50 patents and 10 licences. Our UK business has its own innovative packaging products and materials, most notably R-Flute®, a thinner corrugated board ideal for retail-ready packaging. We have begun the work to integrate our innovation know-how to leverage it across the Group. Corrugating equipment to manufacture R-Flute® is now being rolled out in continental Europe.

In terms of efficiency, we are on target to deliver the planned cost savings, as previously announced, totalling £20 million (£10 million per annum by 30 April 2014, from improving the effectiveness of the UK operations and £10 million per annum by 30 April 2012 from co-ordinated procurement). In the current year 2011/12 we expect to see a £3 million benefit from UK efficiency savings and a £6 million benefit from procurement (split equally between operational expenditure and capital expenditure). We are also now able to increase our estimate of the cost savings we expect from the Otor acquisition from our original estimate of €9.3 million to €13.0 million (currently equivalent to £11.6 million), and we expect those savings to be delivered by April 2013, one year earlier than originally expected. With regard to capital efficiency, as at 30 April 2011 we had achieved an improvement in working capital of c. £24 million.

Our actions to reduce cyclicality in our profits and margins, through changes to our pricing review periods within customer contracts, have progressed to plan. The average price renewal period in the UK and continental Europe, excluding Otor, is now at four months, down from six months, meaning that we can recover rising input costs more promptly. We expect to make continued progress on this as contracts come up for renewal.

Whilst I am pleased with the progress to date, I believe that there is substantially further to go to realise the full potential of the Group. Over the coming year, I plan to focus further on business mix – building the recycled packaging business in our target regions and reducing non-core activities. The actions to improve our differentiation through service, quality and innovation are now underway and we continue to pay significant attention to pricing to recover rising costs. On efficiency, engaging our people and risk management, I have been very encouraged by the first steps and expect further ideas for improvement to arise as our management teams develop their work in these areas.

Our people

DS Smith employs dedicated, skilled, hard-working people and I have been delighted with the effort and commitment shown in the past year by our employees. We have put in place this year a number of programmes to support the development of our people to fulfil their potential, such as appraisal and talent management programmes. We have undertaken an extensive two-way communication programme to explain our goals and to listen to the issues faced by our employees in delivering to our customers. The feedback from this has been very constructive. I would like to thank them all for their efforts.

Outlook

The strong momentum in the business seen at the end of the prior year is continuing into the current financial year, where trading has started very well. The Group expects to continue to make further significant progress towards its financial objectives in the financial year 2011/12, with our confidence in the future reflected in the decision of the Board to increase the dividend by 41.3%. This progress is driven by the successful integration of Otor combined with the continued implementation of our proven strategy.

Operating Review
UK Packaging

	2010/11	2009/10
Revenue – £m	**917.7**	750.2
Adjusted operating profit – £m	**54.2**	37.0
Adjusted return on sales – %	**5.9**	4.9
Adjusted return on average capital employed – %	**10.3**	6.9

Market and business background

- In the UK, DS Smith operates three businesses, being corrugated packaging, paper manufacturing and waste paper collection. We operate from 28 corrugated packaging factories, 4 paper mills and 15 recycling depots.
- DS Smith in the UK manufactures c. 1.125 billion m^2 of corrugated packaging and board; the UK market size is estimated at c. 4.1 billion m^2. We also manufacture c. 770 thousand tonnes of corrugated case material (CCM) (the UK market is estimated at c. 2.1 million tonnes) and we make an additional c. 260 thousand tonnes of other paper grades, principally plasterboard liner. Of the CCM that we manufactured in 2010/11, approximately 300 thousand tonnes was used within our packaging business.
- DS Smith Recycling collects c. 1.8 million tonnes of old corrugated containers and other used paper per year, the majority of which is used by our recycled paper manufacturing operations. The market size for all types of recycled materials in the UK is 7.9 million tonnes.
- Our customer base for our corrugated box products is approximately 75% FMCG, with our largest UK Packaging customer comprising under 3% of the revenue of the division.

Packaging

The market for corrugated packaging in Europe grew 3% year-on-year (Source: FEFCO (European Federation of Corrugated Board Manufacturers), year to 31 March 2011) with growth in the UK market being 1% for the same period. We have been able to grow ahead of the market due to our strategy of focusing on recycled packaging for FMCG customers.

Volume growth of 8% across the packaging businesses (excluding the impact of Otor) was achieved through our approach to winning and retaining business by delivering high levels of customer service, quality and innovation which enabled us to gain new customers and expand our position with existing customers.

Increases in input costs have been substantial, with, for example, the market price of recovered fibre rising year-on-year by 75%. Our total input costs in the Packaging business have increased 26% year-on-year, and we have raised prices to recover these costs. Our profit performance, with improved return on sales margins, demonstrates the discipline that has been employed in cost recovery and the mix benefit from the higher proportion of FMCG business. We have been successful in recovering our costs due to the constructive commercial relationships we have with our customers, where our ability to meet their high standards has been instrumental in differentiating our packaging offering.

UK Packaging

Our UK Packaging operations, which include our recycling business, UK paper manufacturing and our UK corrugated packaging businesses, have delivered revenue growth of 22.3%, driven by volume growth as well as pricing to recover rising costs. The resilience and growth demonstrated by our FMCG customers has provided an attractive market, which we have targeted with our focus on service, quality and innovation.

For example, this year has seen the successful commercialisation of the innovative R-Flute® design, offering our customers optimised performance whilst minimising material content and thickness, with commensurate savings in transportation and storage costs. Some of our major customers have converted entirely to R-Flute®. The UK corrugated packaging business has maintained its high levels of customer service, which has enabled us to expand our position with key customers.

In the recycling business, annual sales volumes grew 5.5% on the previous year. During 2010/11, we gained additional business from an existing large retail customer such that we are now their sole collector of fibre in the UK; this position was won due to our service and our carbon impact analysis tool. We are currently working with a number of our large retail customers to deliver front-of-store recycling collection services; again, we won this business due to our commitment to high standards of service.

The UK paper business has given significant attention to improving its service levels, with their OTIF performance increasing substantially over the course of the year. The business has also invested in improving its customer management procedures. The paper business has seen good year-on-year progression, particularly at our major plant at Kemsley.

The UK Packaging business has undergone structural change in the year with the recycling, paper and corrugated packaging businesses now all managed as a single enterprise in order to support the corrugated packaging activities. The recycling business is now rebranded as DS Smith Recycling (formerly Severnside Recycling) and the paper business is now DS Smith Paper (formerly St Regis). The UK Packaging business is run by a new Divisional Chief Executive who is leading a programme to make the UK operations more effective and cost efficient, with a target to achieve £10 million annual savings from improved effectiveness by April 2014.

Adjusted operating profit margin in the UK Packaging business increased 100bps to 5.9% (2009/10: 4.9%) and adjusted operating profit increased 46.5% to £54.2 million (2009/10: £37.0 million). ROACE improved to 10.3% (2009/10: 6.9%) reflecting both improved profitability and a reduction in working capital.

Looking ahead to 2011/12, we are confident that our chosen target market of FMCG customers will remain resilient. Collaborative action within our business will deliver further innovation, closely aligned to our customers' needs. For example, adaptation of Otor's extensive range of design and technology will offer valuable new options for UK customers. Our recycling business expects to expand further overseas and we expect to extend our coverage to customers in France, Hungary and Poland over the course of the financial year.

Cadbury Nibbles

DS Smith together with customer Cadbury won the Retail-Ready Packaging award at the UK Packaging Awards in November 2010 for the Cadbury Nibbles box. The judging panel said it was "a perfect example of how retail-ready packaging benefits the brand, supermarket and, importantly, the consumer".

Award Winning Packaging

Operating Review
Continental European Corrugated Packaging

	2010/11	2009/10
Revenue – £m	**599.4**	355.4
Adjusted operating profit – £m	**39.8**	23.1
Adjusted return on sales – %	**6.6**	6.5
Adjusted return on average capital employed – %	**12.5**	12.0

Market and business background

- The market for corrugated board across continental Europe is estimated at c. 30 billion m^2 (Source: FEFCO (European Federation of Corrugated Board Manufacturers)) of which France and Poland comprise c. 15% and c. 7.5% respectively.
- Our continental European business now includes the operations purchased as part of the Otor acquisition. In total we now have 27 sites throughout Europe, in France, Italy, Poland, Czech Republic and Slovakia. DS Smith in continental Europe produces c. 1.3 billion m^2 of corrugated board on an annualised basis. DS Smith also manufactures recycled paper, with annualised output of c. 300 thousand tonnes, approximately half of which is CCM, largely used by our corrugated packaging operations, and the remainder is solid board, sold externally.
- Our customer base for our corrugated packaging is 65% FMCG, with our largest customer in continental Europe comprising under 4% of the revenue of the division.

Revenue for the period was up 68.7% (up 13.2% excluding the eight months' contribution from Otor), and volumes were up 8.7% year-on-year, excluding the contribution from Otor. Pricing increased to recover rising input costs. Our service levels remained consistently high, facilitating our ability to recover costs promptly.

Otor was acquired on 1 September 2010 and the two principal DS Smith corrugated packaging sites previously owned in France are now combined with the six principal sites from Otor, run as one business under the name DS Smith Packaging France. In the eight months of ownership, Otor delivered an adjusted operating profit margin of 9.4% and an annualised return on invested capital (being the return on the consideration paid plus debt assumed on acquisition) of 13.6%. The integration is now expected to deliver cost savings of €13.0 million (estimated at €9.3 million at the time of acquisition) by April 2013 (currently equivalent to £11.6 million and £8.3 million respectively). €3 million (£2.7 million equivalent) has been delivered in the financial year 2010/11 and we are confident of delivering the targeted savings in full.

Whilst the acquisition due diligence had led us to expect some commercial synergies, we have been very pleased by the commercial response and pace of synergies, with existing Otor customers now buying from the wider DS Smith network, and with DS Smith customers expanding their position with us in France.

In Poland and Italy we have invested in printing machinery to deliver higher value-added products, and these businesses have continued to deliver strong returns in the year. In Ukraine, where we operate as part of a joint venture, volume and revenue growth has been good with effective cost recovery, due to a mix of improved performance from local customers and from servicing international customers.

Adjusted operating profit margin of the division is up 10bps due to the mix benefit of Otor, partially offset by the usual c. three month delay in cost recovery in some parts of the business. Adjusted operating profit increased 72.3% and ROACE is up 50bps to 12.5% due to the mix benefit of Otor.

Looking ahead to 2011/12, we expect to see continued pressure on costs and consequently will continue to seek to recover these, securing our position with customers by the excellent service and innovative solutions that we offer. We will also be rolling out further innovation with corrugators in France now equipped to make R-Flute® and there are plans to extend this capacity to our operations in Poland.

High specification design

This 8 corner box for retail-ready display was developed for Lactalis "President" camembert boxes to allow the product to be transported flat and displayed vertically. The box is specially designed to be packed at 35 cases per minute and is constructed to enable easy cooling of the products as they are packed warm. It is also eco-friendly as the new packaging represents a 10% weight saving and fits 20% more products on each transport pallet.

20% more on each transport pallet

Operating Review
Plastic Packaging

	2010/11	2009/10
Revenue – £m	**242.2**	231.3
Adjusted operating profit – £m	**16.9**	16.6
Adjusted return on sales – %	**7.0**	7.2
Adjusted return on average capital employed – %	**14.9**	13.4

Market and business background

- Our Plastic Packaging division comprises returnable transit packaging (RTP) and liquid packaging and dispensing (LP&D) products.
- RTP is used across the retail, automotive, electronics and beverage sectors, with demand being driven by overall industry activity levels. It operates from 10 locations in the UK, France, Belgium, Spain, Poland and Slovakia.
- LP&D is used in the beverage sector, for alcoholic, dairy and fruit-based soft drinks, plus use in industrial solutions such as oils and in-home and personal care products, such as laundry detergents. The global market for LP&D products is estimated at £500 million. DS Smith has a number 2 position in the global market, with a particularly strong position in the US. It operates from 11 manufacturing locations in the UK, USA, Germany, France, Bulgaria, Slovakia, Russia, Australia and New Zealand. Our Plastic Packaging business also includes StePac, based in Israel, which makes specialised modified atmosphere packaging for the transportation of fruit and vegetables.
- Plastic Packaging has a diverse customer base, with the largest customer comprising c. 3% of the revenue of the division.

Revenue grew 4.7% and adjusted operating profits increased by 1.8% year-on-year. Excluding the disposal of the Demes business in January 2010, revenue grew 11.0% and adjusted operating profit grew 8.6%. Revenue growth was driven by volume growth of 9.4%, and price increases to cover rising input costs. The business has grown its volumes through a focus on commercialising its innovative products, marketed at the retail, FMCG and fast-food sectors. For example, the LP&D business has brought out a number of new products, such as bag and tap solutions for serving beverages, which has driven sales to existing key customers. The returnable transit packaging business has continued to make consistent progress, benefiting from prior year cost reductions and commercialisation of a new innovative mobile pallet solution for retailers. The adjusted operating profit margin remained high at 7.0% and ROACE is excellent at 14.9% due to improved working capital.

Collaborative design

DS Smith Plastics has developed an innovative bag-in-box solution for Millers Oil premium oil range. The design of the pack with a tamper proof, twin walled, sealed bag placed within a branded cardboard box makes it easier to handle, stack and transport, while the sturdy box offers additional protection for the contents. The easy-access tap ensures safe dispensing with no glugging and minimal spillage and product waste. These benefits make the pack highly practical in a workshop environment. The bag, box and tap are all made by DS Smith.

All made by DS Smith

Operating Review
Office Products Wholesaling

	2010/11	2009/10
Revenue – £m	**715.2**	733.7
Adjusted operating profit – £m	**25.2**	21.4
Adjusted return on sales – %	**3.5**	2.9
Adjusted return on average capital employed – %	**22.4**	17.9

Market and business background

- The office supplies markets in the UK, France, Germany and Benelux are estimated at £6.8 billion, €9.8 billion, €13.3 billion and €4.5 billion respectively. Spicers has a number one position in the UK and France, a strong position in Germany, particularly in non-electrical office supplies, and is the leading wholesaler in Belgium. The dealer and re-seller market that Spicers addresses comprises c. 35% of the total office products markets in the countries in which Spicers operates.
- Spicers operates from a network of 21 distribution centres based in the UK, Ireland, France, Benelux, Germany, Spain and Italy.
- Spicers sells to 15,000 active re-sellers and stocks up to 20,000 product lines.

Revenue in constant currency was broadly flat year-on-year, with a strong performance in continental Europe offset by more challenging trading conditions in the UK. Successful initiatives during the year included further expansion of our facilities management product range, and further extension of our own label brand 5 Star. Our popular Calipage dealer formula has been rolled out into Germany and we now have c. 500 Calipage dealers in Europe. The management team has been strengthened, including a new Divisional Chief Executive. Profit was up 17.8% to £25.2 million (2009/10: £21.4 million) due to tight cost control, particularly in the UK, and initiatives based on the strategy to supply "everything for the office". Adjusted operating profit margin increased to 3.5% (2009/10: 2.9%) showing the benefits of a disciplined approach to margins achieved through a combination of product mix and pricing. The business has made targeted investments to improve its supply chain efficiency, which have been more than funded by continued improvements in working capital.

In 2011/12 the business will continue to focus on its service levels to customers, realising cost efficiencies and margin management.

Calipage roll-out

Calipage is growing across Europe as we initiate a range of marketing programmes in Benelux, France, Spain and Germany. In April 2011 we launched our new integrated e-commerce platform in France, Calipage.com.

c. 500 Calipage dealers

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The Group has achieved a strong financial performance despite an environment of significant input cost pressures. The results reflect the success of our pricing strategy to recover increased input costs faster and incorporate the eight months' results from the acquisition of Otor. Excluding Otor, our underlying adjusted operating profit (excluding amortisation and exceptional items) increased by £19.5 million compared to 2009/10. Otor generated adjusted operating profit of €21.7 million with a return on sales of 9.4% and an annualised return on invested capital of 13.6%. Free cash flow was higher than in 2009/10 due to improved management of working capital despite the impact of price increases and higher volumes.

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The Group's trading results for the year to 30 April 2011 are summarised in Table 1.

The major drivers of the 2010/11 results were: improved performance in our UK Packaging businesses, the acquisition of Otor in September 2010, and an improvement in performance from the Office Products Wholesaling segment.

Revenue for the financial year ended 30 April 2011 increased by 19.5% compared with the prior year; it was 15.3% higher in the first half of the year and 23.5% higher in the second half. Excluding the effect of the acquisition of Otor, revenue was up 10.0% on 2009/10.

Adjusted Group operating profit in 2010/11 increased by £38.0 million. UK Packaging was up by £17.2 million at £54.2 million, whilst Continental European Corrugated Packaging increased by £16.7 million to £39.8 million, of which Otor accounted for £18.5 million offset by the loss of profit from the disposal of the Group's business in Turkey. This performance was supported by Plastic Packaging which increased operating profit by £0.3 million to £16.9 million, and Office Products Wholesaling which was £3.8 million ahead of last year at £25.2 million. The Group's adjusted return on sales increased by 80 basis points to 5.5%.

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Group Finance Director

The Group's adjusted pre-tax return on capital employed (which is defined as the adjusted operating profit divided by the average capital employed) increased from 10.1% in 2009/10 to 12.7% in 2010/11, above the Group's estimated pre-tax cost of capital of 11.0%. The increase in the Group's return on capital employed reflected higher returns in 2010/11 across all of our business segments.

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The Group recorded net exceptional gains before tax of £1.2 million during the year (2009/10: charge of £13.3 million). A curtailment gain primarily arising from the closure of the UK defined benefit pension scheme of £35.3 million has been recorded as exceptional income.

Restructuring costs were £8.4 million. Impairments included the impairment of the carrying value of fixed and intangible assets within UK Packaging of £14.3 million on certain under-performing assets and the impairment of intangible assets within Plastic Packaging of £1.6 million.

Costs related to the acquisition of Otor were treated as exceptional items amounted to £7.2 million. The disposal of the Group's business in Turkey and the sale of certain small packaging businesses in the UK resulted in a net loss of £2.6 million.

Operating profit after exceptional items was £129.4 million (2009/10: £80.7 million).

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Net interest expense increased from £14.4 million in 2009/10 to £19.8 million in 2010/11, mainly reflecting increased net debt following the Otor acquisition. The employment benefit net finance expense, which is a non-cash item, was £7.4 million (2009/10: £11.5 million), reflecting a lower opening deficit on the defined benefit schemes. For 2011/12, due to the reduction in liabilities following the closure of the UK pension scheme to future accrual, it is anticipated that there will be a further decrease in the employment benefit finance charge to c. £3.0 million.

In 2008/09 the Group took the decision to impair fully its investment in Rubezhansk, the Group's associate business in Ukraine. Consequently, the Group has not recorded any income in respect of profit achieved by the business. Negotiations are continuing between Rubezhansk and lenders regarding the restructuring of Rubezhansk's US$80 million loan. There is no recourse to the Group for the loan held by Rubezhansk.

Adjusted profit before tax (excluding amortisation and exceptional items) was £108.9 million (2009/10: £72.4 million). Profit before tax after amortisation and exceptional items was £102.2 million (2009/10: £55.0 million).

The Group's effective tax rate, excluding exceptional items and associates, at 28.2%, was higher than the previous year's rate of 26.1% mainly as a result of higher profits arising in France. A tax credit on exceptional items of £2.7 million resulted from tax allowances for restructuring costs, and a tax credit of £4.1 million for asset impairment. The curtailment gain on the closure of the pension scheme gave rise to a £9.8 million exceptional tax charge.

Adjusted basic earnings per share were 18.9 pence (2009/10: 13.9 pence). Basic earnings per share were 16.6 pence (2009/10: 9.7 pence).

with 6.9 times last year. The higher cover reflected the higher adjusted operating profit. The ratio of net debt to EBITDA (before exceptional items) was 1.6 times (2009/10: 1.4 times). This includes a full year for EBITDA from Otor, as specified in the Group's borrowing agreements.

The Group's banking covenants for the syndicated loan and the private placements specify an Adjusted Interest Cover of not less than 3.0 times, a maximum ratio of net debt to EBITDA of 3.25 times and net assets to be in excess of £360 million. The covenant calculations exclude from the income statement exceptional items and the net interest income/charge arising from the defined benefit pension schemes. The calculation of net assets excludes the net asset or liability arising from the defined benefit pension schemes. As at 30 April 2011, the most sensitive covenant is the Adjusted Interest Cover and this had an Adjusted Profit headroom of £84.0 million (30 April 2010: £56.6 million).

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The high level of energy costs continued to be a significant factor for the Group in 2010/11. The Group's total costs for gas, electricity and diesel fuel increased from c. £109 million in 2009/10 to c. £126 million in 2010/11. The Group continued with its strategy of hedging energy costs with suppliers and financial institutions, the purpose of which is to reduce the volatility of energy costs and provide the Group with a degree of certainty over future energy costs.

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

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

The Group's main borrowing facilities are shown in Table 3. At 30 April 2011, the Group's total committed borrowing facilities were £727.4 million. The total gross borrowings (including the impact of cross-currency swaps) drawn under all these facilities at the year end was £422.1 million. At 30 April 2011, the Group's borrowing facilities had a weighted-average maturity of four years and two months.

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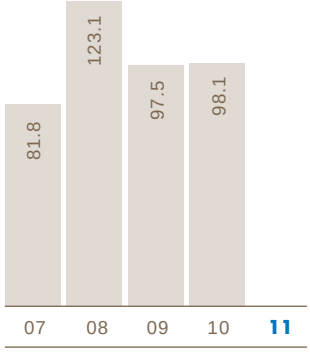
Facility	Committed funds million	Maturity
Private placement	US$105.0	2012
Private placement	£25.0	2012
Private placement	US$105.0	2014
Private placement	US$95.0	2016
Syndicated revolving credit facility	£287.5	2013
Syndicated term loan	€81.0	2013
Private placement	€59.0	2018
Private placement	€59.0	2020

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

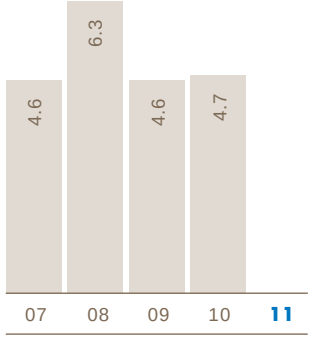
Adjusted operating profit

£136.1m
2010: £98.1m



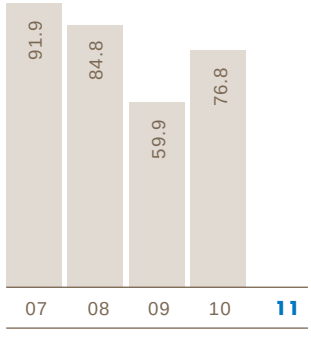
Adjusted return on sales

5.5%
2010: 4.7%



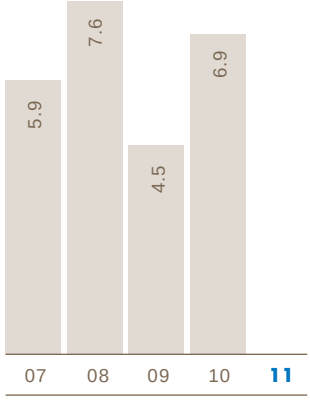
Free cash flow*

£100.7m
2010: £76.8m



Adjusted interest cover

7.6 times
2010: 6.9 times



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under the oversight of the Treasury Committee. UK purchases of energy represent the significant majority of the Group's overall energy costs.

The Treasury Committee regularly reviews the Group's exposure to interest rates and considers whether to borrow on fixed or floating terms. Fixed-rate borrowing, taking into account the effect of related swaps, comprised 58% of total borrowing at 30 April 2011 (30 April 2010: 44%).

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 increased from 76% at 30 April 2010 to 87% at 30 April 2011, as a proportion of the Group's euro net investment.

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

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When applying IAS 36, 'Impairment of Assets', the Group compares the carrying amounts of goodwill and intangible assets with the higher of their net realisable value and their value in use to determine whether an impairment exists. The value in use is calculated by discounting the future cash flows expected to be generated by the assets or group of assets being tested for impairment. At the year-end, a series of tests were undertaken to determine whether there had been any impairment to the balance sheet carrying values of goodwill and other intangible assets. The key assumptions behind the calculations can be found in note 10 to the financial statements. In summary, the tests indicated that the goodwill and other intangible assets of certain small packaging businesses within the UK Packaging and Plastic Packaging segments required impairment by £2.2 million. A further impairment of £1.2 million against research and development assets was recorded within Plastic Packaging.

An impairment of £10.8 million has been made to the fixed assets of certain under-performing paper-making facilities in order to reflect the estimated reduction in the useful economic life of these assets.

Additionally, an impairment of £1.7 million has been made to the fixed assets of a small under-performing packaging business in the UK.

These costs were recorded as exceptional items and in total comprised impairments against intangible assets of £3.4 million and £12.5 million charged to property, plant and equipment. Whilst the Board considers that its assumptions are realistic, it is possible that impairment would be identified if any of the key assumptions were changed significantly. The net book value of goodwill and other intangibles at 30 April 2011 was £344.8 million (30 April 2010: £221.2 million).

Approximately 45% of the carrying value of the Group's goodwill is allocated to UK Packaging, and 39% to Continental European Corrugated Packaging.

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

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

The Group operates one defined benefit pension scheme in the UK, and also has some small overseas arrangements. The aggregate gross assets of the schemes at 30 April 2011 were £731.5 million and the gross liabilities at 30 April 2011, calculated under IAS 19, were £879.0 million, resulting in the recognition of a gross balance sheet deficit of £147.5 million (30 April 2010: £203.1 million), a net deficit of £111.8 million (30 April 2010: £146.1 million) after the establishment of a deferred tax asset of £35.7 million (30 April 2010: £57.0 million). The decrease in the gross balance sheet deficit of £55.6 million was principally due the curtailment gain of £35.3 million arising from the closure of the UK scheme to future accrual, and the actuarial gain of £40.0 million from the change of indexation for future pensions from using the retail price index to using the consumer price index.

In order to better control the future financial obligations of these schemes, the Group's UK defined benefit pension scheme was closed to future accrual on 30 April 2011. The current service cost in 2010/11, amounted to £7.6 million compared with £6.7 million in 2009/10. The Group's annual cash contributions to the main UK scheme were £30.1 million including the service cost of £7.6 million (2009/10: £15.6 million). A triennial valuation of the main UK scheme was carried out as at 30 April 2010. The Group has agreed that cash contributions will in future be £14.8 million per annum, rising by 2% per annum for the remaining 10 years, with a view to closing the deficit within a 10 year recovery period.

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

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Group Finance Director

Risk Management

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

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

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

Key risks

Availability and volatile pricing of raw materials

Impact

In 2010/11 the Group spent c. £925 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, in 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.

Acquisition risk

Impact

The Group aims to grow through a combination of organic investment and acquisition. Were the Group not to be able to find suitable acquisition targets available at prices that enable the Group to achieve its strategic return on capital targets, or were the Group unable to integrate the acquired businesses effectively, this could curtail the growth of the Group.

Mitigation

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

The continued availability of competitively priced borrowing facilities

Impact

The Group has committed facilities of £727 million (30 April 2010: £566.5 million) of which, as at 30 April 2011, £422 million was drawn down. The average interest rate paid in 2010/11 was 5.1%. 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. £4 million.

Mitigation

The average term of the facilities committed is 4.2 years and 58% 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 seven 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 credit rating A or above. In countries where this is not possible, deposits are held with strong local banks.

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

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 tri-ennial valuation of the Group's various pension schemes as at 30 April 2010, of which the UK scheme makes up the largest proportion, estimated the deficit of the schemes to be £147.5 million. While the UK scheme is now closed to future accrual, changes in these assumptions could mean that the deficit increases further.

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 annum, for ten years plus an initial payment of £14.5 million in 2010/11 in addition to a pre-agreed top-up payment of £8.0 million.

Risk Management continued

Key risks continued

Environmental risks

Impact	Mitigation
Were a material environmental incident to occur at a DS Smith site, this could result in material financial costs and reputational damage that could undermine our commercial position as a provider of environmental solutions.	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.

Other risks

Fall in demand

Impact	Mitigation
The profitability of the Group is sensitive to the volume, the mix of sales and product pricing. Over the last three years, the market has proved volatile, and visibility at some points has been limited. A 5% 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.	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 fast moving consumer goods (FMCG) as this sector has historically shown substantially less volatility in demand during periods of economic downturn, than industrial users of packaging.

UK concentration

Impact	Mitigation
Approximately 50% of the Group's revenue and 30% of the Group's operating profit is derived from its operations in the UK. Were the economy in the UK to return to recession, the profitability of the Group could be adversely impacted.	The Group is expanding in continental Europe, notably with the acquisition of Otor on 1 September 2010, which substantially strengthens the Group in France. As set out above, the Group is also focused on FMCG customers, who have historically experienced less volatility in demand for their products than some other industry sectors.

Changes in the UK paper market

Impact	Mitigation
DS Smith is the largest producer of corrugated case material (CCM) in the UK, and also the largest producer of corrugated packaging. 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, which could in turn influence pricing in the corrugated packaging market.	We aim to develop long-standing relationships with our 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. DS Smith has also expanded its business in continental Europe by the acquisition of Otor in France and has a strategy to expand further in continental Europe, therefore diluting our exposure to the UK market. We are also implementing plans to reduce our costs in the UK Packaging division and to improve procurement.

Energy costs

Impact	Mitigation
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 £10 million.	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. We are also taking steps, in partnership with E.ON and Wheelebrator, to develop a waste-to-energy plant on the site of our paper mill at Kemsley. This is going through the planning processes at present. The Group has a range of energy efficiency programmes in place. 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.

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Corporate Responsibility Review

A sustainable approach

DS Smith collects waste paper, 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

2010/11 actions and progress

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

In 2010/11 (excluding Otor):

- Lost time accidents (LTAs) down 9%
- Accident frequency rate (AFR) down 7%
- Accident severity rate down 8%
- 62 sites had no LTAs in 2010/11

Environment

Aims

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

2010/11 actions and progress

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

- Energy usage per £'000s revenue down 9%
- CO_2 emissions per £'000s revenue down 13%
- Water usage per £'000s revenue down 14%
- Waste sent to landfill down to 13% from 14%

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

2010/11 actions and progress

The first Group-wide employee engagement survey was completed in October 2010 with 79% of employees participating – a very high response rate for a first survey.

- A Sharesave Plan has been rolled out to UK employees to facilitate wider ownership of shares among employees. We have plans to extend similar schemes to employees in other regions.

Community involvement

Aims

- Develop and maintain good relations with our local communities

2010/11 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.

- Our businesses work closely with local schools and colleges.
- We participate in liaison groups and hold open days.
- We support good causes in local communities.

Corporate Responsibility Review continued

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.

External recognition for DS Smith in the field of sustainability:

Green Apple Awards 2010:
DS Smith Recycling received the Green Apple Award for Environmental Best Practice "Champion of Champion" prize, in partnership with customer Marks & Spencer, in November 2010. DS Smith Recycling has been working with Marks & Spencer to deliver their "Plan A" environmental initiative.

Financial Times PLC awards 2010:
DS Smith Plc received the award for Achievements in Sustainability at the PLC awards 2010, presented at an awards ceremony in March 2011. The awards recognise achievement among FTSE250 and smaller companies.

Our principles and approach to corporate responsibility

DS Smith aims to deliver attractive and sustainable returns to its shareholders. Our business is the production and supply of recycled packaging – an essential part of the supply chain for many goods. We are also the largest collector of used cardboard and paper in the UK. Our customers look to DS Smith to provide solutions – to reduce both their costs and their carbon footprint – by ensuring optimum performance of the packaging they need. As we help our customers in their businesses reach their environmental targets, we also seek to set high standards within our own business.

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 and general managers of the individual businesses to communicate and to apply the policies, to ensure compliance and to review procedures, taking account of local legislation and potential risks.

The Group has a Workplace Malpractice Policy, under which employees may report in confidence any perceived wrongdoing within the Group on matters relating to safety, the environment, unethical business conduct or breaches of Group policies, the law or other regulations. This policy is reinforced by a confidential Employee Concern Helpline and e-mail facility which we aim to make available to our employees worldwide as local legal and regulatory issues are resolved; to date, it has been extended to employees in nine countries. Any concerns reported are appropriately investigated.

DS Smith continues to be selected as a constituent of the FTSE4Good UK Index of companies deemed to meet globally recognised corporate responsibility standards.

How packaging helps a sustainable society

Packaging is often perceived as a negative part of our economy – filling up our bins, and in turn landfill sites and consuming valuable natural resources. What is less well understood is the role packaging plays in reducing waste, by ensuring that products – for example food, household products or electrical goods – reach us in good condition. For example, it is estimated that in some developing countries 30 – 50% of food does not reach consumers due to wastage, while in the UK less than 3% of food goes to waste between production and retail depot (Source: Industry Council for Packaging and the Environment – INCPEN). In the UK, taking food as an example, the energy used in packaging, on average, is 10% of the total energy input, compared to the energy used in production of the food of over 50% (Source: INCPEN). Therefore it makes sense to use packaging appropriate to the product, in order not to waste the materials and carbon already invested in it.

Packaging is designed to be eye-catching and therefore is something we tend to notice. However, of the average weekly load of household waste in the UK, 18% is used packaging, while waste food comprises 25%. Of that packaging, 85% of it is commonly recyclable (Source: INCPEN).

With the cost of raw materials rising, there are strong commercial pressures to reduce the amount of material in packaging while still delivering the functionality it is designed for. Looking at the UK, the amount of packaging used per person has stayed the same in weight since 1998, despite the increase in consumption since then (source: INCPEN).

Appropriate packaging, therefore, plays its part in a sustainable society by protecting our goods and reducing waste – particularly when that packaging is made from recycled material, and can be fully recycled itself.

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. For example, DS Smith has been developing light-weight solutions for some time. Our latest innovation in corrugated board, R-Flute®, significantly improves the carbon footprint in the supply chain. While it has similar strength properties to alternative types of corrugated board, it is 20% thinner. That means that 20% 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. We have a range of products under our "PackRight" tools that help the design of optimal packaging to help our customers realise these savings.

DS Smith Recycling is the largest collector and recycler of used paper and cardboard in the UK. DS Smith Recycling also collects other types of waste and works with commercial partners to recycle it. 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.

For example, our bag-in-box technology is used for a wide range of products in substitution for rigid plastic containers, bottles, or other packaging formats. 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 64 sites accredited under the ISO 14001 standard and 45 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 (formerly St Regis Paper Company 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. It is appealing against three of the 19 charges, being those charges

Corporate Responsibility Review continued

(and related fines) of intentionally making false entries in a required Environmental Agency record. The appeal is expected to be heard at the Court of Appeal later in 2011. In relation to this incident, DS Smith Paper Limited has received fines totalling £387,100, of which £120,000 relate to the charges being appealed.

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 c. 75% 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% in 2010/11 (2009/10: 94%) principally due to better performance of the effluent treatment plants at both Kemsley and Higher Kings Mills. 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

DS Smith this year has set a target of a 20% reduction in carbon dioxide (CO_2) emissions, water use and of waste to landfill, relative to the activity level of the business, over the next 10 years. Given the businesses activities carried on within the Group the activity metric employed by each part of the business has been chosen to be that which is the most relevant to them. For example, for the corrugated packaging businesses, the relative metric is the quantity of corrugated board produced, in m^2.

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.

On 1 September 2010 the Group acquired the French corrugated packaging business, Otor. Accordingly, the environmental performance figures for the Group in 2010/11 include Otor's operations from that date. This approach has been adopted in order to be consistent with the consolidation of the financial returns from Otor. This is necessary as our relative financial performance measure is revenue, the one common metric across our diverse business.

The Group consumed 9% more energy in 2010/11 compared with the previous year. This increase was almost entirely due to the inclusion of Otor in the business. On a per £'000s revenue basis, energy usage fell 9%, reflecting the change in mix of the business away from energy intensive paper manufacture to less energy intensive corrugated packaging manufacturing, plus the effect of price inflation on revenue. The Group's paper mills reduced their energy usage per tonne of paper produced by 3%, due to improved operational efficiencies at our Wansborough Mill in the UK and increased use of our combined heat and power (CHP) plant at Kemsley. The Group's total water usage was 3% higher than in 2009/10, principally as a result of the inclusion of Otor, but lower relative to revenue by 14%, also reflecting mix and price inflation. The proportion of waste generated by the Group which was sent to landfill fell from 14% to 13%.

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 Wheelebrator, with DS Smith providing the site. Kent County Council gave their agreement for this plant in April 2011. The project is now subject to other consents, principally in relation to environmental permitting by the Environment Agency. If the necessary consents and permits are obtained, it is expected that the plant may be operational by 2016.

Environmental Performance Indicators

	2010/11	2009/10
Energy consumption[1]		
Gigawatt hours	**3,492**	3,212
Megawatt hours/£'000 revenue	**1.41**	1.55
Carbon dioxide (CO_2) emissions[2]		
Scope 1 (direct) emissions – '000 tonnes	**311**	279
Scope 2 (indirect) emissions – '000 tonnes	**604**	602
Total Scopes 1 and 2 emissions – '000 tonnes	**915**	881
Kilograms/£'000 revenue	**369**	426
Water usage		
Million cubic metres	**14.5**	14.2
Cubic metres/£'000 revenue	**5.9**	6.8
Waste management[3]		
Waste recycled – '000 tonnes	**223**	150
Waste sent to landspread – '000 tonnes	**162**	144
Waste-to-Energy – '000 tonnes	**99**	105
Waste sent to landfill – '000 tonnes	**71**	65
Total waste generated	**555**	464
Kilograms/£'000 revenue	**224**	224
% of total waste sent to landfill	**13%**	14%

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 2009/10 and 2010/11.

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

2 The CO_2 emissions have been calculated using the energy data, as defined above. The factors used for converting gas, coal, fuel oil and diesel usage into CO_2 emissions are the latest factors for each year as published by the UK Department for the Environment and Rural Affairs (DEFRA) in the Guidelines to DEFRA's GHG Conversion Factors. The 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. The 2010/11 Scope 1 emissions included 60,000 tonnes (2009/10: 57,000 tonnes) of CO_2 which were associated with the production of electricity which was sold to the grid from one of our CHP plants. Scope 3 emissions from sources external to DS Smith but involved in the supply chains for the Group's products and services are not included.

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

Verification Statement from Bureau Veritas UK Ltd

For the third year we have worked with DS Smith Plc to provide an independent opinion on the Environmental Performance Indicators presented on this page of its 2011 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 is clear that DS Smith Plc is constantly looking to improve these processes; both via internal mechanisms, and as demonstrated in the proactive manner in which the company has continued to engage Bureau Veritas on this project.

As with last year Bureau Veritas encourages DS Smith Plc to continue to improve the monitoring of its performance by initiating a half-yearly review of consolidated performance data.

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 2011
Bureau Veritas UK Ltd
London

Corporate Responsibility Review continued

Health and safety

Safety is our highest priority. In 2010/11 we have made good progress, improving our safety performance in each of our three KPIs.

The safety of our staff and those affected by our operations is our highest priority. In 2010/11 the Group continued to improve its safety performance. Our businesses benchmark their safety performance internally and through the use of external data. Information on safety performance, including statistics related to our key performance indicators (KPIs), is reported to the Board quarterly. The overall goal is to achieve zero accidents and our divisions set interim targets against their KPIs, which reflect the nature of their business and their previous performance. In 2010/11, our continuing emphasis on safety was reflected in a 9% reduction in Lost Time Accidents (LTAs); these are accidents that resulted in one shift or more of working time being lost. There was a 7% reduction in the accident frequency rate (AFR), which measures LTAs in proportion to the number of hours worked. There was an 8% 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 62 of the Group's 128 sites having no LTAs in 2010/11. In the Group's engagement survey, 84% of respondents agreed that health and safety was taken seriously at their workplace.

It was also encouraging that 84% of respondents 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.

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. Further progress in spreading best practice across the Group has been made by integrating safety into the new operational improvement forum. Through this forum, the Group is raising awareness around issues such as re-engineering processes to improve safety, and the safety aspects of procurement decisions.

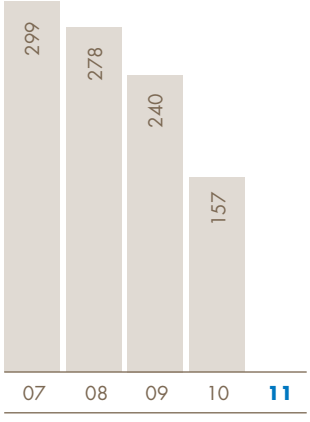
All accidents and situations that might have resulted in an accident are investigated to ensure we learn from these incidents and take steps to prevent a recurrence. In addition to focusing on specific risks, through techniques of risk assessment and root cause analysis, the Group also undertakes extensive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

In 2011/12 the major challenge in health and safety will be the integration of the former Otor businesses. The Otor sites have an AFR over four times higher than the Group average. This represents a very significant challenge, but a comprehensive audit of the Otor sites has been completed and detailed action plans have been developed and are being implemented to transform the safety performance over the coming years.

Safety performance indicators

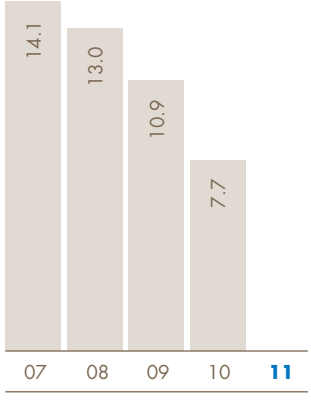
Lost time accidents
Numbers of accidents resulting in lost time of one shift or more

143
2010: 157



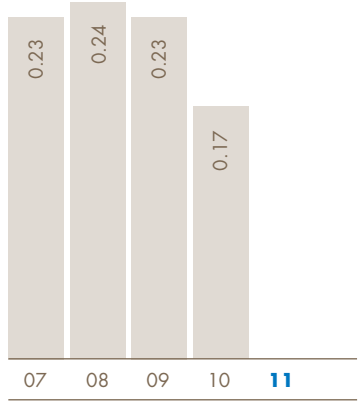
Accident frequency rate
Number of lost time accidents per million hours worked

7.2
2010: 7.7



Accident severity rate
Working hours lost as a result of accidents as a percentage of hours worked

0.15%
2010: 0.17%



Employees

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

Employee engagement is central to the delivery of the Group's strategy. In 2010/11, DS Smith completed its first Group wide engagement survey with 79% of employees taking the time to participate. This is a very high level of participation for a first survey which reflects the dedication and commitment of the Group's employees. The engagement survey is an opportunity to listen to the structured feedback and views of our employees. The results have been analysed and communicated, and priorities for improvement have been identified by management teams with action plans developed for the coming year. A further survey will be completed in 2012 to monitor the progress made against these plans. The Group has also embarked on a programme to communicate and engage all its employees with the new corporate strategy. This programme will ensure that all employees know the Group's vision and values, its strategic goals and the role they can play.

A new Sharesave Plan for UK employees was rolled out in 2011 with the aim of promoting ownership of DS Smith shares amongst employees. There are plans to extend similar schemes to employees in other regions.

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. New recruitment and development initiatives, designed to ensure the Company has the skills available to meet its growth targets, are being implemented. In 2009, DS Smith initiated a two year development programme for c. 70 of its senior business leaders. The programme has been designed and run in partnership with Warwick Business School with bespoke content combining the latest academic thinking with practical application to the Group's businesses.

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

Community involvement

DS Smith actively works with local communities, recognising the position we have in the locations where we operate.

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

Directors

Peter Johnson
Chairman (c)

Appointed to the Board on 8 December 1999 as a non-Executive Director. He became Chairman of the Board on 1 January 2007 and is Chairman of the Nomination Committee. He is a Member of the Supervisory Board of Wienerberger AG and is Chairman of Electrocomponents plc. He was previously a non-Executive Director of SSL International plc, Chief Executive of George Wimpey Plc and prior to that Chief Executive of The Rugby Group PLC. Age 63.

Miles Roberts
Group Chief Executive (b),(c)

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 47.

Steve Dryden
Group Finance Director (b)

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 43.

Christopher Bunker
Senior Independent Director
(a),(c),(d),(e)

Appointed to the Board on 9 December 2003 as a non-Executive Director. He is the Senior Independent Director and until recently was Chairman of the Audit Committee. He was previously Group Finance Director of Thames Water Plc, Tarmac Plc and Westland Group Plc. He is a non-Executive Director of Travis Perkins plc and was a non-Executive Director of Mowlem Plc, Baltimore Technologies plc and Xansa plc. Age 64.

Gareth Davis
(a),(c),(d),(e)

Appointed to the Board on 1 June 2010 as a non-Executive Director and is Chairman of the Remuneration Committee. He is the Chairman of both William Hill PLC and Wolseley plc. He was previously Group Chief Executive of Imperial Tobacco Group PLC. Age 61.

Philippe Mellier
(a),(d)

Appointed to the Board on 7 September 2006 as a non-Executive Director. He will be joining De Beers Group in July 2011 as Group Chief Executive Officer. He is currently President of Alstom Transport and an Executive Vice-President of Alstom Group. Previously, he was Chairman and CEO of Renault Trucks and a Member of the Executive Committee of AB Volvo, and prior to that held senior management positions with Renault S.A. and Ford Motor Company. Age 55.

Jonathan Nicholls
(a),(c),(e)

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 53.

(a) – non-Executive Director
(b) – member of General Purposes Committee
(c) – member of Nomination Committee
(d) – member of Remuneration Committee
(e) – member of Audit Committee

Group Steering Team

The Group Steering Team, chaired by Miles Roberts, has been established to bring together the running of the Group as a whole, to ensure a joined-up approach so that the strategy is implemented effectively throughout the business. The Group Finance Director, Steve Dryden, and the Group General Counsel and Company Secretary, Matthew Jowett, are also members of this team.

Peter Damman
Divisional Chief Executive, Spicers

Joined DS Smith in February 2011. Peter has broad global experience in the office products industry gained from a 22 year career in the industry. He has held a number of senior commercial management positions including Vice President Office Depot Europe, President Corporate Express Europe and Vice President Tech Depot. Dutch.

Paul Harridine
Chief Procurement Officer

Joins DS Smith in July 2011. Previous experience includes senior purchasing and supply chain roles in the automotive, aerospace and construction industries as well as positions on the operating boards of Oxford Instrument plc and De La Rue plc. British.

Nigel Hayter
Group Human Resources Director

Joined DS Smith in September 1992. Nigel has been Group Human Resources Director since 1999. In that role he is responsible for health and safety and for pensions, as well as managing all aspects of the development of the employee base. Prior to that, within DS Smith, he was Human Resources Director for the UK Packaging division. British.

Jean Lienhardt
Divisional Chief Executive, DS Smith Kaysersberg

Joined DS Smith in January 1994. Jean has been Divisional Chief Executive of DS Smith Kaysersberg since October 2006. Prior to that he was finance director of that division, with additional responsibilities for the operations in Poland and other parts of the continental European business. French.

Jean-Marie Paultes
Divisional Chief Executive, DS Smith Packaging France

Joined DS Smith in September 2010. Jean-Marie joined DS Smith in September 2010 on the acquisition by DS Smith of Otor. He had been General Manager of Otor for the previous six years. French.

Gary Saunders
Divisional Chief Executive, DS Smith Packaging UK

Joined DS Smith in November 2010. Gary has substantial experience gained from a 30 year career in fast moving consumer goods and retail companies. He has had a range of senior operational roles with Quaker Oats, Nestle, Sainsbury's, RHM (now Premier Foods) and McBride plc. British.

Mark Smith
Divisional Chief Executive, DS Smith Plastics, Liquid Packaging and Dispensing

Joined DS Smith in September 2001. Mark became Divisional Chief Executive of DS Smith Plastics, Liquid Packaging and Dispensing, in November 2010, following a series of senior positions within the Liquid Packaging and Dispensing business in the US, progressing from Research Director to heading the US operations of the business. US citizen.

Corporate Governance

Board and Board Committees

Summary of Board changes in the year

Month	Change
May 2010	
June 2010	
December 2010	

Corporate Governance

Relations with shareholders

Internal control

Corporate Governance

Going concern

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[

Remuneration Report

(E) Basic salaries

(F) Annual bonus

(G) Share awards

(G) Share awards continued

The 2010 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 2011.

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 2011 awards the same balance of metrics as for the 2010 awards will be used. The total shareholder return ('TSR') targets will remain the same and these, together with the revised average adjusted earnings per share ('EPS') and average adjusted return on average capital employed ('ROACE') targets, are set out in the table below:

Percentage vesting as a proportion of that element of the award	Relative TSR[1] (50% of award)	Average EPS[2] (25% of award)	Average adjusted ROACE[3] (25% of award)
100%	Upper quartile	25p	15%
Between 25% and 100%	Between median and upper quartile	Between 22p and 25p	Between 12.5% and 15%
25%	Median	22p	12.5%

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

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

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

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.

As previously disclosed, to facilitate the recruitment of Mr Dryden and Mr Roberts in 2008 and 2010 respectively, they were granted conditional share awards under plans which were formed specifically for this purpose and were granted under Listing Rule 9.4.2R(2). Full details of the share awards are set out in sections (P) and (Q) below.

Currently, 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 100% of base salary in the case of the Executive Directors and 50% of base salary for others. Going forwards, it is proposed to increase this to 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 will also be a 50% of base salary target for other senior executives. In addition, and as a new requirement, irrespective of the retention of shares, the Committee expects that these levels of share ownership should normally be achieved within the next four years. If these levels are not achieved, the Committee reserves the right not to make, or to scale back, further awards.

It is proposed to introduce claw back provisions into the PSP and the Share Matching Plan 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.

The interests of the Directors in the share capital of the Company and awards made under the PSP (last award 2010) and Deferred Share Bonus Plan (last award 2010) are shown on pages 49 to 50.

(H) Benefits in kind

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

(I) Pensions

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

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

During his employment Mr Thorne participated in a funded contributory defined benefit pension scheme with death in service. As disclosed in last year's report, Mr Thorne began to take his pension from 31 March 2010. Accordingly, no additional pension accrued to Mr Thorne in 2010/11.

(J) Service contracts and compensation

The Committee's general policy is that the notice periods for Executive Directors appointed in future will not exceed one year, although aaaed toa(irr)ben

Remuneration Report continued

The service contracts for Mr Roberts and Mr Dryden are dated 4 May 2010 and 1 April 2008 respectively. The service contracts may be terminated by 12 months' notice by the Company, and by the Executive Director. The Company may terminate the contract with immediate effect by making a payment equal, in Mr Roberts' case, to basic salary and pensions allowance for any unexpired period of notice and, in Mr Dryden's case, to basic salary for any unexpired period of notice. The Company may make such payment in a lump sum or in monthly instalments from the termination date. These monthly payments will be reduced to take account of any alternative employment or consultancy income during the period over which such instalments are payable.

As set out in last year's report, Mr Thorne was given 12 months notice under his service contract on 30 October 2009 and his employment was terminated on 18 May 2010. The compensation payable to Mr Thorne in connection with the termination of his employment in lieu of notice is set out in section (M).

(K) Policy on external appointments

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

Mr Roberts has no external appointments. Mr Dryden is a non-Executive Director of Fiberweb plc and received fees of £38,000 for the year to 30 April 2011 (from date of appointment on 1 June 2009 – 30 April 2010: £34,833).

(L) Fees for non-Executive Directors and the Chairman

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

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

As noted in the Corporate Governance report on page 40, having considered the recommendations of the UK Corporate Governance Code, the Board has resolved that the Chairman and non-Executive Directors will retire and stand for re-election at the forthcoming AGM on 6 September 2011 and currently intend to repeat this process annually thereafter. Their appointment may be terminated immediately if not re-elected to the Board. Their respective dates of appointment are shown on page 38.

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

The rates for the Chairman's and non-Executive Directors' fees will be as follows from 1 August 2011:

Chairman's and non-Executive Directors' fees	Base fee (£)	Senior Independent non-Executive Director fee (£)	Chairman of Audit Committee fee (£)	Chairman of Remuneration Committee fee (£)	**Total (£)**
P M Johnson	190,000	–	–	–	**190,000**
C J Bunker	47,500	7,500	–	–	**55,000**
G Davis	47,500	–	–	7,500	**55,000**
P J-C Mellier	47,500	–	–	–	**47,500**
J C Nicholls	47,500	–	8,500	–	**56,000**

The fees for the Chairman and the non-Executive Directors were increased modestly with effect from 1 August 2010 and, following a comprehensive review, will be increased again as set out in the table above. The review took into account market practice with reference to the comparator group. The total amounts in the table include the following changes from 1 August 2011: the Chairman's fees will be increased by £18,500 and the non-Executive Directors' base fees will be increased by £1,500. The fee for the Senior Independent Director will rise from £2,500 to £7,500. Mr Mellier's base fee will reduce to the same level as the other non-Executive Directors following his move to London this summer.

Neither the non-Executive Directors nor the Chairman are eligible for pension scheme membership and they do not participate in any of the Group's annual bonus or other incentive arrangements.

The Company's Articles of Association enable the Board to set the remuneration of Directors within the limits set by shareholders. The current aggregate limit is £750,000 and the aggregate amount paid in the financial year to the non-Executive Directors was £229,595. Executive Directors are remunerated in respect of their executive appointments, under the terms of their service contracts, and receive no additional fees for serving as Directors.

Non-Executive Directors are expected to build up and then maintain a shareholding that is equivalent to 50% of their annual fee from the Company within two years of their date of appointment. The Directors' interests in shares can be seen on page 53.

(M) Directors' emoluments (auditable)

	Salary/fees £'000	Annual bonus £'000	Deferred bonus £'000	Substitute Cash Bonus Award £'000	Benefits £'000	Pensions supplement £'000	**2011 total £'000**	2010 total £'000
Chairman								
P M Johnson	171	–	–	–	23	–	**194**	191
Group Chief Executive								
M W Roberts+	532	334	201	188	21	159	**1,435**	–
Group Finance Director								
S W Dryden	335	210	126	–	29	65	**765**	671
Non-Executives								
C J Bunker	50	–	–	–	–	–	**50**	54
G Davis*	48	–	–	–	–	–	**48**	–
P J-C Mellier	50	–	–	–	–	–	**50**	49
J C Nicholls	53	–	–	–	–	–	**53**	19
	1,239	544	327	188	73	224	**2,595**	984

+ Appointed 4 May 2010

* Appointed 1 June 2010

Past Directors	Salary/fees £'000	Annual bonus £'000	Deferred bonus £'000	Benefits £'000	Compensation for loss of office £'000	**2011 total £'000**	2010 total £'000
A D Thorne	524	–	–	1	–	**525**	967
R G Beeston	29	–	–	–	–	**29**	54
Total	553	–	–	1	–	**554**	1,021

Mr Thorne stepped down as Group Chief Executive on 4 May 2010 and his employment was terminated on 18 May 2010. Mr Thorne received a maximum of £498,800 in connection with the termination of his employment in lieu of notice, determined by reference to the terms of his service contract, paid in instalments, and subject to a reduction for certain other earnings for the period prior to 30 October 2010. The Company also procured that the car which was made available for Mr Thorne's use was transferred to him following his termination at no cost.

Mr Roberts was paid a Substitute Cash Bonus Award as compensation for loss of his cash bonus entitlement with his previous employer for the year 2009/10 as a result of his recruitment by the Company. He received a cash sum of £187,500 paid on 2 September 2010. The sum of £187,500 was calculated to reflect the proportion of the period of 12 calendar months beginning on 1 July 2009 during which Mr Roberts was actively employed by McBride plc and was based on an assessment of the likely bonus which would have become payable to him had he remained employed by McBride plc.

Mr Dryden received a non-pensionable cash supplement during the year. The total emoluments, excluding the deferred bonus, of Mr Roberts for 2010/11 were £1,234,000 (2009/10: £nil). The total emoluments, excluding the deferred bonus, of Mr Dryden were £639,000 (2009/10: £588,000).

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

Details of the Directors' interests in the PSP, which is described in more detail on pages 46 and 47, are as follows:

Executive Directors	Interests under the PSP at 30 April 2010	Awards granted/ commitments made during year	Awards lapsed/crystallised in year	Date of award	Market price on date of award (p)	Market price at date of vesting (p)	**Interests under the PSP at 30 April 2011***	Vesting date if performance conditions met
M W Roberts	–	570,768	–	16 Jul 10	140.6	–	**570,768**	16 Jul 13
S W Dryden	370,786	–	–	17 Sep 08	133.5	–	**370,786**	17 Sept 11
	464,788	–	–	22 Jul 09	71.0	–	**464,788**	22 Jul 12
	–	352,062	–	16 Jul 10	140.6	–	**352,062**	16 Jul 13
Past Director								
A D Thorne	619,325	–	–	17 Sept 08	133.5	–	**619,325**	17 Sept 11
	776,338	–	–	22 Jul 09	71.0	–	**776,338**	22 Jul 12

* or date of cessation

Remuneration Report continued

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

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

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 14.8p and 17.6p for EPS and 11.1% and 12.2% for ROACE.

Mr Thorne stepped down from the Board on 4 May 2010 and his employment terminated on 18 May 2010. The performance conditions attached to the award granted in 2008 were not met as at 18 May 2010. Accordingly the award lapsed. The performance conditions for the 2009 award (awarded on 22 July 2009) were tested by reference to 18 May 2010. 100% of the TSR element vested on 24 June 2010, subject to a time pro-rata reduction to reflect the unexpired portion of the performance period at cessation. Accordingly, 216,753 shares were released to Mr Thorne on 24 June 2010 (share price on 24 June 2010 was 121.2p). The remaining shares lapsed. In accordance with the rules of the PSP £7,152.84 was paid on 24 June 2010 in respect of the time pro-rated dividends earned since the award was made.

(O) 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 2010	Awards granted/ commitments made during year	Awards lapsed/crystallised in year	Date of award	Market price on date of award (p)	Market price at date of vesting (p)	**Interests under the Plan at 30 April 2011***	Vesting date if performance conditions met
S W Dryden	–	58,710	–	16 Jul 10	140.5	–	**58,710**	16 Jul 13
Past Director								
A D Thorne	69,473	–	–	26 Jul 07	238.7	–	**69,473**	26 Jul 10
	153,122	–	–	23 Jul 08	115.3	–	**153,122**	23 Jul 11

* or date of cessation

Mr Thorne stepped down from the Board on 4 May 2010 and his employment terminated on18 May 2010. His interests under the Plan as disclosed above vested in full on 24 June 2010 (share price on 24 June 2010 was 121.183p). In accordance with the rules of the Plan £32,908.66 was paid on the same date in respect of the dividends earned since the awards were made.

(P) Directors' interests under the Replacement Deferred Share Bonus Plan (auditable)

Executive Directors	Interests under the Plan at 30 April 2010	Awards granted/ commitments made during year	Awards lapsed/crystallised in year	Date of award	Market price on date of award (p)	Market price at date of vesting (p)	**Interests under the Plan at 30 April 2011**	Vesting date
S W Dryden	74,674	–	74,674	1 Apr 08	156.5	204.5	**–**	1 Mar 11

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

The first two tranches vested on 1 March 2009 and 1 March 2010, as reported in the 2009 and 2010 accounts respectively, and the final tranche vested on 1 March 2011 and 74,674 shares were transferred to Mr Dryden on 14 March 2011 (allowing time for the market to assimilate the Interim Management Statement). At the same time, Mr Dryden sold 38,161 of the acquired shares at a price of 204.5p per share in order to pay the income tax, NIC and dealing expenses due following the vesting.

(Q) Directors' interests under the Replacement 2007 LTIP, Replacement 2008 LTIP, Replacement Deferred Shares Award, Recruitment Award and Substitute Share Bonus Award

Executive Directors	Scheme	Awards granted / commitments made during year	Awards lapsed / crystallised in year	Date of award	Market price on date of award (p)	Market price at date of vesting (p)	**Interests as at 30 April 2011**	Vesting date if performance conditions met
M W Roberts	Replacement 2007 LTIP	224,039	224,039	16 Jul 10	140.52	161.5p	**–**	10 Oct 10
	Replacement 2008 LTIP	432,432	–	16 Jul 10	140.52	–	**432,432**	17 Oct 11
	Replacement Deferred Shares Award	106,685	–	16 Jul 10	140.52	–	**106,685**	1 Sep 12
	Recruitment Award	570,768	–	16 Jul 10	140.52	–	**570,768**	19 Oct 12
	Substitute Share Bonus Award	80,014	–	16 Jul 10	140.52	–	**80,014**	1 Sep 13

As disclosed last year, in order to facilitate the recruitment of Mr 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 Mr 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 Mr 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 2007 LTIP and Replacement 2008 LTIP (the latter being subject to performance conditions as detailed below) were awarded in respect of awards that were made by his previous employer and were forfeited as a result of his recruitment. The value of these awards was based on the value of shares under award at October 2009 and in the case of the Replacement 2007 LTIP adjusted for the likelihood of achieving the attached performance conditions which were near vesting at this date. The Replacement 2008 LTIP award is subject to a performance condition measuring the TSR of McBride plc up to the date Mr Roberts joined the Company and thereafter the Company's TSR against a comparator group of companies comprising the FTSE 250 Index (excluding investment trusts) constituted as at the date of grant of the award over a three-year performance period commencing on 1 July 2008. The award will vest in full if the TSR is ranked in the upper quartile of the comparator group and on a straight-line basis if the TSR is ranked between median and upper quartile. This performance condition reflects the primary features of the performance condition applying to the original award it replaces, to the extent those features can be measured in relation to the Company as well as McBride plc; and
- The Recruitment Award (subject to the 2010 PSP performance conditions as described in section (G) 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 an award was based on the normal grant policy of 150% of his basic salary.

Remuneration Report continued

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

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

Past Director	Options held at 30 April 2010	Options granted during year	Options exercised during year	Options lapsed during year	**Options held at date of cessation as a Director**	Exercise price (p)	Dates from which exercisable	Expiry date
A D Thorne	243,979	–	–	–	**243,979**			

(U) Directors' interests in shares

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

	30 April 2010*		30 April 2011	
Name of Director	Beneficial	Non-beneficial	**Beneficial**	**Non-beneficial**
P M Johnson	255,000	–	**255,000**	**–**
M W Roberts	–	–	**109,549**	**–**
S W Dryden	55,481	–	**91,994**	**–**
C J Bunker	20,000	–	**20,000**	**–**
G Davis	–	–	**40,000**	**–**
P J-C Mellier	20,000	–	**20,000**	**–**
J C Nicholls	19,130	–	**19,130**	**–**

* or at date of appointment

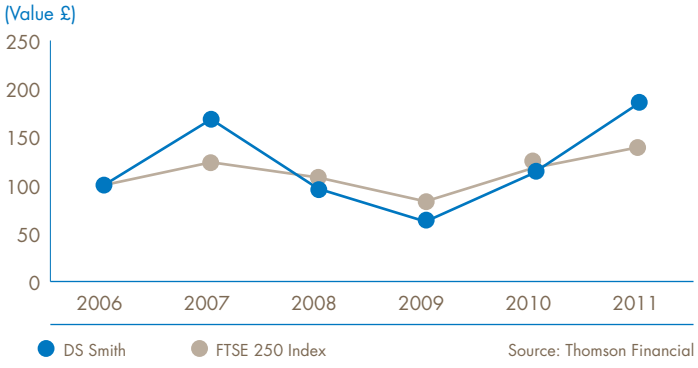
There have been no changes to the shareholdings set out above between the financial year end and the date of the Report. It is currently intended that any ordinary shares required to fulfil entitlements under the Performance Share Plan, the Deferred Share Bonus Plan, the Substitute Share Bonus Award,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

(V) Total shareholder return performance

The following graph illustrates the Company's total shareholder return performance since 1 May 2006, in accordance with paragraph 4 of the Directors' Remuneration Report Regulations 2002, relative to the FTSE 250 Index.

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

Total shareholder return



This graph looks at the value, by 30 April 2011, 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

Gareth Davis
Chairman of the Remuneration Committee
22 June 2011

Directors' Report

The Directors submit their Annual Report and the audited financial statements for the financial year ended 30 April 2011. The Directors' Statement as to disclosure of information to auditors, as required by Section 418(2) of the Companies Act 2006, is on page 57.

Principal activities

The Company acts as the holding company of a group, which, during 2010/11, was engaged in the supply of recycled packaging for consumer goods and the wholesaling of office products.

A full review of the activities during the financial year ended 30 April 2011 is set out on pages 2 to 37. The principal risks and uncertainties facing the Group are discussed on pages 27 to 30. A discussion of future developments and key performance indicators that management use is set out in the Business Review on page 2. The principal subsidiary undertakings are listed in note 33 on page 109.

Business review

The information that fulfils the requirements of the Business Review can be found in the Business Review on pages 2 to 37, 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 40 to 44 (and is incorporated into this report by reference) with the exception of the information referred to in the Financial Services Authority Disclosure and Transparency Rules 7.2.6, which is located in this Directors' Report.

Cautionary statement

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

rolled out through the organisation. The acquisition of Otor has increased the quality of innovation in the Group as this business had a number of patented designs that are now offered to customers across the business.

Directors

The biographies of the present Directors are on page 38. All the Directors served throughout the year except as follows. Mr M W Roberts joined the Board as Group Chief Executive on 4 May 2010 and Mr A D Thorne retired from the Board on the same date. Mr G Davis joined the Board as a non-Executive Director on 1 June 2010. Mr Beeston retired from the Board on 8 December 2010. Other than as previously disclosed in this Report and in respect of existing service agreements, no Director, either during or at the end of the financial year, has been materially interested in any significant contract or arrangement in relation to the Group's business.

In accordance with Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the Directors disclose that the rules regarding the appointment and replacement of Directors are contained in the Company's Articles of Association (Articles), which may only be amended with shareholder approval in accordance with relevant legislation. The powers of the Directors are contained in the Company's Memorandum of Association and Articles. The Articles give the Directors powers, subject to relevant legislation, to authorise the issue and buy-back of the Company's shares by the Company, subject to authority being given to the Directors by shareholders in general meeting. The Company annually seeks the authority of shareholders to authorise the exercise by Directors of these powers.

Re-election of Directors

The Articles require that all Directors who have either been appointed by the Board since the last Annual General Meeting, or for whom the forthcoming Annual General Meeting is the third Annual General Meeting since they were elected or last re-elected by the Company in general meeting, retire from office but they are eligible to submit themselves for re-election by the shareholders. However, following the publication of the UK Corporate Governance Code, which recommends that all directors of FTSE 350 companies be subject to annual re-election, the Directors have resolved that the Chairman and non-Executive Directors will retire and stand for re-election at the forthcoming Annual General Meeting on 6 September 2011 and annually thereafter. The Board has resolved, however, that the Executive Directors will remain subject to the three year rotation under the Articles of Association. The Board considers that the Chairman and non-Executive Directors are accountable to shareholders for the performance of the Executive Directors and that it is in the best interests of the Company for any change to the Executive Directors to be part of a controlled succession planning process. Mr Dryden is therefore retiring at this year's Annual General Meeting, as it is the third Annual General Meeting since he was elected, and will offer himself for re-election.

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 49 to 53.

Directors' indemnities

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

Employee involvement and communications

The Group is committed to frequent and effective employee communications to promote the understanding and involvement of all its employees in the Group's business objectives and performance. Communications and personnel policies have been developed to reflect the philosophy of operating management. Information is regularly communicated by briefings and newsletters. The Group operates a European Works Council, with representatives drawn from across the entire workforce in the EU countries in which the Group operates. Meetings are held to provide an exchange of 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 is closed to new employees), one defined contribution scheme, which was introduced for new employees joining the Group on or after 1 May 2005, one Group personal pension plan and a statutory Stakeholder arrangement. The defined benefit scheme is a trust-based arrangement and the investments of the assets are managed on a discretionary basis by a number of Investment Managers, either in segregated or pooled arrangements.

The defined contribution scheme is a trust-based arrangement offering members a range of investments. In September 2010, Resolution Life completed the acquisition of Axa Sun Life plc, which was merged with Friends Provident and rebranded as Friends Life. Thereafter, the trustees of the defined contribution scheme undertook a market and terms review of providers and following that review, selected Friends Life as the preferred provider. The Group personal pension plan is a contract-based arrangement offering members a range of investments with Norwich Union Life and other external investment fund managers, and the Stakeholder arrangement is provided through Investment Solutions Limited. All such assets are held independently from the

Directors' Report continued

Group. The trustees of the defined benefit scheme and the defined contribution scheme send an Annual Report to all members of the respective schemes. The Trustee Company of the defined benefit scheme has an Investment Sub-Committee, established in line with the recommended guidelines of the Myners Report. Peter Murray of Allenbridge Investment Consultants is appointed as an independent adviser to the Investment Sub-Committee of the defined benefit scheme.

In August 2010, the Group commenced a consultation process with its employees, proposing to close the defined benefit scheme to future accrual with effect from 30 April 2011. The proposal was around concerns of the sizable shortfall in the defined benefit scheme in terms of the money needed to pay for future pension benefits and to secure the benefits already earned. Affected members of the defined benefit scheme were offered membership of the Group's defined contribution scheme for future service.

In December 2010, the Trustee agreed in principle to consent to the closure of the defined benefit scheme. As part of the decision, the Group agreed to provide some additional security for members of the defined benefit scheme. The Group and Trustee agreed how to work towards eliminating the deficit over 10 years and to move toward self-sufficiency.

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 •inancial Reporting •tandards •I•R•s• as adopted by the •uropean Union and Article • of the IA• Regulation and ha e chosen to prepare the parent company financial statements in accordance with United -ingdom Generally Accepted Accounting €ractice •United -ingdom Accounting •tandards and applicable law•. Under company law the Directors must not appro e the accounts unless they are satisfied that they gi e a true and fair iew 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;
- ma…e †udgments and accounting estimates that are reasonable and prudent;
- state whether applicable U- Accounting •tandards ha e been followed, sub†ect to any material departures disclosed and e‡plained 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 •tandard ˆ requires that Directors:

- properly select and apply accounting policies;
- present information including accounting policies, in a manner that pro ides rele ant, reliable, comparable and understandable information;
- pro ide additional disclosures when compliance with the specific requirements in I•R•s are insufficient to enable users to understand the impact of particular transactions, other e ents and conditions on the entity's financial position and financial performance; and
- ma…e an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for …eeping adequate accounting records that are sufficient to show and e‡plain 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 Š‹‹Œ. They are also responsible for safeguarding the assets of the Company and hence for ta…ing reasonable steps for the pre ention 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. Žegislation in the United -ingdom go erning the preparation and dissemination of financial statements may differ from legislation in other †urisdictions.

Responsibility statement

' e confirm that to the best of our …nowledge:

- the financial statements, prepared in accordance with the rele ant financial reporting framewor…, gi e a true and fair iew of the assets, liabilities, financial position and profit or loss of the Company and the underta…ings included in the consolidation ta…en as a whole; and
- the management report, which is incorporated into the Directors' Report, includes a fair re iew of the de elopment and performance of the business and the position of the Company and the underta…ings included in the consolidation ta…en as a whole, together with a description of the principal ris…s and uncertainties that they face.

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Miles Roberts
Group Chief •‡ecuti e
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Steve Dryden
Group •inance Director
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FINANCIAL STATEMENTS

Consolidated Income Statement

For the year ended 30 April 2011

	Note	Before exceptional items 2011 £m	Exceptional items (note 4) 2011 £m	After exceptional items 2011 £m	Before exceptional items 2010 £m	Exceptional items (note 4) 2010 £m	After exceptional items 2010 £m
Revenue	2	**2,474.5**	**–**	**2,474.5**	2,070.6	–	2,070.6
Cost of sales		**(1,884.9)**	**(1.0)**	**(1,885.9)**	(1,558.4)	–	(1,558.4)
Gross profit		**589.6**	**(1.0)**	**588.6**	512.2	–	512.2
Operating expenses	3,4	**(453.5)**	**2.2**	**(451.3)**	(414.1)	(13.3)	(427.4)
Operating profit before amortisation	2,3	**136.1**	**1.2**	**137.3**	98.1	(13.3)	84.8
Amortisation of intangible assets	3,10	**(7.9)**	**–**	**(7.9)**	(4.1)	–	(4.1)
Operating profit	2,3	**128.2**	**1.2**	**129.4**	94.0	(13.3)	80.7
Finance income	5	**1.2**	**–**	**1.2**	1.5	–	1.5
Finance costs	5	**(21.0)**	**–**	**(21.0)**	(15.9)	–	(15.9)
Employment benefit net finance expense	25	**(7.4)**	**–**	**(7.4)**	(11.5)	–	(11.5)
Net financing costs		**(27.2)**	**–**	**(27.2)**	(25.9)	–	(25.9)
Profit after financing costs		**101.0**	**1.2**	**102.2**	68.1	(13.3)	54.8
Share of profit of associates	12	**–**	**–**	**–**	0.2	–	0.2
Profit before income tax and amortisation		**108.9**	**1.2**	**110.1**	72.4	(13.3)	59.1
Amortisation of intangible assets	3,10	**(7.9)**	**–**	**(7.9)**	(4.1)	–	(4.1)
Profit before income tax		**101.0**	**1.2**	**102.2**	68.3	(13.3)	55.0
Income tax (expense)/credit	7	**(28.5)**	**(3.0)**	**(31.5)**	(17.8)	0.9	(16.9)
Profit for the financial year		**72.5**	**(1.8)**	**70.7**	50.5	(12.4)	38.1
Profit for the financial year attributable to:							
Owners of the parent		**71.9**	**(1.8)**	**70.1**	50.3	(12.4)	37.9
Non-controlling interests		**0.6**	**–**	**0.6**	0.2	–	0.2
Earnings per share							
Basic – adjusted for amortisation	8	**18.9p**	**(0.4)p**	**18.5p**	13.9p	(3.2)p	10.7p
Diluted – adjusted for amortisation	8	**18.5p**	**(0.4)p**	**18.1p**	13.6p	(3.1)p	10.5p
Basic	8	**17.0p**	**(0.4)p**	**16.6p**	12.9p	(3.2)p	9.7p
Diluted	8	**16.7p**	**(0.4)p**	**16.3p**	12.6p	(3.1)p	9.5p
Dividend per share							
– interim, paid	9			**2.0p**			1.5p
– final, proposed	9			**4.5p**			3.1p

Consolidated Statement of Comprehensive Income

For the year ended 30 April 2011

	Note	2011 £m	2010 £m
Actuarial gains/(losses) on defined benefit pension schemes	25	**14.4**	(10.3)
Currency translation gains		**1.9**	7.9
Movements in cash flow hedges		**15.4**	(14.0)
Income tax on other comprehensive income		**(10.3)**	4.8
Other comprehensive income/(expense) for the year, net of tax		**21.4**	(11.6)
Profit for the year		**70.7**	38.1
Total comprehensive income for the year		**92.1**	26.5
Total comprehensive income attributable to:			
Owners of the parent		**91.4**	26.4
Non-controlling interests		**0.7**	0.1

Consolidated Statement of Financial Position

As at 30 April 2011

	Note	2011 £m	2010 £m
Assets			
Non-current assets			
Intangible assets	10	**344.8**	221.2
Property, plant and equipment	11	**640.5**	590.8
Investments in associates	12	**–**	–
Other investments	13	**0.3**	0.8
Deferred tax assets	22	**59.6**	81.4
Other receivables	15	**3.8**	0.8
Derivative financial instruments	21	**13.2**	11.9
Total non-current assets		**1,062.2**	906.9
Current assets			
Inventories	14	**226.4**	174.8
Other investments	13	**0.2**	0.2
Income tax receivable		**1.6**	2.3
Trade and other receivables	15	**450.4**	380.5
Cash and cash equivalents	19	**114.3**	55.1
Derivative financial instruments	21	**8.5**	6.3
Assets classified as held for sale	17	**–**	8.1
Total current assets		**801.4**	627.3
Total assets		**1,863.6**	1,534.2
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	20	**(407.9)**	(256.4)
Post-retirement benefits	25	**(147.5)**	(203.1)
Other payables	16	**(9.3)**	(3.9)
Provisions	23	**(9.6)**	(7.9)
Deferred tax liabilities	22	**(62.9)**	(60.5)
Derivative financial instruments	21	**(36.2)**	(26.0)
Total non-current liabilities		**(673.4)**	(557.8)
Current liabilities			
Bank overdrafts	19	**(26.1)**	(22.3)
Interest-bearing loans and borrowings	20	**(4.4)**	(5.7)
Trade and other payables	16	**(535.7)**	(430.4)
Income tax liabilities		**(24.4)**	(17.1)
Provisions	23	**(8.2)**	(12.9)
Derivative financial instruments	21	**(7.2)**	(8.7)
Liabilities classified as held for sale	17	**–**	(6.1)
Total current liabilities		**(606.0)**	(503.2)
Total liabilities		**(1,279.4)**	(1,061.0)
Net assets		**584.2**	473.2
Equity			
Issued capital		**43.6**	39.3
Share premium		**309.1**	263.1
Reserves		**233.6**	172.4
Total equity attributable to equity shareholders of the Company		**586.3**	474.8
Non-controlling interests		**(2.1)**	(1.6)
Total equity		**584.2**	473.2

Consolidated Statement of Changes in Equity

For the year ended 30 April 2011

	Note	Share capital £m	Share premium £m	Hedging reserve £m	Translation reserve £m	Own shares £m	Retained earnings £m	Total reserves attributable to equity shareholders £m	Non-controlling interests £m	Total equity £m
Balance at 1 May 2009		**39.3**	**263.1**	**2.7**	**27.4**	**(4.2)**	**129.7**	**458.0**	**(1.6)**	**456.4**
Profit for the period		–	–	–	–	–	37.9	37.9	0.2	38.1
Actuarial losses on defined benefit pension schemes	25	–	–	–	–	–	(10.3)	(10.3)	–	(10.3)
Foreign currency translation differences		–	–	–	8.0	–	–	8.0	(0.1)	7.9
Changes in the fair value of cash flow hedges	21	–	–	(2.7)	–	–	–	(2.7)	–	(2.7)
Movement from cash flow hedge reserve to income statement		–	–	(11.3)	–	–	–	(11.3)	–	(11.3)
Income tax on other comprehensive income		–	–	3.9	(2.4)	–	3.3	4.8	–	4.8
Total comprehensive income		–	–	(10.1)	5.6	–	30.9	26.4	0.1	26.5
Acquisitions	31	–	–	–	–	–	–	–	0.3	0.3
Share-based payment expense	26	–	–	–	–	–	2.9	2.9	–	2.9
Dividends paid to Group shareholders	9	–	–	–	–	–	(12.9)	(12.9)	–	(12.9)
Transactions with non-controlling interests (Toscana Ondulati SpA)	24	–	–	–	–	–	0.4	0.4	(0.4)	–
Other changes in equity in the year		**–**	**–**	**–**	**–**	**–**	**(9.6)**	**(9.6)**	**(0.1)**	**(9.7)**
Balance at 30 April 2010		**39.3**	**263.1**	**(7.4)**	**33.0**	**(4.2)**	**151.0**	**474.8**	**(1.6)**	**473.2**
Profit for the period		–	–	–	–	–	70.1	70.1	0.6	70.7
Actuarial gains on defined benefit pension schemes	25	–	–	–	–	–	14.4	14.4	–	14.4
Foreign currency translation differences		–	–	–	1.8	–	–	1.8	0.1	1.9
Changes in the fair value of cash flow hedges	21	–	–	18.5	–	–	–	18.5	–	18.5
Movement from cash flow hedge reserve to income statement	21	–	–	(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	24	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	26	–	–	–	–	–	2.4	2.4	–	2.4
Dividends paid to Group shareholders	9	–	–	–	–	–	(22.6)	(22.6)	–	(22.6)
Transactions with non-controlling interests (Toscana Ondulati SpA)	24	–	–	–	–	–	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**
Balance at 30 April 2011		**43.6**	**309.1**	**3.0**	**37.8**	**(9.4)**	**202.2**	**586.3**	**(2.1)**	**584.2**

The above should be read in conjunction with note 24.

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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 has 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 111 to 116.

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

The consolidated financial statements have been prepared on a going concern basis as set out on page 44 of the Corporate Governance section.

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

No changes have been made to the Group's accounting policies in the year to 30 April 2011 other than the adoption of IFRS 3 (revised) Business Combinations and IAS 27 (revised) Consolidated and Separate Financial Statements.

The main impact of these revised standards on the consolidated financial statements for the year ended 30 April 2011 was as follows:

- In the year to 30 April 2011, acquisition-related costs have been recognised as an operating cost in the income statement whereas previously they were capitalised. Prior periods have not been restated as this change in accounting is required to be applied prospectively from 1 May 2010;
- The term ''minority interest'' has been changed to ''non-controlling interest'';
- Equity interests held prior to control being obtained are re-measured to fair value at the acquisition date, with any resulting gain or loss recognised in the income statement;
- Changes in ownership interest in a subsidiary that does not result in a change of control are treated as transactions among equity holders and are reported within equity shareholders' funds. No gain or loss is recognised on such transactions and goodwill is not re-measured; and
- Cash consideration for non-controlling interests is classified as a financing activity rather than an investing activity in the cash flow statement.

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) Joint ventures

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

(iv) Non-controlling interests

The share of profit attributable to non-controlling interests is shown as a component of profit for the period in the income statement. Non-controlling interests are shown as a component of equity in the statement of financial position net of the value of options over interests held by minorities in the Group's subsidiaries.

(c) Revenue

Revenue comprises the fair value of the sale of goods and services, net of value added tax, rebates and discounts and after eliminating sales within the Group. Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

(d) Government grants

(i) Emission quotas

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

(ii) Other

Other government grants are recognised in the statement of financial position initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are offset against the expenses in the same periods in which the expenses are incurred.

(e) Dividends

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

1. Significant accounting policies continued

(f) Foreign currency translation

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

The assets and liabilities of all the Group entities that have a functional currency other than sterling are translated at the closing exchange rate at the date of the statement of financial position. Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transactions). On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings, and other financial instruments designated as hedges of such investments, are recognised in the translation reserve. On the disposal of foreign currency entities, the cumulative exchange difference recorded in the translation reserve is taken to the income statement as part of the gain or loss on disposal.

(g) Intangible assets

(i) Goodwill

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

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

(ii) Research and development

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

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

(iii) Computer software

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

(iv) Intellectual property

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

(v) Other intangible assets

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

(vi) Amortisation

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

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

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

(h) Property, plant and equipment and other investments

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

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

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

The estimated useful lives are as follows:

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

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

(i) Impairment

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

1. Significant accounting policies continued

(i) Impairment continued

(i) Calculation of recoverable amount

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

(ii) Reversals of impairment

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

(j) Derivative financial instruments

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

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

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

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

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

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

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

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

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

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

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

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

(k) Trade and other receivables

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

(l) Inventories

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

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

1. Significant accounting policies continued

(m) Cash and cash equivalents

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

(n) Treasury shares

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

(o) Borrowings

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

At the reporting date, accrued interest is recorded separately from the

1. Significant accounting policies continued

(u) Assets held for sale

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

Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(v) Critical accounting policies

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

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

(i) Impairments

When applying IAS 36, 'Impairment of Assets', the Group compares the carrying value of goodwill and intangible assets with the higher of their net realisable value and value in use to determine whether an impairment exists.

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

(ii) Pensions and other post-retirement benefits

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

(iii) Accounting for carbon dioxide (CO_2) emissions

There are currently no accounting standards that specifically address accounting for emission allowances. The Group 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.'

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2. Segment reporting continued

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 on pages 2 to 30. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Central administration costs are allocated to the individual segments on a consistent basis year-on-year. Assets and liabilities have been analysed by segment at a capital employed level. Capital employed excludes items of a financing nature, taxation balances, post-retirement benefit liabilities and non-current asset investments; segmental capital employed comprises identifiable segment assets less segmental liabilities. Average capital employed is the average monthly capital employed. The adjusted return on average capital employed is defined as operating profit before exceptional items divided by average capital employed. Debt and associated interest is managed at a Group level and therefore has not been allocated across the business areas.

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

Geographical areas

	External revenue		Non-current assets		Capital expenditure	
Year ended 30 April	**2011 £m**	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
UK	**1,268.0**	1,106.3	**566.3**	614.3	**34.8**	23.5
France	**689.6**	449.3	**314.7**	111.8	**23.3**	5.0
Rest of Western Continental Europe	**328.2**	335.8	**83.3**	83.1	**5.5**	4.1
Eastern Continental Europe	**110.7**	108.6	**48.6**	46.1	**5.4**	6.7
Rest of the World	**78.0**	70.6	**35.8**	38.9	**3.6**	1.9
	2,474.5	2,070.6	**1,048.7**	894.2	**72.6**	41.2

3. Operating profit

	2011 £m	2010 £m
Operating expenses		
Distribution expenses	**252.8**	223.5
Administrative expenses (includes amortisation of intangible assets)	**206.4**	208.0
	459.2	431.5

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

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

	2011 £m	2010 £m
Depreciation – owned assets	**69.0**	67.1
– leased assets	**1.7**	0.8
Amortisation of intangible assets	**7.9**	4.1
Hire of plant and machinery	**13.5**	12.6
Other operating lease rentals	**14.1**	13.3
Research and development	**3.8**	1.8
Gains/(losses) on the sale of land and buildings	**0.7**	(2.4)
Amounts paid to Deloitte LLP	**2.9**	1.4

A description of the work of the Audit Committee is set out in the Corporate Governance section on pages 41 to 42 and includes an explanation of how the auditors' objectivity and independence is safeguarded when non-audit services are provided by the auditors.

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements continued

3. Operating profit continued

Auditors' remuneration	2011 UK £m	2011 Overseas £m	2011 Total £m	2010 UK £m	2010 Overseas £m	2010 Total £m
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**0.2**	**–**	**0.2**	0.2	–	0.2
Fees payable to the Company's auditors and their associates for other services:						
The audit of the Company's subsidiaries, pursuant to legislation	**0.4**	**0.8**	**1.2**	0.4	0.5	0.9
Corporate finance services	**1.2**	**–**	**1.2**	–	–	–
Tax and other services	**0.1**	**0.2**	**0.3**	0.2	0.1	0.3
	1.9	**1.0**	**2.9**	0.8	0.6	1.4

Total non-audit fees were £1.5m (2009/10: £0.3m).

4. Exceptional items

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

	2011 £m	2010 £m
Restructuring costs		
UK Packaging	**(0.9)**	–
Continental European Corrugated Packaging	**(2.3)**	(1.2)
Plastic Packaging	**(0.5)**	0.3
Office Products Wholesaling	**(4.7)**	(1.8)
Total restructuring costs	**(8.4)**	(2.7)
Acquisition related costs	**(7.2)**	–
Pension curtailment	**35.3**	–
Impairment	**(15.9)**	(10.2)
Disposal costs	**(2.6)**	(0.4)
Total exceptional items recognised in operating profit	**1.2**	(13.3)
Total pre-tax exceptional items	**1.2**	(13.3)
Income tax (charge)/credit on exceptional items	**(3.0)**	0.9
Total exceptional tax items	**(3.0)**	0.9
Total post-tax exceptional items	**(1.8)**	(12.4)

2010/11

The UK Packaging restructuring costs of £(0.9)m relate to two small packaging plants in the UK; Plastic Packaging costs of £(0.5)m relate to restructuring in France; restructuring costs of £(4.7)m within Office Products Wholesaling predominantly relate to Spicers 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 £(2.3)m within Continental European Corrugated Packaging.

The acquisition related costs relate to the acquisition of Otor, for details see note 31. The pension curtailment gain primarily relates to the closure of the UK Group Scheme to future accrual and is described in note 25. Impairment charges relate to intangible assets and property, plant and equipment within the UK Packaging and the Plastic Packaging segments, see notes 10 and 11 for further details. Disposal costs predominantly relate to the disposal of Çopikas, the Group's subsidiary in Turkey, and a small packaging business in the UK.

2009/10

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

Other impairments include £5.9m to reflect the estimated fair value of the Group's business in Turkey following the announcement on 28 May 2010, of the intention to dispose of this business. A further £4.3m has been incurred as an impairment of goodwill within UK Packaging.

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements continued

7. Income tax expense

Income tax expense recognised in the income statement

	2011 £m	2010 £m
Current tax expense		
Current year	**(25.6)**	(18.7)
Adjustment in respect of prior years	**0.1**	(8.7)
	(25.5)	(27.4)
Deferred tax (expense)/credit		
Origination and reversal of temporary differences	**(12.8)**	(2.2)
Reduction in UK tax rate from 28% to 26%	**2.7**	–
Adjustment in respect of prior years	**4.1**	12.7
	(6.0)	10.5
Total income tax expense in the income statement	**(31.5)**	(16.9)

During 2009/10, the Group undertook a review of its current and deferred tax balances primarily as a result of significant adjustments to its UK tax depreciation claims in submitted tax computations in earlier years. This review resulted in a net credit to the income statement of £4.0m and a significant movement between prior year current and deferred tax.

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

	2011 £m	2010 £m
Profit before income tax	**102.2**	55.0
Less: share of profit of associates	**–**	(0.2)
Profit before tax and share of profit/(loss) of associates	**102.2**	54.8
Income tax calculated using the domestic corporation tax rate of 27.83% (2009/10: 28.0%)	**(28.4)**	(15.3)
Effect of tax rates in overseas jurisdictions	**(4.9)**	(2.8)
Non-deductible expenses	**(5.3)**	(3.9)
(Origination)/utilisation of tax losses not recognised	**(0.5)**	0.5
Adjustment in respect of prior years	**4.2**	4.0
Effect of change in UK corporation tax rate	**2.7**	–
Other	**0.7**	0.6
Income tax expense	**(31.5)**	(16.9)

The Emergency Budget on 22 June 2010 announced that the UK current tax rate will reduce from 28% to 24% over a period of four years from 2011. The first reduction from 28% to 26% was substantively enacted by 30 April 2010 and is effective from 1 April 2011. Accordingly the rate applying to UK assets and liabilities has also been reduced from 28% to 26%, 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 reduction in rate from 26% to 24% has not yet been substantively enacted; had it been, the effect would have been to reduce the net deferred tax liability by £0.2m, of which it is estimated that £4.6m would have been credited to the consolidated income statement and £4.4m would have been charged to the statement of comprehensive income.

7. Income tax expense continued

	Gross 2011 £m	Tax credit/ (charge) 2011 £m	Net 2011 £m	Gross 2010 £m	Tax credit/ (charge) 2010 £m	Net 2010 £m
Actuarial gains/(losses) on defined pension schemes	**14.4**	**(8.3)**	**6.1**	(10.3)	3.3	(7.0)
Currency translation gains	**1.9**	**3.0**	**4.9**	7.9	(2.4)	5.5
Movements in cash flow hedges	**15.4**	**(5.0)**	**10.4**	(14.0)	3.9	(10.1)
Other comprehensive income/expense	**31.7**	**(10.3)**	**21.4**	(16.4)	4.8	(11.6)
Issue of share capital	**50.3**	**–**	**50.3**	–	–	–
Ordinary shares purchased	**(6.5)**	**–**	**(6.5)**	–	–	–
Share-based payment expense	**2.9**	**0.8**	**3.7**	1.4	1.5	2.9
Acquisitions/divestments	**2.5**	**–**	**2.5**	0.3	–	0.3
Acquisition of non-controlling interests without a change in control	**(8.5)**	**–**	**(8.5)**	–	–	–
Dividends paid to Group shareholders	**(22.6)**	**–**	**(22.6)**	(12.9)	–	(12.9)
Other comprehensive income/expense and equity	**49.8**	**(9.5)**	**40.3**	(27.6)	6.3	(21.3)

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements continued

8. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 April 2011 is based on the profit attributable to ordinary shareholders of £70.1m (2009/10: £37.9m) and the weighted average number of ordinary shares outstanding during the year ended 30 April 2011 of 422.4m (2009/10: 391.0m). The number of shares excludes the weighted average number of the Company's own shares held as treasury shares during the year of 3.4m (2009/10: 2.4m).

	2011	2010
Profit attributable to ordinary shareholders	**£70.1m**	£37.9m
Weighted average number of ordinary shares at 30 April	**422.4m**	391.0m
Basic earnings per share	**16.6p**	9.7p

Diluted earnings per share

The calculation of diluted earnings per share at 30 April 2011 is based on profit attributable to ordinary shareholders of £70.1m (2009/10: £37.9m) and the weighted average number of ordinary shares outstanding during the year ended 30 April 2011, as adjusted for potentially issuable ordinary shares, of 431.0m (2009/10: 399.5m), calculated as follows:

	2011 £m	2010 £m
Profit attributable to ordinary shareholders	**70.1**	37.9

In millions of shares	**2011**	2010
Weighted average number of ordinary shares at 30 April	**422.4**	391.0
Potentially dilutive shares issuable under share-based payment arrangements	**8.6**	8.5
Weighted average number of ordinary shares (diluted) at 30 April	**431.0**	399.5
Diluted earnings per share	**16.3p**	9.5p

Adjusted earnings per share

The Directors believe that the presentation of an adjusted earnings per share amount, being the basic earnings per share adjusted for exceptional items, the exceptional tax charge 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:

	2011			2010		
	£m	**Basic – pence per share**	**Diluted – pence per share**	£m	Basic – pence per share	Diluted – pence per share
Basic earnings	**70.1**	**16.6p**	**16.3p**	37.9	9.7p	9.5p
Add back amortisation	**7.9**	**1.9p**	**1.8p**	4.1	1.0p	1.0p
Add back exceptional items, after tax	**1.8**	**0.4p**	**0.4p**	12.4	3.2p	3.1p
Adjusted earnings	**79.8**	**18.9p**	**18.5p**	54.4	13.9p	13.6p

9. Dividends proposed and paid

	2011		2010	
	Pence per share	£m	Pence per share	£m
Interim dividend – paid	2.0p	8.7	1.5p	5.9
Final dividend – proposed	4.5p	19.6	3.1p	12.1
	6.5p	28.3	4.6p	18.0

	2011 £m	2010 £m
Paid during the year	22.6	12.9

A final dividend in respect of 2010/11 of 4.5 pence per share (£19.6m) has been proposed by the Directors after the statement of financial position date and has not been included as a liability in these financial statements.

10. Intangible assets

	Goodwill £m	Software £m	Intellectual property £m	Other £m	Total £m
Cost					
Balance at 1 May 2010	216.1	35.6	13.3	14.8	279.8
Acquisitions through business combinations	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)
Effect of movements in foreign exchange	7.1	0.9	0.5	1.8	10.3
Balance at 30 April 2011	316.3	39.4	18.0	38.1	411.8
Amortisation and impairment					
Balance at 1 May 2010	(19.0)	(31.2)	(5.8)	(2.6)	(58.6)
Amortisation for the year	–	(1.9)	(1.2)	(4.8)	(7.9)
Impairment	(2.2)	–	–	(1.2)	(3.4)
Disposals	–	3.3	–	–	3.3
Effect of movements in foreign exchange	–	(0.2)	(0.7)	0.5	(0.4)
Balance at 30 April 2011	(21.2)	(30.0)	(7.7)	(8.1)	(67.0)
Carrying amount					
Balance as at 1 May 2010	197.1	4.4	7.5	12.2	221.2
Balance as at 30 April 2011	295.1	9.4	10.3	30.0	344.8

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements continued

10. Intangible assets continued

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

The amortisation charge for the year of £7.9m (2009/10: £4.1m) is included within administrative expenses. The impairment charge for the year of £3.4m (2009/10: £4.3m) is included within exceptional items. The other items above mainly relate to customer relationship. 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.

Impairment tests for cash-generating units containing goodwill

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

	2011 £m	2010 £m
UK Packaging	**137.3**	140.2
Continental European Corrugated Packaging	**110.2**	7.2
Plastic Packaging	**40.3**	40.8
	287.8	188.2
Segments with no CGUs containing individually significant goodwill	**7.3**	8.9
Total goodwill	**295.1**	197.1

Goodwill of £95.9m arose on the acquisition of Otor on 1 September 2010 and was allocated to the Continental European Corrugated Packaging operating segment.

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.

10. Intangible assets continued

Impairment tests for cash-generating units containing goodwill continued

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 2013 as approved by the Directors. Cash flows for the following three years were extrapolated assuming an inflationary growth rate of 3% (2009/10: 3%); and
- the pre-tax discount rate for the Group is 11.0% (2009/10: 11.8%). 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 universally applied across all CGUs.

The headroom for the impairment tests for the CGUs containing significant carrying amounts of goodwill is summarised as follows:

Headroom	2011 £m	2010 £m
UK Packaging	**257.2**	114.5
Continental European Corrugated Packaging	**217.9**	1.5
Plastic Packaging	**110.5**	68.9

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

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

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

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.

A one percentage point increase in the pre-tax discount rate to 12% would result in a reduction in the headroom for the CGUs containing significant carrying amounts of goodwill within UK Packaging, Continental European Corrugated Packaging, and Plastic Packaging to £175.0m, £168.1m, and £91.7m respectively.

Impairment – goodwill

The majority of the £2.2m impairment charge in goodwill in the year relates to Multigraphics, a UK business which provides printing services and display material for the retail sector. The slow recovery of the non food retail sector in the UK from the recession has resulted in the continuing under performance of this business below the Group's expectations. The carrying amount of Multigraphics CGU was determined to be higher than its recoverable amount, which was based on its value in use. This resulted in a full impairment of its goodwill of £1.8m which is recognised in exceptional items within the UK Packaging operating segment.

In order for there to be no further impairments within UK Packaging, adjusted operating profits will need to achieve circa £58m in 2016/17; this compares to £54.2m in 2010/11 and £35.4m in 2009/10. The assumptions underpinning UK Packaging adjusted operating profits reflect management's expectations of continuing improvements in levels of margins and profitability by 2016/17.

Impairment – other intangibles

The current and expected returns from a product in the Plastic Packaging segment indicate that no future economic benefits are expected to be generated. This results in a full impairment of the intangible asset relating to its research and development costs of £1.2m.

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements continued

11. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Fixtures and fittings £m	Under construction £m	Total £m
Cost					
Balance at 1 May 2010	328.2	1,116.2	58.3	15.4	1,518.1
Acquisitions through business combinations	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)	–
Effect of movements in foreign exchange	7.6	15.7	0.7	0.3	24.3
Balance at 30 April 2011	**364.0**	**1,202.5**	**58.0**	**24.4**	**1,648.9**
Depreciation and impairment					
Balance at 1 May 2010	(89.1)	(790.9)	(47.3)	–	(927.3)
Depreciation charge for the year	(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)
Effect of movements in foreign exchange	(3.4)	(12.0)	(0.7)	–	(16.1)
Balance at 30 April 2011	**(101.4)**	**(859.9)**	**(46.5)**	**(0.6)**	**(1,008.4)**
Carrying amount					
Balance as at 1 May 2010	239.1	325.3	11.0	15.4	590.8
Balance as at 30 April 2011	**262.6**	**342.6**	**11.5**	**23.8**	**640.5**

Leased property, plant and equipment

The amounts above include land and buildings held under finance lease agreements. At 30 April 2011, the carrying amount of land and buildings held under finance leases was £16.9m (30 April 2010: £6.3m).

Property, plant and equipment under construction

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

Impairment of property, plant and equipment

During the year, impairment for property, plant and equipment reflects the estimated reduction in the useful economic life of certain fixed assets in the UK Packaging operating segment.

11. Property, plant and equipment continued

	Land and buildings £m	Plant and equipment £m	Fixtures and fittings £m	Under construction £m	Total £m
Cost					
Balance at 1 May 2009	334.6	1,148.8	66.4	20.9	1,570.7
Acquisitions through business combinations	0.7	1.8	0.2	–	2.7
Additions	1.6	19.9	1.2	12.3	35.0
Disposals	(2.3)	(38.0)	(7.3)	–	(47.6)
Transfers	4.4	16.4	(2.9)	(17.9)	–
Reclassification to held for sale	(9.3)	(29.5)	(0.2)	–	(39.0)
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15. Trade and other receivables

	2011		[illegible]	
	Non-current £m	Current £m	[illegible]	[illegible]
[illegible]	–	427.4	[illegible]	[illegible]
[illegible]	–	(17.5)	[illegible]	[illegible]
[illegible]	3.8	40.5	[illegible]	[illegible]
[illegible]	3.8	450.4	[illegible]	[illegible]

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16. Trade and other payables

	2011		[illegible]	
	Non-current £m	Current £m	[illegible]	[illegible]
[illegible]	–	363.2	[illegible]	[illegible]
[illegible]	9.3	172.5	[illegible]	[illegible]
[illegible]	9.3	535.7	[illegible]	[illegible]

[illegible]

[illegible]

17. Assets and liabilities held for sale

2010/11

[illegible]

2009/10

[illegible]

[illegible]

[illegible]

	2011 £m	[illegible]
Assets classified as held for sale		
[illegible]	–	[illegible]
[illegible]	–	[illegible]
[illegible]	–	[illegible]

[illegible]

	2011 £m	[illegible]
Liabilities classified as held for sale		
[illegible]	–	[illegible]
[illegible]	–	[illegible]
[illegible]	–	[illegible]
[illegible]	–	[illegible]

20. Interest-bearing loans and borrowings

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

	2011		2010	
	Current £m	Non-current £m	Current £m	Non-current £m
Borrowings measured at amortised cost				
Bank and other loans	**1.4**	**72.0**	5.0	13.5
Note purchase agreements	**–**	**149.7**	–	49.0
Finance lease liabilities	**3.0**	**8.8**	0.7	5.0
	4.4	**230.5**	5.7	67.5
Borrowings in a fair value hedge relationship				
Note purchase agreements	**–**	**177.4**	–	188.9
	4.4	**407.9**	5.7	256.4

Bank loans, other loans and overdrafts of certain subsidiaries totalling £1.5m (30 April 2010: £2.6m) are secured over the properties and machinery of these companies. The holder of the security does not have the right to sell or re-pledge the assets as security.

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

	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**	**15.9**	**172.5**
Total interest-bearing loans and borrowings	**4.4**	**96.1**	**144.3**	**167.5**	**412.3**

	2010				
	1 year or less £m	1–2 years £m	2–5 years £m	More than 5 years £m	Total £m
Interest-bearing loans and borrowings					
Fixed-rate	0.3	0.1	65.2	49.2	114.8
Floating-rate	5.4	2.2	122.7	17.0	147.3
Total interest-bearing loans and borrowings	5.7	2.3	187.9	66.2	262.1

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements continued

20. Interest-bearing loans and borrowings continued

	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m
At 30 April 2011					
	44.9	**179.0**	**15.9**	**–**	**239.8**
	26.4	**146.1**	**–**	**–**	**172.5**
	71.3	**325.1**	**15.9**	**–**	**412.3**
	(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**

	2011 £m	
	17.8	
	–	
	287.5	
	305.3	

Bank loan facilities

Note purchase agreements

20. Interest-bearing loans and borrowings continued

Note purchase agreements continued

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

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

	2011			2010		
	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	**3.1**	**(0.1)**	**3.0**	0.8	(0.1)	0.7
Between one and five years	**6.0**	**(0.8)**	**5.2**	3.3	(0.9)	2.4
More than five years	**3.7**	**(0.1)**	**3.6**	2.7	(0.1)	2.6
Finance lease liabilities	**12.8**	**(1.0)**	**11.8**	6.8	(1.1)	5.7

21. Financial instruments

The Group's activities expose the Group to a number of key risks which have the potential to affect its ability to achieve its business objectives. A summary of the Group's key financial risks and the policies and objectives in place to manage these risks is set out in the Financial Review and Risk Management sections of the Business Review on pages 23 to 30.

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.

	2011		2010	
	Carrying amount £m	**Fair value £m**	Carrying amount £m	Fair value £m
Financial assets				
Cash and cash equivalents	**114.3**	**114.3**	55.1	55.1
Available-for-sale:				
Other investments	**0.5**	**0.5**	1.0	1.0
Loans and receivables:				
Trade and other receivables	**454.2**	**454.2**	381.3	381.3
Derivative financial instruments:				
Other financial assets in designated hedge accounting relationships	**21.7**	**21.7**	18.2	18.2
Total financial assets	**590.7**	**590.7**	455.6	455.6

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements continued

21. Financial instruments continued

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

	2011		2010	
	Carrying amount £m	**Fair value £m**	Carrying amount £m	Fair value £m
Financial liabilities				
Financial liabilities at amortised cost:				
Trade and other payables	**(545.0)**	**(545.0)**	(434.3)	(434.3)
Bank and other loans	**(73.4)**	**(73.4)**	(18.5)	(18.5)
Note purchase agreements	**(327.1)**	**(346.1)**	(237.9)	(246.3)
Finance lease liabilities	**(11.8)**	**(11.8)**	(5.7)	(5.7)
Bank overdrafts	**(26.1)**	**(26.1)**	(22.3)	(22.3)
Derivative financial instruments:				
Other financial liabilities in designated hedge accounting relationships	**(43.4)**	**(43.4)**	(34.7)	(34.7)
Total financial liabilities	**(1,026.8)**	**(1,045.8)**	(753.4)	(761.8)

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.

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements continued

21. Financial instruments continued

(ii) Fair value hedges

At 30 April 2011, the Group held interest rate and currency swap contracts as fair value hedges of the interest rate and currency risk on fixed rate debt payable by the Group. The receive leg of the swap contracts is largely identical for all critical aspects to the terms of the underlying debt and thus the hedging is highly effective. The pre-tax loss on the hedging derivative instruments taken to the income statement in the year was £13.5m (2009/10: loss of £6.2m) offset by a pre-tax gain on the fair value of the debt of £12.6m (2009/10: gain of £6.1m).

(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 loss on the hedges recognised in equity in the year was £4.7m (2009/10: gain of £5.7m). The loss is matched by a similar gain 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 £0.3m recognised in the income statement (2009/10: gain of £0.7m).

(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 and the Group Treasurer. The Group Treasury Function operates in accordance with policies and procedures approved by the Board and controlled by the Group Treasurer. The function arranges funding for the Group, provides a service to operations and implements strategies for interest rate, foreign exchange rate and energy exposure management.

(ii) Market risk

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

Interest rate risk

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

At 30 April 2011, 58% (30 April 2010: 44%) of the Group's interest-bearing loans and borrowings were fixed for a period of at least one year. The sensitivity analysis below shows the impact on profit and total equity of a 100 basis points rise in market interest rates (representing management's assessment of the reasonably possible change in interest rates) in all currencies in which the Group had variable rate borrowings at 30 April.

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

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

	2011		2010	
	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	**(0.8)**	**–**	(1.2)	–

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 2011, losses of £0.9m (30 April 2010: losses of £3.5m) (net of tax) are deferred in equity in respect of cash flow hedges of interest rate risk. This will be recycled to the income statement in the period in which the hedged item also affects the income statement, which will occur over time to 2016. During the year, losses of £1.9m deferred in equity were transferred to the income statement (2009/10: £nil).

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements

21. Financial instruments

	2011			
	Impact on profit £m	Impact on total equity £m		
••	–	1.7	•	•
••	–	6.8	•	•

(iii) Credit risk

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	Net carrying amount (see note 15) £m	Of which neither impaired nor past due £m	Of which past due but not impaired				
			1 month or less £m	1–3 months £m	3–6 months £m	6–12 months £m	More than 12 months £m
The ageing of trade receivables							
As at 30 April 2011	**409.9**	**326.7**	**76.0**	**5.3**	**1.3**	**0.3**	**0.3**
… „ …	„•• •	• •	‹„ˆ	„	„	•	

	2011 £m	
Movement in the allowance for bad and doubtful receivables		
“ ’	**(17.7)**	‰ ˆŒ
• - € f	**1.1**	‹ „
” •‰ Œ -	**1.8**	‰„ „Œ
‰… Œ•	**(2.5)**	ˆ
– f	**(0.2)**	„
Balance as at 30 April (see note 15)	**(17.5)**	‰ ˆˆŒ

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21. Financial instruments continued

(d) Risk identification and risk management continued

(iv) Liquidity risk

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

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

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

		Contractual repayments			
As at 30 April 2011	**Carrying amount £m**	**Total £m**	**1 year or less £m**	**1–5 years £m**	**More than 5 years £m**
Non-derivative financial liabilities					
Trade and other payables	**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**

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

The tables above exclude interest expense estimated to be £18.9m in 2011/12, £18.1m in 2012/13, £11.7m in 2013/14, £9.3m in 2014/15, £8.3m in 2015/16 and £18.8m in 2016/17 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).

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements continued

21. Financial instruments continued

(d) Risk identification and risk management continued

Where applicable, interest and foreign exchange rates prevailing at the reporting date are assumed to remain constant over the future contractual maturities.

As at 30 April 2011	Carrying amount £m	Contractual payments/(receipts) Total £m	1 year or less £m	1–5 years £m	More than 5 years £m
Derivative financial liabilities					
Energy derivatives	(6.2)	(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)**

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

22. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets		Liabilities		Net	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Property, plant and equipment and intangible assets	**–**	–	**(62.9)**	(60.5)	**(62.9)**	(60.5)
Employee benefits including pensions	**41.3**	61.1	**–**	–	**41.3**	61.1
Other items	**18.3**	20.3	**–**	–	**18.3**	20.3
Tax assets/(liabilities)	**59.6**	81.4	**(62.9)**	(60.5)	**(3.3)**	20.9

Unrecognised deferred tax assets and liabilities

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

	Assets		Liabilities	
	2011 £m	2010 £m	**2011 £m**	2010 £m
Tax losses	**4.4**	9.9	**–**	–
Total	**4.4**	9.9	**–**	–

All the tax losses above do not expire. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

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

	Property, plant and equipment and intangible assets		Employee benefits including pensions		Other items		Total	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Balance at 1 May	**(60.5)**	(70.5)	**61.1**	55.7	**20.3**	17.5	**20.9**	2.7
Acquired	**(7.6)**	–	**–**	–	**–**	–	**(7.6)**	–
Credit/(charge) for the year	**6.3**	9.9	**(12.3)**	0.6	**–**	–	**(6.0)**	10.5
Recognised directly in equity	**–**	–	**(7.5)**	4.8	**(2.0)**	2.8	**(9.5)**	7.6
Exchange adjustments	**(1.1)**	0.1	**–**	–	**–**	–	**(1.1)**	0.1
Balance at 30 April	**(62.9)**	(60.5)	**41.3**	61.1	**18.3**	20.3	**(3.3)**	20.9

At 30 April 2011, deferred tax assets and liabilities were recognised for all taxable temporary differences:

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

23. Provisions

	Employee

25. Post-retirement benefits

Liability for defined benefit obligations

The Group operates a funded, defined benefit scheme in the UK, the DS Smith Group Pension scheme ('the Group scheme'). On 30 April 2011, the Group scheme was closed for future accrual. The Group made an agreed contribution of £30.1m to the Group scheme in 2010/11 (2009/10: £15.6m). The Group operates various local pension arrangements for overseas operations and unfunded arrangements for senior executives; these are, in aggregate, not significant to the Group. The following financial information includes amounts related to these other arrangements, where appropriate. A charge over certain assets of the Group has been made as security for certain of the unfunded arrangements. The most recent full actuarial valuation of the Group scheme was as at 30 April 2010. All UK valuations used the projected unit method.

As a result of the closure of the Group scheme to future accrual, a curtailment gain of £35.3m was recorded. This has been treated as an exceptional item (see note 4).

Liability for defined benefit obligations

Principal actuarial assumptions are as follows:

	2011 %	2010 %	2009 %	2008 %	2007 %
Discount rate for scheme liabilities	**5.3%**	5.6%	6.4%	5.9%	5.4%
Inflation	**2.8%**	3.5%	3.3%	3.5%	2.9%
Future salary increases	**N/A**	4.5%	4.3%	4.5%	3.9%
Future pension increases for pre 30 April 2005 service	**2.8%**	3.5%	3.3%	3.5%	2.9%
Future pension increases for post 30 April 2005 service	**2.3%**	2.4%	2.3%	2.3%	2.3%
Expected return on plan assets	**5.8%**	6.5%	6.7%	6.7%	6.6%

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	**(75.0)**
0.5% increase in inflation	**(65.0)**
1 year increase in life expectancy	**(20.0)**

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

	2011		2010	
	Male	**Female**	Male	Female
Life expectancy at age 65				
Pensioner currently aged 65	**21.0**	**23.2**	19.5	22.4
Member currently aged 45	**22.4**	**24.8**	21.3	24.1

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:

	2011		2010		2009		2008		2007	
	Expected rate of return %	**Market value £m**	Expected rate of return %	Market value £m	Expected rate of return %	Market value £m	Expected rate of return %	Market value £m	Expected rate of return %	Market value £m
Equities	**7.5%**	**435.9**	7.9%	420.1	7.4%	349.8	7.6%	490.8	7.4%	527.1
Bonds, gilts and cash (weighted average)	**4.5%**	**295.6**	4.9%	269.0	5.1%	205.5	4.4%	231.0	4.1%	210.8
Total market value of assets		**731.5**		689.1		555.3		721.8		737.9
Present value of schemes' liabilities		**(879.0)**		(892.2)		(746.6)		(797.7)		(756.5)
Deficit in the schemes		**(147.5)**		(203.1)		(191.3)		(75.9)		(18.6)
Related deferred tax asset		**35.7**		57.0		53.3		21.4		5.6
Net pension liability		**(111.8)**		(146.1)		(138.0)		(54.5)		(13.0)

25. Post-retirement benefits continued

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

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Schemes' liabilities at 1 May	**(892.2)**	(746.6)	(797.7)	(756.5)	(756.4)
Interest cost	**(49.0)**	(46.7)	(46.4)	(40.1)	(38.1)
Service cost recognised in the income statement	**(9.3)**	(9.6)	(11.7)	(9.8)	(10.9)
Member contributions	**(4.4)**	(5.6)	(6.2)	(6.4)	(6.9)
Curtailment gains	**35.3**	–	–	–	–
Pension payments	**51.7**	47.4	31.6	28.0	31.3
Payments to the Pension Protection Fund	**1.0**	1.1	1.5	–	0.1
Actuarial gains/(losses) recognised in the consolidated statement of comprehensive income	**(1.1)**	(132.3)	84.0	(10.8)	24.2
Effect of movements in foreign exchange	**(0.5)**	(0.5)	(1.7)	(2.1)	0.2
Acquisition	**(10.5)**	–	–	–	–
Reclassification to held for sale	**–**	0.6	–	–	–
Schemes' liabilities at 30 April	**(879.0)**	(892.2)	(746.6)	(797.7)	(756.5)

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

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Schemes' assets at 1 May	**689.1**	555.3	721.8	737.9	706.1
Employer contributions	**32.3**	17.1	16.9	16.8	17.3
Member contributions	**4.4**	5.6	6.2	6.4	6.9
Other contributions	**–**	–	–	0.7	–
Expected return on schemes' assets	**41.6**	35.2	47.9	48.9	46.1
Actuarial gains/(losses) recognised in the consolidated statement of comprehensive income	**15.5**	122.0	(207.4)	(62.2)	(7.2)
Pension payments	**(51.7)**	(45.7)	(31.4)	(27.8)	(31.2)
Effect of movements in foreign exchange	**0.3**	(0.4)	1.3	1.1	(0.1)
Schemes' assets at 30 April	**731.5**	689.1	555.3	721.8	737.9

Expense recognised in the income statement

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Current service cost	**(8.3)**	(7.9)	(9.7)	(8.3)	(9.3)
Past service cost	**–**	(0.6)	(0.8)	(1.1)	(1.5)
Pension Protection Fund levy	**(1.0)**	(1.1)	(1.2)	(0.4)	(0.1)
Total service cost	**(9.3)**	(9.6)	(11.7)	(9.8)	(10.9)
Curtailment gains	**35.3**	–	–	–	–
Interest cost on schemes' liabilities	**(49.0)**	(46.7)	(46.4)	(40.1)	(38.1)
Expected return on schemes' assets	**41.6**	35.2	47.9	48.9	46.1
Employment benefit net finance (expense)/income	**(7.4)**	(11.5)	1.5	8.8	8.0

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.

25. Post-retirement benefits continued

Analysis of amounts recognised in the statement of comprehensive income

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Actual return less expected return on pension schemes' assets	**15.5**	122.0	(207.4)	(62.2)	(7.2)
Experience gains/(losses) arising on schemes' liabilities	**–**	–	–	16.1	10.3
Changes in assumptions underlying present value of schemes' liabilities	**(1.1)**	(132.3)	84.0	(26.9)	13.9
Actuarial gains/(losses) recognised in the statement of comprehensive income	**14.4**	(10.3)	(123.4)	(73.0)	17.0

The cumulative amount of actuarial losses recognised in other comprehensive income since the date of transition to IFRS is £152.1m (2009/10: £166.5m).

History of experience gains and losses

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Difference between expected and actual returns on schemes' assets	**15.5**	122.0	(207.4)	(62.2)	(7.2)
Above as a percentage of schemes' assets	**2%**	18%	(37%)	(9%)	(1%)
Experience gains/(losses) arising on schemes' liabilities	**–**	–	–	16.1	10.3
Above as a percentage of the present value of schemes' liabilities	**–**	–	–	2%	1%
Total amount recognised in the consolidated statement of comprehensive income	**14.4**	(10.3)	(123.4)	(73.0)	17.0
Above as a percentage of the present value of schemes' liabilities	**2%**	(1%)	(17%)	(9%)	2%

The actual return on scheme assets was £56.8m (2009/10: £156.2m). The Group expects to pay approximately £15m in contributions to the Group defined benefit pension schemes in the year ending 30 April 2012.

26. 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 vest after three years subject to remaining in service and the satisfaction of performance conditions measured over the three financial years commencing with the year of grant. Awards have been made under the PSP in 2008, 2009 and 2010. The performance conditions are as detailed below (see the Remuneration Report on pages 46 and 47).

- The 2008 award is subject to three equally-weighted performance measures:

  (i) the Company's total shareholder return (TSR) compared to the constituents of the Industrial Goods and Services Supersector within the FTSE 250;

  (ii) average adjusted earnings per share (EPS); and

  (iii) average adjusted return on average capital employed (ROACE).

  For those senior executives working in one of the four Business Segments, the three measures (equally weighted) are TSR (as above), average adjusted operating profit and average adjusted ROACE for the relevant segment.

- The 2009 award is subject to two performance measures:

  (i) 80% of each award based on a TSR component as per above; and

  (ii) 20% of each award based on average adjusted ROACE.

  For those senior executives working in one of the four Business Segments, the two measures are TSR and ROACE for the relevant segment.

- The 2010 award is 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.

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Notes to the Consolidated Financial Statements continued

26. Share-based payment expense continued

(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 is due to vest on 17 October 2011. The Replacement 2008 LTIP award is subject to a performance condition measuring the TSR of McBride plc up to the date Mr Roberts joined the Company and thereafter the Company's TSR against a comparator group of companies comprising the FTSE 250 Index (excluding investment trusts) constituted as at the date of grant of the award over a three-year performance period commencing on 1 July 2008. The award will vest in full if the TSR is ranked in the upper quartile of the comparator group and on a straight-line basis if the TSR is ranked between median and upper quartile. There were no performance conditions governing the vesting of the Replacement 2007 LTIP award. The Replacement 2007 LTIP was fully exercised in October 2010.

(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. Shares awarded to Directors under the Plan will vest automatically if the Director is still employed by the Company three years after the grant of the award.

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

(vii) A Long-Term Incentive Plan (LTIP). This scheme ceased to be operated from September 2008. In normal circumstances LTIP awards vest on the third anniversary of grant subject to satisfaction of performance conditions and remaining in service. Performance is measured over a single period of three financial years (commencing with the year in which the award is made) and is based on the Company's total shareholder return performance relative to the constituents of the FTSE Mid 250 Index (excluding investment trusts). Full vesting occurs for a ranking of upper quartile or higher reducing on a straight-line basis to 30% of the award vesting for median performance. None of the award vests for below median performance. No awards will vest, irrespective of total shareholder return performance, unless the Company's earnings per share growth matches or exceeds the growth in the Retail Prices Index over the three-year period.

Full details of the awards described in (i), (ii), (iii), (iv) and (v) are set out in the Remuneration Report on pages 49 to 52.

The total number of options outstanding and exercisable under share arrangements as at 30 April 2011 was as follows:

	Options outstanding			Options exercisable		
	Number of shares	Option price range (p)	Weighted average remaining contract life (years)	Weighted average exercise price (p)	Number exercisable	Weighted average exercise price (p)
Executive Share Option Scheme (1999)	1,077,197	135.2-159	3.3	148.6	1,077,197	148.6
Performance Share Plan	11,719,284	Nil	1.3	Nil	Nil	Nil
Replacement 2008 Long-Term Incentive Plan	432,432	Nil	0.5	Nil	Nil	Nil
Replacement Deferred Shares Award	106,685	Nil	1.3	Nil	Nil	Nil
Recruitment Award	570,768	Nil	1.5	Nil	Nil	Nil
Substitute Share Bonus Award	80,014	Nil	2.3	Nil	Nil	Nil
Long-Term Incentive Plan	Nil	Nil	Nil	Nil	Nil	Nil
Deferred Share Bonus Plan	58,710	Nil	2.2	Nil	Nil	Nil
Replacement Deferred Share Bonus Plan	Nil	Nil	Nil	Nil	Nil	Nil

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

26. Share-based payment expense continued

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	
2011	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)
Balance at 1 May 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	–
Balance 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**

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

	Replacement Deferred Share Bonus Plan	
2011 continued	Weighted average exercise price (p)	Options ('000s)
Balance at 1 May 2010	Nil	75
Granted	Nil	–
Exercised	Nil	(75)
Lapsed	Nil	–
Balance at 30 April 2011	**Nil**	**Nil**
Exercisable at 30 April 2011	**Nil**	**Nil**

	Executive Share Option Scheme (1992)		Executive Share Option Scheme (1999)		Restricted Share Plan		Long-Term Incentive Plan	
2010	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)
Balance at 1 May 2009	166.6	53	162.4	5,541	Nil	29	Nil	1,943
Granted	Nil	–	Nil	–	Nil	–	Nil	–
Exercised	Nil	–	Nil	–	Nil	(29)	Nil	–
Lapsed	166.6	(53)	175.1	(353)	Nil	–	Nil	(1,252)
Balance at 30 April 2010	Nil	Nil	161.6	5,188	Nil	Nil	Nil	691
Exercisable at 30 April 2010	Nil	Nil	148.5	4,478	Nil	Nil	Nil	Nil

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26. Share-based payment expense continued

2010 continued	Deferred Share Bonus Plan		Replacement Deferred Share Bonus Plan		Performance Share Plan	
	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)
Balance at 1 May 2009	Nil	222	Nil	113	Nil	4,090
Granted	Nil	–	Nil	–	Nil	6,247
Exercised	Nil	–	Nil	(38)	Nil	–
Lapsed	Nil	–	Nil	–	Nil	(398)
Balance at 30 April 2010	Nil	222	Nil	75	Nil	9,939
Exercisable at 30 April 2010	Nil	Nil	Nil	Nil	Nil	Nil

The average share price of the Company during the financial year was 169.6 pence (2009/10: 104.8 pence).

The total expense recognised as employee costs is as follows:

	2011 £m	2010 £m
Share-based incentive awards granted in 2007/08	**–**	0.1
Share-based incentive awards granted in 2008/09	**0.4**	0.5
Share-based incentive awards granted in 2009/10	**0.5**	0.8
Share-based incentive awards granted in 2010/11	**2.0**	–
Total expense recognised as employee costs	**2.9**	1.4

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

The fair value of the PSP award granted during the period determined using the stochastic valuation model, was £4.0m. The significant inputs into the model were: a share price of £1.394 for the PSP at the grant date; the exercise prices shown above; an expected initial volatility of the share price of 40.8% and long term volatility of 28.7%; the scheme life disclosed above; an annual risk-free interest rate of 1.4% and an expected dividend yield of nil%. The volatility of share price returns measured as the standard deviation of expected share price returns is based on statistical analysis of average weekly share prices over a period of three years.

The fair value of the PSP award granted in 2009 using the stochastic valuation model was £2.2m. The significant inputs into the model were: a share price of £0.7 for the PSP at the grant date; the exercise prices shown above; an expected volatility of the share price of 54.1%; the scheme life disclosed above; an annual risk-free interest rate of 2.4% and an expected dividend yield of nil%. The volatility of share price returns measured as the standard deviation of expected share price returns is based on statistical analysis of average weekly share prices over a period of three years.

The fair value of the PSP award granted in 2008 using the stochastic valuation model was £1.2m. The significant inputs into the model were: a share price of £1.24 for the PSP at the grant date; the exercise price shown above, an expected volatility of the share price of 37.5%; the scheme life disclosed above; an annual risk-free interest rate of 4.2%; and an expected dividend yield of nil%. The volatility of share price returns measured as the standard deviation of expected share price returns is based on a statistical analysis of average weekly share prices over a period of three years.

The fair value of other options granted during the period, determined using the stochastic valuation model, was £1.4m. The significant inputs into the model were: a share price of £1.394; the exercise prices shown above; an expected initial volatility of the share price of 40.8% and long term volatility of 28.7% for the Replacement 2008 LTIP and Recruitment award; the options life disclosed above; an annual risk-free interest rate of 1.05% for LTIP and 0.7% for the Recruitment award; and an expected dividend yield of 3.3% for LTIP and nil for Recruitment. The volatility of share price returns measured as the standard deviation of expected share price returns was based on statistical analysis of daily share prices over a period of two years.

The fair value of options granted in 2008, determined using the stochastic valuation model, was £2.0m. The significant inputs into the model were: a share price of £2.37 for LTIP, and £2.44 for ESOS; the exercise prices shown above; a standard deviation of expected share price returns of 24.1% for LTIP and 26.6% for ESOS; the options life disclosed above; an annual risk-free interest rate of 5.5% for LTIP and 5.4% for ESOS; and an expected dividend yield of 3.6% for LTIP and 3.5% for ESOS. The volatility of share price returns measured as the standard deviation of expected share price returns was based on statistical analysis of daily share prices over a period of three to six years.

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

	2011 £m	2010 £m
Operating profit before amortisation and exceptional items	**136.1**	98.1
Depreciation	**70.7**	67.9
Adjusted EBITDA	**206.8**	166.0
Working capital movement	**7.6**	(2.4)
Provisions and employee benefits	**(25.7)**	(10.7)
Other	**2.7**	1.0
Cash generated from operations before exceptional cash items	**191.4**	153.9
Capital expenditure payments	**(66.6)**	(52.6)
Proceeds from sales of assets and investments	**10.1**	13.0
Tax paid	**(18.6)**	(21.3)
Net interest paid	**(15.6)**	(16.2)
Free cash flow	**100.7**	76.8
Exceptional cash costs	**(17.0)**	(18.4)
Dividends paid to Group shareholders	**(22.6)**	(12.9)
Net (acquisitions)/disposals of subsidiaries	**(165.1)**	(1.0)
Net cash flow	**(104.0)**	44.5
Proceeds from the issue of share capital	**50.1**	–
Purchase of own shares	**(6.5)**	–
Net debt acquired	**(36.6)**	(0.9)
Net movement on (borrowings)/cash	**(97.0)**	43.6
Foreign exchange and fair value movements (note 18)	**(14.5)**	8.4
Net debt movement	**(111.5)**	52.0
Opening net debt	**(239.5)**	(291.5)
Closing net debt	**(351.0)**	(239.5)

Free cash flow excludes net acquisitions/(disposals) of equity in subsidiaries, exceptional cash costs and dividends.

29. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2011 £m	2010 £m
Less than one year	**25.5**	24.3
Between one and five years	**60.6**	55.5
More than five years	**32.2**	31.3
	118.3	111.1

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

As at 30 April 2011, the Group's future minimum sub-lease receipts totalled £0.8m (30 April 2010: £1.1m), of which: £0.2m (30 April 2010: £0.2m) falls within one year; £0.6m (30 April 2010: £0.9m) between one and five years; and £nil (30 April 2010: £nil) after five years.

30. Capital commitments

As at 30 April 2011, the Group had committed to incur capital expenditure of £25.4m (30 April 2010: £5.3m).

31. Acquisitions and divestments

(a) Otor Group

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. Otor S.A. is a leading fast moving consumer goods (FMCG) focused corrugated packaging company in France. 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. As noted below, in October 2010 the Group increased its ownership interest to 100%.

Taking control of the Otor Group satisfies a number of the Group's key strategic objectives, in particular the development of a strong continental European Corrugated Packaging business focused on the FMCG sector and strengthening significantly the Group's French presence. The Group expects the acquisition will have enhanced long-term growth potential through the Otor Group's strong business across France and from increased exposure to the more resilient FMCG markets. Combining the Otor Group's successful and well-established Corrugated Packaging business with the Group's existing French operations has created a platform with significantly enhanced capabilities to address the needs of key corrugated packaging customers both in France and more broadly in continental Europe.

In the period 1 September 2010 to 30 April 2011, the Otor Group contributed revenue of £197.1m and profit after tax of £9.1m to the Group's results. In these eight months, Otor generated adjusted operating profits of €21.7m, with a return on sales of 9.4%, and an annualised return on invested capital of 13.6%. If the acquisition had occurred on 1 May 2010, management estimates for the twelve months to 30 April 2011, that the Group consolidated revenue would have been £2,566.0m, and consolidated profit after tax would have been £76.1m.

	Carrying values before acquisition 2011 £m	Fair value of assets acquired 2011 £m
Intangible assets	**4.4**	**26.5**
Property, plant and equipment	**46.1**	**61.8**
Deferred tax assets/(liabilities)	**11.9**	**(7.6)**
Other non-current receivables	**2.5**	**2.5**
Non-current bank deposits	**6.8**	**6.8**

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Notes to the Consolidated Financial Statements continued

31. Acquisitions and divestments continued

(a) Otor Group continued

The fair value adjustments relate to the valuation of land and buildings included within property, plant and equipment, and identified intangible assets as determined by external valuation firms. The intangible assets acquired as part of the acquisition relate to customer relationships (£19.1m), patented technology (£4.1m), software (£2.5m), and research and development (£0.8m).

Deferred tax is recognised on the temporary timing differences created by the fair value adjustments.

The trade receivables comprise gross contractual amounts due of £52.9m. At the acquisition date, it is estimated that contractual cash flows of £1.8m will not be collected.

The goodwill arising on the acquisition of Otor amounting to £95.9m (which is not expected to be tax deductible) consists of anticipated synergies from integrating Otor into the Group's existing Continental European Corrugated Packaging operations and the skills and technical talent of Otor's workforce.

Acquisition related costs

The Group incurred acquisition related costs of £7.2m on professional advisory fees and due diligence costs. These fees have been included in administrative expenses in the Group's condensed consolidated income statement. Due to the nature of these costs, they have been reported as exceptional costs.

Acquisition of non-controlling interests

In October 2010, the Group acquired an additional 5% interest in Otor S.A. for £8.5m in cash, increasing its ownership in the Otor Group from 95% to 100%. The Group recognised a decrease in non-controlling interests of £3.3m and a decrease in retained earnings of £5.2m, to reflect this transaction.

(b) Divestments

On 1 October 2010, the Group sold its subsidiary in Turkey, DS Smith Çopikas A.S., for a consideration of £4.8m.

On 30 April 2011, the Group sold its business in the UK, DS Smith Sacks, for a cash consideration of £1.1m.

2009/10

Wirth

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

Demes Logistics

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

Vale Paper Limited

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

32. Related parties

Identity of related parties

In the normal course of business the Group undertakes a wide variety of transactions with certain of its subsidiaries (see note 33) and associates (see note 12).

The key management personnel of the Company comprise the Chairman, Executive Directors and non-Executive Directors. The compensation of key management personnel can be found in the Remuneration Report set out on pages 45 to 53 of the Annual Report. Certain key management also participate in the Group's share option programme (refer to note 25). Included within the share-based payment expense is a charge of £1.3m (2010: £0.4m) relating to key management.

Other related party transactions

	2011 £m	2010 £m
Sales to associates and joint ventures	**–**	–
Purchases from associates and joint venture	**0.3**	0.4
Amounts due from associates and joint venture	**–**	–
Amounts due to associates and joint venture	**–**	–

33. DS Smith Group companies

Control of the Group

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

List of key consolidated companies

	Country of incorporation or registration	Ownership interest 2011
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%*
Otor S.A.	France	100%*
Toscana Ondulati SpA	Italy	92%*
Plastic Packaging		
DS Smith Plastics Limited	England	100%*
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	97.2%*
Rapak GmbH	Germany	100%*
Rapak Asia Pacific Limited	New Zealand	100%*
Office Products Wholesaling		
Spicers Limited	England	100%*
Spicers (Ireland) Limited	Ireland	100%*
Spicers France S.A.S	France	100%*
Spicers Belgium NV	Belgium	100%*

* indirectly held by DS Smith Plc

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

[illegible]

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[illegible]

[illegible]

[illegible]

[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]

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[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

FINANCIAL STATEMENTS

Company Balance Sheet Prepared in Accordance with UK GAAP

As at 30 April 2011

	Note	2011 £m	2010 £m
Fixed assets			
Tangible assets	4	**2.2**	2.4
Investments	5	**357.0**	357.0
		359.2	359.4
Current assets			
Debtors: amounts falling due within one year	6	**19.2**	12.9
Debtors: amounts falling due after more than one year	6	**1,950.8**	1,089.4
Cash at bank and in hand		**32.5**	0.8
		2,002.5	1,103.1
Creditors: amounts falling due within one year			
Trade and other creditors	7	**(29.5)**	(55.8)
Borrowings	7	**(62.5)**	(17.7)
Net current assets		**1,910.5**	1,029.6
Total assets less current liabilities		**2,269.7**	1,389.0
Creditors: amounts falling due after more than one year			
Trade and other creditors	7	**(36.1)**	(25.2)
Borrowings	7	**(1,644.8)**	(804.7)
Provisions for liabilities	8	**(4.0)**	(4.2)
Net assets excluding pension liability		**584.8**	554.9
Net pension liability	2	**(99.1)**	(142.8)
Net assets including pension liability		**485.7**	412.1
Capital and reserves			
Called up share capital	9	**43.6**	39.3
Share premium account	10	**309.1**	263.1
Profit and loss account	10	**133.0**	109.7
Shareholders' funds		**485.7**	412.1

Approved by the Board of Directors of DS Smith Plc (company registered number 1377658) on 22 June 2011 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.

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

1. Significant accounting policies

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

(a) Accounting basis

The financial statements 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.

(b) Income recognition

Dividend income from subsidiary undertakings is recognised in the profit and loss account when declared by the subsidiary undertaking.

(c) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated to write off the cost or valuation less the estimated residual value of all tangible fixed assets in equal annual instalments over their estimated useful lives at the following rates:

Plant and equipment	3 – 5 years
Leasehold improvements	over the period of the lease

Land is not depreciated.

(d) Fixed asset investments

Fixed asset investments are valued at cost less provisions for impairment.

(e) Deferred taxation

In accordance with FRS 19, deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise, provided at current tax rates and based on current legislation. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

(f) Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the financial year end.

Exchange differences arising on translation are taken to the profit and loss account.

(g) Pension contributions

The amounts charged to operating profit in respect of defined benefit arrangements are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and duration to the scheme liabilities. The resulting defined benefit net asset or liability, net of the related deferred tax, is presented.

(h) Financial instruments

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

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

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

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

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

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

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

(i) Share options

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

The proceeds received as a result of such options being exercised, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium when the options are exercised.

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

2. Pensions

Details of the assumptions used in the calculation of the underlying assets and liabilities are disclosed in note 25 to the consolidated financial statements on page 99.

2011 £m	2010 £m

FINANCIAL STATEMENTS

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

4. Tangible fixed assets

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
Balance at 1 May 2010	1.4	1.5	2.9
Additions	–	0.2	0.2
Balance at 30 April 2011	**1.4**	**1.7**	**3.1**
Depreciation			
Balance at 1 May 2010	–	(0.5)	(0.5)
Depreciation charge for the year	–	(0.4)	(0.4)
Balance at 30 April 2011	**–**	**(0.9)**	**(0.9)**
Carrying amount			
Balance as at 1 May 2010	1.4	1.0	2.4
Balance as at 30 April 2011	**1.4**	**0.8**	**2.2**

5. Fixed asset investments

	Shares in Group undertakings £m	Other £m	Total £m
Balance at 1 May 2010	357.0	–	357.0
Balance at 30 April 2011	**357.0**	**–**	**357.0**

The Company's principal trading subsidiary undertakings at 30 April 2011 are shown in note 33 of the consolidated financial statements.

6. Debtors

	2011 £m	2010 £m
Amounts falling due within one year		
Amounts owed by subsidiary undertakings	**0.7**	0.7
Corporation tax	**8.9**	8.2
Other debtors includes other tax	**1.3**	1.3
Prepayments and accrued income	**0.1**	0.1
Derivative financial instruments	**8.2**	2.6
	19.2	12.9
Amounts falling due after more than one year		
Amounts owed by subsidiary undertakings	**1,935.3**	1,071.8
Other debtors	**–**	0.8
Deferred tax asset	**2.2**	5.5
Derivative financial instruments	**13.3**	11.3
	1,950.8	1,089.4
Total debtors	**1,970.0**	1,102.3

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	Year ended 30 April 2007 £m	Year ended 30 April 2008 £m	Year ended 30 April 2009 £m	Year ended 30 April 2010 £m	
UK Packaging	687.1	753.2	785.8	750.2	• •••
Continental European Corrugated Packaging	308.0	346.0	363.4	355.4	•••••
Plastic Packaging	201.8	223.4	236.9	231.3	• •
Office Products Wholesaling	569.2	644.9	720.5	733.7	• ••
•	1,766.1	1,967.5	2,106.6	2,070.6	-•••••
€ , ƒ €					
UK Packaging	36.5	68.5	36.5	35.4	• •„
Continental European Corrugated Packaging	18.2	20.3	30.4	22.9	„••
Plastic Packaging	10.2	10.7	7.0	15.5	••…
Office Products Wholesaling	12.8	20.1	20.1	20.2	••
• € , ƒ €	77.7	119.6	94.0	94.0	…•
Share of profits of associates[1]	3.9	3.4	0.6	0.2	†
Net finance cost	(15.0)	(20.8)	(23.6)	(14.4)	‡ ••…ˆ
Employee benefit net finance income/(expense)	8.0	8.8	1.5	(11.5)	‡•••ˆ
Profit before taxation and exceptional items	74.6	111.0	72.5	68.3	•
Exceptional items	3.9	(1.9)	(55.7)	(13.3)	•
ƒ € ‰ ƒ Š € ‹	78.5	109.1	16.8	55.0	•
Free cash flow[1]	91.9	84.8	59.9	76.8	••
Capital expenditure[3]	66.0	68.6	83.2	41.2	• •„
Depreciation and amortisation	62.9	62.0	69.9	72.0	•…•„
Average capital employed[2]	895.0	925.7	1,009.5	973.6	- • ••
Shareholders' funds	567.1	601.9	456.4	473.2	•…••
Net debt	181.2	251.8	291.5	239.5	• •
Adjusted return on sales[1]	4.4%	6.1%	4.5%	4.5%	•• Œ
Adjusted return on average capital employed[1]	8.7%	12.9%	9.3%	9.7%	••Œ
Gearing[4]	32.0%	41.8%	63.9%	50.6%	„ • Œ
Adjusted earnings per share[1]	13.1p	19.9p	12.6p	12.9p	••
Dividends per share	8.6p	8.8p	4.4p	4.6p	„••
Adjusted dividend cover[1]	1.5x	2.3x	2.9x	2.8x	•„‹
Net assets per share	144.9p	153.9p	116.7p	121.0p	…•

1 before exceptional items

2 average capital employed is defined in note 2 on page 73

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

4 gearing is defined in note 18 on page 86

FINANCIAL STATEMENTS

Five-Year Financial Summary continued

PRE AMORTISATION

	Year ended 30 April 2007 £m	Year ended 30 April 2008 £m	Year ended 30 April 2009 £m	Year ended 30 April 2010 £m	**Year ended 30 April 2011 £m**
Revenue					
UK Packaging	687.1	753.2	785.8	750.2	**917.7**
Continental European Corrugated Packaging	308.0	346.0	363.4	355.4	**599.4**
Plastic Packaging	201.8	223.4	236.9	231.3	**242.2**
Office Products Wholesaling	569.2	644.9	720.5	733.7	**715.2**
Group revenue	1,766.1	1,967.5	2,106.6	2,070.6	**2,474.5**
Operating profit[1]					
UK Packaging	38.3	69.6	37.6	37.0	**54.2**
Continental European Corrugated Packaging	18.4	20.6	30.6	23.1	**39.8**
Plastic Packaging	11.0	11.5	7.9	16.6	**16.9**
Office Products Wholesaling	14.1	21.4	21.4	21.4	**25.2**
Group operating profit[1]	81.8	123.1	97.5	98.1	**136.1**
Amortisation	(4.1)	(3.5)	(3.5)	(4.1)	**(7.9)**
Share of profit of associates[5]	3.9	3.4	0.6	0.2	**–**
Net finance cost	(15.0)	(20.8)	(23.6)	(14.4)	**(19.8)**
Employee benefit net finance income/(expense)	8.0	8.8	1.5	(11.5)	**(7.4)**
Profit before taxation and exceptional items	74.6	111.0	72.5	68.3	**101.0**
Exceptional items	3.9	(1.9)	(55.7)	(13.3)	**1.2**
Profit before income tax	78.5	109.1	16.8	55.0	**102.2**
Free cash flow[5]	91.9	84.8	59.9	76.8	**100.7**
Capital expenditure[3]	66.0	68.6	83.2	41.2	**72.6**
Depreciation and amortisation	62.9	62.0	69.9	72.0	**78.6**
Average capital employed[2]	895.0	925.7	1,009.5	973.6	**1,073.5**
Shareholders' funds	567.1	601.9	456.4	473.2	**584.2**
Net debt	181.2	251.8	291.5	239.5	**351.0**
Adjusted return on sales[1]	4.6%	6.3%	4.6%	4.7%	**5.5%**
Adjusted return on average capital employed[1]	9.1%	13.3%	9.7%	10.1%	**12.7%**
Gearing[4]	32.0%	41.8%	63.9%	50.6%	**60.1%**
Adjusted earnings per share[1]	14.2p	20.8p	13.5p	13.9p	**18.9p**
Dividends per share	8.6p	8.8p	4.4p	4.6p	**6.5p**
Adjusted dividend cover[1]	1.6x	2.4x	3.1x	3.0x	**2.9x**
Net assets per share	144.9p	153.9p	116.7p	121.0p	**138.3p**

1 before amortisation and exceptional items

2 average capital employed is defined in note 2 on page 73

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

4 gearing is defined in note 18 on page 86

5 before exceptional items

Notice of Annual General Meeting 2011

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 6 September 2011 at 11.00am to consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 14 will be proposed as ordinary resolutions and resolutions 15 to 17 will be proposed as special resolutions.

1. To receive and adopt the Directors' Report, the Auditors' Report and financial statements for the year ended 30 April 2011.
2. To declare a final dividend on the ordinary shares.
3. To approve the Report on Remuneration.
4. To re-elect Mr S W Dryden as a Director of the Company.
5. To re-elect Mr P M Johnson as a Director of the Company.
6. To re-elect Mr C J Bunker as a Director of the Company.
7. To re-elect Mr G Davis 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 auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are to be laid before the Company.
11. To authorise the Directors to determine the remuneration of the auditors.
12. That the rules and the amendments to the rules of the DS Smith 2011 Sharesave Plan (the 'Sharesave Plan') referred to in the Explanatory Notes to this resolution and produced in draft to this Meeting and, for the purpose of identification, initialled by the Chairman, be approved and the Directors be authorised to:
    (i) make such modifications to the Sharesave Plan as they may consider appropriate to take account of the requirements of HMRC; and
    (ii) establish further plans based on the Sharesave Plan but modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under such further plans are treated as counting against the limits on individual or overall participation in the Sharesave Plan.
13. That the rules of the DS Smith 2011 Share Matching Plan (the 'SMP') referred to in the Explanatory Notes to this resolution and produced in draft to this Meeting and, for the purposes of identification, initialled by the Chairman, be approved and the Directors be authorised to:
    (i) make such modifications to the SMP as they may consider appropriate to take account of the requirements of best practice and for the implementation of the SMP and to adopt the SMP as so modified and to do all such other acts and things as they may consider appropriate to implement the SMP; and
    (ii) establish further plans based on the SMP but modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under such further plans are treated as counting against the limits on individual or overall participation in the SMP.
14. 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 £14,519,376.33 (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 £14,519,376.33); and
        (ii) comprising equity securities (as defined in article 8 of the Articles), up to a maximum nominal amount of £29,038,752.67 (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

Notice of Annual General Meeting 2011 continued

16. 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 43,558,129;

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

    (c) the maximum price which may be paid for each ordinary share is an amount equal to the higher of 105% of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date of any such purchase and the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003 (in each case exclusive of expenses payable by the Company);

    (d) the authority hereby conferred shall, unless previously varied, revoked or renewed, expire at the conclusion of the Annual General Meeting to be held in 2012 or, if earlier, 1 November 2012, 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.

17. That, in accordance with the Company's Articles of Association, a general meeting (other than an Annual General Meeting) may be called on not less than 14 clear days' notice.

By Order of the Board

Matthew Jowett
Company Secretary
Beech House
Whitebrook Park
68 Lower Cookham Road
Maidenhead
Berkshire SL6 8XY

14 July 2011

NOTES

(i) Only those Members registered in the Register of Members of the Company as at 6pm on 4 September 2011 shall be entitled to attend and vote at the Meeting in respect of the number of shares registered in their names at that time.

(ii) Members are entitled to appoint a proxy to exercise all or any of their rights to attend and speak and vote on their behalf at the Meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company.

(iii) A proxy may be appointed by any of the following methods:

- completing and returning the enclosed Form of Proxy; or
- by logging onto the Registrars' website www.sharevote.co.uk using the Voting ID, Task ID and Shareholder Reference Number printed on the Form of Proxy enclosed. Shareholders who have already registered with the Registrars' online portfolio service Shareview can submit a proxy by logging into their profile at www.shareview.co.uk and clicking on the link to vote under "Your DS Smith Plc holding details"; or
- members of CREST should use the CREST electronic appointment service (see (vii) below).

If two or more valid but differing appointments of a proxy are received in respect of the same share for use at the same meeting, the one which is last received (regardless of its date or the date of its signature) shall be treated as replacing and revoking the others as regards that share; if the Company is unable to determine which was received last, none of them shall be treated as valid in respect of that share. To be effective, Forms of Proxy must reach the Registrars at the address shown on the Form not later than 48 hours before the time of the Meeting. Completion and return of the Form will not, however, prevent a Member from attending and voting at the Meeting. A Member must inform the Registrars in writing of any termination of the authority of a proxy.

(iv) Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between them and the shareholder by whom they were nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, they may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

(v) The statement of rights of shareholders in relation to the appointment of proxies in Notes (ii) and (iii) above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.

(vi) Nominated persons are reminded that they should contact the registered holder of their shares (and not the Company) on matters relating to their investments in the Company.

(vii) CREST Members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting to be held on 6 September 2011 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 22 June 2011 (being the latest practicable date prior to publication of this document), the Company's issued share capital consists of 435,581,290 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 22 June 2011 are 435,581,290.

(ix) A member of the Company which is a corporation may authorise a person or persons to act as its representative(s) at the Annual General Meeting. In accordance with the provisions of the Companies Act 2006 (as amended by the Companies (Shareholders' Rights) Regulations 2009), each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company, provided that they do not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative.

(x) Under section 527 of the Companies Act 2006 members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.

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

Notice of Annual General Meeting 2011 continued

(xii) A copy of this Notice, and other information required by section 311A of the Companies Act 2006, can be found in the Annual Report section of the Investors page on our website www.dssmith.uk.com.

(xiii) Under section 338 and section 338A of the Companies Act 2006, Members meeting the threshold requirements in those sections have the right to require the Company (i) to give, to Members of the Company entitled to receive Notice of the Meeting, notice of a resolution which may properly be moved and is intended to be moved at the Meeting and/or (ii) to include in the business to be dealt with at the Meeting any matter (other than a proposed resolution) which may be properly included in the business. A resolution may properly be moved or a matter may properly be included in the business unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious. Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the Company not later than 25 July 2011, being the date six clear weeks before the Meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

(xiv) Copies of the following documents will be available for inspection at the Company's Registered Office and at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD during normal business hours and until the conclusion of the Meeting:

(a) service contracts of the Executive Directors;

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

(c) the proposed rules of the Sharesave Plan; and

(d) the proposed rules of the Share Matching Plan.

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

(xvi) 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 Auditors and the financial statements of the Company for the year ended 30 April 2011. 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 4.5 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 45 to 53.

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, following the publication of the UK Corporate Governance Code by the FRC in June 2010 which recommends that directors of companies in the FTSE 350 be subject to annual re-election, the Directors have resolved that the Chairman and non-Executive Directors will retire and stand for re-election at the forthcoming Annual General Meeting and currently intend to repeat this process annually thereafter. The Directors have resolved, however, that the Executive Directors will remain subject to the three year rotation cycle in accordance with the Company's Articles of Association and their performance will be subject to the existing succession planning process.

Mr Dryden will retire, as he would otherwise have served for over three years without re-election by the date of the next Annual General Meeting, and, being eligible, offers himself for re-election at this year's Annual General Meeting. Mr Dryden is the Group Finance Director and a member of the General Purposes Committee. Messrs Johnson, Bunker, Davis, Mellier and Nicholls will retire and, being eligible, offer themselves for re-election at this year's Annual General Meeting. Mr Johnson is the Chairman of the Board and of the Nomination Committee. Mr Bunker is the Senior Independent Director, and a member of the Audit, Remuneration and Nomination Committees. Mr Davis is Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees. Mr Mellier is a member of the Remuneration Committee. Mr Nicholls is Chairman of the Audit Committee and a member of the Nomination Committee.

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 page 38 of the

Annual Report and appears on the Company's website at www.dssmith.uk.com.

Resolutions 10-11:
Re-appointment of Auditors and Auditors' remuneration

The auditors of a company must be re-appointed at each general meeting at which accounts are presented. Resolution 10 proposes the re-appointment of the Company's existing auditors, Deloitte LLP, until the next Annual General Meeting and Resolution 11 gives authority to the Directors to determine the auditors' remuneration.

Resolution 12:
Approval of new Sharesave Plan

It is proposed in Resolution 12 that shareholders approve both the existing rules and amendments to the rules of the DS Smith 2011 Sharesave Plan (the 'Sharesave Plan') so as to allow the Company to satisfy Sharesave options with new issue and treasury shares, as well as existing shares purchased in the market.

The Sharesave Plan is an all-employee plan approved by HM Revenue & Customs (HMRC) so that UK tax-advantaged options may be granted to UK employees. The use of Sharesave plans to encourage wider employee share ownership is well established in the UK and the Company previously offered Sharesave to its employees until 1999. The Sharesave Plan was adopted by the Company on 26 November 2010 and an initial offer of three year options under the Sharesave Plan was made to UK employees in January 2011. The Company's current intention is to make offers of three year options under the Sharesave Plan every three years and to make similar offers to certain overseas employees.

A summary of the principal terms of the Sharesave Plan is set out below. This summary describes the existing terms of the Sharesave Plan as well as the amendments proposed in Resolution 13.

(a) Operation

The operation of the Sharesave Plan is supervised by the Share Scheme Committee of the Board of Directors of the Company (the 'Committee').

(b) Eligibility

Employees and full-time Directors of the Company and any designated participating subsidiary who are UK resident tax-payers are eligible to participate. The Committee may require employees to have completed a qualifying period of employment of up to five years before the grant of options. The Committee may also allow other employees to participate.

(c) Grant of options

Options can only be granted to employees who enter into HMRC approved savings contracts, under which monthly savings are normally made over a period of three or five years. Options must be granted within 30 days (or 42 days if applications are scaled back) of the first day by reference to which the option price is set. The number of shares over which an option is granted will be such that the total option price payable for those shares will correspond to the proceeds on maturity of the related savings contract.

An option may not be granted more than 10 years after Committee approval of the Sharesave Plan, that is, 26 November 2020. Options are not transferable, except on death. Options are not pensionable.

(d) Individual participation

Monthly savings by an employee under all savings contracts linked to options granted under any sharesave scheme may not exceed the statutory maximum (currently £250). The Committee may set a lower limit in relation to any particular grant.

(e) Option price

The price per share payable upon the exercise of an option will not be less than 80% of the average middle-market quotation of a share on the London Stock Exchange over the three days, or one day, preceding either the date of issue of invitations to participate in the Sharesave Plan or a date specified in an invitation (or such other day or days as may be agreed with HMRC). If an option relates only to new issue shares, then the price per share payable on exercise must also not be less than the nominal value of a share.

The option price will be determined by reference to dealing days which fall within six weeks of the announcement by the Company of its results for any period, the announcement or introduction of a new Sharesave Savings Prospectus or at any other time when the Committee considers there to be exceptional circumstances which justify offering options under the Sharesave Plan.

(f) Exercise of options

Options will normally be exercisable for a six month period from the third, fifth or seventh anniversary of the commencement of the related savings contracts. Earlier exercise is permitted, however, in the following circumstances:

- following cessation of employment by reason of death, injury, disability, redundancy, retirement on reaching age 60 (or any other age at which the employee is bound to retire under his terms of employment) or the business or company that the employee works for ceasing to be part of the Company's group;
- when an employee reaches 60;
- where employment ceases more than three years from grant for any reason other than dismissal for misconduct; and

f: in the event of a takeover, amalgamation, reconstruction or winding-up of the Company, except in the case of an internal corporate re-organisation where the participants are offered the opportunity to exchange existing options for equivalent new options over shares in a new holding company.

Except where stated above, options will lapse on cessation of employment or directorship with the Company's group.

Shares will be allotted or transferred to participants within 30 days of exercise.

(g) Overall Sharesave Plan limits

The Sharesave Plan may operate over new issue shares, treasury shares or shares purchased in the market. In any ten calendar year period, the Company may not issue (or grant rights to issue) more than 10% of the issued ordinary share capital of the Company under the Sharesave Plan and any other employee share plan adopted by the Company.

Treasury shares will count as new issue shares for the purposes of these limits unless the institutional investors decide that they need not count.

The Committee may also vary the performance conditions applying to existing matching awards if an event or events occur which causes the Committee to consider that it would be appropriate to amend the performance conditions, provided the Committee considers the varied conditions are fair and reasonable and not materially less challenging than the original conditions would have been but for the event or events in question. It is expected that this power to vary the performance conditions is most likely to be used to reflect technical events such as a variation in share capital or a change in accounting standards. If the Committee wanted to use the power to take account of a significant acquisition or disposal then it would first consult with the Company's major shareholders.

(e) Vesting of matching awards

Matching awards normally vest three years after grant to the extent that the applicable performance conditions (see above) have been satisfied, the related DSB Award has not lapsed and provided the participant is still employed in the Company's group.

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

(f) Dividend equivalents

The Committee may decide that participants will receive a payment (in cash and/or shares) on or shortly following the vesting of their matching awards, of an amount based on the dividends that would have been paid on those shares between the time when the matching awards were granted and the time when shares are transferred to them. This amount may assume the reinvestment of notional dividends. Alternatively, participants may have their matching awards increased as if dividends were paid on the shares subject to their matching award and then reinvested in further shares.

(g) Leaving employment

As a general rule, a matching award will lapse upon a participant ceasing to hold employment or be a Director within the Company's group. However, if a participant ceases to be an employee or a Director because of his death, injury, disability, retirement, redundancy, his employing company or the business for which he works being sold out of the Company's group or in other circumstances at the discretion of the Committee, then his matching award will normally vest on the normal vesting date. The extent to which a matching award will vest in these situations will depend upon: (i) the extent to which the performance conditions have been satisfied over the normal performance period; and (ii) the pro-rating of the matching award to reflect any reduced period of time between the first day of the performance period and the date of cessation, although the Committee can decide not to pro-rate a matching award if it regards it as inappropriate to do so in the particular circumstances.

If a participant ceases to be an employee or Director in the Company's group for one of the 'good leaver' reasons specified above, the Committee can decide, in exceptional circumstances, that his matching award will vest on the date of cessation, subject to: (i) the extent to which the performance conditions are, in the opinion of the Committee, satisfied after it has taken into account past performance and, where appropriate, expected future performance over the remainder of the relevant performance period; and (ii) pro-rating by reference to the time of cessation as described above.

(h) Corporate events

In the event of a takeover, scheme of arrangement or winding up of the Company (not being an internal corporate reorganisation) all matching awards will vest early subject to: (i) the extent that the performance conditions are, in the opinion of the Committee, satisfied after it has taken into account past performance and, where appropriate, expected future performance over the remainder of the relevant performance period; and (ii) the pro-rating of the matching awards to reflect any reduced period of time between the first day of the performance period and their vesting, although the Committee can decide not to pro-rate an award if it regards it as inappropriate to do so in the particular circumstances.

In the event of an internal corporate reorganisation, matching awards will be replaced by equivalent new matching awards over shares in a new holding company unless the Committee decides that matching awards should vest on the basis which would apply in the case of a takeover.

(i) Clawback

If there is a material misstatement of the Company's results which results in matching awards vesting to a greater extent than they should have, the Committee may require a participant to pay back the overpaid amount. The clawback may be effected by a reduction in cash bonus or other incentive awards, or by way of a cash repayment. Similar clawback provisions also apply in the case of serious misconduct.

(j) Participants' rights

Matching awards will not confer any shareholder rights until the matching awards have vested and the participants have received their Shares.

(k) Rights attaching to shares

Any shares allotted when a matching award vests will rank equally with shares then in issue (except for rights arising by reference to a record date prior to their allotment).

(l) Variation of capital

In the event of any variation of the Company's share capital or in the event of a demerger, payment of a special dividend or similar event which materially affects the market price of the shares, the Committee may make such adjustment as it considers appropriate to the number of shares subject to a matching award.

(m) Overall SMP limits

The SMP may operate over new issue shares, treasury shares or shares purchased in the market. In any ten calendar year period, the Company may not issue (or grant rights to issue) more than:

(i) 10% of the issued ordinary share capital of the Company under the SMP and any other employee share plan adopted by the Company; and

(ii) 5% of the issued ordinary share capital of the Company under the SMP and any other executive share plan adopted by the Company.

Treasury shares will count as new issue shares for the purposes of these limits unless institutional investors decide that they need not count.

(n) Alterations to the Plan

The Committee may, at any time, amend the SMP in any respect, provided that the prior approval of shareholders is obtained for

Resolution 16, 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 22 June 2011 (being the latest practicable date prior to publication of this notice) is 6,512,335 of which 1,040,689 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 0.24% 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 0.22%. The authority will expire on 1 November 2012 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 17:
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 6 September 2011.

Location

At the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD

Timing

The Meeting will start promptly at 11.00am and shareholders wishing to attend are advised to be in the venue no later than 10.50am. The reception area will be open from 10.30am, from which time refreshments will be served. As announced at the Meeting last year, there will be no lunch served after the Meeting.

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.

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The DS Smith Plc website provides news and details of the Group's activities, plus links to our business sites and up-to-date information including:

- results announcements and other press releases
- presentations
- share price data
- e-mail alert service
- this and historical Annual Reports in PDF format

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