DELIVERING SUBSTANTIAL PROGRESS

ANNUAL REPORT 2008

DS Smith Plc

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About us

DS Smith is an international packaging supplier and office products wholesaler with strong positions in the markets in which it operates. It has revenue of £2.0 billion and employs over 11,500 people in 20 countries.

Our strategy is to improve the operational performance of our business and develop our market positions in our two activities, Packaging and Office Products Wholesaling. This strategy and the actions taken to strengthen the Group delivered substantial progress in 2007/08.

Front cover photographs, clockwise from top left:

Severnside Recycling supplies waste paper for St Regis to recycle and provides recycling services for non-Group customers.

Kaysersberg Plastics manufactures high-value multi-wall polycarbonate sheet for speciality end-uses.

Spicers provides marketing and promotional support programmes for its dealer customers.

DS Smith Kaysersberg has invested in the latest rotary die-cut technology to support its growth in retail-ready packaging.

Highlights

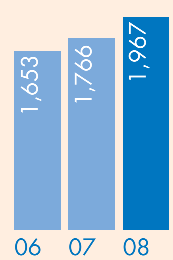
- Strong revenue growth, improved margins and good cash flow
- Packaging: better pricing recovering higher input costs; growth in value-added products
- Office Products Wholesaling – Spicers: good progress in rebuilding profits
- Investments for future growth; most significantly, the development in lighter-weight packaging

Financial Highlights

Summary

	2007/08	2006/07
Revenue – £m	**1,967.5**	1,766.1
Adjusted operating profit[1] – £m	**119.6**	77.7
Operating profit – £m	**117.7**	79.6
Adjusted profit before tax[1] – £m	**111.0**	74.6
Profit before tax – £m	**109.1**	78.5
Adjusted earnings per share[1] – pence	**19.9**	13.1
Earnings per share – pence	**19.6**	15.6
Free cash inflow[2] – £m	**79.0**	84.0
Total dividend per share – pence	**8.8**	8.6
Adjusted return on average capital employed[1]	**12.9%**	8.7%
Adjusted EBITDA margin[1]	**9.2%**	8.0%
Net debt/adjusted EBITDA[1]	**1.4x**	1.3x

Revenue
£million

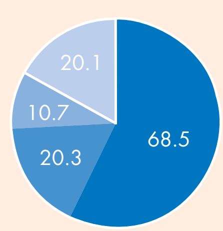


£1,967.5m

+11%

2007/08 compared with 2006/07

2007/08 Adjusted Operating Profit
£million



£119.6m

+54%

2007/08 compared with 2006/07

PACKAGING £99.5m
- UK Paper and Corrugated Packaging
- Continental European Corrugated Packaging
- Plastic Packaging

OFFICE PRODUCTS WHOLESALING

1 before exceptional charge of £1.9m (2006/07: net exceptional income £3.9m)
2 before dividends and net acquisitions; (2006/07: £54.4m excluding the net cash consideration of £29.6m for the sale of the Taplow site)

Our Activities

PACKAGING

UK PAPER AND CORRUGATED

In the UK, we have a leading position covering the whole corrugated packaging supply chain from the collection of waste paper for recycling, through the production of recycled paper, to the manufacturing of an extensive range of corrugated packaging.

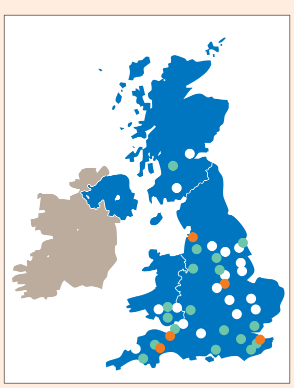
www.severnside.com, www.stregis.co.uk, www.dssmith-packaging.com

Revenue: £753 million
38% of Group revenue
Employees: 5,570*
Manufacturing locations: 36
Market positions:

- No. 1 UK waste paper collector for recycling
- No. 1 UK recycled paper producer
- No. 1 UK corrugated packaging supplier

Market-leading products

DS Smith Packaging's retail-ready, rapid-display packs readily convert from being a transit box to being a display box for use in store.



Locations

Severnside Recycling's network of collection depots enables it to collect waste paper from most parts of the UK.

DS Smith Packaging's network of corrugated packaging plants enables it to service customers throughout the UK. In addition to the locations shown, it has 11 smaller sheet plants and six other smaller speciality operations.

- Severnside Recycling – collection depots
- St Regis – paper mills
- DS Smith Packaging – principal corrugated factories

CONTINENTAL EUROPEAN CORRUGATED

On the continent, we have corrugated packaging manufacturing businesses in six countries and we produce speciality recycled paper, principally in France. We have an associate paper and corrugated packaging business in Ukraine.

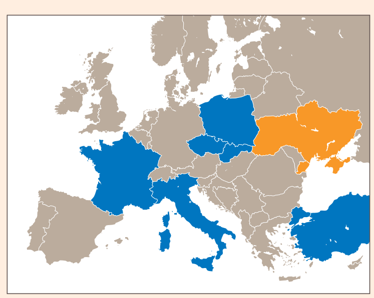
www.dssmith-kaysersberg.com

Revenue: £346 million
18% of Group revenue
Employees: 2,296*
Manufacturing locations: 15
Market positions: strong capabilities in

- Heavy-duty corrugated packaging
- Laminated bulk boxes
- Litho-laminated packaging

Custom-designed packaging

DS Smith Kaysersberg is a specialist in heavy-duty packaging which is able to contain and protect bulky, high-value merchandise.



Locations

DS Smith Kaysersberg has manufacturing operations in France, Italy, Poland, Czech Republic, Slovakia and Turkey. The Group also has an associate business, Rubezhansk, in Ukraine.

- DS Smith Kaysersberg
- Rubezhansk associate business

* number as at 30 April 2008

PLASTIC

We are focused on two Plastic Packaging markets:

- Industrial returnable transit packaging (RTP) – reusable container and pallet systems, extruded sheet and bottle crates;
- Liquid packaging and dispensing (LP&D) – bag-in-box systems and injection moulded taps and dispensers.

DS Smith Plastics

www.dssmith-plastics.com

Revenue: £223 million

11% of Group revenue

Employees: 1,581*

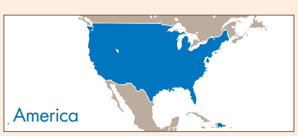
Manufacturing locations: 23

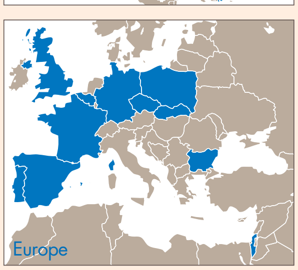
Market positions:

- A leading European supplier of returnable transit packaging
- No. 2 globally in liquid packaging and dispensing

Expertise in crates

DW Plastics, part of DS Smith Plastics, is the No. 2 supplier of beverage crates in Europe. The label is applied to the crate during the moulding process.





Locations

RTP products are produced in: UK, Belgium, France, Spain, Portugal, Poland, Czech Republic, Slovakia and Dominican Republic.

LP&D products are produced in: UK, Germany, Bulgaria, USA, Australia and New Zealand.

The segment's two smaller businesses have locations in Israel, USA, UK, Germany, France and Czech Republic.

OFFICE PRODUCTS WHOLESALING

Spicers is the leading European office products wholesaler. It supplies its customers – office products dealers – with a comprehensive range of own-label and branded traditional stationery, electronic office supplies, furniture and other products.

SPICERS

www.spicers.net

Revenue: £645 million

33% of Group revenue

Employees: 2,165*

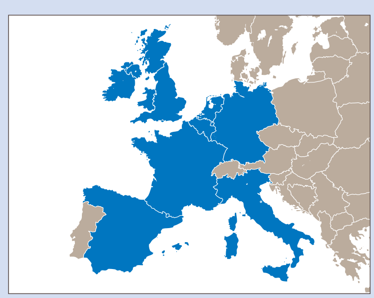
Distribution centres: 22

Market positions:

- No. 1 European office products wholesaler
- Leading positions in UK, Ireland, France, Benelux
- Developing in Germany, Spain, Italy

Extensive product range

Spicers' catalogue offers up to 18,000 product lines for use in the office; its range is adapted for each country in which it operates.



Locations

Spicers' network of distribution centres comprises:

UK – 9
Ireland – 1
France – 6
Benelux – 1
Germany – 2
Spain – 2
Italy – 1

Chairman's Statement

The Group made substantial progress in 2007/08 and faces the challenges of the year ahead from a strong base.

Peter Johnson
Chairman

DS Smith produced a strong set of results in 2007/08, with profits almost 50% up on the prior year. Profits in Packaging grew strongly, benefiting from the actions taken to increase efficiency and recover significantly higher input costs through improved pricing. The rebuilding of profits in Office Products Wholesaling, Spicers, is progressing well. The Board continues to give close attention to the Group's strategic development. The acquisitions of New Thames Paper Mill and Multigraphics, together with the investment programme in our Ukrainian associate, Rubezhansk, support our plans for longer-term growth.

The Group's adjusted profit before tax was 49% higher at £111.0 million and adjusted earnings per share advanced by 51% to 19.9 pence. Free cash flow, before dividends and net acquisitions, was £79.0 million (2006/07: £84.0 million, which benefited from the net cash contribution of £29.6 million for the sale of the Taplow site).

Across our Packaging activity, we expanded our capability in the value-added sectors of retail-ready packaging and heavy-duty packaging. We extended our position in promotional packaging, through organic growth and the acquisition of Multigraphics, a business specialising in printed display material. We continued to expand our fast-growing recycling operation, Severnside, through enhanced services to retailers and other generators of waste materials. Our plastic returnable transit packaging business benefited from the introduction of new products. We strengthened our presence in Packaging in central and eastern Europe; our business in Poland continued to grow well and we established new businesses in Slovakia and Bulgaria.

In February 2008, we announced an investment of £104 million to acquire and convert the adjacent paper mill to our successful Kemsley operation. This will enable us to supply high-quality lightweight corrugated case material, helping our customers meet the growing demand to reduce the weight of packaging.

In Office Products Wholesaling, Spicers increased both revenues and profits. In recent years, we have developed strong and successful positions in a number of continental markets, and these continued to advance strongly.

In line with its commitment to develop the Company to support good returns for shareholders, the Board is proposing an increased final dividend of 6.2 pence which, together with the interim dividend of 2.6 pence, gives a total dividend for the year of 8.8 pence (2006/07: 8.6 pence).

On 1 April 2008, Steve Dryden joined the Board as Group Finance Director. Steve held the position of Finance Director of Filtrona plc following its demerger from Bunzl plc in 2005, having previously held other senior finance positions within Bunzl plc. With his financial capability and operational experience, Steve is already making a strong impact on the Group. Gavin Morris, the previous Group Finance Director, stepped down from the Board by mutual agreement on 1 April 2008. On behalf of the Board, I would like to thank Mr Morris for his contributions to the Company in recent years and wish him future success.

On 29 January 2008, George Adams was appointed as a non-Executive Director. George, who was, until March 2008, Managing Director, European Development and Chief Executive Officer, UK Trade at Kingfisher Plc, brings to the Board wide international experience in distribution and consumer-focused businesses.

On behalf of the Board, I would like to thank all our colleagues across the world for their efforts and commitment, without which our success would not be possible. In the year ahead, the Group faces a more challenging trading environment. Our businesses are prepared for this and I am confident that our good market positions give us a strong base from which to compete.

Peter Johnson
Chairman

Chief Executive's Review

Our strategy has strengthened the Group and we achieved a significant advance in profits.

Tony Thorne
Group Chief Executive

In 2007/08, the Group achieved a 54% advance in adjusted operating profit to £119.6 million.

A tighter supply position for corrugated case material (CCM) and corrugated packaging during much of the financial year provided good support for our price increase programme, aimed at recovering the higher input costs we have been incurring for some time. We also benefited from the actions taken in both our activities, Packaging and Office Products Wholesaling, to improve the business mix and raise cost-competitiveness.

Towards the end of the financial year, we announced a major investment project aimed at reinforcing our position as a leader in lighter-weight packaging, by giving us a significant capability in the growth segment of high-quality lightweight CCM.

The improvement in the Group's adjusted return on average capital employed in 2007/08 of 12.9% (2006/07: 8.7%) represents good progress towards meeting our target to exceed the Group's estimated pre-tax weighted average cost of capital of 11.5% over the business cycle.

Strategy

The Board regularly reviews the Group's composition and strategy to assess that these are best able to generate value for shareholders. We are confident that the strategy we are pursuing will provide good opportunities for organic development of the Group. In instances where it will enable us to fulfil our strategic development plans we will acquire businesses. We remain prepared to exit businesses which are not likely to meet our strategic objectives in the longer-term.

The strategy has strengthened the Group, giving us a good base from which to compete. It is ensuring that we are developing strong market positions in both Packaging and Office Products Wholesaling and raising operational performance across our businesses. An aim of our strategy is to dampen the volatility of the Group's results through our industry's business cycle, particularly by ensuring that there is sufficient profit growth in the less cyclical parts of our Packaging operations to achieve long-term progress.

In the coming financial year we are prepared for tougher trading conditions, reflecting difficulties in the world economies, particularly those of the UK, the rest of western Europe and the USA. We have established a number of strategic priorities with the objective of continuing to progress the implementation of the strategy whilst maintaining cost discipline and a strong balance sheet.

In Packaging, we will provide market-leading service to our customers across the product range, but concentrate our pursuit of growth in targeted higher value-added sectors of the market. In Corrugated Packaging, these include retail-ready and promotional packaging, mainly for the fast-moving consumer goods market, and heavy-duty packaging for industrial users, while in Plastic Packaging we have a number of good growth opportunities for our returnable transit packaging (RTP) business in both the industrial and retail parts of the market. We will build on our existing positions in the faster-growing markets of central and eastern Europe and Russia. We are targeting to extend our recycling capability to take advantage of the demand for increased recycling associated with the environmental pressures to reduce the quantity of waste going to landfill. In Paper, the priority is to reinforce our position in CCM, by successfully completing our project to supply high-quality lightweight CCM at Kemsley Mill, but we will also develop further our growing position in plasterboard liner.

In Office Products Wholesaling, we will maintain our focus on rebuilding profits in the UK while developing the considerable potential of our existing businesses in continental Europe. We will increase further our support for our dealer customers by developing our fulfilment services, enhancing our e-commerce and promotional tools and exploiting our capability to supply those products that resellers choose to offer but do not stock.

A fuller description of our strategy is provided on page 8.

Chief Executive's Review continued

Packaging

2007/08 was a relatively good year across our Packaging activity. Despite significant cost pressure, we advanced in all three segments. The improved results were built around cost recovery through better pricing but this would not have been possible without our close attention to providing good customer care and high service levels. It was pleasing to see the growth coming through in the targeted higher value-added sectors of our businesses, a result of our improved product and market development capability supported by focused capital investment.

In the year, we made a major acquisition to support the development of our capability in lightweight CCM at Kemsley Mill, we strengthened our position in promotional packaging through the acquisition of Multigraphics and we extended our network of packaging converting operations in eastern Europe through establishing new manufacturing facilities. We also strongly supported our Ukrainian associate in its substantial development programme.

UK Paper and Corrugated Packaging

In 2007/08, the UK Paper and Corrugated Packaging segment, which accounts for 38% of Group revenue and 52% of Group average capital employed, achieved a £32.0 million improvement in adjusted operating profit to £68.5 million and an adjusted return on average capital employed of 14.3%. All three elements of the supply chain in this segment – Severnside Recycling, St Regis Paper and DS Smith Packaging – contributed well to the improved result.

Our programme to raise prices enabled us largely to recover the previously incurred higher input costs although further increases in energy costs are maintaining the pressure on margins.

Severnside Recycling, which supplies the waste paper raw material for our own recycled paper mills, continued to develop the services it provides to third parties to generate additional revenue from its waste collection network and recycling expertise. Our UK paper business continued to focus on raising the operational performance of its mills and the development of plasterboard liner sales. In our UK corrugated packaging business, we benefited further from our capability to service the market competitively with value-added products from our conventional box plant network and our group of speciality corrugated businesses. The investment and product development effort we have targeted at the growing retail-ready and decorative packaging sectors contributed strongly to our success.

In February 2008, we announced our plan to produce high-quality lightweight CCM at Kemsley Mill through the acquisition and subsequent modification of the adjacent New Thames Paper Mill. The entire project is expected to cost circa £104 million, funded from the Group's existing debt facilities. Work is already well advanced on the modification of the facilities and we plan to commence production of lightweight CCM in January 2009. This investment will materially strengthen the long-term competitiveness of our UK Paper and Corrugated Packaging business by giving us, at a very advantageous investment cost, a significant capability in an important growth segment of the CCM market. It demonstrates our commitment to developing our UK business and reinforces the Group's position as a leader in meeting the growing demand for high-quality lighter-weight corrugated packaging. The project is expected to generate good financial returns in its first full year of operation (2009/10) and provide very good returns for shareholders in the longer-term.

Having raised the level of financial returns in UK Paper and Corrugated Packaging to a more satisfactory level, we are now focused on sustaining an improved level of returns from this segment over the business cycle. As we start the financial year, the strength of the euro is assisting our competitiveness and pricing but we are faced with some slowing in demand, continued high waste paper costs, further rises in energy costs and lower paper prices on the continent; although we expect margins in our Paper business to be under pressure, we will drive for further progress in our recycling and converted packaging operations.

Continental European Corrugated Packaging

Despite facing significantly higher input costs, this segment achieved improved results with operating profit increasing to £20.3 million (2006/07: £18.2 million). Our businesses in the established markets of France and Italy performed creditably, assisted by their attention to raising productivity and their focus on higher value-added sectors of the market, such as heavy-duty packaging. As indicated at the half-year, results were poor in Turkey, where market conditions were tough; we are implementing an extensive action plan to rebuild profits. By contrast, our developing Polish business made further strong progress due to a combination of good growth and an increased proportion of higher value-added product in our sales mix. The high-quality operation that we have developed in Poland provides us with a good hub from which to develop in central and eastern Europe. We already have satellite operations in three countries and will be seeking to extend our network of businesses in this region as well as developing further in Poland.

Results at our Ukrainian associate business were adversely affected by a major fire; its performance is now recovering. Its investment programme, designed to raise capacity and extend its product range, is progressing; we have established a good capability in the fast-growing market of plasterboard liner.

In Continental European Corrugated Packaging we are faced with higher energy costs and softer demand as we start 2008/09. We will maintain our focus on the higher value-added sectors of the market and the opportunities presented by our developing markets.

Plastic Packaging

Plastic Packaging achieved a solid advance in adjusted operating profit to £10.7 million (2006/07: £10.2 million). Good progress in RTP and the division's two smaller businesses was partly offset by weaker results in liquid packaging and dispensing.

In RTP, beverage crate sales were strong as a result of the fulfilment of several large contracts and the success of new products. The extruded products businesses recovered some of the higher costs of polymer and benefited from our previous actions to strengthen the sales and product development functions; we have good opportunities for further sales development based on new products and our growing presence in eastern Europe. In liquid packaging and dispensing, profit margins in both taps and bags were

DS Smith Kaysersberg increased the productivity of its French corrugated plants.

Spicers UK raised its service levels. Infra-red barcode readers assist with achieving fast and accurate order fulfilment.

HIGHLIGHTS OF THE YEAR

Packaging

- Strong revenue and profit growth
  - raised prices to recover higher input costs (energy, waste paper and polymer)
  - improved mix – grew in higher value-added products, particularly retail-ready and promotional corrugated packaging and plastic RTP
- Improved productivity in key businesses
- Extended our operations in eastern Europe
- Major acquisition to develop our capability in lighter-weight packaging

Office Products Wholesaling

- On track with rebuilding profits in the UK – improved service levels, strong sales growth in EOS, reduced costs in the distribution network
- Continued good performance in our established continental European businesses in France and the Benelux region
- Good progress in our development businesses in Germany, Spain and Italy
- Spicers' business model enabling its customers to compete more effectively

affected by competitive pressures. The USA business benefited from the introduction of new products and the development of new markets; this progress was more than offset by weaker results in the European business due to continuing competitive pressures. The programme for implementing the restructuring of our German bag-in-box operations has been agreed with our employees and is due to be completed by April 2009.

The smaller packaging management and modified atmosphere packaging businesses both achieved good profit improvement.

Polymer costs have recently risen again; a priority for the coming year will be the mitigation of these higher input costs. We expect developments in new products and new market sectors to assist us in this objective.

Office Products Wholesaling

The significant improvement in this segment's results was in line with our three-year plan, initiated in 2006/07, to rebuild profits. Adjusted operating profit increased by £7.3 million to £20.1 million due to advances in both the UK and continental Europe.

In Spicers UK, our programme of actions resulted in improved service levels as we moved through 2007/08, reaching a good level as we exited the financial year. The strong sales growth was all in electronic office supplies (EOS) products, which reflects a deliberate move to support our dealers in these products. The proportion of EOS in our sales mix now more closely reflects that of the market as a whole and we will look to grow our sales of both EOS and non-EOS product as we develop the business. Costs were lowered in the distribution network through the closure of the Park Royal distribution centre. Our e-commerce system has been strengthened further and is providing a good basis for competitive advantage. Our UK action programme is being reinforced to ensure the achievement of our targeted further progress in this important business.

In our continental European businesses, which account for circa 50% of Spicers' total revenue, the established French and Benelux businesses again performed well, while our businesses in Germany, Spain and Italy each achieved significant goals in their development plans. The growth of the Italian business, ahead of its plan, is particularly encouraging.

Spicers has been well received when it has entered new continental European markets. The size of its product range, its purchasing power and its service offering enable dealers to compete more effectively in the market, thus boosting sales in the dealers' distribution channel. The performance of our continental European development businesses has further reinforced our confidence in the potential for the Spicers business model across Europe.

Our objective for Spicers is to maintain progress on two fronts: continuing the rebuilding of profits at Spicers UK and developing further our existing continental European network.

Our People

The considerable advances in the Group's operational performance and our substantially improved results have been achieved through the skills, ideas and hard work of our employees. When I visit any of our businesses I am hugely impressed by the extent of the commitment, enthusiasm and creativity demonstrated by our people. I am grateful to them for their enormous contribution to the success of the Group.

Outlook

The 2007/08 result provides a good profit base. The current financial year's operating performance will be affected by slowing demand and higher input costs. We expect to partly offset the effect of this tougher trading environment through tight cost and cash discipline across all our operations and continued progress in our strengthened Packaging converting and Office Products Wholesaling businesses. We remain on track to commission our new lightweight paper machine in January 2009. As expected, profit before tax in 2008/09 will be impacted by a non-cash increase of circa £10 million in the finance costs related to the employment benefit finance charge.

Tony Thorne
Group Chief Executive

Strategy

Improving operational performance and developing our strong market positions

Group Strategy

The Board regularly reviews the Group's composition and strategy to assess that these are best able to generate value for shareholders. Within this context, our strategy is to improve the operational performance of our businesses and to develop the Group's strong market positions in our two activities, Packaging and Office Products Wholesaling. Recognising that these two activities are quite different, we have a separate strategy for each.

In the pursuit of our strategy and in order to deliver long-term earnings growth, we will invest in the operational improvement and development of those parts of our business in which we believe we have the potential to maintain strong competitive advantage and to earn good returns over the medium- to longer-term. We are confident that there are good opportunities for organic development of the Group. In instances where it will enable us to fulfil our strategic development plans we will acquire businesses. We remain prepared to exit businesses which are not likely to meet our strategic objectives in the longer-term.

Packaging Strategy

In Packaging, our objective is to develop our business based on our expertise in corrugated and plastic packaging and recycling activities.

In converted packaging, we aim to offer innovative and cost-competitive products, market-leading levels of service and supply chain solutions across our product range, placing particular emphasis on developing our business in higher value-added sectors of the market. In corrugated packaging, we will continue to concentrate on growing our business in retail-ready packaging and promotional packaging mainly for the fast-moving consumer goods market, and heavy-duty packaging for industrial users, while in plastic packaging we will especially pursue development opportunities in returnable transit packaging.

We intend to extend our recycling capability in terms of the services we offer and the markets in which we operate. We aim to reinforce our position in corrugated case material (CCM) and plasterboard liner, while remaining a net buyer of CCM. We will look to expand the involvement of our Packaging business in the markets of central and eastern Europe and Russia.

In Packaging, our financial objective is to generate an adjusted return on average capital employed over the business cycle in excess of the Group's pre-tax weighted average cost of capital, which we estimate to be 11.5%.

Office Products Wholesaling Strategy

In Office Products Wholesaling, our goal is to establish the Spicers business model profitably across the major markets throughout Europe.

An immediate priority is to continue the improvement in profitability in the important UK business. In continental Europe, we will maintain the competitiveness of our major established positions in France and the Benelux region and continue to grow the returns from our developing businesses in Germany, Spain and Italy.

In order to support our dealer customers, we will especially concentrate on developing our fulfilment services for those customers who outsource their logistics, enhancing further our e-commerce and promotional tools and exploiting our capability to supply those products that resellers increasingly choose to offer but do not stock.

Given the relatively lower requirement for capital in the Office Products Wholesaling activity, our financial objective is to generate a return on average capital employed in excess of 20%.

Financial Objectives

Our aim is to generate enhanced returns and cash flows for our investors over the longer-term, while maintaining a strong balance sheet. We recognise that there is likely to be a significant degree of cyclicality in parts of our portfolio. We therefore look to manage our resources so as to dampen the volatility of the Group's results through the cycle, while ensuring that there is sufficient profit growth in the less cyclical parts of our packaging operations to achieve long-term progress.

We measure the financial success of our strategy using the financial key performance indicators (KPIs) described below and we look to improve the Group's performance on these KPIs within the context of the business cycle.

Our key performance indicators

Adjusted Return on Average Capital Employed

TARGET: to achieve an adjusted return on average capital employed over the business cycle that is comfortably in excess of the Group's weighted average cost of capital, which we estimate to be 11.5% (before tax).

DEFINITION: operating profit before exceptional items divided by average capital employed, expressed as a percentage.

Adjusted EBITDA Margin

TARGET: to generate an adjusted EBITDA margin which enables us to grow our dividend while providing funds for development.

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

Adjusted Earnings Per Share

TARGET: to achieve an improved adjusted earnings per share between one business cycle and the next.

DEFINITION: net profit attributable to shareholders before exceptional items divided by the weighted average number of shares outstanding (see note 8 on page 70).

Net Debt/ Adjusted EBITDA

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

DEFINITION: net debt divided by earnings before interest, tax, depreciation, amortisation and exceptional items.

DELIVERING PROGRESS

GROUP STRATEGY

- IMPROVE THE OPERATIONAL PERFORMANCE OF OUR BUSINESSES
- DEVELOP OUR STRONG MARKET POSITIONS IN PACKAGING AND OFFICE PRODUCTS WHOLESALING

ACTIVITY STRATEGIES

PACKAGING

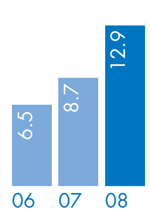
- Develop our business, based on our expertise in corrugated and plastic packaging and recycling activities
- In converted packaging, offer innovative and cost-competitive products, market-leading levels of service and supply chain solutions, particularly for higher value-added market sectors
- Extend our recycling capability
- Reinforce our positions in CCM and plasterboard liner
- Expand into central and eastern Europe and Russia

OFFICE PRODUCTS WHOLESALING

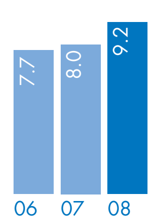
- Establish the Spicers business model profitably across the major markets throughout Europe
- Rebuild profits in the UK
- Continue to grow returns in continental Europe
- Develop our range of services to support our dealer customers

GROUP KEY PERFORMANCE INDICATORS

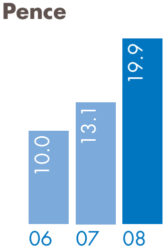
Adjusted Return on Average Capital Employed
%



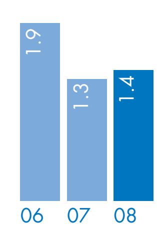
Adjusted EBITDA Margin
%



Adjusted Earnings Per Share
Pence



Net Debt/ Adjusted EBITDA
Times



STRONG MARKET POSITIONS

Supply chain leader

DS Smith Packaging is the UK's foremost supplier of corrugated packaging.

DS Smith has built a leading position in the entire UK corrugated packaging supply chain.

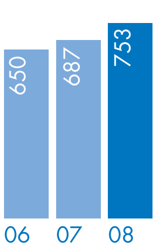
Severnside Recycling has grown organically and through acquisition; it provides a secure supply of waste paper to St Regis' mills and provides recycling and waste management services to external customers.

St Regis has raised the efficiency of its mill network and invested to reinforce its competitive positions in corrugated case material and plasterboard liner paper.

DS Smith Packaging has been enlarged through acquisition and developed through continuing investment. It provides an extensive range of corrugated packaging from its national network of plants.

The Group's major investment at Kemsley Mill to reinforce this segment's position is described on pages 20 and 21.

UK Paper and Corrugated Packaging Revenue (£million)



+10%

The growth in revenue of the UK Paper and Corrugated Packaging segment in 2007/08.

Targeted strengths

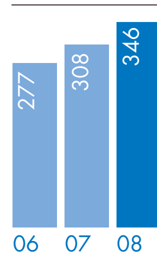
DS Smith Kaysersberg is a major supplier of heavy-duty corrugated packaging.

DS Smith Kaysersberg operates in the established markets of France and Italy and the developing markets of Poland, central Europe and Turkey. It has built strong positions by concentrating on higher value-added product or customer sectors.

It has especially strong capabilities in heavy-duty corrugated packaging, a sector which requires specialist manufacturing equipment, design and expertise. Heavy-duty packaging is produced from multiple-layer board and is used to transport bulky, heavy or fragile goods. It is designed to meet the specific, demanding requirements of customers in the automotive, chemicals, electrical and other industries.

The Group recently enlarged its position in the rapidly-growing Polish market by building one of the most advanced box plants in Europe at Kutno, west of Warsaw. It has also invested in converting operations in the Czech Republic and Slovakia, principally to supply the automotive and other industries in that region.

Continental European Corrugated Packaging Revenue (£million)



+12%

The growth in revenue of the Continental European Corrugated Packaging segment in 2007/08.

Our strong positions in the markets in which we operate provide a valuable basis for competitive advantage.

Most of the markets in which DS Smith operates are mature and highly competitive. In order to achieve good returns in such markets we believe it is important to be one of the leading players. Our actions to strengthen our positions have raised the Group's profitability and built a more resilient portfolio of businesses. We look continually to strengthen our market positions and our operations in order to ensure that they remain successful. We invest in our existing operations to maintain their competitiveness and, when appropriate, enlarge our capabilities and market positions through acquisitions.

Focused positions

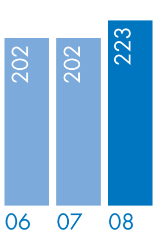
DS Smith Plastics has a leading European position in multi-wall sheet.

DS Smith Plastics has major positions in its two focused market sectors.

In returnable transit packaging (RTP), the Group is a leading European supplier of returnable container and pallet systems, extruded sheets in solid and multi-wall form (corrugated plastic), and injection moulded returnable bottle crates. It has particularly strong RTP supply positions with the beverage and automotive industries.

In liquid packaging and dispensing (LP&D), the Group has built, through organic growth and acquisitions, a position as the worldwide number two producer of bag-in-box packaging. It supplies leading international brands in the soft drinks, wine, food and other industry sectors. The Group's LP&D operations in Europe, the USA and Australasia provide their customers with an extensive range of bags, taps and other dispensing methods, and filling technologies to suit any bag-in-box application.

Plastic Packaging Revenue (£million)



+11%

The growth in revenue of the Plastic Packaging segment in 2007/08.

Principal supplier

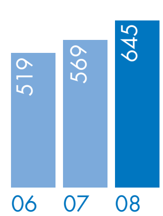
Spicers processes orders for approximately 800,000 line-items each week.

Spicers is the leading European wholesaler of office products, with operations in all the major western European markets. Spicers' business model is to be a pure wholesaler of a comprehensive range of office products, selling only to office products dealers and resellers. Spicers services approximately 13,000 office products dealers throughout Europe. In addition to enabling its dealer customers to offer a broad range of products it assists them in competing effectively by providing additional tools and services.

For many of its customers, Spicers provides a complete fulfilment service, often delivering goods directly to the end customer if that is required. Spicers also makes available to its customers innovative e-commerce systems, catalogues and promotional material and business development support.

Spicers works in close partnership with its customers to offer the office end-users an innovative, flexible and responsive service which other office products distribution channels find difficult to match.

Office Products Wholesaling Revenue (£million)



+13%

The growth in revenue of the Office Products Wholesaling segment in 2007/08.

RAISING OUR PERFORMANCE

Operating safely

Safety checkpoints have helped reduce accidents at DS Smith Kaysersberg.

Safety at work is our top priority. We have legal and ethical responsibilities to provide a safe workplace and ensure our working practices are safe. Safety is also an essential element in meeting our objectives of raising the productivity of our operations and maintaining a high-quality and well-motivated workforce.

DS Smith Kaysersberg, Kunheim, has set up safety checkpoints for each of its machines; these contain safety manuals and other safety- and quality-related information and equipment. Employees receive extensive safety training and have to attest that they know the safety rules. They are required to re-familiarise themselves regularly with this information and to check each week that their machine's safety systems are in order before starting production.

Further details of our health and safety performance and actions are provided on pages 33 and 34.

-27%

The cumulative reduction in the Group's total lost time accidents over the last three years.

Developing new products

Returnable transit packaging is designed to meet customers' specific needs.

DS Smith Plastics, in common with all our Packaging operations, continually looks to grow its business by enhancing its product range through the development of new products. These may originate from new technical processes and from designing packaging in new ways or for new applications. DS Smith Plastics is benefiting from having further strengthened its product development teams.

DW Plastics, our beverage crate business, continues to apply its manufacturing expertise to the development of products for new market sectors. A recent success has been a pallet for transporting and storing beer kegs. Compared with traditional pallets, the injection-moulded product is lighter-weight, stronger and safer; a locking mechanism helps ensure the stability of the kegs during handling and when stacked.

+15%

The increase over the last 18 months in the number of new RTP product development projects converted into customer orders.

In the tough markets in which we operate, we have to get better at what we do every year.

Across all our businesses, it is essential that we operate to a high standard in order to be successful in our markets. Our strong focus on relentlessly improving our operational performance has made a significant contribution to our improved results in 2007/08. We took decisive action to exit operations that would not deliver adequate returns and have concentrated our efforts on improving those parts of the Group which offer the best opportunities for profit growth. Our drive to raise performance permeates all aspects of our operations including: safety, new product development, customer service and manufacturing efficiency.

Serving our customers

Spicers UK has improved the performance of its customer service team.

In Spicers' transaction-intensive business, a high level of customer service is an essential requirement for success. At Spicers UK, improving the customer service has been an important element in the management team's action programme to rebuild profits. Higher service levels are being achieved and the benefits of this are being reflected in increased sales and lower costs.

With over 85% of customer orders at Spicers UK now being received electronically, the customer service function is mainly focused on dealing with product or delivery enquiries and administration questions. The time taken to respond to telephone calls has been cut to a record low level. A new telephone system using the latest technology is being rolled out and will link all of Spicers UK's service centres across the country, thus further increasing the flexibility and efficiency of the service team.

Over 97%

The percentage of Spicers' large range of product lines that, across Europe, is available for next day delivery.

Increasing our efficiency

Efficiency has been improved by systematic checks of machine settings.

Across the Group's businesses, we place great emphasis on continually improving performance. We look for new ways to raise the skills of our people, the output of our machines and the quality of our products. We also seek to reduce our usage of energy and other resources and minimise the amount of waste we produce through our operations. We aim to recycle as much as possible of any waste that we do create. Our people use their expertise and creativity to improve our operations in these and many other respects.

DS Smith Kaysersberg, Kunheim, implemented a programme to reduce its converting costs in order to remain competitive and sustain its profits. A key element of this programme was a drive to raise output by a combination of carrying out more systematic routine checks on the machine settings on its corrugators to ensure optimum performance and reducing the time taken to set up its box converting machines in readiness to manufacture each new product.

+19%

The cumulative increase in output per employee at DS Smith Kaysersberg, Kunheim, over the last three years.

INVESTING FOR GROWTH

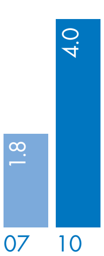
Increasing our capability

Major investment will enable St Regis to supply a fast-growing part of its market.

European demand for high-quality lightweight corrugated case material (CCM) has been growing at a much faster rate than the overall CCM market and is expected to more than double over the next three years. This trend is a result of the increased demand for lighter-weight corrugated boxes, for cost and environmental reasons.

DS Smith is investing £104 million in order to produce high-quality lightweight CCM at its prime UK paper mill at Kemsley. In February 2008, it acquired the adjacent New Thames Paper Mill and is modifying the acquired facility to produce lightweight CCM. This project, which is described in more detail on pages 20 and 21 of the Operating Review, will strengthen the Group's important UK Paper and Corrugated Packaging business by giving St Regis a significant capability in this growth segment of the CCM market.

Market Size of Lightweight Recycled CCM in Europe (million tonnes) Source: DS Smith/consulting estimates



+120%

The forecast growth in the market for high-quality lightweight recycled CCM between 2007 and 2010.

Enhancing our products

DS Smith Packaging is growing in the retail display segment of the market.

Demand for high-quality printed point-of-sale material and large scale signage on corrugated board is growing faster than the market for corrugated packaging as a whole. This trend is attributable to corrugated board's versatility, competitive cost, recyclability and environmental credentials. The Group has invested in high-quality printing to enhance its capability to print a wide range of packaging and display material.

The Group's specialist design studio, Level Five, has generated new business by creating high-impact display material for the media and retail sectors.

In early 2008, the Group acquired Multigraphics, one of the UK's leading large-format screen and digital printing businesses. Multigraphics specialises in the design and printing of retail and promotional display material and complements the Group's existing design and printing skills and resources.

+31%

The cumulative growth in revenue of DS Smith Packaging's speciality businesses over the last three years.

Identifying and exploiting opportunities for development is a key requirement for our future success.

DS Smith mainly operates in product and geographic markets in which demand is relatively stable and growth levels are modest. We therefore place considerable emphasis on the identification and pursuit of opportunities to generate revenue and profit growth. Seeking out product, distribution channel or customer segments which are growing faster than the market as a whole is a high priority for the Group's businesses. We also look to develop our business in geographic markets which have higher growth rates, particularly in central and eastern Europe.

Expanding into new markets

Packaging is being developed from our new Bubble Guard product.

DS Smith Plastics is developing its returnable transit packaging (RTP) business in new product and market sectors.

Kaysersberg Plastics recently commissioned a new extrusion line at its factory in Alsace, France to produce its innovative Bubble Guard product – a rigid polypropylene sheet comprised of three solid sheets, the central layer of which is heat-formed to create a bubble structure. This patented technology produces a sheet which is light-weight, has a flat surface which can be readily printed or laminated and is ideal for conversion into trays, boxes, separators and sleeves for the automotive, logistics, food, toiletries and pharmaceuticals industries.

The DS Smith Replen business has recently been established to provide bespoke RTP solutions for food and beverage companies in the European retail distribution market. It will focus on the growth opportunity of supplying replenishment concepts that allow retailers to restock their stores less frequently and more efficiently.

DS Smith Plastics is extending its capability to support its RTP customers in the automotive and electronics industries through its extrusion and converting operations in central Europe.

+35%

The cumulative growth in revenue of DS Smith Plastics' returnable transit packaging business over the last three years.

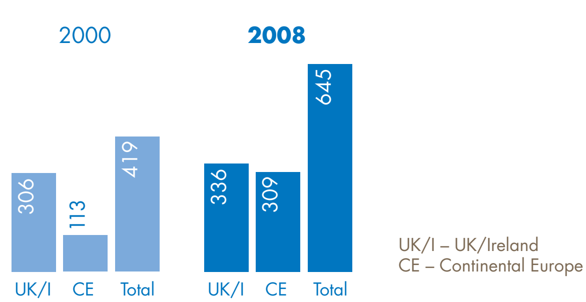
Growing geographically

Spicers has grown its business in continental Europe.

Spicers has grown its revenue and substantially changed the shape of its business in recent years. It has pursued a strategy to expand from its strong market positions in the UK and France by taking its business model into the other major European markets. It launched green-field businesses in Germany, Spain and Italy and acquired a well-established business in the Benelux region.

This international development has further strengthened Spicers. The important purchasing function has benefited from the increased scale of the business, while the marketing, IT support and logistics functions are able to share ideas and resources.

Spicers' Revenue by Geographic Region (£million)



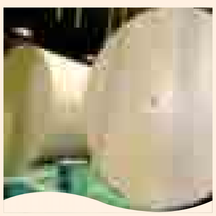
Description of the Group

DS Smith – international packaging supplier and office products wholesaler

The Group's activities of Packaging and Office Products Wholesaling are managed through a decentralised structure covering four segments:

PACKAGING

UK Paper and Corrugated



St Regis converts waste paper into recycled paper, which is used for producing corrugated boxes.

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

Severnside Recycling is the leading UK collector and merchant of waste paper, the principal raw material for producing recycled paper. In total, annually it sources 1.7 million tonnes of waste paper by means of collections through its 17 UK depots and open-market purchases from supermarkets and third-party waste merchants. In addition, Severnside's facilities management function provides general recycling and waste disposal services for customers in a number of sectors. Severnside's main sources of waste paper include large supermarket groups and other retailers, other commercial and industrial organisations and local authorities. The largest single source of waste paper accounts for 16% of the total amount sourced. Severnside particularly concentrates on sourcing used corrugated packaging, referred to as old corrugated containers (OCC), which is the most suitable form of waste paper for producing recycled CCM. Severnside supplies all of the 1.0 million tonnes of waste paper required by the St Regis paper mills and it sells 0.7 million tonnes on the open market.

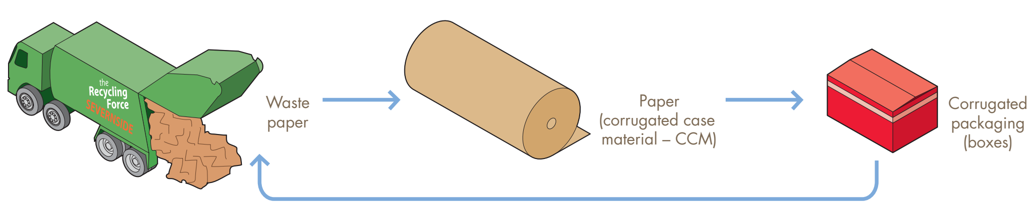
St Regis' four paper mills produce approximately 0.85 million tonnes of 100% recycled paper. In addition, the recently acquired New Thames Paper Mill (NTPM) at Kemsley produces 0.2 million tonnes of partly recycled fine uncoated paper; this machine will be converted, in winter 2008/09, to produce 100% recycled CCM (for further details see pages 20 and 21). The following description of St Regis' business excludes NTPM. St Regis is the leading UK producer of CCM, which accounts for approximately 65% of the paper it produces, and is a leading European producer of plasterboard liner, which accounts for over 20% of its production; the remainder comprises other speciality paper grades. The Group's Corrugated Packaging operations account for around 55% of St Regis' CCM sales. St Regis' external sales are made to around 340 customers; no single external customer accounts for more than 5% of the Group's total UK Paper and Corrugated Packaging revenue.

DS Smith Packaging produces 1.1 billion square metres per annum of corrugated packaging at 32 factories located throughout the UK. It is the leading supplier of corrugated packaging to the UK market with a market share of around 25%. Approximately 65% of sales go into the fast-moving consumer goods (FMCG) sector predominantly for food and beverages, with the remainder being principally for the consumer durables and industrial sectors. DS Smith Packaging supplies many of the leading FMCG companies; no individual customer accounts for more than 4% of the total UK Paper and Corrugated Packaging revenue.

DS Smith Packaging's recently launched corrugated pallets are cost-effective replacements for wooden pallets and are 100% recyclable.

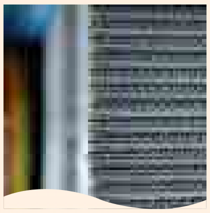
DS Smith Kaysersberg supplies retail-ready packaging to major international brands.

The Corrugated Packaging Supply Chain



DS Smith – UK Annual volume ('000 tonnes)	Severnside Recycling Waste paper collected – 1,700	St Regis Paper CCM – 550 Other speciality papers – 300	DS Smith Packaging Boxes and board – 600
DS Smith – Continental Europe Annual volume ('000 tonnes)	–	DS Smith Kaysersberg – France and Turkey Solid board and speciality papers – 220	DS Smith Kaysersberg – France, Italy, Poland, Turkey, Czech Republic Boxes and board – 400

Continental European Corrugated



DS Smith Kaysersberg is particularly strong in heavy-duty corrugated packaging.

In continental Europe, DS Smith Kaysersberg produces 0.6 billion square metres per annum of corrugated packaging at 12 factories located in France, Italy, Poland, Turkey, Czech Republic and Slovakia. The bulk of its CCM requirements are sourced from third parties. It has estimated market shares of 6% in France, 3% in Italy, 8% in Poland and 4% in Turkey. The business has been growing strongly in Poland and the Czech Republic. DS Smith Kaysersberg produces 0.2 million tonnes of recycled paper (principally solid board for use in the manufacture of detergent boxes) at two mills in France and one mill in Turkey. DS Smith also owns 49.6% of the leading paper and corrugated packaging business in Ukraine; the results of this business are reported under associates.

The Group's continental corrugated packaging operations are particularly strong in heavy-duty and litho-laminated packaging. Approximately 30% of sales are to the FMCG sector and the remainder is to the consumer durables, industrial and other sectors. This segment has a large and diverse range of customers, none of which accounts individually for more than 6% of Continental European Corrugated Packaging's total revenue.

Plastic

DS Smith Plastics' range includes polypropylene layer pads for the glass industry.

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

The Group is a leading European supplier of RTP. Its extensive product range includes reusable containers, boxes and pallet systems, injection-moulded crates and semi-finished extruded sheet. These products are supplied to the automotive, beverage, pharmaceutical and other markets from 12 locations in the UK, France, Belgium, Spain, Portugal, Poland, Czech Republic, Slovakia and the Dominican Republic.

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

Additionally, the segment contains two small speciality businesses: Packaging Management, which provides logistics services, particularly for pallet and plastic layer pad pools; and a development business, StePac, which specialises in modified atmosphere packaging for preserving the quality of fresh fruit and vegetables in transit.

The division purchases a wide range of polymers and plastic films, principally polypropylene, high density polyethylene and polycarbonate; the largest polymer supplier accounts for approximately 12% of raw material costs. This segment has a widely spread customer base and no single customer accounts for more than 5% of DS Smith Plastics' total revenue.

DS Smith Plastics produces returnable transit packaging for transporting automotive components.

OFFICE PRODUCTS WHOLESALING

Spicers supplies a broad range of office products and supporting services to office products dealers.

Spicers is the number one European wholesaler of office products; it has leading positions in each of the UK, Ireland, France and the Benelux region, and it is building its position in continental Europe with development businesses in Germany, Spain and Italy. Its network of distribution centres comprises: UK – 9; Ireland – 1; France – 6; Benelux – 1; Germany – 2; Spain – 2; Italy – 1.

Spicers provides a wholesaling service to its customer base of office products dealers and resellers, who principally supply smaller and medium-sized offices. It supplies approximately 13,000 dealers throughout Europe and no single dealer customer accounts for more than 4% of Spicers' total revenue. Spicers' product range of up to 22,000 product lines comprises its own 5-Star brand and other branded products of traditional stationery items, electronic office supplies, office furniture, janitorial supplies and office catering and vending provisions. Its range is communicated to its dealers and the offices they supply through printed catalogues and electronic systems; orders are now principally submitted to Spicers on-line or by other electronic means.

Spicers offers its dealer customers a same-day or an overnight, next-day delivery service; it also provides the dealers with marketing and promotional support. The business is highly transaction-intensive with approximately 800,000 line-items being processed weekly. The maintenance of reliable and efficient systems that are capable of handling the high volume of customer orders received daily, either on-line or by telephone, is a key feature of the business. Spicers' business model is explained further on page 25.

Spicers' businesses each offer a product range appropriate to their country.

There is a strong trend towards the greater use of lighter-weight packaging.

PACKAGING

Paper and Corrugated Market Overview

The Corrugated Packaging Market

The European market for corrugated packaging is estimated to be approximately €19 billion, equivalent to approximately 22 million tonnes or 41 billion square metres[1], of which the UK market is estimated to be approximately 9%. Demand for corrugated packaging is principally influenced by overall economic activity and manufacturing output.

Usage of corrugated packaging (boxes) for the fast-moving consumer goods (FMCG) sector, which accounts for approximately two-thirds of the corrugated market, has remained strong. Demand from the FMCG sector has particularly benefited from the continued growth of retail-ready packaging (RRP), which can be readily converted from its initial role as a protective transit pack into its second role as a box or tray that can be placed on display in the retail store. RRP benefits retailers by reducing the manual work involved in loading goods onto store shelves and lowering the amount of damage to goods in store, while enabling products to be presented more attractively. RRP requires more sophisticated packaging manufacturing capabilities for cutting, printing and gluing the corrugated board to form the more complicated box structures. The increased proportion of these higher value-added boxes, often requiring multi-passes within the production process, has contributed to a higher level of capacity utilisation across the corrugated industry.

Another consumer-focused area of usage for corrugated packaging which is growing is promotional applications, incorporating high-quality printing and design for RRP, retail and promotional display material and other uses. Usage of corrugated packaging for the home delivery of products also continues to grow in association with the development of purchasing through the internet. In contrast, the usage of boxes in some industrial manufacturing sectors of western Europe has been adversely affected by the transfer of manufacturing to lower cost countries.

In the calendar year 2007, the European market for corrugated packaging, measured in square metres, grew by 2.6%[2]. Demand in western Europe grew by 1.8% although within this the UK market fell by 1.2%. Demand growth in eastern and central Europe continued to be much stronger at 7.0%. Owing to cost and environmental pressures, there is an increasing emphasis in most markets on reducing the average weight of packaging. As a result, European demand growth when measured by weight was 1.6% and the UK market, which is at the forefront of the lightweighting trend, fell by 2.9%. Across Europe, market growth began to slow during the second half of 2007 and recent indicators suggest that the market has continued to be sluggish in the early months of 2008.

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

The Corrugated Case Material Market

Whereas boxes are generally sold locally, CCM is sold on a pan-European basis and pricing is therefore affected by pan-European supply and demand factors. The total demand for CCM in Europe (including eastern and central Europe but not Russia) is circa 25 million tonnes. The market for CCM in Europe is dependent upon European demand for corrugated packaging, as the imports and exports of unfilled boxes are negligible. Approximately 80% of the CCM used in Europe is made from recycled fibre, with the balance principally comprising kraftliner, made from virgin wood pulp.

The strong trend towards the greater use of lighter-weight corrugated packaging is being driven not only by the continuing pressure through the supply chain to reduce the cost of packaging but also the increased attention being given to the quantity and type of packaging being used in order to reduce the amount of waste going to landfill. Corrugated packaging is fully recyclable and the trend towards use of lighter-weight boxes has been enabled by the increasing availability of high-quality lightweight recycled CCM with good strength characteristics. This lightweight CCM allows box manufacturers to produce packaging with high performance characteristics while reducing the weight of material used. Lightweight recycled CCM is estimated to account for circa 7% (circa 1.8 million tonnes) of the total European CCM market currently and this share is expected to rise to circa 15% (circa 4 million tonnes) by 2010, representing a growth of circa 2 million tonnes. Although there is strong demand for high-quality, lightweight CCM, growth in this segment of the CCM market will continue to be limited by the available supply of lightweight paper as the majority of the existing CCM machines are unable to manufacture lightweight papers cost-effectively or to an acceptable quality.

The European industry supply and demand position for recycled CCM has been broadly in balance since early 2006. Although no significant CCM capacity additions are expected in the second half of 2008, four European recycled CCM producers, including DS Smith, have announced their intentions to invest in new machines capable of producing lightweight CCM. These four new machines will be located in the UK, Germany, Poland and Hungary and are due to start production during 2009.

Corrugated boxes are generally supplied to customers within an approximate 150 miles radius of the production plant.

Severnside Recycling ensures that St Regis has a cost-competitive supply of waste paper, a globally traded commodity.

1 Source: European Federation of Corrugated Board Manufacturers/DS Smith estimates
2 Source: European Federation of Corrugated Board Manufacturers/Confederation of Paper Industries

Further details on DS Smith's investment project are provided on pages 20 and 21. The total new capacity will produce circa 1.8 million tonnes per annum when it is fully operational, which will represent an overall increase in capacity of approximately 7%. It is expected that the production from the new machines will principally be targeted at satisfying the rapidly growing European demand for lightweight paper.

CCM and Box Prices

Following a period during 2004 and 2005 of falling CCM and box prices and sharply rising energy and waste paper input costs, a tighter European supply and demand position on CCM and corrugated packaging enabled CCM and box producers to increase their prices, in several stages, during 2006 and 2007. This resulted in a recovery of the higher input costs of energy and waste paper and improved margins. The most recent CCM price increase occurred in September 2007, following which box producers increased their prices over the subsequent months to recover the higher paper costs. Since the start of 2008, the slow-down in demand for boxes has resulted in some softening of CCM prices, particularly in continental Europe. The strength of the euro has provided support to prices in the UK.

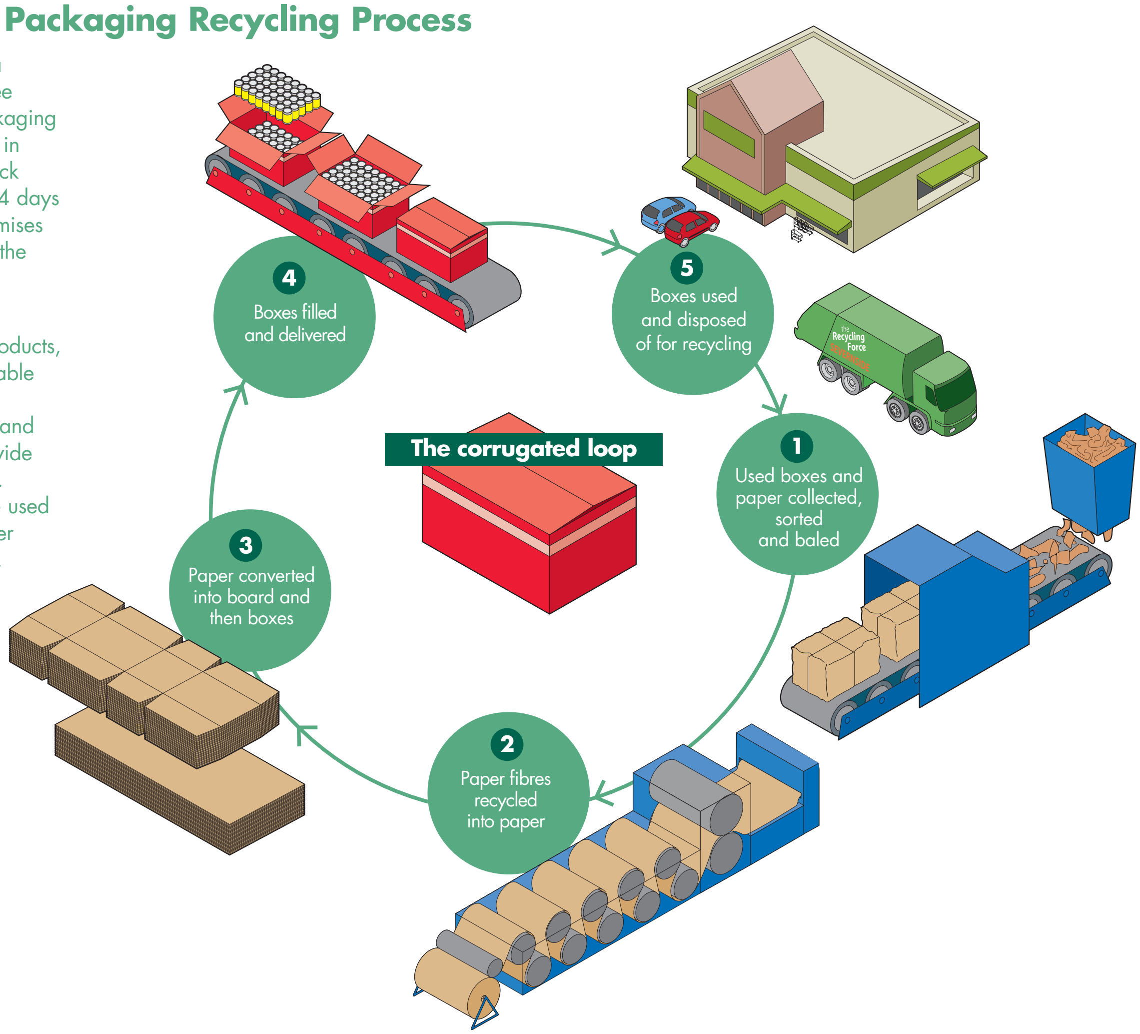
Waste Paper

Waste paper, the principal raw material for recycled CCM, is a globally traded commodity. The price of old corrugated containers (OCC), the principal grade of waste paper used for producing CCM, rose by circa 35% between January 2007 and April 2008[3]. This was largely due to the continuing high level of demand for it from Asia as a result of the recent substantial investment in recycled paper manufacturing in that region. In the UK, the higher net cost of our raw material has also been exacerbated by the continuing very low value of Packaging Recovery Notes (PRNs), which are issued as evidence that packaging has been reprocessed, in compliance with the UK Packaging Waste Regulations.

The Corrugated Packaging Recycling Process

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

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



3 Source: RISI, Inc.

Operating Review continued

UK Paper and Corrugated Packaging

Results advanced strongly

	2007/08	2006/07
Revenue – £m	**753.2**	687.1
Adjusted operating profit – £m*	**68.5**	36.5
Adjusted EBITDA – £m*	**100.4**	68.0
Key performance indicators:		
Revenue growth – %	**9.6%**	5.8%
Adjusted return on sales – %*	**9.1%**	5.3%
Adjusted EBITDA margin – %*	**13.3%**	9.9%
Adjusted return on average capital employed – %*	**14.3%**	7.6%

* 2006/07: before an exceptional profit of £6.7 million

2007/08 Performance

Results in the UK Paper and Corrugated Packaging segment advanced strongly, reflecting good recovery of higher input costs through better pricing and the previous actions taken to strengthen further the Group's UK market positions in waste paper collection, recycled paper and boxes. Revenue advanced by 10% to £753.2 million; on a like-for-like basis, excluding the paper mill closed in October 2006 and New Thames Paper Mill acquired in February 2008, revenue increased by 9%. Adjusted operating profit was substantially higher at £68.5 million (2006/07: £36.5 million).

We raised our prices of CCM and boxes in order to recover the further increases in the costs of energy and waste paper. Although these price increases enabled us to rebuild our margins, further increases in the cost of energy and the continuing high cost of waste paper put pressure on our margins during the second half of the financial year.

Our waste collection business, Severnside Recycling, grew strongly, assisted by the increased demand for recycling services and government action to reduce the amount of waste going to landfill. In addition to fulfilling its primary role of securing the required quantities of fibre for our UK paper mills, we developed further its value-added waste management services. Severnside and our UK box business, DS Smith Packaging, collaborate in marketing our cradle-to-cradle environmental capability. This encompasses the Group's expertise in designing packaging that will minimise waste throughout the supply chain, our manufacturing network for producing recycled paper and corrugated boxes which are fully recyclable, and Severnside's services for managing customers' entire waste recycling and disposal needs.

St Regis, our UK paper business, increased its total sales volume from our ongoing mills through improved productivity. We enhanced our margin by means of the recovery of higher input costs through raised prices, reduced operating costs as a result of our previous restructuring action, and our increased capability to produce higher value-added products at Kemsley and Wansbrough Mills following recent investment. Kemsley Mill performed well, assisted by further strong sales growth in plasterboard liner. The mill's sales were curtailed by a fire which incapacitated one of its machines for three weeks towards the end of the year. The three smaller mills, which principally produce higher value-added speciality products, made good progress.

In February 2008, DS Smith acquired from M-real Corporation, for a consideration of £60 million in cash, the New Thames Paper Mill, which is located adjacent to St Regis' Kemsley Mill, as well as the 50% balance of Grovehurst Energy, the mills' energy and services supplier, not already owned by DS Smith. In addition, we incurred a net cash cost of £7 million from a one-off payment, net of tax, towards the costs of the transfer of the associated pension scheme to a third party. The acquired facility currently produces fine uncoated paper and, using the latest papermaking technology, we intend to invest a further circa £37 million in the modification of the acquired facility to enable it to produce approximately 260,000 tonnes per annum of high-quality lightweight recycled CCM. It is planned that the converted machine will commence production in January 2009. The total cost of this project is expected to be circa £104 million and will be funded from the Group's existing debt facilities.

This acquisition and investment will materially strengthen the long-term competitiveness of our UK Paper and Corrugated Packaging business. It reinforces us in our aim to be a leader in the area of high-quality lighter-weight packaging and gives us a significant capability in the growth segment of high-quality lightweight CCM. Total UK demand for lightweight recycled CCM is expected to grow from an estimated 400,000 tonnes in 2007 to over 600,000 tonnes by 2010. At present, UK demand is very largely met by imports from continental Europe as total UK manufacturing of this product is less than 100,000 tonnes per annum. The Group currently has very limited capacity to produce lightweight CCM, which accounts for approximately 25% (approximately 150,000 tonnes per annum) of the CCM usage of our UK corrugated packaging operations. This project is expected to generate good financial returns in its first full year of operation (2009/10) and provide very good returns for shareholders in the longer-term. The first stage of the modification of the acquired facility, the construction of a new stock preparation plant, is progressing to plan. Further details of this project are provided on page 21.

DS Smith Packaging's revenue and profit advanced as a result of good sales growth in higher value-added converted products and the mitigation of higher input costs through raised prices and improved productivity. Our results benefited from our focus on the growing RRP and decorative sectors of the market, which require greater design input and more sophisticated manufacturing capability. In our sheet feeding operations, which supply corrugated sheet to box converters, sales were adversely affected by our emphasis on recovering the higher input costs.

In March 2008, the Group acquired Multigraphics Holdings Limited from funds managed by 3i and from the Multigraphics management team. Multigraphics specialises in the design and printing of retail and promotional display material. DS Smith Packaging is a substantial supplier of high-quality printed display material. This acquisition further strengthened the Group's position in this fast-growing sector of the market.

Our corrugated packaging operations convert corrugated board into value-added retail-ready boxes.

Investing in lighter-weight packaging

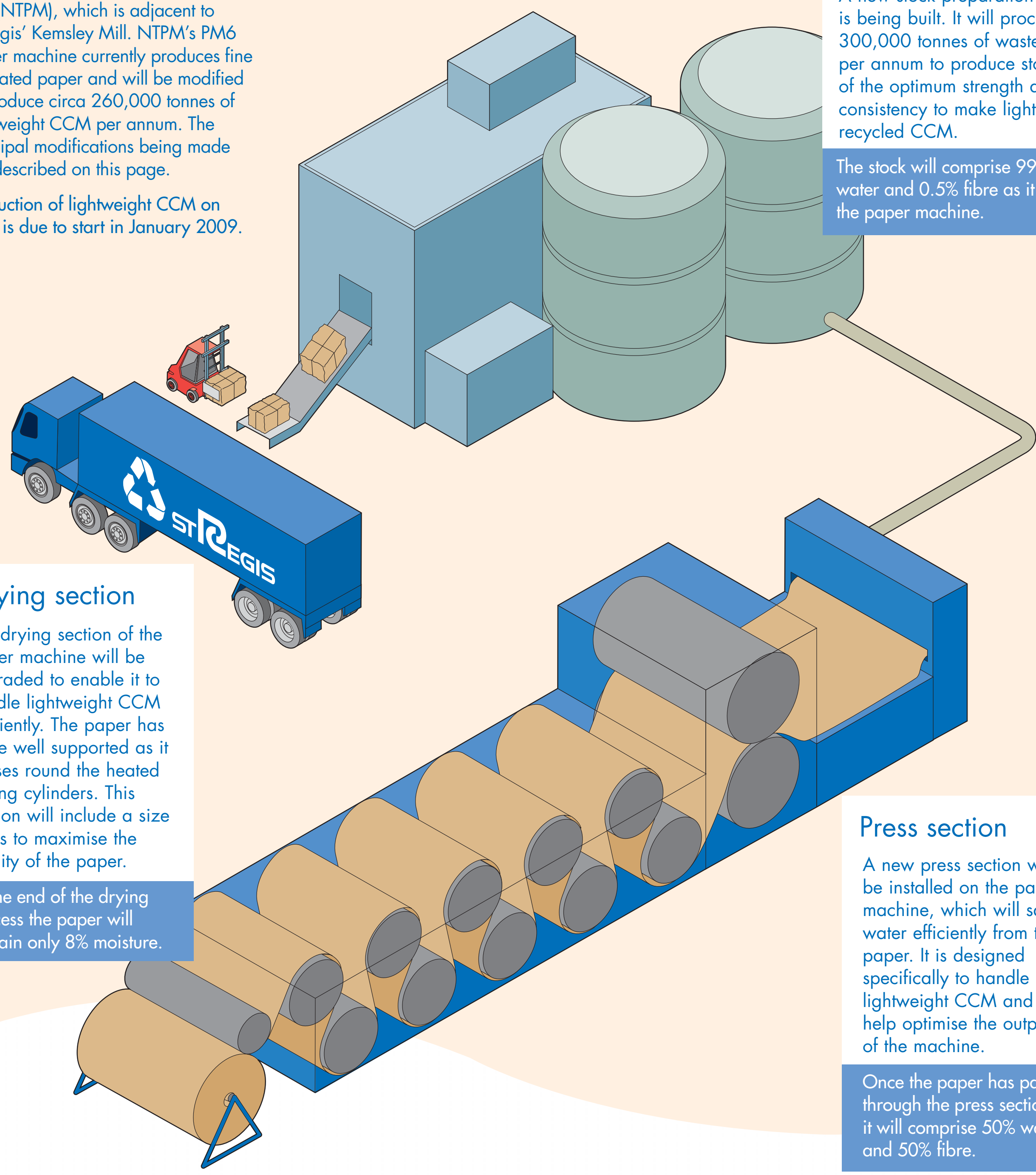
There is rapidly growing demand for high-quality lightweight recycled CCM with good strength characteristics because it enables box manufacturers to produce lighter-weight packaging. DS Smith has acquired New Thames Paper Mill (NTPM), which is adjacent to St Regis' Kemsley Mill. NTPM's PM6 paper machine currently produces fine uncoated paper and will be modified to produce circa 260,000 tonnes of lightweight CCM per annum. The principal modifications being made are described on this page.

Production of lightweight CCM on PM6 is due to start in January 2009.

Stock preparation

A new stock preparation plant is being built. It will process 300,000 tonnes of waste paper per annum to produce stock of the optimum strength and consistency to make lightweight recycled CCM.

The stock will comprise 99.5% water and 0.5% fibre as it enters the paper machine.



Drying section

The drying section of the paper machine will be upgraded to enable it to handle lightweight CCM efficiently. The paper has to be well supported as it passes round the heated drying cylinders. This section will include a size press to maximise the quality of the paper.

At the end of the drying process the paper will contain only 8% moisture.

Press section

A new press section will be installed on the paper machine, which will squeeze water efficiently from the paper. It is designed specifically to handle lightweight CCM and will help optimise the output of the machine.

Once the paper has passed through the press section, it will comprise 50% water and 50% fibre.

Operating Review continued

Entering 2008/09, energy, waste and starch input costs are exerting further pressure on our margins. We will seek to mitigate these higher costs though pricing, raised productivity and cost reduction. A key priority is to implement our lightweight CCM project in line with our plan. In this segment, our strong market positions and our focus on the higher value-added sectors of the market provide us with a good base from which to compete.

Continental European Corrugated Packaging
Higher input costs were recovered through better pricing

	2007/08	2006/07
Revenue – £m	**346.0**	308.0
Operating profit – £m	**20.3**	18.2
EBITDA – £m	**33.9**	31.5
Key performance indicators:		
Revenue growth – %	**12.3%**	11.4%
Return on sales – %	**5.9%**	5.9%
EBITDA margin – %	**9.8%**	10.2%
Return on average capital employed – %	**10.9%**	11.1%

2007/08 Performance

DS Smith Kaysersberg achieved a good result principally due to its programme to recover higher input costs through better pricing and its focus on higher value-added products. Revenue grew by 12.3% to £346.0 million. This segment, which is a substantial net buyer of paper, was adversely affected in the first half of the financial year by higher input costs, which we recovered during the second half of the year. Operating profit increased by 12% to £20.3 million.

In our established markets, the French paper business, which focuses on providing a high level of customer service on speciality products, performed creditably. Our French corrugated packaging business improved its margin through improvements in productivity, recovery of the higher input costs and its focus on higher value-added sectors such as heavy-duty packaging. We restructured our commercial, marketing and support functions to strengthen further the business's approach to its market. Through capital investment we are increasing our capability in RRP, which should help us in the coming year. In Italy, our two highly efficient factories performed well in a particularly price competitive market environment.

In our developing markets, the Polish business achieved a further strong advance through substantial sales growth, in excess of the rapidly expanding market, and an increased concentration on higher value-added products. We continued the development of our small converting businesses in the Czech Republic and Slovakia aimed principally at the automotive industry in central Europe. Results at our business in Turkey, which focuses on the brown and white goods and automotive sectors, were depressed by slower market growth and increased price pressure, principally as a result of the weakening of the Turkish economy. We have implemented an extensive programme aimed at restoring profitability by widening the business mix and lowering costs. Results at our Ukrainian associate business, Rubezhansk, which is reported under associates, were affected by a fire at its paper mill. The investment project to increase its capacity significantly and broaden its product range is progressing.

In 2008/09, our priorities in this segment are to restore profitability in our Turkish business, improve further the operational performance in our established markets and continue to develop our businesses in eastern and central Europe; we will continue to concentrate particularly on higher value-added product sectors in all our markets.

Plastic Packaging
Profit progress was held back by competitive pressures

	2007/08	2006/07
Revenue – £m	**223.4**	201.8
Adjusted operating profit – £m*	**10.7**	10.2
Adjusted EBITDA – £m*	**21.2**	21.9
Key performance indicators:		
Revenue growth – %	**10.7%**	(0.3)%
Adjusted return on sales – %*	**4.8%**	5.1%
Adjusted EBITDA margin – %*	**9.5%**	10.9%
Adjusted return on average capital employed – %*	**8.4%**	8.3%

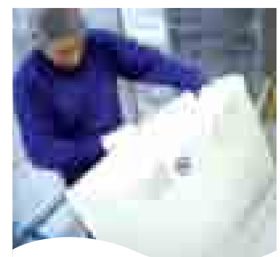
* before an exceptional charge of £1.9 million (2006/07: £1.9 million)

Market Overview

Returnable transit packaging (RTP) products are mostly used within the retail, automotive, electronics and beverage sectors. Demand is heavily influenced by industry sector activity levels. RTP is often a capital purchase for our customers, being driven by particular projects, hence annual demand can be uneven. The European market for RTP, which is estimated to be approximately €1 billion, is fragmented into many product sub-sectors and has a large number of suppliers. In western Europe, market growth is estimated to be 2–3% per annum. Overall the trend towards the use of multi-trip, reusable packaging on cost and environmental grounds has been slower over the last two years than was previously the case. The slow-down in demand has been partly as a result of the higher polymer costs and partly due to the relocation of some major customer sectors, such as the automotive and electronics industries, to eastern Europe, where the RTP market growth is estimated to be approximately 15% per annum.

The global market for liquid packaging and dispensing (LP&D) products is estimated to be approximately £400 million. The principal uses of bag-in-box packaging are for wine, agricultural produce (such as fruit juice and dairy products) and food service applications such as carbonated soft-drink concentrate (for the hotel and

Corrugated boxes are tested to ensure they provide the required protection for the product they are transporting.



Plastic packaging for the pharmaceutical sector has to be produced in special hygienic conditions.

restaurant industries). Volume growth in the North American and European markets is estimated to be approximately 5% per annum, while the market in Asia-Pacific is at an early stage of development and growing rapidly. The market for dispensing products (principally taps), other than for bag-in-box systems, is fragmented across a wide range of applications. DS Smith is a major supplier to the wine and liquid detergent sector; the latter has grown strongly in recent years in the USA and is now starting to develop in Europe.

2007/08 Performance

DS Smith Plastics grew its revenue by 11% to £223.4 million. There was a 5% advance in adjusted operating profit to £10.7 million, due to good performance in RTP and the two smaller businesses, which was partly offset by weaker results in LP&D.

Revenue in RTP, which accounted for 48% of the segment revenue, advanced by 16%. The beverage crate business performed well, assisted by the fulfilment of several large contracts, good sales of its innovative keg pallet and the start-up of a new operation in Portugal. Sales of other RTP product lines in total achieved an improved result, benefiting from previous actions taken to strengthen the sales and product development functions. A new business was launched aimed at providing bespoke RTP replenishment solutions for food and beverage companies in the retail distribution market. We grew RTP sales from our operations in the Czech Republic and Slovakia which supply customers, particularly in the automotive sector, in that region.

In LP&D, revenue, which accounted for 41% of the segment, grew by 1%. Pressure on prices affected both the American and European businesses and increased competition in wine bags also held back results in Europe. Our USA operations performed well, benefiting from innovative new products and the development of new market sectors for bag-in-box packaging. An agreement has been reached with our employees in Germany about the proposed restructuring of our European LP&D operations. The injection moulding of taps in Europe is in the process of being consolidated at our Merton site in the UK. Bag production in Germany will be consolidated at our Schwetzingen site near Frankfurt between February and April 2009, prior to production ceasing at our Düren site in April 2009. The total restructuring charge, taken in 2006/07 and 2007/08 is £3.8 million; we expect the improved results of this business to provide a three-year payback on this charge.

Our small packaging management business benefited from our recent investment and previous restructuring actions. StePac, our development business which specialises in modified atmosphere packaging, continued to grow its sales and profit strongly.

At this early stage of the year, this segment is facing further increases in polymer costs as a result of the high price of oil; we will look to mitigate any higher input costs through raising prices and productivity improvements. Other priorities for 2008/09 are, in RTP, to grow profitable sales in new products and markets and, in LP&D, to complete the restructuring of our European operations and to rebuild profits.

OFFICE PRODUCTS WHOLESALING

Spicers achieved a significantly improved result

	2007/08	2006/07
Revenue – £m	**644.9**	569.2
Adjusted operating profit – £m*	**20.1**	12.8
Adjusted EBITDA – £m*	**26.1**	19.2
Key performance indicators:		
Revenue growth – %	**13.3%**	9.7%
Adjusted return on sales – %*	**3.1%**	2.2%
Adjusted EBITDA margin – %*	**4.0%**	3.4%
Adjusted return on average capital employed – %*	**15.1%**	9.8%

* 2006/07: before an exceptional charge of £2.9 million

Market Overview

The office products markets of the UK, France and Germany, in which Spicers currently has approximately 85% of its sales, are estimated to be worth approximately €7 billion, €6 billion and €8 billion respectively, at manufacturers' selling prices. The demand for office products is principally influenced by the level of economic activity. The recent growth in the value of the markets in which Spicers operates is estimated to have been low or flat overall, with the traditional stationery sector being flat or in decline and the electronic office supplies (EOS) sector showing strong growth[4].

The volume of products bought by offices continues to increase, but the value of the market is being held back by price deflation caused by intense competition between suppliers and the trend for consumers to buy lower-specification or own-branded products. EOS, which is a growing sector of the market, accounts for approximately 50% of the total office products market; it is especially price-competitive on the high-volume EOS products.

The relative shares of the various supply channels to the end-user market differ by country. Spicers principally supplies office products dealers and resellers; in the countries in which Spicers operates, this channel accounts, on average, for approximately 35% of the total office products market. The share of the market held by dealers has been relatively stable in recent years. Office products dealers primarily sell to smaller and medium-sized offices, generally offer a high standard of service to their customers and source most of their products either from wholesalers or direct from manufacturers. The distribution channels in the office products market are explained further on page 24.

Wholesalers, on average, account for approximately 10% of the total market. The direct wholesaling competition that Spicers faces varies by country. In the UK there is one other significant national wholesaler of office products. In most continental European markets competition from other national wholesalers is limited, but there are significant numbers of regional and local wholesalers. The European scale of Spicers' business assists it in offering a broad range of products at competitive prices relative to those of many of

Spicers' marketing department develops bespoke promotional material for its customers.

4 Source: DS Smith estimates based on national data

Operating Review continued

its smaller wholesaling competitors. Spicers' commitment to supplying only the trade, and not, as some of its competitors do, supplying end-users, gives it a competitive advantage. Spicers competes indirectly with a number of other distribution channels. The most significant of these, contract stationers, accounts for 10–15% of the total market; they generally sell to larger offices and offer a smaller range of products than is stocked by Spicers. The other principal competitor channels to market are: mail order, office superstores, other retailers and manufacturers selling direct to offices.

2007/08 Performance

Office Products Wholesaling – Spicers – achieved a significantly improved result due to continued progress in the continental European businesses and an advance in the UK. The result is in line with our three-year plan to restore profits. We increased revenue by 13% to £644.9 million, with particularly strong growth in the UK and Italy. Adjusted operating profit advanced by 57% to £20.1 million.

Spicers UK results benefited from the ongoing action programme to raise our profits in this important business and the previous restructuring of the regional distribution centre network. Service levels significantly improved as we moved through 2007/08, reaching a good level as we exited the year. There was a substantial increase in sales. All of this increase was in EOS products. The proportion of EOS within our sales mix now more closely reflects that of the market as a whole, which helps us in providing good support to our dealers. We are looking to continue the development of our sales in both EOS and non-EOS products. Further actions to improve the longer-term competitiveness of the UK distribution network continue to be reviewed.

In continental Europe, our two well-established businesses in France and the Benelux region, which account for 31% of Spicers' total revenue, developed further their strong market positions and maintained their good performance. In France, we benefited from the recruitment of new customers and action to lower costs, while Spicers Benelux achieved a significant sales advance in the Netherlands as a result of refocusing its sales effort separately on the Belgian and Dutch markets.

In the continental development businesses, which represent 17% of Spicers' total revenue, Spicers Germany achieved good progress on the back of high service levels and raised productivity. The Spanish business grew by extending its customer base, benefiting from its second distribution centre, which opened near Madrid in October 2006, while in Italy sales continued to grow rapidly, ahead of our plan; the business is now established as a significant supplier to the Italian market.

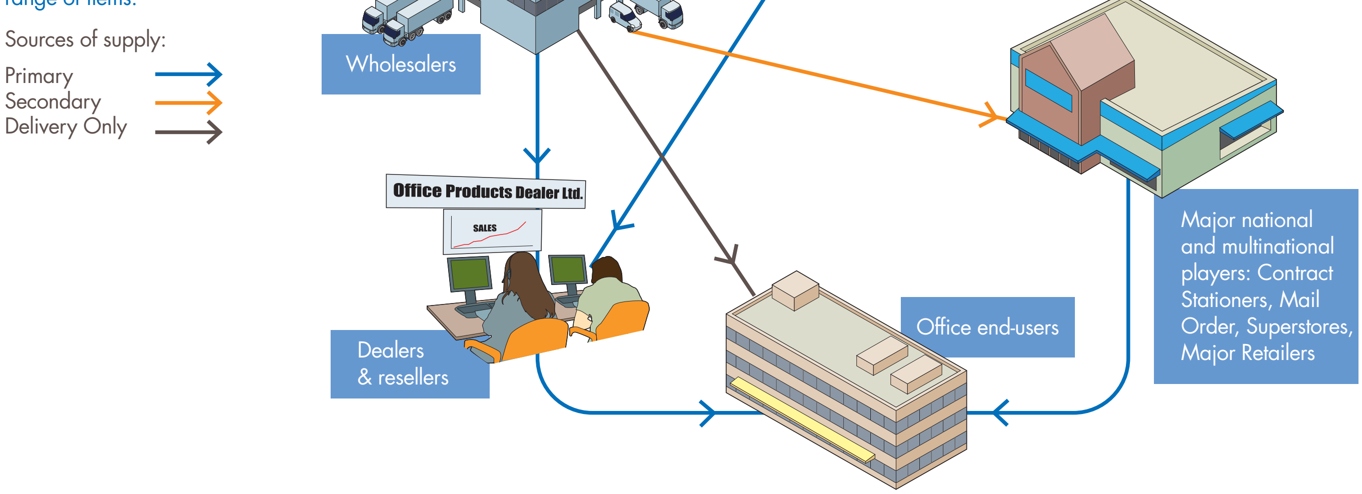
For 2008/09, we are focused on achieving a further advance in profits in the UK and maintaining progress in our development businesses in continental Europe.

Spicers UK benefited from the actions taken to raise the efficiency of its distribution centres.

Office Products Market Distribution Channels

Office products are distributed from the manufacturers to the end-users in offices through various channels. Spicers operates in the wholesaler/ dealer channel which competes effectively and profitably by combining the specialisation and buying power of the wholesaler with the low overhead cost structure of the dealer.

Wholesalers also supply product to the other main channels because they are well equipped to hold stock of a large range of items.



Spicers' business model

SPICERS

Supplies trade customers – dealers and resellers – with:

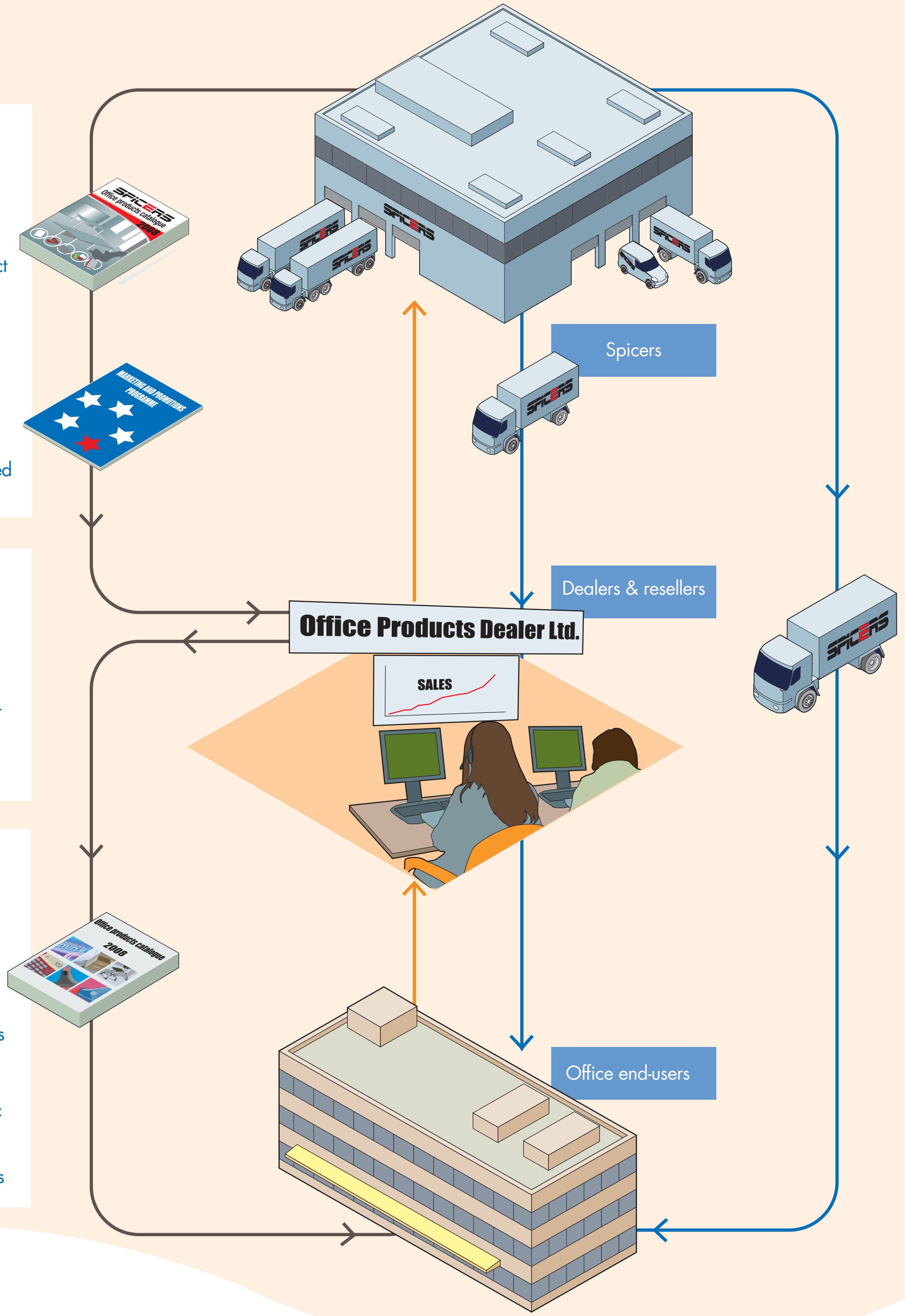
- Everything for the office, except computers – up to 18,000 product lines, brands and own-label
- Marketing support – catalogues/promotions
- Business development support
- E-commerce systems
- Fast service – same/next day
- Fulfilment service – orders delivered to dealers or direct to end-users

Dealers & resellers

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

Office end-users

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



Key

Communication →
- Product range – catalogue/internet
- Marketing support

Product orders →
- Orders placed – mainly via e-commerce systems

Product deliveries →

Financial Review

The Group delivered a significant year-on-year improvement in its results.

Steve Dryden
Group Finance Director

Trading Results

The Group's results for the year to 30 April 2008, which are summarised in Table 1, have been prepared on the basis of International Financial Reporting Standards (IFRS).

The major drivers of the 2007/08 results were: the substantial increases in selling prices in the Paper and Corrugated segments that were realised in order to recover the major rises in materials and energy costs that have taken place in recent years; and improved results in the Office Products Wholesaling segment.

Revenue increased by 11.4% over the prior year; 8.5% higher in the first half of the year and 14.2% higher in the second half. Excluding the effects of the acquisitions of M-real New Thames Limited and Multigraphics Holdings Limited and closures in the prior year, revenue was up 11.0%. If, in addition, the translation effect of movements in foreign exchange rates is excluded, revenue was up 8.4% on 2006/07 (up 9.6% in the first half of the year and up 7.2% in the second half).

Adjusted Group operating profit (excluding exceptional items) in 2007/08 was £119.6 million (2006/07: £77.7 million). The increase in adjusted Group operating profit resulted from improvements in all four reporting segments. There was a strong advance of £32.0 million in UK Paper and Corrugated Packaging, while Office Products Wholesaling increased by £7.3 million, Continental European Corrugated Packaging progressed by £2.1 million and Plastic Packaging increased by £0.5 million. Group adjusted operating profit in the first half of the year was £60.4 million (2006/07 H1: £30.4 million) and in the second half was £59.2 million (2006/07 H2: £47.3 million). The Group's adjusted return on sales was 6.1% (2006/07: 4.4%).

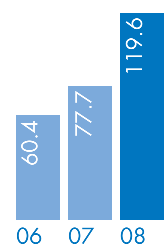
The Group recorded exceptional charges before interest and tax of £1.9 million during the year (2006/07: net exceptional benefit of £1.9 million). This net exceptional charge arose from the restructuring of our European liquid packaging and dispensing operations within Plastic Packaging. Operating profit after exceptional items was £117.7 million (2006/07: £79.6 million).

The Group's adjusted return on average capital employed (which is defined as the adjusted operating profit divided by the average capital employed) increased from 8.7% in 2006/07 to 12.9% in 2007/08, above the Group's estimated pre-tax cost of capital of 11.5%. The improvement in the Group's adjusted return on average capital employed reflects better returns in 2007/08 in UK Paper and Corrugated Packaging and Office Products Wholesaling, offset by lower returns in Continental European Corrugated Packaging, whilst returns from Plastic Packaging were broadly flat.

Interest, Tax and Earnings per Share

Net interest expense increased from £15.0 million in 2006/07 to £20.8 million in 2007/08, reflecting higher interest rates and increased average net debt. Net interest expense also increased due to a £3.1 million charge from an increase in the fair value of put options held by minority,

Adjusted Operating Profit
£million



Adjusted Return on Sales
%

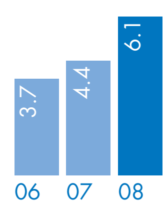


Table 1 – Trading Results Summary

	First half		Second half		Full year	
	2007/08	2006/07	**2007/08**	2006/07	**2007/08**	2006/07
Revenue – £m	**942.7**	868.5	**1,024.8**	897.6	**1,967.5**	1,766.1
Adjusted operating profit – £m*	**60.4**	30.4	**59.2**	47.3	**119.6**	77.7
Adjusted return on sales – %*	**6.4%**	3.5%	**5.8%**	5.3%	**6.1%**	4.4%
Adjusted return on average capital employed – %*	**13.6%**	6.7%	**12.3%**	10.7%	**12.9%**	8.7%

* before exceptional items

non-controlling shareholders in a subsidiary of the Group. Employment benefit net finance income, which is a non-cash item, was £8.8 million (2006/07: £8.0 million), reflecting the lower opening deficit of the defined benefit schemes.

For 2008/09, given the higher discount rate used and higher opening deficit, it is anticipated that there will be an increase in the employment benefit finance charges of circa £10 million.

The Group included £3.4 million as the Group's adjusted share of associated undertakings' after-tax profits, down from £3.9 million in 2006/07. Within this amount, £3.3 million (2006/07: £3.6 million) related to the Group's share of the after-tax operating profit of Rubezhansk, the Group's associate paper and packaging company in Ukraine; the decline in the profits from associates is also due to the Group's lower share of profits from its Japanese packaging associate, following the disposal in the year of the Group's remaining share of 6.3%.

Adjusted profit before tax was £111.0 million (2006/07: £74.6 million). Profit before tax after exceptional items was £109.1 million (2006/07: £78.5 million).

The Group's effective tax rate, excluding exceptional items and associates, at 29.4%, was lower than last year's rate of 32.2%, due to the release of £2.4 million of deferred tax provisions following the reduction in the UK rate of corporation tax from 30% to 28% with effect from 1 April 2008. Excluding the effect of the deferred tax provision release, the effective tax rate was slightly lower than in the prior period due to the increased proportion of UK generated profit within the total Group profit. Adjusted basic earnings per share were 19.9 pence (2006/07: 13.1 pence). Basic earnings per share were 19.6 pence (2006/07: 15.6 pence).

Dividend

The proposed final dividend is increased to 6.2 pence (2006/07: 6.0 pence). The total dividend for the year is 8.8 pence (2006/07: 8.6 pence). Dividend cover before exceptional items was 2.3 times in 2007/08 (2006/07: 1.5 times). Dividend cover after exceptional items was 2.2 times (2006/07: 1.8 times).

Cash Flow

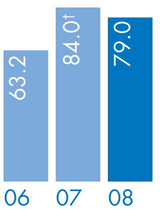
Free cash flow (which is defined as the net cash flow before dividends, acquisitions and disposals) and net cash flow are shown in Table 2. Cash generated from operations was £179.8 million (2006/07: £128.0 million). This reflects the higher adjusted operating profit, lower exceptional cash restructuring costs and an increased inflow from working capital. The cash outflow in respect of exceptional restructuring costs was £5.8 million (including cash outflows related to exceptional charges made in 2006/07), compared with a cash outflow from restructuring costs of £7.2 million in 2006/07. There was a strong focus on working capital management which resulted in a cash inflow of £13.2 million. In respect of pension payments, the agreed annual contribution into the combined UK Group Pension scheme was £14.6 million in 2007/08 (2006/07: £14.6 million). Capital expenditure payments were £66.5 million, up from £55.8 million in 2006/07; the most significant investments were new printing technology in the UK and continental Europe and increased production capability for plasterboard liner in the UK. The proceeds from the sales of assets reduced by £31.7 million; the 2006/07 amount included the net cash consideration of £29.6 million for the sale of the Taplow site. The interest paid increased in line with the income statement charge.

Tax payments were £27.8 million (2006/07: £15.1 million) principally due to higher adjusted trading profit described above. Free cash flow, before acquisitions, disposals and dividends, was £79.0 million (2006/07: £84.0 million). Excluding sales of assets, free cash flow generated was £69.7 million (2006/07: £43.0 million), an improvement of 62.1%.

Table 2 – Cash Flow

	2008 £m	2007 £m
Operating profit before exceptional items	**119.6**	77.7
Depreciation and amortisation	**62.0**	62.9
Adjusted EBITDA	**181.6**	140.6
Working capital movement	**13.2**	8.5
Exceptional cash costs	**(5.8)**	(7.2)
Other	**(9.2)**	(13.9)
Cash generated from operations	**179.8**	128.0
Capital expenditure payments	**(66.5)**	(55.8)
Sales of assets	**9.3**	41.0
Tax paid	**(27.8)**	(15.1)
Net interest paid	**(16.8)**	(14.1)
Dividends	**1.0**	–
Free cash flow	**79.0**	84.0
Dividends	**(33.7)**	(32.7)
Net (acquisitions)/disposals	**(87.2)**	0.2
Net cash flow	**(41.9)**	51.5
Shares issued	**0.2**	3.7
Purchase of own shares	**(2.0)**	–
Net debt acquired	**(1.3)**	–
Foreign exchange and fair value movements	**(25.6)**	1.4
Net debt movement	**(70.6)**	56.6

Free Cash Flow*
£million



* before acquisitions, disposals and dividends

† including the net cash consideration of £29.6m for the sale of the Taplow site

Financial Review continued

Cash dividend cover, defined as free cash flow divided by dividends paid in the year, was 2.3 times, down from 2.6 times in 2006/07.

The net cash outflow on acquisitions and disposals was £87.2 million (2006/07: £0.2 million inflow) principally accounted for by the acquisition of M-real New Thames Limited (£67.4 million) and Multigraphics Holdings Limited (£6.7 million). Additionally £11.9 million was incurred for the purchase of further share capital in Toscana Ondulati SpA.

Financial Position

Shareholders' funds totalled £601.7 million at 30 April 2008, up from £569.4 million at 30 April 2007. Net assets per share were 153.9 pence (30 April 2007: 144.9 pence). The profit attributable to the shareholders of DS Smith Plc was £76.6 million and dividends of £33.7 million were paid during the year. In addition, after-tax actuarial losses of £51.6 million on the Group's defined benefit pension schemes were debited to reserves through the statement of recognised income and expense. Other items recognised directly in equity relate to currency translation of £24.3 million, movements in cash flow hedges of £14.5 million and other movements of £2.2 million.

The Group's closing net debt was £251.8 million, £70.6 million higher than at the start of the year, the major elements of which were the net cash outflow during the year of £41.9 million (after £87.2 million of net acquisitions) and non-cash movements, principally exchange differences and related fair-value movements, of £25.6 million.

Gearing was 41.8% (30 April 2007: 32.0%); the movement reflected the increase in borrowings resulting from the net cash outflow for the year, which was proportionally greater than the increase in shareholders' funds. Adjusted interest cover was 5.8 times, compared with 5.2 times last year, the higher cover reflecting the higher adjusted operating profit partially offset by the increased interest charge. The ratio of net debt to EBITDA (before exceptional items) was 1.4 times (2006/07:1.3 times).

Energy Costs

The high level of energy costs continued to be a significant factor for the Group in 2007/08. The Group's total costs for gas, electricity and diesel fuel increased from £88 million in 2006/07 to £91 million in 2007/08. After adjusting for the effects of the acquisition of New Thames Paper Mill and the closure of Taplow mill, this represents an underlying increase of £2 million. Market prices for energy in the UK increased over the year, more so for electricity than gas. The Group continued with its strategy of hedging the energy costs with suppliers and financial institutions.

Approximately 40% of the Group's energy costs, principally related to our largest energy-consuming facilities, are incurred under supply contracts in which movements in our energy costs tend to lag the trends in market prices.

Capital Structure and Treasury Management

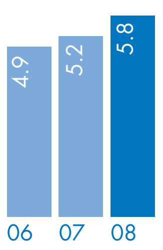
The Group funds its operations from the following sources of cash: operating cash flow, borrowings, shareholders' equity and disposals of peripheral businesses, where appropriate. The Group's objective is to achieve a capital structure that results in an appropriate cost of capital whilst providing flexibility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

The Group's overall treasury objectives are to ensure sufficient funds are available for the Group to carry out its strategy and to manage financial risks. The Group's treasury strategy is controlled 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 and energy exposure management.

The Group's main borrowing facilities comprise: a private placement, due in 2012, of US$105.0 million and £25.0 million; a private placement of US$105.0 million due in 2014 and US$95.0 million due in 2016; and a syndicated revolving credit facility of £250.0 million expiring in 2010. Additionally, we have recently obtained a revolving credit facility of £50.0 million expiring in 2010. At 30 April 2008, the Group's committed borrowing facilities were £526.0 million. Uncommitted borrowing facilities, including overdrafts, totalled £123.0 million. The total gross borrowings drawn under all these facilities at the year end were £274.5 million. At 30 April 2008, the Group's committed borrowing facilities had a weighted-average maturity of three years and six months.

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

Adjusted Interest Cover
Times



The Group manages the risks associated with its purchases of energy in the UK through its Energy Procurement Group, which operates under the oversight of the Treasury Committee. UK purchases of energy represent the significant majority of the Group's overall energy costs. The Group has flexible price purchase arrangements with its suppliers of electricity and natural gas; it also enters into hedge arrangements with its suppliers and financial institutions.

The Treasury Committee regularly reviews the Group's exposure to interest rates and considers whether to borrow on fixed or floating terms. The Group has a policy of borrowing at floating rates, which the Treasury Committee believes provides better value over the medium-term. The Group has previously taken advantage of low levels of medium- to long-term sterling interest rates to fix the interest rate on a total of £40.8 million of sterling denominated borrowings which is fixed to 2016. Fixed-rate borrowings, taking into account the effect of related swaps, comprised 16% of total borrowings at 30 April 2008 (30 April 2007: 33%).

The Group has a net investment in major overseas subsidiary companies' foreign currency assets and liabilities, in particular those whose functional currency is the euro or the United States dollar. The Group's policy is to hedge a large part of the resulting exposure to movements in foreign currency rates, by means of debt in the same currency, to a level determined by the Treasury Committee. The overseas net assets hedged through euro borrowings increased from 73% at 30 April 2007 to 85% at 30 April 2008 as a proportion of the Group's euro net investment, as a result of the increase in euro borrowings.

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 borrowings. The Group applies hedge accounting under IAS 39 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 borrowings 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.

Critical Accounting Policies

The Group's accounting policies are set out in note 1 to the financial statements. The Group has identified the following accounting policies, and the judgements involved in their application, as being critical to understanding the results and position of the Group:

- Impairment: when applying IAS 36, 'Impairment of Assets', the Group compares the carrying amounts of goodwill and intangible assets with the higher of their net realisable value and their value-in-use to determine whether an impairment exists. The value-in-use is calculated by discounting the future cash flows expected to be generated by the assets or group of assets being tested for impairment. The use of different estimates, assumptions and judgements could result in a different assessment of the value-in-use of the assets involved and, consequently, result in the impairment of the assets involved. In particular, such different assessments might arise from the estimates, assumptions and judgements involved in (a) determining a value based on our current estimation of future conditions and the associated cash from the Group's operations and (b) our determination of the level at which groups of assets can reasonably be tested for impairment separately from other parts of the business. Note 10 to the financial statements sets out additional information regarding the Group's annual impairment exercise.
- Pension 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 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. Note 24 to the financial statements sets out additional information regarding the Group's pension and other post-retirement benefits.
- Accounting for carbon dioxide (CO_2) emissions: There are currently no accounting standards that specifically address accounting for emission allowances. The Group, with the agreement of its auditors, has applied a 'net liability' approach.

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

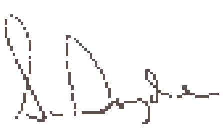
The likely effect of future changes in accounting standards and interpretations is also set out in note 1 to the financial statements.

Financial Review continued

Pensions

The Group operates one defined benefit pension scheme in the UK and has some small, overseas arrangements. The aggregate gross assets of the schemes at 30 April 2008 were £721.8 million and the gross liabilities at 30 April 2008, calculated under IAS 19, were £797.7 million, resulting in the recognition of a gross balance sheet deficit of £75.9 million (30 April 2007: £18.6 million), a net deficit of £54.5 million (30 April 2007: £13.0 million) after the establishment of a deferred tax asset of £21.4 million (30 April 2007: £5.6 million). The increase of £57.3 million in the gross deficit was principally due to changing the mortality assumptions for the UK scheme to PMA92/PFA92 medium cohort, and reduced asset values.

In order to control the future costs and financial obligations of these schemes, the Group's UK defined benefit pension scheme is closed to new members. The lower current service cost in 2007/08, £8.7 million compared with £9.4 million in 2006/07, is principally due to reduced membership of the scheme. The Group's agreed annual fixed cash contributions to the combined UK scheme were £14.6 million (2006/07: £14.6 million). The triennial valuation of the scheme as at 30 April 2007 will be finalised by 31 July 2008.



Steve Dryden
Group Finance Director

Risk Management

The Group has further strengthened its procedures for understanding and managing its significant risks.

The procedures adopted by the Group to manage its key risks, including environmental, social and governance risks, and to comply with the guidance of the Turnbull Committee are described in the Corporate Governance section on pages 40 to 42. In April 2008, a Group Risks Committee was established. This is comprised of the Group Chief Executive, the Group Finance Director, the Group Human Resources Director, the Company Secretary, the Divisional Chief Executives and the Head of Operational Audit and will meet at least four times a year to review the risks faced by the Group and the adequacy and suitability of the mitigation arrangements in place to manage those risks.

The Group's exposure to individual risks is limited and diversified by the fact that it has several distinct types of activity, with 30 business sectors operating from over 100 sites in 20 different countries, and it sells to a broad range of customers. Any significant commercial and other risks that are specific to a business segment are described within the narrative on that segment. The principal Group-wide key risks and the way they are managed are described below. The Group seeks to mitigate its insurable risks through an insurance programme that covers property and liability risks where it is relevant and cost-effective to do so.

Movements in foreign exchange rates and interest rates

These risks and the way in which they are managed through the Group's Treasury Committee and its subsidiary committees or groups are described on pages 28 and 29.

The funding position of the Group's UK defined benefit pension scheme and the consequent impact of any deficit on corporate activity

The funding of the Group's defined benefit scheme is sensitive to a number of factors. The Group faces the risk that this funding position will deteriorate over time, in particular if actual longevity exceeds current assumptions and investment returns are lower than expected. The Group and the scheme's trustee have sought to mitigate this risk through the scheme's investment strategy and through having increased the contributions made to the scheme by both the members and the Group. The regulatory environment for pension schemes and their trustees has changed in recent years, in particular with the Pensions Act 2004: the presence of a deficit in a scheme may now oblige the trustee or possibly the Pensions Regulator to seek some further funding of the scheme in the event of a significant corporate action or perceived decline in the Group's financial covenant.

The continuing availability of borrowing facilities, including compliance with borrowing covenants

The Group's borrowing facilities and their management through the Treasury Committee are described on pages 28 and 29.

Serious breaches of the law or other regulations

The Group's Key Corporate Values, which are described in more detail in the Corporate Responsibility Review on page 33 and are available in full at www.dssmith.uk.com/pages/Policies.asp, on the Group's website, require all employees to comply with all relevant laws and regulations in the countries in which they operate. The Group recognises the risk that substantial fines, or other penalties, may be imposed for non-compliance with laws and regulations relating to competition, environmental, health and safety or other matters, and has control mechanisms, ongoing programmes and systems, and special initiatives in place for monitoring compliance. It also carries out training programmes for employees and has systems in place to share expertise and best practice on these matters. The Group has a Workplace Malpractice Policy, and a process for employees to report any suspected wrongdoing in confidence, that is in place across its international operations where such reporting is permitted by law.

Political instability

Profits from the Group's wholly-owned operations are not subject to any significant degree of political risk as they are almost entirely located in countries which are members of the Organisation for Economic Co-operation and Development (OECD), members of which are committed to democratic government and the market economy. The Group's adjusted after tax profits from associated undertakings, which totalled £3.4 million in 2007/08, are currently exposed to some political risk as they are substantially derived from Rubezhansk, a paper and corrugated packaging business located in Ukraine, a country which has recently experienced political instability. The Group's ability to manage this risk is also lessened since it has influence, rather than control, over these operations. The Group maintains a close relationship with local management and regular visits are made to Ukraine by Group executives to ensure a good understanding of the business and the context in which it is operating.

Volatility and increasing energy prices

The Group's exposure to energy costs is described on page 28 and is being managed in a number of ways. The Group is looking to maximise in-house energy generation from its combined heat and power (CHP) plants in the UK and France and a UK waste-to-energy plant, thereby taking advantage of the greater efficiency of the CHP process. It is also investigating the potential for the use of renewable or low-carbon energy sources, including refuse-derived fuel. The Group continues to undertake a wide range of energy-saving projects aimed at increasing its energy efficiency and reducing its energy usage. In 2007/08, the Group reduced its energy usage by 2% compared with 2006/07. The Group maintains a centralised energy-purchasing approach in the UK and France, which enables it to obtain economies of scale in buying and to apply specialist expertise, including the application of hedging techniques. Regulatory developments in the energy market are monitored and the Group collaborates, when appropriate, with other heavy energy users in the paper and other industry sectors to influence government on energy policy and the operation of energy markets.

Risk Management continued

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

As a result of its substantial energy usage, the Group is likely, in the medium-term, to be increasingly subject to regulation and taxation of its CO_2 emissions. The details of this and the actions being taken to reduce the Group's future energy usage and CO_2 emissions are described in the Corporate Responsibility Review on page 35 and in the statement of the Group's strategy for managing its energy costs on page 31.

Changes in packaging demand as a result of environmental concerns

The continuing concerns of consumers, retailers and government about conservation of resources and waste reduction may result in lower total usage of packaging or changes in the pattern of demand for certain types of packaging. The positive role that most packaging plays in contributing to reducing total waste in the supply chain and the actions that the Group's packaging businesses have been taking for a number of years to minimise the use of resources, are described in the Packaging and the Environment section of the Corporate Responsibility Review on pages 34 and 35. Our packaging businesses work with the other members of their product supply chains to minimise the total environmental impact of the production, distribution, use and disposal of goods. Severnside Recycling, the Group's UK waste collection business works closely with DS Smith Packaging, our UK box business, in marketing our cradle-to-cradle environmental capability which encompasses: the Group's expertise in designing packaging that will minimise waste throughout the supply chain; the environmental benefits of the recyclability of corrugated packaging; and Severnside's capability for managing customers' entire waste recycling and disposal needs. The Group also collaborates with other companies which produce, specify or use packaging to increase the understanding of government and other opinion-formers of the positive role packaging does, and can in the future, play in achieving more sustainable consumption.

Volatility of pricing and availability of globally traded raw materials

In 2007/08, the Group purchased approximately £100 million of waste paper and approximately £85 million of polymers and films as the principal raw materials in its Paper and Plastic Packaging businesses, respectively. These products are globally traded and subject to variations in supply and demand which result in volatility in their pricing. The Group endeavours to recover any raw material cost increases through good material usage programmes and through price rises. Approximately one-third of the Group's corrugated and plastic packaging customer contracts include arrangements to link selling prices to an index of raw material prices. The achievement of price increases for the majority of our Packaging business is substantially determined by the state of supply and demand in the relevant market at any time. Due to the variety of contractual arrangements with customers, margins may be squeezed for a period of time until price increases are achieved to recover input cost increases.

The Group's Severnside Recycling business collects and trades waste paper to ensure a continuous cost-competitive supply to the Group's paper mills. It achieves this through long-term contracts with major suppliers of waste paper and the collection of waste from smaller suppliers through its network of collection depots.

Of the Group's total polymer and film purchases in 2007/08, polycarbonate, polypropylene and high density polyethylene accounted for approximately 50% with the remainder comprising a large number of different polymers and films. The Group has developed a good level of knowledge in polymer purchasing and uses a number of suppliers to ensure it is purchasing at competitive prices.

Product liability

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

Other social and environmental matters

The Group's management of other social and environmental risks is described in the Corporate Responsibility Review on pages 33 to 37.

Corporate Responsibility Review

Safety at work is our highest priority.

Our Principles and Approach to Corporate Responsibility

DS Smith is committed to providing good sustainable returns for its investors while maintaining high standards in the way we conduct our business. The Group has over 11,500 employees working at over 100 locations worldwide. Our primary consideration is the safety of everyone involved with our operations. We also place considerable emphasis on fulfilling our responsibilities towards the environment and on the way we interact with our employees and local communities. This review presents information on these high priority aspects of corporate responsibility (CR) for the Group.

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

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

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

Health and Safety

DS Smith is committed to the protection and safety of its staff and others affected by its operations. Being our top priority, safety at work is the first fixed agenda item at all main Board, executive committee and divisional review meetings. Providing a safe workplace and ensuring safe working practices are not only legal and ethical responsibilities for the Group but are also essential factors in achieving our aims of attracting and retaining a high-quality and well-motivated workforce and in carrying out our operations productively and cost-effectively.

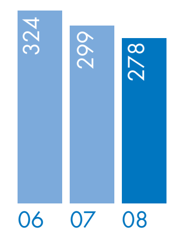
We give particular attention to communicating with our people about the importance of safety at work and involving them closely in initiatives aimed at finding ways to improve safety on our sites. Our campaign, launched in autumn 2006, under the slogan 'think safe… be safe!' continues to be a central feature of our drive to raise further employees' awareness of their individual responsibilities for preventing accidents. The core theme has been reinforced and developed through supplementary Group-wide initiatives, including a multi-media campaign which highlighted ways to prevent injuries from trips or falls. The core campaign material, translated where necessary into the local languages, is used throughout our operations worldwide as a basis for introducing safety programmes which concentrate on the safety issues which are most relevant to each business.

Information on safety performance, including statistics related to our key performance indicators (KPIs), is reported to the Board quarterly. Our divisions set improvement targets against the KPIs, which reflect the nature of their business and their previous performance. In 2007/08, our continuing emphasis on safety was reflected in a 7% reduction in the number of accidents that resulted in one shift or more of working time being lost and a 6% reduction in the accident frequency rate, which measures all accidents in proportion to the number of hours worked. Despite these improvements, there was an increase, for the second year in succession, in the accident severity rate, which measures the hours lost as a result of all accidents as a percentage of the total hours worked. The 4% increase in this measurement in 2007/08 reflects a combination of a small number of serious accidents, which resulted in employees being unable to work for extended periods, and a larger number of relatively minor accidents, after which employees took a longer time to return to work; we are addressing the underlying reasons for the latter type of absences from work.

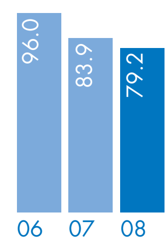
Our businesses use information on the performance of other Group businesses and external health and safety statistics to benchmark their performance and to identify areas for increased attention. Site health and safety audits by internal specialists and external consultants are also used to measure performance and highlight areas for improvement. Investigations are carried out of all accidents and situations that might have resulted in accidents to ensure that we learn

The 'think safe... be safe!' campaign has been implemented worldwide.

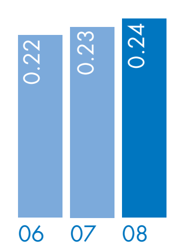
Lost Time Accidents
Number of accidents resulting in lost time of one shift or more



Accident Frequency Rate
Number of accidents of all types per million hours worked



Accident Severity Rate
Working hours lost as a result of accidents as a percentage of hours worked



Corporate Responsibility Review continued

from these incidents and prevent recurrence. Our businesses undertake extensive programmes of employee training, focusing particularly on the major, or most frequent, risks in their operations. Training in risk assessment and root-cause analysis features strongly in health and safety training programmes.

Environment

Protecting the environment is an important feature of DS Smith's business. We continually seek to reduce the impact of our own operations on the environment and to contribute to reducing energy usage, greenhouse gas emissions and waste throughout our supply chains. Significantly, the Group makes a major contribution to conserving resources and reducing landfill waste through its leading positions in recycling in the UK. Our Packaging products are made from recycled raw materials wherever it is practicable and 72% of the paper, polymers and films used to produce them in 2007/08 were recycled material. Our Packaging businesses use their expertise in packaging design to assist customers and retailers in optimising the use of resources and reducing waste in their supply chains. In corrugated packaging, which is fully recyclable, we are at the forefront of the trend to use lightweight paper to lower the weight of packaging used. Spicers offers its customers an increasingly large selection of products which are made from recycled materials, are recyclable or have other environmentally beneficial features. We continue to carry out work to evaluate not only the carbon footprint of our own packaging products but to understand better the role of our packaging in the total lifecycle of the product for which it is used.

Recycling

The Group's operations make a major contribution to the corrugated packaging recycling process. In the UK, Severnside Recycling is the largest collector of waste paper and also collects other materials for recycling. It sources waste from major supermarkets, other retailers and industrial operations and is providing the waste collection services for Tesco plc's front-of-store automated recycling centres which are being located at an increasing number of its stores. All of the paper produced by the Group is made from recycled waste paper. St Regis is the UK's leading recycler of packaging waste and largest producer of recycled paper, while DS Smith Kaysersberg is a significant recycler of waste paper in France; in total the Group recycled 1.3 million tonnes of paper in 2007/08. 75% of the paper used by the Group's corrugated packaging operations in 2007/08 was 100% recycled paper and a further 3% was paper made from a mixture of recycled and virgin wood pulp. The other 22% of the paper used was made from 100% virgin wood pulp; it has particular strength and appearance characteristics which certain customers require for their packaging and it is sourced from producers who obtain their wood pulp from sustainable forestry sources.

The Group's paper collection and recycling operations play an important role in meeting the EU and UK government objectives for recycling of packaging waste, as prescribed in the EU Packaging and Packaging Waste Directive and the UK Packaging Waste Regulations. Under the Directive, the UK is required to recycle at least 60% of all paper packaging by 2008; it is already well ahead of this target, with 78% of paper packaging being recycled in 2006, and DS Smith is the largest contributor to this reprocessing.

Packaging and the environment

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

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

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

Corrugated packaging, the Group's principal packaging product, is 100% recyclable and in the UK over 80% of all corrugated packaging is recycled[3]. Although corrugated packaging is not generally re-used, it is a fully recyclable packaging material that is produced predominantly from recycled paper in what is essentially a loop system, which is described in more detail on page 19. Used corrugated boxes are recycled into paper; this paper is converted into boxes which are packed with goods; retailers or consumers discard the used boxes which are then collected for recycling and delivered to the paper mill to be turned into paper once again. Corrugated products are playing an increasingly important role in the pursuit of sustainable, environmentally-friendly packaging. The Group has been at the forefront of the trend to lower the weight of corrugated packaging used through the use of lightweight paper and improved box design. DS Smith Packaging's PackRight tool enables all the factors relating to a particular pack to be analysed and in many instances our design and technical expertise enables the customer to reduce the weight of raw

Corrugated boxes can be readily recycled into paper and then into new boxes. The fibres in corrugated boxes can be back on the shelf in-store within 14 days.

1 Source: Industry Council for Packaging and the Environment (INCPEN)
2 Source: Department for Environment, Food and Rural Affairs (DEFRA)
3 Source: Confederation of Paper Industries (CPI)

materials used in a pack as well as to pack the goods more efficiently; this reduces transport costs and thereby the carbon emissions per unit.

In circumstances where packaging is designed to be re-used many times, plastic returnable transit packaging may be required by customers if the packaging can be readily recovered, transported and cleaned for re-use. Plastic bag-in-box packaging is increasingly being used to contain liquids in bulk as well as for consumer use. It has significant benefits for storing and transporting beverages and other liquids hygienically and securely, and can substantially extend the storage life of products, thus reducing product wastage. Bag-in-box packs use space efficiently and are relatively light-weight compared with bottles or drums so they may reduce the overall energy usage in the supply chain because they can be transported and stored more efficiently. Plastic materials may be more difficult to recycle than some other materials, due to the large variety of polymers in use, the practicalities of separate collection and processing, contamination from contact with food and other technical considerations. Wherever it is appropriate, our Plastic Packaging businesses use recycled materials and, in 2007/08, 12% of the polymer and film raw material they used was recycled.

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

Environmental management and regulation

The environmental performance and activities of the divisions are reviewed at the Group Environment Committee, which meets three times a year and is chaired by the Group Chief Executive. Under the terms of the Group's Environment Policy, which may be viewed on the Group's website, each of our sites is required to implement an environmental management system (EMS) which is appropriate to its activity. Of our total operations, 35 have been identified as having higher potential environmental impact, due to their size or type of activity; 34 of these are accredited under the internationally recognised ISO 14001 EMS standard and the one remaining operation is in the process of working towards this standard. The Group's other 62 operations, which are required to have in place a simplified EMS, appropriate to their lower level of potential environmental impact, review and improve these systems regularly, often with the assistance of external auditors. As part of their EMS, many Group businesses have procedures in place for assessing their suppliers' environmental policies and management systems, as appropriate.

The Group had a number of minor environmental incidents during the year, following which prompt corrective action and steps to prevent any recurrence were taken and, where necessary, the appropriate agencies were informed. The circumstances surrounding all environmental incidents are investigated immediately and, when appropriate, the findings and lessons learnt are communicated throughout the Group as part of our drive to reduce such incidents. The Environment Agency is investigating possible procedural breaches of the Pollution Prevention and Control (PPC) permit at St Regis Higher Kings Mill; an independent investigation has indicated that these breaches did not result in any significant environmental impact.

The Group's paper manufacturing operations account for over 80% of the Group's environmental impact, particularly because their manufacturing process uses large quantities of energy and water. The UK paper mills are regulated through PPC permits under which they each have specific improvement programmes and targets; St Regis' overall compliance with its environmental permits, which now include those under the EU Emissions Trading Scheme (EU ETS), was 98.4% in 2007/08. St Regis is a key participant in the UK paper sector Climate Change Levy (CCL) Agreement with the Department of Environment, Food and Rural Affairs under which the industry has undertaken to achieve energy consumption reduction targets. St Regis met its target for the year to September 2007 and is on course to meet its next target for the year to September 2008.

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. Under the terms of the UK scheme, our UK mills opted out of the first phase of EU ETS as they are participants in the UK paper sector CCL Agreement; they are now subject to the second phase of EU ETS, which commenced in January 2008. During EU ETS Phase 1, our French paper mills had an emissions allocation in excess of their actual emissions, due to our investment in a combined heat and power (CHP) facility. We expect the Group's emissions allocations and our actual emissions during EU ETS Phase 2 to be broadly in balance. The effects of subsequent phases from 2013 onwards are likely to be more onerous, being dependent upon the details of the emissions allocations and the market price of carbon under future phases of the scheme.

Environmental performance

Our businesses undertook, in the course of 2007/08, a wide range of projects, involving investment and changes in operating practices, aimed at reducing their environmental impact. The Group's overall performance in 2007/08 is reflected in the environmental performance indicators shown in the adjacent table. A fuller report on our environmental performance is available in the Corporate Responsibility section of our website.

The Group consumed 2% less energy in 2007/08 compared with the previous year, principally as a result of the closure of Taplow Mill in October 2006. Energy usage per £'000 of revenue was 12% lower. Excluding the effect of the paper mill closure, energy usage increased by 1%, principally reflecting increased production at our continuing UK paper mills. The Group's paper mills improved their energy efficiency and reduced the energy usage per tonne of paper produced by 2%.

Our two largest paper mills, at Kemsley in the UK and Kaysersberg in France, which account for approximately 65% of the Group's energy usage, have on-site CHP plants.

Severnside Recycling works with DS Smith Packaging to help businesses reduce the amount of waste they send to landfill.

Corporate Responsibility Review continued

Environmental Performance Indicators

	2007/08	2006/07
Energy consumption[1]		
Gigawatt hours	**3,046**	3,106
Megawatt hours/£'000 revenue	**1.55**	1.76
Carbon dioxide (CO_2) emissions[2]		
Scope 1 (direct) emissions – '000 tonnes	**315**	336
Scope 2 (indirect) emissions – '000 tonnes	**481**	474
Total Scopes 1 and 2 emissions – '000 tonnes	**796**	810
Kilograms/£'000 revenue	**405**	459
Water usage		
Million cubic metres	**9.2**	9.5
'000 cubic metres/£'000 revenue	**4.7**	5.4
Waste management		
Total waste generated		
'000 tonnes	**348**	394
Kilograms/£'000 revenue	**177**	223
Waste sent to landfill		
'000 tonnes	**59**	62
Kilograms/£'000 revenue	**30**	35
Waste recycled[3]		
'000 tonnes	**289**	332
Kilograms/£'000 revenue	**147**	188
% of total waste recycled	**83%**	84%

Methodology: The Group is working towards collecting and reporting 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 relate to all of the Group's wholly owned or majority-owned operations. Data on other aspects of the Group's environmental performance are provided on the Group's website.

1 Energy figures relate to usage of all fuels, including diesel for freight transport.
2 CO_2 emissions have been calculated from the usage of all fuels, including for freight transport. 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 2007/08 Scope 1 emissions included 18,000 tonnes (2006/07: 18,000 tonnes) of CO_2 which were associated with the production of electricity which was sold to the grid from one of our CHP plants.
3 Waste figures relate to waste generated by our operations; waste recycled includes recycling through agricultural use as landspread and energy recovery at our waste-to-energy plant.

These CHP facilities provide energy more efficiently, with lower carbon dioxide (CO_2) emissions and at significantly lower cost than if it were to be sourced from the external grid. In addition, Kemsley Mill recycles, in the form of energy recovery, a substantial proportion of the reject material, such as plastic and polystyrene, which enters its process mixed in with the waste paper and is separated out during paper manufacture; the mill's own waste-to-energy plant efficiently recovers the energy to produce steam for use in the mill's operations. We continue to investigate the potential for using alternative energy sources, including refuse-derived fuel, particularly for our paper manufacturing operations.

DS Smith Packaging became the first UK corrugated packaging producer to be accredited under the UK's Energy Efficiency Accreditation Scheme, in recognition of its energy efficiency, approach to energy management and achievements in reducing energy consumption; the scheme is independently assessed by the Energy Institute on behalf of The Carbon Trust.

The Group's lower energy usage in 2007/08 resulted in a 2% reduction in total emissions of CO_2. There was a small change in the balance between direct (Scope 1) and indirect (Scope 2) CO_2 emissions due to a variation in the mix of energy sources used. The Group's total water usage was 3% lower than in 2006/07. We reduced the total amount of waste generated by our businesses by 12% and the quantity of waste sent to landfill by 5%. As a result of the reduction in the total waste being principally due to the elimination of types of waste that had previously been recycled, the proportion of our waste that was recycled fell by one percentage point to 83%.

Employees

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

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

The annual turnover rate in the Group's workforce worldwide of 9% (2006/07: 11%) compares favourably with the UK national average of 18.1%[4]. Recruitment and retention of employees is not a significant issue for most of the Group's operations but the situation varies depending upon the alternative employment opportunities in any particular location and the skills required. In common with many other employers, a number of our businesses experience difficulty in recruiting high-calibre engineers and engineering managers; we have started addressing this through the increased provision of apprenticeships and graduate sponsorships. A number of sponsored engineering and information technology students are now working within the Group.

Our divisions and businesses communicate with, and consult, their people through newsletters, intranets, briefing meetings, local works councils, national employee forums and a European Works Council. Employee surveys have been carried out in certain parts of the Group. Generally the results of these have been positive; where particular issues have been highlighted action has been taken to address these.

Regrettably, following a detailed strategic review of our European liquid packaging and dispensing operation, we proposed, during 2007, the closure of our Düren factory in Germany. Following consultation with the employees and their representatives it has been agreed that the Düren site will close in April 2009 and its operations will be transferred to other Group sites in Germany and the UK. In accordance with our usual approach to such situations, we are endeavouring to minimise the number of compulsory redundancies and are offering employees the opportunity to transfer to the other Group sites. In the case of those employees who decide not to transfer we are making every effort to assist them in finding alternative positions with other employers, including offering training and support.

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

Community Involvement

We seek to develop and maintain good relations in the local communities in which we operate. As well as providing significant employment opportunities, we aim to make positive contributions to these communities and build a reputation as a good neighbour and employer. Our businesses work closely with local schools and colleges providing training, mentoring, work experience placements and other opportunities for pupils to learn about industry and business. The Group is involved in a wide range of other local community activities including sponsorship of community projects or sports teams and provision of adult skills training. Our businesses participate in liaison groups with local residents, particularly at locations where there is a need to review ways in which we can reduce any inconvenience to neighbours from our operations as a result of traffic movements, odour or noise. Some sites hold open days to foster relationships with their local communities.

The Group supports charitable fund-raising activities through cash contributions and in the form of products and services or staff time. The majority of the modest amount of money donated by the Group is given by individual operating units, principally to good causes in their local communities. Donations by the Group headquarters are principally focused on helping young disadvantaged people become involved in business and working life.

4 Source: Chartered Institute of Personnel and Development

Directors and Company Secretary

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1 Peter Johnson[+]
Chairman
Appointed to the Board on 8 December 1999 as a Non-Executive Director. He became Chairman of the Board on 1 January 2007 and is Chairman of the Nomination Committee. He is a Member of the Supervisory Board of Wienerberger AG. He was previously Chief Executive of George Wimpey Plc and prior to that Chief Executive of The Rugby Group PLC. Age 60.

2 Tony Thorne[§+]
Group Chief Executive
Appointed to the Board on 1 January 2001 as Chief Operating Officer and became Group Chief Executive on 5 December 2001. He was previously President of SCA Packaging's Corrugated Business Division and prior to that held senior management positions in Shell. Age 57.

3 Steve Dryden[§]
Group Finance Director
Appointed to the Board on 1 April 2008 as Group Finance Director. 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 40.

4 George Adams[†#]
Appointed to the Board on 29 January 2008 as a Non-Executive Director. Until March 2008, he was Managing Director, European Development and Chief Executive Officer, UK Trade at Kingfisher Plc. Previously he held senior management positions at B&Q UK, FW Woolworth Plc, Makro UK and Management Horizons Europe Management Consultancy. He is a Non-Executive Director of the specialist economics consultancy, Frontier Economics, and of Hornbach Holding AG. Age 51.

5 Bob Beeston[†+*#]
Appointed to the Board on 5 December 2000 as a Non-Executive Director. He is Chairman of the Remuneration Committee and is the Senior Independent Director. He is also Chairman of Cookson Group plc and Elementis plc and was previously Chief Executive of FKI plc. Age 66.

6 Christopher Bunker[†*#]
Appointed to the Board on 9 December 2003 as a Non-Executive Director and is 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 61.

7 Richard Marton[†+*#]
Appointed to the Board on 13 March 2000 as a Non-Executive Director. He was previously Chief Executive and then a Non-Executive Director of Britax International plc. Age 67.

8 Philippe Mellier[†*]
Appointed to the Board on 7 September 2006 as a Non-Executive Director. He is currently President of Alstom Transport and an Executive Vice-President of Alstom Group. Previously, he was Chairman and CEO of Renault Trucks and a Member of the Executive Committee of AB Volvo, and prior to that held senior management positions with Renault S.A. and Ford Motor Company. Age 52.

9 Carolyn Cattermole
Appointed Company Secretary on 20 November 2000. She was previously Company Secretary of Courtaulds Textiles plc and prior to that was a senior legal adviser with Courtaulds plc, having qualified as a solicitor with Norton Rose. Age 47.

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

Corporate Governance

The Company is committed to the principle and application of sound corporate governance.

The Company has complied throughout the financial year with all the provisions of the Code of Best Practice set out in Section 1 of the FRC Combined Code on Corporate Governance issued in June 2006. The Board has an ongoing review of its corporate governance policy. Further explanation of how the principles and supporting principles have been applied is set out below and in the Directors' Remuneration Report. The Company's Auditors have reviewed the compliance with those provisions of the Combined Code specified for their review.

Board and Board Committees

The role of the Board

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

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

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

The Board currently comprises the Chairman, two Executive and five Non-Executive Directors. The offices of Chairman and Group Chief Executive are held separately. Mr R G Beeston is the Senior Independent Director. During the year each of the Non-Executive Directors has at all times acted independently of management and has no relationships which would materially interfere with the exercise of their independent judgement and decision making.

The Board meets a minimum of eight times per year. During the year under review it met eight times. All Board members attend all Board and relevant Committee meetings unless exceptional circumstances prevent them from attending. During the year Mr R E C Marton did not attend the Audit Committee meeting held in June 2007 and the Nomination Committee meeting held in March 2008 and Mr P J-C Mellier did not attend the additional Remuneration Committee meeting held in April 2008. There were no other absences from any Board or Committee meetings by any Director. In addition to formal Board meetings, the Chairman and Group Chief Executive maintain regular contact with all Directors and hold informal meetings with Non-Executive Directors to discuss issues affecting the Company. Once a year the Board visits a business unit and receives a presentation from local management. Individual Directors are encouraged to make additional site visits during the year. The Board continually reviews the performance of all of the divisions and undertakes a strategic review on an annual basis. There is a formal schedule of matters reserved for consideration and approval for the Board. These include the annual Plan, substantial acquisitions and disposals, the approval of the annual and interim results and a review of the overall system of internal control and risk management.

The Board and its Committees, as detailed below, receive timely information of a quality that enables them to carry out their roles effectively. All Directors have access to the advice and services of the Company Secretary. A procedure is in place for any Director to take independent professional advice in the furtherance of his duties at the Company's expense. No such advice was sought by any Director during the year. The Directors are provided with opportunities for training to ensure that they are kept up-to-date on relevant new legislation and changing commercial risks. On appointment, new Directors are given appropriate induction training, including site visits to major business units. During the year the Board carried out a comprehensive self-appraisal which was led by the Chairman and the Senior Independent Director. The Board concluded that the review process showed that the Board and its Committees operated effectively. The review resulted in a Board paper and an action plan aimed at further enhancing the effectiveness of the Board. The review comprised feedback from a questionnaire and individual discussions. The appraisal included the performance of Board Committees, although a separate and more detailed appraisal of the Audit Committee was also carried out during the year. All Directors and the Company Secretary participated in the exercise. The Board intends to use external support for the review process on a periodic basis to give a degree of independence to the process. The Non-Executive Directors meet separately at least once a year to appraise the Chairman's performance.

Board Committees

The principal Committees of the Board are the Audit, Remuneration and Nomination Committees. The Audit and Remuneration Committees comprise independent Non-Executive Directors. The Nomination Committee comprises a majority of independent Non-Executive Directors. All Board Committees have written terms of reference agreed by the Board. These are available on the Company's website. The Audit Committee is chaired by Mr C J Bunker, the Remuneration Committee is chaired by Mr Beeston and the Nomination Committee is chaired by Mr P M Johnson. The membership of each Committee and the experience of its members can be seen on page 39. The Board has used the criteria proposed by the National Association of Pension Funds for determining whether a Non-Executive Director is independent.

Audit Committee

In addition to the Committee members listed on page 39, the Chairman, the Group Chief Executive, the Group Finance Director, the Head of Operational Audit and the Group Financial Controller attended parts of each meeting by invitation. Mr G M B Adams became a member of the Committee with effect from his appointment to the Board. The Board is satisfied that Mr Bunker has both current and relevant financial experience.

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

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

The Committee receives and reviews regular reports from the external Auditors, the Head of Operational Audit and the Group Finance Director.

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

The Committee's policy on the supply of non-audit services by external auditors is as follows. The external Auditors are permitted to undertake some non-audit services, for example advisory services and due diligence activities associated with potential acquisitions and disposals and major changes in accounting regulations. Non-audit services and fees are reported to the Audit Committee twice a year. For guidance, annual non-audit fees payable to the external Auditors should not exceed 75% of the annual Group audit fee without prior formal approval of the Committee: during 2007/08, non-audit fees were less than 10% of the annual Group audit fee. Approval for permitted non-audit services is sought as required by this Group policy which specifies that individual projects which would cost over £100,000 must be referred to the Chairman of the Committee for prior approval.

During the year the Committee met on three occasions. Mr Marton was unable to attend the meeting held in June 2007, but otherwise there were no absences. On each of these occasions the Committee also met privately with both the external Auditors and the Head of Operational Audit. The Chairman of the Audit Committee also held separate private meetings during the year with the external Auditors, the Head of Operational Audit and the Group Finance Director.

In addition to its regular business, during the year the Committee dealt with the following particular matters:

- it considered progress on revisions to certain elements of the Group's internal controls procedures;
- it carried out an appraisal of the effectiveness of the Audit Committee, the external Auditors and Operational Audit, the results of which were reported to the Board. The Committee concluded that each area operated satisfactorily during the year; and
- it oversaw the continuing development and the operation of the Group's Workplace Malpractice Policy.

Nomination Committee

The Nomination Committee considers the appointment of Directors, reviews succession planning at Board level and makes recommendations to the Board as a whole. A rigorous process is in place for the appointment of new Directors, involving the use of external recruitment consultants, where appropriate, followed by meetings both with the Committee and then with the Board. The Committee met three times during the year. Mr Marton did not attend the meeting in March 2008, but otherwise there were no absences.

Remuneration Committee

The Chairman and the Group Chief Executive attend these meetings by invitation, except when their remuneration is being discussed. The Remuneration Committee is responsible for determining the remuneration of the Executive Directors, the Chairman and the Company Secretary and for advising on the remuneration of senior management. The Remuneration Report is set out on pages 43 to 50. During the year the Committee met six times. Mr Mellier did not attend the additional meeting to the normal timetable in April 2008, but otherwise there were no absences.

Other Board Committees

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

Relations with Shareholders

The Company has a programme of regular meetings (which sometimes includes the Chairman and the Senior Independent Director), site visits and results briefings with its major institutional shareholders, which provides opportunities to discuss the progress of the business. The Board also receives feedback from major shareholders in the form of independently prepared reports. The Annual General Meeting is used as an opportunity to communicate with private shareholders, including a short presentation on the business and current trading position as well as an opportunity for questions from investors to the Chairman of the Board and the chairmen of the Audit and Remuneration Committees. Regular communication with shareholders also takes place through the annual and interim reports and via the Company's website www.dssmith.uk.com.

Internal Control

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

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

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

Corporate Governance continued

The Group's Operational Audit function undertakes regular reviews of the Group's operations and their systems of internal financial control. The work of the function is overseen by the Audit Committee, which regularly reviews its plans and activities. The Directors can confirm that they have reviewed the effectiveness of the Group's system of internal control. This included a process of self-certification by senior divisional management in which they are asked to confirm that their divisions have complied with Group policies and procedures and to report any significant control weaknesses identified during the past year. It also involved reviewing the results of the work of the Group's Operational Audit function and the risk identification and management processes identified above.

Going Concern

The Directors are required under the Combined Code to have satisfied themselves as to the Group's ability to continue in existence for the foreseeable future. A review has been carried out and the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements on pages 56 to 104.

Remuneration Report

In accordance with the Directors' Remuneration Report Regulations 2002, shareholders' approval of the Remuneration Report will be sought at the forthcoming Annual General Meeting ('AGM'). The Remuneration Report has been approved by the Board of Directors.

(a) Composition and role of the Remuneration Committee ('the Committee')

The Committee consists entirely of independent Non-Executive Directors. The members of the Committee are Mr R G Beeston (Chairman), Mr C J Bunker, Mr R E C Marton and Mr P J-C Mellier. The members of the Committee have no personal financial interest, other than as shareholders of the Company, in the matters to be decided by the Committee, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in running the business.

The Committee operates under written terms of reference agreed by the Board and is responsible for determining the remuneration of Executive Directors, the Chairman and the Company Secretary. It also considers the remuneration of senior executives reporting to the Group Chief Executive (taking into account recommendations from him) and the incentives of senior executives.

(b) Compliance

The Board, in conjunction with the Committee, has taken the necessary steps to ensure that the Company complies with the provisions of the Combined Code (the 'Code'), which relate to Directors' remuneration. Certain disclosures in this Report fall within the scope of matters for review by the Auditors.

(c) Advisers to the Committee

Hewitt New Bridge Street has been appointed by the Committee to provide advice on the remuneration of Executive Directors and other senior executives. Hewitt New Bridge Street also provides advice to the Company in connection with the operation of the Company's share schemes. The Committee consults with the Chairman of the Company and with the Group Chief Executive, who may attend a meeting of the Committee on matters which do not directly affect them, although they are not involved in deciding their own remuneration. The Committee is assisted by the Company Secretary and the Group Human Resources Director, and also receives advice from Mercer Limited, the Actuary to the Company's pension scheme, in relation to Executive Directors' pensions.

(d) General policy on remuneration

The Committee's overall policy is to ensure that the remuneration packages enable the Company to attract, retain and motivate Executive Directors and other senior managers of sufficient calibre to meet the Company's needs. In addition, the remuneration packages are designed to align the interests of executives and shareholders and to link a significant proportion of executives' remuneration to performance. To achieve this, the Company operates cash and share incentive schemes which are linked to the achievement of short-term and long-term performance targets. During the year the Committee undertook a review of the incentive arrangements in place and at the AGM shareholders are being asked to approve the replacement of the existing Executive Share Option Scheme ('ESOS') and Long-Term Incentive Plan ('LTIP') with a new Performance Share Plan. Further details are contained in section (g) of this Report and in the Notice of AGM accompanying this Report.

Assuming the Committee's proposals are approved by shareholders, variable performance-related remuneration for Executive Directors will account for approximately 58% of total target remuneration (excluding pensions). The remuneration package is described more fully in the remainder of this Report, but the main elements in 2008/09, assuming shareholder approval for the new Performance Share Plan is obtained, will be as follows:

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

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

(e) Basic salaries

The basic salaries of Executive Directors are reviewed annually on 1 August, in conjunction with other aspects of remuneration. The basic salary for each Executive Director is targeted at the rates of salary for similar roles within a selected group of UK businesses of similar size with substantial overseas operations. When determining the level of salary, the Committee takes into account market salary levels, the relative performance of the Group and of the individual Director, together with his experience in the particular job. The Committee also considers relevant information on the remuneration of other senior executives and the pay of employees elsewhere in the Group and, where appropriate, communicates its views on the levels of such remuneration to the Group Chief Executive. During its deliberations, the Committee has regard to salary levels in other countries where this is relevant for any non-UK based senior executive. The table of emoluments of the Directors is given on page 46. The current basic salaries of Mr A D Thorne and Mr S W Dryden are £530,000 and £330,000 respectively.

(f) Annual bonus

The Executive Directors participate in an annual bonus scheme which has been approved by the Committee. For the financial year 2007/08, the maximum bonus payable was 100% of basic salary for Mr Thorne and 75% of basic salary for Mr G M Morris. Under the scheme the first 25% of salary worth of bonus is payable in cash, with the excess split equally between cash and deferred shares. The deferred shares vest three years after they are awarded and are held pursuant to the Deferred Share Bonus Plan. At that point, the Director receives the shares and a payment equal to the value of dividends payable on the vested shares during the deferral period.

If the Director ceases employment with the Group during the deferral period, he will lose his right to the shares unless he is a defined 'good leaver' or the Committee considers that vesting is appropriate in the circumstances. The shares will vest in the event of a change of control or voluntary winding-up.

The amount of annual bonus payable to Mr Thorne and Mr Morris for the financial year 2007/08 was one-third based on profit before tax, one-third on return on capital employed and one-third on three strategic targets determined by the Committee. The outcome of the results for the financial year 2007/08 and the achievement of strategic targets as judged by the Committee means that Mr Thorne earned a bonus of 91.6% of salary (£485,480) and Mr Morris earned a bonus of 75% of salary (£225,000). Full bonus was achieved for the profit before tax and return on capital employed targets and this required the Executive Directors to exceed the top end of the range of the financial targets. No deferral is being operated in respect of Mr Morris' 2007/08 bonus.

Mr Dryden's bonus arrangements for 2007/08 were for maximum potential bonus of 100% of annual salary pro-rated to his start date of 1 April 2008. His targets were split equally between profit before tax and return on capital employed. Mr Dryden earned a bonus of 8.3% of salary (£27,500).

For 2008/09 the maximum bonus potential for the Executive Directors will be 100% of salary. The Committee decided to simplify the bonus for

Remuneration Report continued

2008/09 so that delivery of 50% of bonus will be dependent on achieving profit before tax targets with the remainder subject to return on capital employed targets. The requirement for share deferral will continue unchanged.

The annual bonus maximum for the other most senior executives for 2007/08 was generally 70% of basic salary and was based on an appropriate combination of Group profit before tax and personal performance for centre-based senior executives. In the case of senior divisional executives, their bonus schemes are based on divisional profit and cash flow relating to the operating performance of the division in which they are employed. For 2008/09, the bonus maximum will be unchanged.

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

(g) Share awards

As noted above, the Company currently operates an ESOS and an LTIP. The individual grant limit under each Plan is 100% of salary per annum. However, to ensure that the aggregate award levels are not excessive, in years when awards are made under both Plans, the maximum award under both the LTIP and ESOS does not exceed 75% of salary. Vesting of share options under the ESOS is dependent on achieving earnings per share ('EPS') growth of 3% per annum above the increase in the UK Retail Prices Index over a three-year period. Awards made under the LTIP are dependent on the Company's total shareholder return performance relative to the constituents of the FTSE 250 Index (excluding investment trusts) over a three-year period. In addition, no LTIP awards will vest unless EPS growth matches or exceeds inflation over the same three-year period. Full details are contained in sections (n) and (p) below.

Since the ESOS expires in September 2009, the Committee has considered the appropriate long-term incentive plans for the future, taking account of the specific circumstances of the Company, as well as market practice and the views of institutional shareholders. The Committee is fully aware that DS Smith is a cyclical business where profits are significantly affected by industry capacity, input costs and packaging prices. This means that profit performance is uneven as the Company moves through the cycle (and the share price, which reflects future expectations, does not tend to move in line with recorded profits). To take account of this, the Committee considers that the Company's performance should be measured in a variety of ways to ensure that a more comprehensive view is taken of the Company's performance. In addition, while recognising that performance will fluctuate through the cycle, the Committee believes that senior executives should be incentivised to minimise the reduction in financial performance through the low points of the cycle, so that the Company can emerge in a stronger position when there is an upturn. The Committee is also keen to ensure that the targets set under the new plan are directly relevant to senior executives, to ensure that they are appropriately incentivised to deliver excellent performance.

As a result of this review the Company is seeking shareholder approval at the forthcoming AGM for a new Performance Share Plan ('PSP') to replace the existing ESOS and LTIP. The intention is to make the first awards under the PSP shortly following the AGM. Accordingly, no awards under the existing Plans will be made in 2008.

The key reasons for not continuing with the ESOS are:

- the Committee considers that, with appropriate performance criteria, the correlation between management performance and reward is likely to be greater under a PSP than under an ESOS;
- options are particularly unsuitable in a cyclical industry, since the growth in share price and the improvement in financial performance may not happen concurrently, resulting in options failing to become exercisable despite good share price performance; and
- option schemes use more shares and are usually more costly than a PSP, which is based on the award of whole shares.

Full details of the new PSP are set out in the notes to the Notice of AGM on pages 108 to 109. However, the key features of the PSP will be as follows:

- annual grant of shares worth up to 150% of salary. In exceptional circumstances this may be increased to 200% of salary. It is intended that awards of 150% of salary will be made initially to Executive Directors and generally at lower levels for other senior executives;
- awards will vest on the third anniversary of grant subject to the satisfaction of performance conditions and remaining in employment;
- for initial awards to be made shortly after the AGM, the Committee wishes to have three separate measures of performance each weighted equally. In each case performance will be measured over the three financial years starting on 1 May 2008;
- for senior executives with Group-related roles, including the Executive Directors, the three measures will be total shareholder return ('TSR') relative to the constituents of the Industrial Goods and Services Supersector within the FTSE 250, average adjusted EPS and average adjusted return on average capital employed ('ROACE'). The Committee considers that the use of TSR, EPS and ROACE will provide a comprehensive set of measures, which will incentivise management to focus on profits and the control of capital employed which, in turn, should flow through into the Company's TSR. Vesting of the awards will be as follows:

Percentage vesting as a proportion of that element of the award	Relative TSR	Average adjusted EPS*	Average adjusted ROACE**
100%	Upper quartile	19.0p	12.5%
Between 25% and 100%	Between median and upper quartile	Between 16.5p and 19.0p	Between 11.5% and 12.5%
25%	Median	16.5p	11.5%

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

** Adjusted Group operating profit divided by the monthly average of capital employed in the year.

- for those senior executives working in one of the four Business Segments the Committee considers that the performance conditions should reflect the relevant segment's performance. Therefore, for these senior executives the three measures will be TSR, average adjusted operating profit for the relevant segment and average adjusted ROACE for the relevant segment. The results for each segment are reported in the Annual Report.

The Industrial Goods and Services Supersector within the FTSE 250 currently contains over 60 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.

The EPS related part of each award will be based on the average adjusted EPS for the forthcoming three financial years, commencing with the financial year starting immediately prior to the award date; i.e. for awards made in 2008 this would be for the years 2008/09, 2009/10 and 2010/11. The Committee prefers to average the EPS result for the three years to ensure that all years count towards the result and to avoid undue emphasis on a result in any one year.

The Committee considers that the EPS and ROACE targets are challenging in the context of the outlook over the next three years and are significantly ahead of the results achieved at a similar stage of previous cycles.

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

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

The interests of the Directors in the share capital of the Company and details of options granted to date under the existing ESOS and awards made under the existing LTIP, Deferred Share Bonus Plan and Replacement Deferred Share Bonus Plan are shown on pages 47, 48 and 49 respectively.

(h) Benefits in kind

Mr Thorne has the provision of a company car, a driver and free fuel. Mr Dryden has the provision of a company car and free fuel. Mr Thorne and Mr Dryden both receive unapproved life cover, permanent health insurance and private medical cover. Mr Morris received a car allowance, unapproved life cover, permanent health insurance and private medical cover. Mr Marton received £365 in excess of the statutory HMRC authorised mileage allowance payment.

(i) Pensions

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

Mr Thorne's benefits from the Registered Group Pension Scheme are subject to a Scheme specific earnings cap (the 'Cap') (which was introduced on 6 April 2006 when the Government's simplification regulations came in and replaced the statutory earnings cap that had previously applied). The Company has given a promise to provide the balance of Mr Thorne's pension entitlement through a non-Registered unfunded arrangement. A charge over certain assets of the Company has been made as security against future pension payments pursuant to this pension arrangement on behalf of Mr Thorne. Advice was taken from the Pensions Department of KPMG LLP on this matter. The total accumulated unfunded provision at 30 April 2008 is £5.9 million (2006/07: £5.0 million), £2.0 million of which relates to Mr Thorne.

Life cover of four times the Cap is provided under the Registered Group Pension Scheme on death in service in addition to a spouse's pension of two-thirds of the member's prospective pension plus dependants' benefits. Additional life cover of four times the excess of the Cap over basic salary is provided. The spouse's pension on death after retirement is two-thirds of the member's pension, before any reduction for early retirement or commutation of pension for cash.

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

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

Following the introduction of the UK Government's simplification regulations with effect from 6 April 2006 under the Finance Act 2004, the Principal Employer has agreed with the Trustee the changes to the Registered Group Pension Scheme rules in response to the legislation. In particular, a Scheme specific earnings cap has been retained. Prior to the change in legislation, members of the Registered Group Pension Scheme had the option of paying Additional Voluntary Contributions (AVCs). Neither the contributions nor the resulting benefits are included in the table on page 50. As there is no longer a requirement for pension schemes to provide an AVC facility, the Scheme closed this facility to new AVC contributors on or after 1 June 2006. New AVCs can be facilitated via the Group's Saver Plus arrangement.

Mr Morris was a contributing member of the Registered Group Pension Scheme until his date of leaving. His deferred pension entitlement is shown in the table on page 50.

Mr Dryden has participated from 1 May 2008 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 initially 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 as salary for the purpose of calculating any bonus payment.

(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 on appointment it may be necessary in exceptional cases to offer a longer initial period which reduces to one year or less after a specific date.

The service contract for Mr Thorne is dated 28 February 2001. It may be terminated by 12 months' notice by the Company, and by Mr Thorne. The Company may terminate the contract with immediate effect, in which case it must make a payment equating to 12 months' basic salary, plus an equal payment in respect of the loss of his contractual benefits.

The service contract for Mr Dryden is dated 1 April 2008. It may be terminated by 12 months' notice by the Company, and by Mr Dryden. The Company may terminate the contract with immediate effect by making a payment equal to 12 months' basic salary. Alternatively, the Company may make such payment in monthly instalments. These monthly payments will be reduced to take account of alternative employment or consultancy income during the 12 month period.

The service contract for Mr Morris was dated 5 November 2002. His employment terminated on 30 April 2008. The terms of Mr Morris' contract were the same as those for Mr Thorne as described above.

(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. Currently no Executive Director has an external appointment.

(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 for no more than three terms in aggregate. Their respective dates of appointment are shown on page 39.

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.

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, share option or other incentive arrangements.

Remuneration Report continued

(m) Directors' emoluments (auditable)

	Salary/ fees £'000	Annual bonus £'000	Deferred bonus £'000	Benefits £'000	Pension supplement £'000	**2008 total £'000**	2007 total £'000	Pension contributions 2008 £'000	Pension contributions 2007 £'000
Chairman									
P M Johnson	157	–	–	23	–	**180**	82	–	–
Group Chief Executive									
A D Thorne	522	309	176	16	–	**1,023**	964	17	16
Group Finance Director									
S W Dryden*	28	28	–	1	5	**62**	–	–	–
Non-Executives									
G M B Adams**	11	–	–	–	–	**11**	–	–	–
R G Beeston	52	–	–	–	–	**52**	50	–	–
C J Bunker	50	–	–	–	–	**50**	49	–	–
R E C Marton	42	–	–	–	–	**42**	40	–	–
P J-C Mellier	46	–	–	–	–	**46**	29	–	–
	908	337	176	40	5	**1,466**	1,214	17	16

* appointed 1 April 2008
** appointed 29 January 2008

Past Directors	Salary/ fees £'000	Annual bonus £'000	Deferred bonus £'000	Benefits £'000	Pension supplement £'000	Compensation for loss of office £'000	**2008 total £'000**	2007 total £'000	Pension contributions 2008 £'000	Pension contributions 2007 £'000
G M Morris*	296	225	Nil	16	51	760	**1,348**	536	10	10
D R Piette**	7	–	–	–	–	–	**7**	45	–	–
Total	303	225	–	16	51	760	**1,355**	581	10	10

* resigned as a Director on 1 April 2008 and ceased employment on 30 April 2008 – salary and benefits above include payments to 30 April 2008
** resigned as a Director on 30 May 2007

The amount earned under the Deferred Share Bonus Plan for Mr Thorne has been included in the table above as it was awarded in respect of the results for the financial year 2007/08. Shares in DS Smith Plc to the value of the deferred bonus will be purchased in July 2008 and held in the Deferred Share Bonus Plan. The shares are transferred to participants on the third anniversary of the award, but lapse on termination of employment. Mr Morris' bonus for the financial year ended 2007/08 will be paid entirely in cash.

The total emoluments of Mr Thorne excluding the deferred bonus were £847,000 (2006/07: £798,000). Mr Dryden received an additional non-pensionable pension supplement payment during the year.

Mr Morris stepped down from the Board on 1 April 2008 and his employment with the Company terminated on 30 April 2008. The compensation for loss of office paid to Mr Morris represented a payment on termination in accordance with the terms of his contract of employment, compensation in settlement of his rights in respect of the financial year 2006/07 under the Deferred Share Bonus Plan, legal expenses and the costs of outplacement advice. Mr Morris was subject to the Scheme specific earnings cap and therefore as an employee of the Company he received an additional non-pensionable payment during the year.

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

Directors' interests in share options over ordinary shares are as follows:

Name of Director	Options held at 30 April 2007	Options granted during the year	Options exercised during the year	Options lapsed during the year	**Options held at 30 April 2008**	Exercise price (p)	Dates from which exercisable	Expiry date
A D Thorne	243,979	–	–	–	**243,979**	135.23	26 Jul 05	25 Jul 12
	241,245	–	–	–	**241,245**	149.22	31 Jul 06	30 Jul 13
	189,850	–	–	189,850	**–**	158.00	29 Jul 07	28 Jul 14
	207,500	–	–	–	**207,500**	159.00	2 Aug 08	1 Aug 15
	239,050	–	–	–	**239,050**	149.00	1 Aug 09	31 Jul 16
	–	155,600	–	–	**155,600**	240.00	31 Jul 10	30 Jul 17
Past Director								
G M Morris*	161,152	–	–	–	**161,152**	142.69	18 Dec 05	17 Dec 12
	154,129	–	–	–	**154,129**	149.22	31 Jul 06	30 Jul 13
	112,950	–	–	112,950	**–**	158.00	29 Jul 07	28 Jul 14
	116,950	–	–	–	**116,950**	159.00	2 Aug 08	1 Aug 15
	134,850	–	–	–	**134,850**	149.00	1 Aug 09	31 Jul 16
	–	88,100	–	–	**88,100**	240.00	31 Jul 10	30 Jul 17

* at 1 April 2008 being the date on which he ceased to be a Director

All of the above options were granted for nil consideration. The market price of the ordinary shares at 30 April 2008 was 130.5p and the range during the year was 128.5p to 255.25p. Aggregate gains made by Directors on exercise of share options in the year were £nil (2006/07: £nil). All options will be exercisable from the dates stated above, subject to them satisfying the performance target. For these share options to become exercisable the growth in the Company's normalised EPS must match or exceed the growth in the UK Retail Prices Index plus an average of 3% per annum. Share options granted in 2002 and 2003 can be retested, from a fixed base, until the sixth anniversary of grant. Options granted from 2004 onwards have no retest facility. During the transition to IFRS, the Committee ensures that a consistent basis is used to measure earnings per share performance. Based on EPS performance to 30 April 2008 the options granted in 2002, 2003 and 2005 have become exercisable.

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

As noted above, the performance condition attached to Mr Morris' share options granted in 2002, 2003 and 2005 was met over the performance period to 30 April 2008. Accordingly these options will be exercisable in full for a period of six months from 26 June 2008 (the day after which the auditors issue their report for the year ended 30 April 2008). Performance in relation to the options granted in 2006 and 2007 was tested for the period to 30 April 2008, the date on which he ceased employment. The performance condition attached to these options was met in full. Therefore, subject to a time pro rata reduction to reflect the unexpired portion of the performance period at cessation (one-third reduction for 2006 and two-thirds reduction for 2007), these options will be exercisable for six months from 26 June 2008.

(o) Directors' interests under the Restricted Share Plan (auditable)

The Restricted Share Plan ceased to be operated with effect from the financial year 2004/05. Details of the Directors' interests in the Plan are as follows:

Executive Directors	Interests under the Plan at 30 April 2007	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 exercise (p)	**Interests under the Plan at 30 April 2008**	Exercisable from	Expiry date
A D Thorne	43,610	–	43,610	2 Aug 04	159.0	241.3	**–**	2 Aug 07	1 Aug 11
Past Director									
G M Morris*	25,948	–	25,948	2 Aug 04	159.0	241.3	**–**	2 Aug 07	1 Aug 11

* at 1 April 2008 being the date on which he ceased to be a Director

The exercise price was £1 in total, the grant being given in relation to the deferred bonus for the year ended 30 April 2004 under the Restricted Share Plan.

Remuneration Report continued

(p) Directors' interests under the Long-Term Incentive Plan (auditable)

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

Executive Directors	Interests under the Plan at 30 April 2007	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 2008**	Vesting date if performance conditions met
A D Thorne	216,039	–	216,039	14 Sep 04	152.7	–	**–**	14 Sep 07
	210,191	–	–	28 Jul 05	157.0	–	**210,191**	28 Jul 08
	237,500	–	–	27 Jul 06	150.0	–	**237,500**	27 Jul 09
	–	156,768	–	26 Jul 07	238.2	–	**156,768**	26 Jul 10
Past Director								
G M Morris*	121,767	–	121,767	14 Sep 04	152.7	–	**–**	14 Sep 07
	118,471	–	–	28 Jul 05	157.0	–	**118,471**	28 Jul 08
	134,000	–	–	27 Jul 06	150.0	–	**134,000**	27 Jul 09
	–	88,772	–	26 Jul 07	238.2	–	**88,772**	26 Jul 10

* at 1 April 2008 being the date on which he ceased to be a Director

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

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

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

The performance period attached to Mr Morris' outstanding unvested LTIP awards ended on 30 April 2008. The performance conditions in respect of the 2005 and 2007 awards were not met. Accordingly these awards will lapse. The TSR performance condition in respect of the 2006 awards was partially satisfied and the EPS test was met. Therefore 42.7% of this award may vest, subject to a time pro-rata reduction to reflect the unexpired portion of the performance period at the date of cessation. Accordingly, 38,336 shares will be released after 26 June 2008 (representing 67% of the shares vesting after applying the performance condition), with the remainder of the award lapsing.

(q) 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 2007	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 2008**	Vesting date if performance conditions met
A D Thorne	–	69,473	–	26 Jul 07	238.7	–	**69,473**	26 Jul 10
Past Director								
G M Morris*	–	25,281	–	26 Jul 07	238.7	–	**25,281**	26 Jul 10

* at 1 April 2008 being the date on which he ceased to be a Director

Mr Morris stepped down from the Board on 1 April 2008 and his employment terminated on 30 April 2008. His interest under the Plan as disclosed above lapsed on 30 April 2008.

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

Executive Director	Interests under the Plan at 30 April 2007	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 2008**	Vesting date if performance conditions met
S W Dryden	–	30,226	–	1 Apr 08	156.5	–	**30,226**	1 Mar 09
	–	38,504	–	1 Apr 08	156.5	–	**38,504**	1 Mar 10
	–	74,674	–	1 Apr 08	156.5	–	**74,674**	1 Mar 11

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

In normal circumstances, these shares will vest in three tranches, as shown in the table above, subject only to Mr Dryden's continued employment with the Company. These dates correspond to the dates when Mr Dryden's arrangements in his previous employment would have vested. In the event of Mr Dryden being under notice of termination of his employment or, if earlier, actual cessation of his employment (other than in the event of death), any unvested shares shall lapse immediately unless the Committee determines otherwise. In the event of death, any unvested shares will vest immediately. In the event of a change of control any unvested shares will vest.

The number of shares subject to the award may be adjusted in the event of any variation of share capital or demerger, special dividend or other similar event. Except for minor amendments to benefit the administration of this award, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment, no alteration can be made to his advantage without the prior approval of shareholders in general meeting.

(s) Directors' interests in shares

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

	30 April 2007*		**30 April 2008**	
Name of Director	Beneficial	Non-beneficial	**Beneficial**	**Non-beneficial**
P M Johnson	230,000	–	**230,000**	**–**
A D Thorne	251,169	–	**301,862**	**–**
S W Dryden	–	–	**–**	**–**
G M B Adams	–	–	**2,000**	**–**
R G Beeston	30,000	–	**50,000**	**–**
C J Bunker	10,000	–	**10,000**	**–**
R E C Marton	100,000	–	**100,000**	**–**
P J-C Mellier	10,000	–	**10,000**	**–**

* 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 Long-Term Incentive Plan, the Deferred Share Bonus Plan, the Replacement Deferred Share Bonus Plan and the proposed Performance Share Plan will be provided by the David S Smith Group General Employee Benefit Trust (the 'Trust'), which buys shares on the market to do so. The Trust will also be used to fulfil certain entitlements under the Executive Share Option Scheme (along with new issue shares for other entitlements).

Remuneration Report continued

(t) Directors' pension entitlements (auditable)

The following Executive Directors were members of the defined benefit scheme provided by the Group during the year, with death in service cover. Pensions entitlements and corresponding transfer values increased as follows:

Name of Director	Employee contributions paid during the period £	Gross increase in accrued pension (1) £	Increase in accrued pension net of inflation (2) £	Total accrued pension at 30 April 2008 (3) £	Transfer value of net increase in accrual over period (net of Director's contribution) (4) £	Transfer value of accrued pension at 30 April 2008 (5) £	Transfer value of accrued pension at 30 April 2007 (6) £	Total change in value during period (net of Director's contribution) (7) £
A D Thorne	16,980	22,673	18,814	121,618	339,084	2,301,681	1,650,425	634,276
Past Director								
G M Morris*	10,188	4,198	3,568	20,363	49,760	341,359	234,119	97,052

* resigned as a Director on 1 April 2008 and ceased employment on 30 April 2008

Pension accruals shown are the amounts which would be paid annually on retirement, based on service to the end of the year. Transfer values have been calculated in accordance with version 9.2 of guidance note GN11 issued by the actuarial profession. The value of net increase (4) represents the incremental value to the Director of his service during the year, calculated on the assumption that service terminated at the year-end. It is based on the accrued pension increase (2) after deducting the Director's contribution. The change in transfer value (7) includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and Directors, such as stock market movements. It is calculated after deducting the Director's contribution.

(u) Total shareholder return performance

The following graph illustrates the Company's total shareholder return performance since 1 May 2003, 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 2008, of £100 invested in Smith (DS) over the last five financial years compared with that of £100 invested in the FTSE Mid 250 Index. The other points plotted are the values at intervening financial year-ends.

On behalf of the Board

Bob Beeston
Chairman of the Remuneration Committee
25 June 2008

Directors' Report

The Directors submit their Annual Report and the audited financial statements for the financial year ended 30 April 2008. The Directors' statement as to disclosure of information to auditors, as required by Section 234ZA of the Companies Act 1985, is on page 53.

Principal Activities and Business Review

The Company acts as the holding company of a group, which, during 2007/08, was engaged in the supply of corrugated and plastic packaging and of paper, from recycled waste, and the wholesaling of office products. A full review of the activities during the financial year ended 30 April 2008 is set out on pages 1 to 37. The principal risks and uncertainties facing the Group are discussed on pages 31 to 32. A discussion of future developments and key performance indicators that management use is set out in the Business Review on page 8. The principal subsidiary undertakings are listed in note 32 on page 98.

The information that fulfils the requirements of the Business Review can be found in the Business Review on pages 1 to 37, which are incorporated in this report by reference.

Cautionary Statement

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

Results for the Year

The financial results are shown on pages 56 to 104.

Dividends

An interim dividend of 2.6p net per ordinary share was paid on 4 March 2008 and the Directors recommend a final dividend of 6.2p net per ordinary share, making a total dividend to be paid for the year of 8.8p (2006/07: 8.6p) net per ordinary share. Subject to approval of shareholders at the Annual General Meeting to be held on 3 September 2008, the final dividend will be paid on 16 September 2008 to shareholders on the register at the close of business on 15 August 2008. The dividends per ordinary share stated above are those actually paid or to be paid. Historical dividends per share have been restated for the bonus element inherent in the 26 March 2004 rights issue in the Five-Year Financial Summary on page 105.

Share Capital

Details of the authorised and issued share capital and the rights and restrictions attached to the shares, together with details of movements in the Company's issued share capital during the year are shown in note 23. Pursuant to the Company's employee share option schemes, 153,761 ordinary shares of 10p each were issued during the year. No shares pursuant to the Company's employee share option schemes were issued between 30 April 2008 and 25 June 2008 inclusive. The Company has not utilised its authority to make market purchases of shares granted to it at the 2007 Annual General Meeting but will be seeking to renew such authority at this year's Meeting.

Substantial Shareholders

At 25 June 2008, the Company has been informed of the following notifiable interests in its issued ordinary share capital in accordance with the Disclosure and Transparency Rules of the Financial Services Authority:

	Ordinary shares held	%
Schroder Investment Management Ltd	51,189,073	13.01%
AXA S.A.	42,129,393	10.71%
Sparinvest Holdings A/S	19,992,238	5.08%
Barclays PLC	11,917,304	3.03%

Acquisitions and Disposals

On 29 February 2008, the Group acquired M-real New Thames Limited which owns a paper mill in Kent. On this date and as part of the same acquisition the Group acquired the balance of the shares in Grovehurst Energy Limited not already owned by the Group. Grovehurst provides energy and other services to the entire Kemsley site on which the New Thames Mill operates. The joint venture in Grovehurst Energy Limited was entered into in 1988 in connection with the Group's acquisition of the Kemsley Mill, which is adjacent to New Thames Mill. The Group paid £71.1 million (being £67.4 million in relation to New Thames and £3.7 million in relation to Grovehurst Energy).

On 4 March 2008 the Group acquired Multigraphics Holdings Limited, a print and retail display business in the UK, for £6.7 million.

£11.9 million was incurred as the settlement of put options held by minority, non-controlling shareholders in the Group's subsidiary in Italy, Toscana Ondulati SpA.

Research and Development

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

Directors

The biographies of the present Directors are on page 39. All the Directors served throughout the year except as follows. Mr D R Piette retired from the Board on 30 May 2007. Mr G M B Adams was appointed as a Non-Executive Director on 29 January 2008. Mr G M Morris retired from the Board on 1 April 2008 and Mr S W Dryden was appointed to the Board as Group Finance Director on the same date. 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 Companies Act 1985 (as amended by the Companies Act 2006) the Directors disclose that the rules regarding the appointment and replacement of Directors are contained in the Company's Articles of Association, 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

Directors' Report continued

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 of Association require that all Directors who have either been appointed by the Board since the last Annual General Meeting, or who, at the start of business on the date which is 30 clear days prior to the date of the notice convening the Annual General Meeting, have held office for more than 30 months since they were appointed or last re-appointed by the Company in general meeting, retire from office but they are eligible to submit themselves for re-election by the shareholders. The only Directors in this position are Mr Adams and Mr Dryden, who have been appointed to the Board since the last Annual General Meeting and, being eligible, offer themselves for election. Following formal performance evaluation, the individual performance of the Directors offering themselves for 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 10p each of the Company, including options granted but not yet exercised under the Executive Share Option Scheme, Restricted Share Plan, Long-Term Incentive Plan, Deferred Share Bonus Plan and Replacement Deferred Share Bonus Plan, were as shown in the tables on pages 47 to 49.

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 Acts 1985 and 2006.

Employee Involvement and Communications

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

Equal Opportunities

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

Pension Fund

The Group had, in the year under review, four UK pension arrangements: one defined benefit scheme (which is closed to new employees), one defined contribution scheme, one Group personal pension plan and a statutory Stakeholder arrangement. The defined contribution scheme was introduced for UK employees joining the Group on or after 1 May 2005.

The investments of the assets of the defined benefit scheme are managed on a discretionary basis by AllianceBernstein Institutional Investment Management Limited, Majedie Asset Management Limited, Pacific Investment Management Company and Barclays Global Investors Limited. The defined contribution scheme is a trust-based arrangement offering members a range of investments with AXA Sun Life plc and other external investment fund managers as selected by the Scheme's trustees. The Group personal pension plan is a contract-based arrangement offering members a range of investments with Norwich Union Life and other external investment fund managers, and the Stakeholder arrangement is provided through Investment Solutions Limited. All such assets are held independently from the Group. The trustees of the defined benefit scheme and the defined contribution scheme send an Annual Report to all members of the respective schemes. The Trustee Company of the defined benefit scheme has an Investment Sub-Committee, established in line with the recommended guidelines of the Myners Report. Peter Murray of Allenbridge Investment Consultants is appointed as an independent adviser to the Investment Sub-Committee of the DS Smith Group Pension Scheme.

Health and Safety

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

Significant Agreements

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

The significant agreements are as set out in note 19. On 3 March 2005, the Company, St Regis Paper Company Limited and BPB United Kingdom Limited (now part of the Saint-Gobain Group) ('Saint-Gobain') entered into a supply agreement for the manufacture and supply of plasterboard liner paper to Saint-Gobain. Saint-Gobain may terminate the agreement if there is a change of control in the Company.

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

Payment to Suppliers

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

Charitable and Political Donations
The Group contributed £72,000 (2006/07: £71,000) to charities in the UK. No payments were made to political parties. Donations were made by operating divisions to support their local communities. The Group also supported a number of other charities across a range of causes.

Annual General Meeting
The notice of the Annual General Meeting of the Company to be held on 3 September 2008, together with explanations of the Resolutions to be proposed, appears at the back of this Annual Report.

Auditors
Each Director confirms that:

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

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

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

By Order of the Board

Carolyn Cattermole
Company Secretary
25 June 2008

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements
The Directors are responsible for preparing the Annual Report, Directors' Remuneration 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. The Directors are required by the IAS Regulation to prepare the Group financial statements under International Financial Reporting Standards (IFRSs) as adopted by the European Union. The Group financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, Directors are also required to:

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

The Directors have elected to prepare the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the parent Company financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We confirm that to the best of our knowledge:

(a) the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

(b) the management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Tony Thorne
Group Chief Executive

Steve Dryden
Group Finance Director

Index to the Financial Statements and Five-Year Financial Summary

Independent Auditors' Report to the Members of DS Smith Plc

We have audited the Group and parent Company financial statements (the 'financial statements') of DS Smith Plc for the year ended 30 April 2008 which comprise the Group Income Statement, the Group and parent Company Balance Sheets, the Group Statement of Cash Flows, the Group Statement of Recognised Income and Expense and the related notes 1 to 34 in the Group financial statements and notes 1 to 11 in the parent Company financial statements. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as auditable.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the parent Company financial statements and the Directors' Remuneration Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the Group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented elsewhere in the Report and Accounts that is cross referred from the Principal Activities and Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' Remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 April 2008 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent Company's affairs as at 30 April 2008;
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
25 June 2008

Consolidated Income Statement

For the year ended 30 April 2008

	Note	Before exceptional items 2008 £m	Exceptional items (note 4) 2008 £m	After exceptional items 2008 £m	Before exceptional items 2007 £m	Exceptional items (note 4) 2007 £m	After exceptional items 2007 £m
Revenue	2	**1,967.5**	**–**	**1,967.5**	1,766.1	–	1,766.1
Cost of sales		**(1,468.7)**	**–**	**(1,468.7)**	(1,328.4)	(13.7)	(1,342.1)
Gross profit		**498.8**	**–**	**498.8**	437.7	(13.7)	424.0
Operating expenses	3	**(379.2)**	**(1.9)**	**(381.1)**	(360.0)	15.6	(344.4)
Operating profit	2,3	**119.6**	**(1.9)**	**117.7**	77.7	1.9	79.6
Finance income	5	**3.3**	**–**	**3.3**	1.7	–	1.7
Finance costs	5	**(24.1)**	**–**	**(24.1)**	(16.7)	–	(16.7)
Employment benefit net finance income	24	**8.8**	**–**	**8.8**	8.0	–	8.0
Net financing costs		**(12.0)**	**–**	**(12.0)**	(7.0)	–	(7.0)
Profit after financing costs		**107.6**	**(1.9)**	**105.7**	70.7	1.9	72.6
Share of profit of associates	12	**3.4**	**–**	**3.4**	3.9	2.0	5.9
Profit before income tax		**111.0**	**(1.9)**	**109.1**	74.6	3.9	78.5
Income tax (expense)/credit	7	**(31.6)**	**0.7**	**(30.9)**	(22.8)	5.6	(17.2)
Profit for the financial year		**79.4**	**(1.2)**	**78.2**	51.8	9.5	61.3
Profit for the financial year attributable to:							
DS Smith Plc equity shareholders		**77.8**	**(1.2)**	**76.6**	51.1	9.5	60.6
Minority interest		**1.6**	**–**	**1.6**	0.7	–	0.7
Basic earnings per share (pence)	8	**19.9p**		**19.6p**	13.1p		15.6p
Diluted earnings per share (pence)	8	**19.8p**		**19.4p**	13.0p		15.4p
Dividend per share							
– interim, paid (pence)	9			**2.6p**			2.6p
– final, proposed (pence)	9			**6.2p**			6.0p

Consolidated Statement of Recognised Income and Expense

For the year ended 30 April 2008

	Note	**2008 £m**	2007 £m
Actuarial (losses)/gains on defined benefit pension schemes	24	**(73.0)**	17.0
Movements on deferred tax relating to actuarial losses/(gains)		**21.4**	(5.1)
Currency translation differences, including tax of £11.0m (2007: tax of £(1.5)m)		**25.0**	(6.7)
Movements in cash flow hedges, including tax of £(5.7)m (2007: tax of £0.4m)		**14.5**	(1.2)
Net (expense)/income recognised directly in equity		**(12.1)**	4.0
Profit for the financial year	23	**78.2**	61.3
Total recognised income and expense attributable to equity shareholders and minority interest relating to the financial year		**66.1**	65.3

Total recognised income and expense relating to the financial year attributable to:

	2008 £m	2007 £m
DS Smith Plc equity shareholders	**63.8**	64.7
Minority interest	**2.3**	0.6

Consolidated Balance Sheet

As at 30 April 2008

	Note	2008 £m	2007 £m
Assets			
Non-current assets			
Intangible assets	10	**215.2**	192.9
Property, plant and equipment	11	**607.1**	517.1
Investments in associates	12	**30.0**	30.5
Other investments	13	**1.5**	0.5
Deferred tax assets	21	**31.4**	21.4
Other receivables	15	**0.8**	2.4
Derivative financial instruments	20	**10.2**	0.2
Total non-current assets		**896.2**	765.0
Current assets			
Inventories	14	**187.7**	160.5
Other investments	13	**0.1**	0.1
Income tax receivable		**1.6**	0.9
Trade and other receivables	15	**406.9**	350.2
Cash and cash equivalents	18	**69.7**	92.4
Derivative financial instruments	20	**7.3**	0.7
Total current assets		**673.3**	604.8
Total assets		**1,569.5**	1,369.8
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	19	**(260.7)**	(230.9)
Post-retirement benefits	24	**(75.9)**	(18.6)
Other payables	16	**(4.0)**	(5.1)
Provisions	22	**(15.7)**	(8.9)
Deferred tax liabilities	21	**(71.2)**	(81.4)
Derivative financial instruments	20	**(41.2)**	(31.7)
Total non-current liabilities		**(468.7)**	(376.6)
Current liabilities			
Bank overdrafts	18	**(13.7)**	(10.8)
Interest-bearing loans and borrowings	19	**(6.4)**	(1.6)
Trade and other payables	16	**(455.0)**	(384.8)
Income tax liabilities		**(9.7)**	(16.6)
Provisions	22	**(13.3)**	(10.6)
Derivative financial instruments	20	**(0.8)**	(1.7)
Total current liabilities		**(498.9)**	(426.1)
Total liabilities		**(967.6)**	(802.7)
Net assets		**601.9**	567.1
Equity			
Issued capital	23	**39.3**	39.3
Share premium	23	**263.1**	262.9
Reserves	23	**299.3**	267.2
DS Smith Plc shareholders' equity		**601.7**	569.4
Minority interest	23	**0.2**	(2.3)
Total equity		**601.9**	567.1

Approved by the Board on 25 June 2008 and signed on its behalf by
A D Thorne, Director
S W Dryden, Director
The notes on pages 60 to 98 form part of these accounts.

Consolidated Statement of Cash Flows

For the year ended 30 April 2008

	Note	2008 £m	2007 £m
Operating activities			
Cash generated from operations	26	**179.8**	128.0
Interest received		**2.6**	2.8
Interest paid		**(19.4)**	(16.9)
Dividends received from associate		**1.0**	–
Tax paid		**(27.8)**	(15.1)
Cash flows from operating activities		**136.2**	98.8
Investing activities			
Acquisition of subsidiary businesses and joint ventures, net of cash and cash equivalents acquired		**(89.2)**	(0.8)
Disposal of subsidiary businesses, net of cash and cash equivalents disposed of		**2.0**	1.0
Capital expenditure payments		**(66.5)**	(55.8)
Proceeds from the sale of property, plant and equipment and intangible assets		**8.2**	39.2
Proceeds from the sale of investments in associates and other investments, net of additions of £1.0m (2007: £0.5m)		**1.1**	1.8
Cash flows from investing activities		**(144.4)**	(14.6)
Financing activities			
Proceeds from the issue of share capital		**0.2**	3.7
Purchase of own shares		**(2.0)**	–
New/(repayment of) borrowings		**10.6**	(28.7)
Repayment of finance lease obligations		**(0.4)**	(2.5)
Dividends paid	9	**(33.7)**	(32.7)
Cash flows from financing activities		**(25.3)**	(60.2)
(Decrease)/increase in cash and cash equivalents		**(33.5)**	24.0
Net cash and cash equivalents at 1 May		**81.6**	58.9
Exchange gains/(losses) on cash and cash equivalents		**7.9**	(1.3)
Net cash and cash equivalents at 30 April	18	**56.0**	81.6

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'). The Company has elected to prepare its parent Company financial statements in accordance with UK GAAP; these are presented on pages 99 to 104.

The financial statements are presented in sterling in 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 preparation of 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 u.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except for the following new and amended IFRSs and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any material effect on the financial statements of the Group and the Company. The accounting policies have been applied consistently by all Group entities.

IFRS 7 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation for financial statements – Capital disclosures'. IFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification and valuation of the Group's financial instruments.

IFRIC 8 'Scope of IFRS2'

IFRIC 9 'Reassessment of Embedded Derivatives'

IFRIC 10 'Interim Financial Reporting and Impairment'

IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions'

(b) Basis of consolidation

(i) Subsidiaries

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

(ii) Associates

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

(iii) Joint ventures

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

(iv) Minority interests

The share of profit attributable to minority interests is shown as a component of profit for the period in the income statement and minority interests are shown as a component of equity in the balance sheet net of the value of options over interests held by minorities in the Group's subsidiaries (refer to accounting policy j).

(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 balance sheet at initial recognition. A provision is recognised if there is any anticipated shortfall in the level of quotas received or purchased when compared with actual emissions in any given period, measured at the market price of such quotas at the balance sheet date. Excess emission quotas acquired as part of a business combination are recognised as an intangible asset at their fair value on the date of acquisition.

(ii) Other

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

(e) Dividends

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

(f) Foreign currency translation

Transactions in foreign currencies are translated into sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the foreign exchange rate 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 rate at the date of the transaction.

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 balance sheet. 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 purchase method. Goodwill (positive and negative) arising on the acquisition of subsidiaries, associates and joint ventures, represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

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

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

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

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

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

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

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

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

Goodwill is systematically tested for impairment at each balance sheet date.

(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, machinery, 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 balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

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

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

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

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

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

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 balance sheet 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.

Notes to the Consolidated Financial Statements continued

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 rollover, the hedged transaction ceases to be highly probable, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs and are transferred to the income statement or to the initial carrying amount of a non-financial asset liability as above. If a forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement.

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

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

(k) Trade and other receivables

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

(l) Inventories

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

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

(m) Cash and cash equivalents

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

(n) Treasury shares

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

(o) Borrowings

Borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with borrowing costs being accounted for on an accruals basis in the income statement using the effective interest method. At the balance sheet date, accrued interest is recorded separately from the associated borrowings within current liabilities.

(p) Employee benefits

(i) Defined contribution schemes

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

(ii) Defined benefit schemes

The Group's net obligation in respect of defined benefit pension schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to its present value amount and recognised in the income statement as personnel expense; a corresponding liability for all future benefits is established on the balance sheet and the fair value of any schemes' assets is deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the duration of the schemes' obligations. The calculation is performed by a qualified actuary using the projected unit method.

Actuarial gains and losses are recognised immediately in the statement of recognised income and expense.

(iii) Long-term service benefits

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

(iv) Share-based payment transactions

The Group operates 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 number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

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

(q) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(r) Trade and other payables

Trade and other payables are stated at their cost.

(s) Leases

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

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

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

(t) Taxation

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

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

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

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

(u) Critical accounting policies

The application of the Group's accounting policies requires the management of DS Smith Plc to make estimates and assumptions; these estimates and assumptions affect the reported assets and liabilities and financial result 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 of the Notes to the financial statements for additional information regarding the Group's annual impairment exercise.

(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 balance sheet 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 24 of the Notes to the financial statements for additional information regarding the Group's pension and other post-retirement benefits.

(iii) Accounting for carbon dioxide (CO_2) emissions

There are currently no accounting standards that specifically address accounting for emission allowances. The Group with the agreement of its auditors, has applied a 'net liability' approach. Under a 'net liability' approach, no assets or government grant 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'.

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

The IASB and IFRIC have issued new standards and interpretations with an effective date after the date of these financial statements. The Group does not anticipate that the adoption of those standards and interpretations that are effective for the financial year ending 30 April 2009 will have a material effect on its financial statements on initial adoption; the Group is evaluating the effect of those standards and interpretations that are effective subsequently. The standards and interpretation to be adopted include:

		Effective date – financial years ending
International Financial Reporting Standards (IFRS/IAS)		
IFRS 8	Operating Segments	30 April 2010
Revised IAS 23	Borrowing Costs	30 April 2010
Revised IAS 1	Presentation of Financial Statements	30 April 2010
Revised IAS 27	Consolidated and Separate Financial Statements	30 April 2010
IFRS 2	Amendment to IFRS 2 – Share-based payment – Vesting Conditions and Cancellations	30 April 2010
IAS 32	Amendment to IAS 32 – Financial Instruments: Presentation	30 April 2010
Revised IFRS 3	Business Combinations	30 April 2011
International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 12	Service Concession Arrangements	30 April 2009
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	30 April 2009
IFRIC 13	Customer Loyalty Programmes	30 April 2010

Notes to the Consolidated Financial Statements continued

2. Segment reporting

Primary reporting format – business segments

For the year ended 30 April 2008	Packaging: UK Paper and Corrugated £m	Packaging: Continental European Corrugated £m	Packaging: Plastic £m	Packaging: Sub-total £m	Office Products Wholesaling £m	Total Group £m
External revenue (sales of goods)	753.2	346.0	223.4	1,322.6	644.9	1,967.5
Adjusted operating profit[1]	68.5	20.3	10.7	99.5	20.1	119.6
Exceptional items	–	–	(1.9)	(1.9)	–	(1.9)
Segment result	68.5	20.3	8.8	97.6	20.1	117.7
Net financing costs						(12.0)
Share of profit of associates						3.4
Profit before income tax						109.1
Income tax expense						(30.9)
Profit for the financial year attributable to:						78.2
DS Smith Plc equity shareholders						76.6
Minority interest						1.6
Balance sheet						
Segment assets	713.9	273.8	178.2	1,165.9	251.1	1,417.0
Unallocated items						
Investments in associates						30.0
Other non-current assets						2.3
Derivative financial instruments						17.5
Cash and cash equivalents						69.7
Tax balances						33.0
Total assets						1,569.5
Segment liabilities	(210.1)	(83.8)	(58.8)	(352.7)	(127.5)	(480.2)
Unallocated items						
Borrowings and accrued interest						(288.6)
Derivative financial instruments						(42.0)
Tax balances						(80.9)
Post-retirement benefits						(75.9)
Total liabilities						(967.6)
Other segment items:						
Adjusted return on sales – %[1]	9.1%	5.9%	4.8%	7.5%	3.1%	6.1%
Adjusted EBITDA – £m[1]	100.4	33.9	21.2	155.5	26.1	181.6
Adjusted EBITDA margin – %[1]	13.3%	9.8%	9.5%	11.8%	4.0%	9.2%
Year-end capital employed – £m	503.8	190.0	119.4	813.2	123.6	936.8
Average capital employed – £m[2]	479.4	186.2	126.7	792.3	133.4	925.7
Adjusted return on average capital employed – %[1, 2]	14.3%	10.9%	8.4%	12.6%	15.1%	12.9%
Capital expenditure – £m[3]	36.6	16.9	11.0	64.5	4.1	68.6
Depreciation and amortisation – £m	31.9	13.6	10.5	56.0	6.0	62.0

1 before exceptional items
2 average capital employed is defined on page 66
3 capital expenditure represents additions to intangible assets and property, plant and equipment

2. Segment reporting continued

Primary reporting format – business segments continued

For the year ended 30 April 2007	Packaging: UK Paper and Corrugated £m	Packaging: Continental European Corrugated £m	Packaging: Plastic £m	Packaging: Sub-total £m	Office Products Wholesaling £m	Total Group £m
External revenue (sales of goods)	687.1	308.0	201.8	1,196.9	569.2	1,766.1
Adjusted operating profit[1]	36.5	18.2	10.2	64.9	12.8	77.7
Exceptional items	6.7	–	(1.9)	4.8	(2.9)	1.9
Segment result	43.2	18.2	8.3	69.7	9.9	79.6
Net financing costs						(7.0)
Share of profit of associates						5.9
Profit before income tax						78.5
Income tax expense						(17.2)
Profit for the financial year attributable to:						61.3
DS Smith Plc equity shareholders						60.6
Minority interest						0.7
Balance sheet						
Segment assets	606.3	235.3	158.5	1,000.1	222.5	1,222.6
Unallocated items						
Investments in associates						30.5
Other non-current assets						1.1
Derivative financial instruments						0.9
Cash and cash equivalents						92.4
Tax balances						22.3
Total assets						1,369.8
Segment liabilities	(161.7)	(88.9)	(47.6)	(298.2)	(107.1)	(405.3)
Unallocated items						
Borrowings						(247.4)
Derivative financial instruments						(33.4)
Tax balances						(98.0)
Post-retirement benefits						(18.6)
Total liabilities						(802.7)
Other segment items:						
Adjusted return on sales – %[1]	5.3%	5.9%	5.1%	5.4%	2.2%	4.4%
Adjusted EBITDA – £m[1]	68.0	31.5	21.9	121.4	19.2	140.6
Adjusted EBITDA margin – %[1]	9.9%	10.2%	10.9%	10.1%	3.4%	8.0%
Year-end capital employed – £m	444.6	146.4	110.9	701.9	115.4	817.3
Average capital employed – £m[2]	478.4	164.4	122.2	765.0	130.0	895.0
Adjusted return on average capital employed – %[1, 2]	7.6%	11.1%	8.3%	8.5%	9.8%	8.7%
Capital expenditure – £m[3]	34.2	12.8	10.1	57.1	8.9	66.0
Depreciation and amortisation – £m	31.5	13.3	11.7	56.5	6.4	62.9

1 before exceptional items
2 average capital employed is defined on page 66
3 capital expenditure represents additions to intangible assets and property, plant and equipment

Notes to the Consolidated Financial Statements continued

2. Segment reporting continued

The Group's primary format for segment reporting is business segments based on the Group's management and internal reporting structure. The secondary format is geographical segments showing the geographical origin of the Group's activity and net assets. Further details on these business segments are given in the Business Review on pages 16 to 30. The Group operates in two principal geographical areas: the UK and Western Continental Europe. Two further segments are identified: Eastern Continental Europe and the Rest of the World. 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.

Secondary reporting format – geographical segments

	Revenue		Segment assets		Capital expenditure	
Year ending 30 April	**2008 £m**	2007 £m	**2008 £m**	2007 £m	**2008 £m**	2007 £m
UK	**1,097.1**	999.7	**860.9**	736.3	**41.4**	34.4
Western Continental Europe	**708.1**	632.8	**422.3**	371.2	**18.1**	17.8
Eastern Continental Europe	**104.4**	82.5	**85.7**	71.4	**6.3**	10.8
Rest of the World	**57.9**	51.1	**48.1**	43.7	**2.8**	3.0
	1,967.5	1,766.1	**1,417.0**	1,222.6	**68.6**	66.0

3. Operating profit

	2008 £m	2007 £m
Operating expenses		
Distribution expenses	**207.5**	200.4
Administrative expenses	**173.6**	144.0
	381.1	344.4

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

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

	2008 £m	2007 £m
Depreciation – owned assets	**57.9**	58.2
– leased assets	**0.6**	0.6
Amortisation of intangible assets	**3.5**	4.1
Hire of plant and machinery	**12.5**	12.4
Other operating lease rentals	**12.8**	13.3
Research and development	**1.1**	1.0
Gains on the sale of land and buildings	**(1.1)**	(3.7)
Amounts paid to Deloitte & Touche LLP	**1.1**	0.9

3. Operating profit continued

Auditors' remuneration	**2008** UK £m	Overseas £m	Total £m	2007 UK £m	Overseas £m	Total £m
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**0.2**	**–**	**0.2**	0.2	–	0.2
Fees payable to the Company's auditors and their associates for other services:						
The audit of the Company's subsidiaries, pursuant to legislation	**0.4**	**0.5**	**0.9**	0.4	0.2	0.6
Tax and other services	**–**	**–**	**–**	0.1	–	0.1
	0.6	**0.5**	**1.1**	0.7	0.2	0.9

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.

	2008 £m	2007 £m
Restructuring costs		
UK Paper and Corrugated Packaging	**–**	(13.8)
Plastic Packaging	**(1.9)**	(1.9)
Office Products Wholesaling	**–**	(2.9)
Total restructuring costs	**(1.9)**	(18.6)
Gain on sale of Taplow site	**–**	20.5
Total exceptional items recognised in operating profit	**(1.9)**	1.9
Negative goodwill recognised in associate accounting	**–**	2.0
Total exceptional items	**(1.9)**	3.9

2007/08

The 2007/08 exceptional charge of £1.9m is recorded within administrative expenses and relates to the continued restructuring of our European liquid packaging and dispensing operations within Plastic Packaging.

2006/07

The UK Paper and Corrugated Packaging restructuring costs of £13.8m related to the closure of paper-making operations at Taplow Mill and related restructurings.

The Plastic Packaging restructuring costs of £1.9m related to the proposed restructuring of our European liquid packaging and dispensing operations.

The Office Products Wholesaling restructuring costs of £2.9m related to the closure of a regional distribution centre within the UK operations and related restructuring.

The gain of £20.5m arising on the sale of the Taplow site, in the UK Paper and Corrugated Packaging segment, resulted from the sale of the site for net proceeds of £29.6m.

The negative goodwill credit recognised in associate accounting of £2.0m arose in respect of an increase in the Group's investment in Rubezhansk.

The 2006/07 exceptional items are recorded within cost of sales, charge of £13.7m, within administrative expenses, credit of £18.5m, within distribution expenses, charge of £2.9m, and within share of profit of associates, credit of £2.0m.

Notes to the Consolidated Financial Statements continued

5. Finance income and costs

	2008 £m	2007 £m
Interest on bank loans and overdrafts	**6.4**	5.3
Interest on other loans	**13.0**	11.2
Finance lease interest	**0.3**	0.2
Other	**4.4**	–
Finance costs	**24.1**	16.7
Interest income from financial assets held at amortised cost	**(2.7)**	(1.5)
Other	**(0.6)**	(0.2)
Finance income	**(3.3)**	(1.7)

Other finance costs largely relate to the increase in the fair value of the non-controlling shareholders' put options in Toscana Ondulati SpA (see note 23).

Included within net financing costs is £(0.7)m of hedge ineffectiveness on net investment hedges (2006/07: £0.2m) and £0.4m of hedge ineffectiveness on fair value hedges (2006/07: £(0.2)m). Refer to note 20(c) for further details of cash flow, fair value and net investment hedges.

6. Personnel expenses

	2008 £m	2007 £m
Wages and salaries	**288.3**	280.9
Social security costs	**44.6**	42.2
Contributions to defined contribution pension plans	**3.3**	2.5
Service costs for defined benefit schemes (see note 24)	**9.8**	10.9
Share-based payment expense (see note 25)	**2.1**	1.0
Personnel expenses	**348.1**	337.5

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

	2008 Number	2007 Number
UK	**6,755**	6,680
Western Continental Europe	**3,075**	3,145
Eastern Continental Europe	**1,008**	971
Rest of the World	**511**	492
Average number of employees	**11,349**	11,288

7. Income tax expense

Income tax expense recognised in the income statement

	2008 £m	2007 £m
Current tax expense		
Current year	**(29.9)**	(17.2)
Over-provided in prior years	**0.1**	2.3
	(29.8)	(14.9)
Deferred tax (expense)/credit		
Origination and reversal of temporary differences	**(3.0)**	0.9
Reduction in UK tax rate from 30% to 28%	**2.4**	–
Under-provided in prior years	**(0.5)**	(3.2)
	(1.1)	(2.3)
Total income tax expense in the income statement	**(30.9)**	(17.2)

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

	2008 £m	2007 £m
Profit before tax	**109.1**	78.5
Less: share of profit of associates	**(3.4)**	(5.9)
Profit before tax and share of profit of associates	**105.7**	72.6
Income tax calculated using the domestic corporation tax rate of 29.8% (2006/07: 30.0%)	**(31.5)**	(21.8)
Effect of tax rates in overseas jurisdictions	**(1.2)**	(1.2)
Non-deductible expenses	**(2.2)**	(0.9)
(Origination of)/use of tax losses not recognised	**(0.2)**	6.7
Adjustment in respect of prior years	**0.4**	(0.9)
Effect of change in UK corporation tax rate	**2.4**	–
Other	**1.4**	0.9
Income tax expense	**(30.9)**	(17.2)

	2008 £m	2007 £m
Deferred tax recognised directly in equity		
Relating to post-retirement benefits	**21.4**	(5.1)
Other	**(3.0)**	(0.6)
	18.4	(5.7)
Current tax recognised directly in equity		
Relating to post-retirement benefits	**(0.7)**	–
Tax relating to hedging transactions taken directly to reserves	**7.4**	–
	6.7	–

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 2008 is based on the net profit attributable to ordinary shareholders of £76.6m (2006/07: £60.6m) and the weighted average number of ordinary shares outstanding during the year ended 30 April 2008 of 391.5m (2006/07: 389.5m). The number of shares excludes the weighted average number of the Company's own shares held as treasury shares during the year of 1.9m (2006/07: 2.2m).

	2008	2007
Net profit attributable to ordinary shareholders (£m)	**£76.6m**	£60.6m
Weighted average number of ordinary shares at 30 April (millions)	**391.5m**	389.5m
Basic earnings per share (pence per share)	**19.6p**	15.6p

Diluted earnings per share

The calculation of diluted earnings per share at 30 April 2008 is based on net profit attributable to ordinary shareholders of £76.6m (2006/07: £60.6m) and the weighted average number of ordinary shares outstanding during the year ended 30 April 2008, as adjusted for potentially issuable ordinary shares, of 393.9m (2006/07: 392.9m), calculated as follows:

	2008 £m	2007 £m
Net profit attributable to ordinary shareholders	**76.6**	60.6

In millions of shares	**2008**	2007
Weighted average number of ordinary shares at 30 April	**391.5**	389.5
Potentially dilutive shares issuable under share-based payment arrangements	**2.4**	3.4
Weighted average number of ordinary shares (diluted) at 30 April	**393.9**	392.9
Diluted earnings per share (pence per share)	**19.4p**	15.4p

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, helps to explain the underlying performance of the Group. A reconciliation of basic to adjusted earnings per share is as follows:

	2008			2007		
	£m	**Basic – pence per share**	**Diluted – pence per share**	£m	Basic – pence per share	Diluted – pence per share
Earnings	**76.6**	**19.6p**	**19.4p**	60.6	15.6p	15.4p
Add back/(deduct) exceptional items, after tax	**1.2**	**0.3p**	**0.4p**	(9.5)	(2.5)p	(2.4)p
Adjusted earnings	**77.8**	**19.9p**	**19.8p**	51.1	13.1p	13.0p

9. Dividends

Dividends declared and paid by the Group are as follows:

	2008		2007	
	Pence per share	**£m**	Pence per share	£m
Interim dividend – paid	**2.6p**	**10.2**	2.6p	10.2
Final dividend – proposed	**6.2p**	**24.4**	6.0p	23.5
	8.8p	**34.6**	8.6p	33.7

	2008 £m	2007 £m
Paid during the year	**33.7**	32.7

A final dividend in respect of 2007/08 of 6.2 pence per share (£24.4m) has been proposed by the Directors after the balance sheet date.

10. Intangible assets

	Goodwill £m	Software £m	Intellectual property £m	Other £m	Total £m
Cost					
Balance at 1 May 2007	191.7	32.3	12.6	0.8	237.4
Acquisitions through business combinations	10.2	0.1	–	7.7	18.0
Additions	–	2.3	–	0.6	2.9
Disposals	–	(1.4)	–	(0.1)	(1.5)
Effect of movements in foreign exchange	5.1	1.4	0.3	0.1	6.9
Balance at 30 April 2008	**207.0**	**34.7**	**12.9**	**9.1**	**263.7**
Amortisation					
Balance at 1 May 2007	(13.6)	(27.2)	(3.6)	(0.1)	(44.5)
Amortisation for the year	–	(2.7)	(0.7)	(0.1)	(3.5)
Disposals	–	1.4	–	–	1.4
Effect of movements in foreign exchange	(0.5)	(1.3)	–	(0.1)	(1.9)
Balance at 30 April 2008	**(14.1)**	**(29.8)**	**(4.3)**	**(0.3)**	**(48.5)**
Carrying amount					
Balance as at 1 May 2007	178.1	5.1	9.0	0.7	192.9
Balance as at 30 April 2008	**192.9**	**4.9**	**8.6**	**8.8**	**215.2**

	Goodwill £m	Software £m	Intellectual property £m	Other £m	Total £m
Cost					
Balance at 1 May 2006	191.7	31.1	12.6	1.2	236.6
Acquisitions through business combinations	0.5	–	–	–	0.5
Additions	–	1.6	–	0.6	2.2
Disposals	–	(0.2)	–	(1.0)	(1.2)
Effect of movements in foreign exchange	(0.5)	(0.2)	–	–	(0.7)
Balance at 30 April 2007	191.7	32.3	12.6	0.8	237.4
Amortisation					
Balance at 1 May 2006	(13.9)	(24.3)	(3.0)	–	(41.2)
Amortisation for the year	–	(3.4)	(0.6)	(0.1)	(4.1)
Disposals	–	0.3	–	–	0.3
Effect of movements in foreign exchange	0.3	0.2	–	–	0.5
Balance at 30 April 2007	(13.6)	(27.2)	(3.6)	(0.1)	(44.5)
Carrying amount					
Balance as at 1 May 2006	177.8	6.8	9.6	1.2	195.4
Balance as at 30 April 2007	178.1	5.1	9.0	0.7	192.9

The amortisation charge for the year of £3.5m (2006/07: £4.1m) is included within administrative expenses. The Other items above include acquired emission quotas and a customer order book (see note 30).

Notes to the Consolidated Financial Statements continued

10. Intangible assets continued

Impairment tests for cash-generating units containing goodwill

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

	2008 £m	2007 £m
UK Paper and Corrugated Packaging	**144.2**	140.6
Plastic Packaging	**34.8**	31.8
	179.0	172.4
Segments with no cash-generating units containing individually significant goodwill	**13.9**	5.7
	192.9	178.1

As set out in accounting policy i in note 1, the Group tests its goodwill for potential impairment annually. The recoverable amount of the Group's cash-generating units is calculated on the present value of their respective expected future cash flows (the value-in-use) or the net selling price (fair value), if greater. Given the limited available information on the likely fair value of the Group's assets, the recoverable amount used is predominately the value-in-use. The value-in-use calculations use a pre-tax discount rate derived from the Group's weighted average cost of capital, and discount a five-year period with a terminal value. Value-in-use cash flows are based for the forthcoming and subsequent financial years on the Group's Plan approved by the Board of Directors; subsequent years' cash flows are based on estimates of future performance. Based on past practices and expectations of future changes in the market, the key assumptions used in the calculation are as follows: long-term sales growth – up to 3.0%; capital expenditure – equal to annual depreciation; and nominal growth in profit at terminal value – up to 3.0%.

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 2007	261.5	972.2	62.2	23.0	1,318.9
Acquisitions through business combinations	39.2	24.8	–	0.3	64.3
Additions	6.5	45.6	2.8	10.8	65.7
Disposals	(2.3)	(18.0)	(5.7)	–	(26.0)
Transfers	2.7	4.9	0.3	(7.9)	–
Reclassification from property, plant and equipment to other receivables	–	–	–	(5.8)	(5.8)
Effect of movements in foreign exchange	14.2	48.6	3.5	1.5	67.8
Balance at 30 April 2008	**321.8**	**1,078.1**	**63.1**	**21.9**	**1,484.9**
Depreciation					
Balance at 1 May 2007	(72.9)	(677.8)	(51.1)	–	(801.8)
Depreciation charge for the year	(5.8)	(49.3)	(3.4)	–	(58.5)
Disposals	0.4	15.0	5.5	–	20.9
Effect of movements in foreign exchange	(4.0)	(31.8)	(2.6)	–	(38.4)
Balance at 30 April 2008	**(82.3)**	**(743.9)**	**(51.6)**	**–**	**(877.8)**
Carrying amount					
Balance as at 1 May 2007	188.6	294.4	11.1	23.0	517.1
Balance as at 30 April 2008	**239.5**	**334.2**	**11.5**	**21.9**	**607.1**

During the year £5.8m of property, plant and equipment was reclassified as other receivables (of which the balance was £0.5m at 30 April 2008) to reflect the substance of the sale of these assets to another Group company accounted for as an associate. The profit on this sale has been eliminated on consolidation.

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 2006	266.2	971.0	64.8	18.7	1,320.7
Additions	8.4	44.8	2.0	8.6	63.8
Disposals	(11.3)	(19.9)	(3.9)	–	(35.1)
Transfers	0.1	4.0	0.2	(4.3)	–
Exceptional write-offs	–	(20.1)	–	–	(20.1)
Effect of movements in foreign exchange	(1.9)	(7.6)	(0.9)	–	(10.4)
Balance at 30 April 2007	261.5	972.2	62.2	23.0	1,318.9
Depreciation					
Balance at 1 May 2006	(69.2)	(663.4)	(52.0)	–	(784.6)
Depreciation charge for the year	(5.8)	(49.1)	(3.9)	–	(58.8)
Disposals	1.5	14.5	4.3	–	20.3
Exceptional write-offs	–	14.7	–	–	14.7
Effect of movements in foreign exchange	0.6	5.5	0.5	–	6.6
Balance at 30 April 2007	(72.9)	(677.8)	(51.1)	–	(801.8)
Carrying amount					
Balance as at 1 May 2006	197.0	307.6	12.8	18.7	536.1
Balance as at 30 April 2007	188.6	294.4	11.1	23.0	517.1

Leased property, plant and equipment
The amounts above include property, plant and equipment held under finance lease agreements. At 30 April 2008 the net carrying amount of property, plant and equipment held under finance leases was £6.9m (2007: £4.8m).

Property, plant and equipment under construction
Assets under construction mainly relate to production machines being built for various sites across the Group.

Notes to the Consolidated Financial Statements continued

12. Investment in associates

	2008 £m	2007 £m
Balance at 1 May	**30.5**	29.2
Share of profit of associates after interest and tax, including exceptional income of £nil (2006/07: £2.0m)	**3.4**	5.9
Dividends received	**(1.0)**	–
Additions	**–**	0.5
Disposals	**(0.9)**	(0.7)
Intra-group profit elimination	**(2.8)**	–
Exchange differences	**0.8**	(4.4)
Balance at 30 April	**30.0**	30.5

	Nature of business	Principal country of operation	Financial year-end	Ownership 2008
OJSC Rubezhansk Paper and Packaging Mill (Rubezhansk)	Manufacturer of paper and packaging	Ukraine	31 December	49.6%

Rubezhansk is accounted for using the equity method within these financial statements. During the year the Group sold its remaining 6.3% interest in Tri-Wall KK.

Summary of financial information on associates – 100%:

	Rubezhansk 2008 £m	Rubezhansk 2007 £m	Tri-Wall KK 2007 £m	Total 2007 £m
Assets	**98.2**	73.3	44.8	118.1
Liabilities	**(32.4)**	(13.2)	(26.2)	(39.4)
Revenue	**58.8**	50.1	45.0	95.1
Profit after tax	**6.7**	9.3	2.5	11.8

13. Other investments

	2008 £m	2007 £m
Non-current investments	**1.5**	0.5
Current investments	**0.1**	0.1

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

14. Inventories

	2008 £m	2007 £m
Raw materials and consumables	**67.7**	52.6
Work in progress	**4.2**	3.5
Finished goods	**115.8**	104.4
	187.7	160.5

The Group consumed £1,468.7m (2007: £1,342.1m) of inventories during the year. Provisions against inventories totalled £19.5m (30 April 2007: £16.5m).

15. Trade and other receivables

	2008		2007	
	Non-current £m	Current £m	Non-current £m	Current £m
Trade receivables and provisions				
Trade receivables	**–**	**375.5**	–	333.7
Provisions for bad and doubtful receivables	**–**	**(13.7)**	–	(12.7)
Prepayments and other receivables	**0.8**	**45.1**	2.4	29.2
	0.8	**406.9**	2.4	350.2

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of trade receivables from the date credit was initially granted up to the reporting date. The fair value of trade and other receivables is not materially different from their carrying amounts above. Refer to note 20(d)(iii) for further quantitative and qualitative analysis of credit risk.

16. Trade and other payables

	2008		2007	
	Non-current £m	Current £m	Non-current £m	Current £m
Trade payables	**–**	**321.1**	–	262.9
Non-trade payables and accrued expenses	**4.0**	**133.9**	5.1	121.9
	4.0	**455.0**	5.1	384.8

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

Notes to the Consolidated Financial Statements continued

17. Net debt

	Note	2008 £m	2007 £m
Non-current liabilities	19	**260.7**	230.9
Current liabilities	19	**6.4**	1.6
Derivative financial instruments	20	**40.7**	30.3
Net cash and cash equivalents	18	**(56.0)**	(81.6)
Net debt		**251.8**	181.2
Net debt divided by EBITDA (before exceptional items)		**1.4x**	1.3x
Gearing (net debt expressed as a percentage of net assets)		**41.8%**	32.0%

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

	At 1 May 2007 £m	Cash flow £m	Acquisitions and disposals £m	Foreign exchange and fair value movements £m	At 30 April 2008 £m
Cash and cash equivalents	92.4	(32.9)	–	10.2	**69.7**
Overdrafts	(10.8)	(0.6)	–	(2.3)	**(13.7)**
Net cash and cash equivalents	81.6	(33.5)	–	7.9	**56.0**
Interest-bearing loans and borrowings due after one year	(226.4)	(7.3)	–	(21.6)	**(255.3)**
Interest-bearing loans and borrowings due within one year	(1.3)	(3.3)	(0.2)	(0.7)	**(5.5)**
Finance leases	(4.8)	0.4	(1.1)	(0.8)	**(6.3)**
Derivative financial instruments					
– assets	0.2	–	–	0.2	**0.4**
– liabilities	(30.5)	–	–	(10.6)	**(41.1)**
	(262.8)	(10.2)	(1.3)	(33.5)	**(307.8)**
Total net debt	**(181.2)**	**(43.7)**	**(1.3)**	**(25.6)**	**(251.8)**

18. Cash and cash equivalents

	2008 £m	2007 £m
Bank balances	**63.2**	39.7
Short-term deposits	**6.5**	52.7
Cash and cash equivalents (per balance sheet)	**69.7**	92.4
Bank overdrafts	**(13.7)**	(10.8)
Net cash and cash equivalents (per cash flow statement)	**56.0**	81.6

19. 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 20.

	2008		2007	
	Current £m	**Non-current £m**	Current £m	Non-current £m
Borrowings measured at amortised cost				
Bank and other loans	**5.5**	**71.3**	1.3	51.5
Note purchase agreements	**–**	**37.9**	–	37.5
Finance lease liabilities	**0.9**	**5.4**	0.3	4.5
	6.4	**114.6**	1.6	93.5
Borrowings in a fair value hedge relationship				
Note purchase agreements	**–**	**146.1**	–	137.4
	6.4	**260.7**	1.6	230.9

Bank loans, other loans and overdrafts of certain subsidiaries totalling £3.6m (2007: £4.1m) are secured over the properties and machinery of these companies.

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

	2008				
	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	**5.0**	**0.6**	**–**	**38.0**	**43.6**
Floating-rate	**1.4**	**1.3**	**150.7**	**70.1**	**223.5**
Total interest-bearing loans and borrowings	**6.4**	**1.9**	**150.7**	**108.1**	**267.1**

	2007				
	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	–	–	20.1	57.6	77.7
Floating-rate	1.6	1.4	31.3	120.5	154.8
Total interest-bearing loans and borrowings	1.6	1.4	51.4	178.1	232.5

Notes to the Consolidated Financial Statements continued

19. Interest-bearing loans and borrowings continued

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

	Sterling £m	Euro £m	US Dollar £m	Other £m	Total £m
At 30 April 2008					
Interest-bearing loans and borrowings					
Fixed-rate	**38.6**	**0.6**	**–**	**4.4**	**43.6**
Floating-rate	**24.1**	**173.8**	**25.6**	**–**	**223.5**
	62.7	**174.4**	**25.6**	**4.4**	**267.1**
Net cash and cash equivalents (including overdrafts)					
Fixed-rate	**(0.1)**	**(8.3)**	**(5.4)**	**(1.0)**	**(14.8)**
Floating-rate	**(8.5)**	**(12.8)**	**(1.0)**	**(18.9)**	**(41.2)**
	(8.6)	**(21.1)**	**(6.4)**	**(19.9)**	**(56.0)**
Net borrowings/(cash) at 30 April 2008	**54.1**	**153.3**	**19.2**	**(15.5)**	**211.1**

	Sterling £m	Euro £m	US Dollar £m	Other £m	Total £m
At 30 April 2007					
Interest-bearing loans and borrowings					
Fixed-rate	77.4	0.3	–	–	77.7
Floating-rate	4.5	137.8	12.4	0.1	154.8
	81.9	138.1	12.4	0.1	232.5
Net cash and cash equivalents (including overdrafts)					
Fixed-rate	–	(9.5)	(0.9)	(5.8)	(16.2)
Floating-rate	(19.6)	(37.3)	(1.7)	(6.8)	(65.4)
	(19.6)	(46.8)	(2.6)	(12.6)	(81.6)
Net borrowings/(cash) at 30 April 2007	62.3	91.3	9.8	(12.5)	150.9

19. Interest-bearing loans and borrowings continued

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

	2008 £m	2007 £m
Expiring within one year	**6.5**	23.3
Expiring between one and two years	**76.8**	5.5
Expiring between two and five years	**181.8**	203.5
	265.1	232.3

At 30 April 2008, 72% (30 April 2007: 61%) of the Group's net borrowings, after taking into account the effect of cross-currency swaps, were denominated in euros in order to hedge the underlying assets of the Group's relevant continental European operations. Interest rates on floating-rate borrowings are based on LIBOR, EURIBOR or base rates.

In April 2005, the Group entered into a syndicated revolving credit facility of £250m, which expires on 31 May 2010. In April 2008, the Group entered into a further revolving credit facility of £50m, which expires on 30 April 2010. Advances drawn down under both facilities bear interest at a margin over LIBOR or EURIBOR.

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

In August 2004, the Group entered into a further note purchase agreement with a number of institutions that purchased US$105m of DS Smith Plc's 5.66% senior notes and US$95m of 5.80% senior notes, which will mature on 25 August 2014 and 25 August 2016, respectively. The Group entered into swap transactions with a bank counterparty under which it made payments of US$105m and US$20m in return for €86.5m and €16.5m, respectively, and a payment of $75m in return for £40.8m.

The swap counterparty agreed to pay fixed-rate dollar interest of 5.66% per annum and 5.80% per annum, respectively, in exchange for floating euro rate interest at rates linked to EURIBOR and fixed-rate dollar interest of 5.80% per annum in exchange for fixed-rate sterling interest at rates of 6.21% per annum.

Finance lease obligations

	2008			2007		
	Minimum lease payments £m	Interest £m	Principal £m	Minimum lease payments £m	Interest £m	Principal £m
Less than one year	**1.2**	**(0.3)**	**0.9**	0.5	(0.2)	0.3
Between one and five years	**2.9**	**(0.8)**	**2.1**	2.1	(0.7)	1.4
More than five years	**3.8**	**(0.5)**	**3.3**	3.6	(0.5)	3.1
Finance lease obligations	**7.9**	**(1.6)**	**6.3**	6.2	(1.4)	4.8

Notes to the Consolidated Financial Statements continued

20. Financial instruments

The Group's activities expose the business to a number of key risks which have the potential to affect the 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 26 to 32.

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 of financial assets and liabilities

Set out below is the accounting classification of all of the Group's financial instruments and their carrying values.

	2008				
	Loans and receivables £m	**Available for sale financial assets £m**	**Derivative hedging instruments £m**	**Financial liabilities measured at amortised cost £m**	**Total carrying amount £m**
Financial assets					
Other investments	**–**	**1.6**	**–**	**–**	**1.6**
Trade and other receivables	**407.7**	**–**	**–**	**–**	**407.7**
Other financial assets in designated hedge accounting relationships	**–**	**–**	**17.5**	**–**	**17.5**
Cash and cash equivalents	**69.7**	**–**	**–**	**–**	**69.7**
Financial liabilities					
Trade and other payables	**–**	**–**	**–**	**(459.0)**	**(459.0)**
Other financial liabilities in designated hedge accounting relationships	**–**	**–**	**(42.0)**	**–**	**(42.0)**
Loans and borrowings	**–**	**–**	**–**	**(267.1)**	**(267.1)**
Overdrafts	**–**	**–**	**–**	**(13.7)**	**(13.7)**
	477.4	**1.6**	**(24.5)**	**(739.8)**	**(285.3)**

	2007				
	Loans and receivables £m	Available for sale financial assets £m	Derivative hedging instruments £m	Financial liabilities measured at amortised cost £m	Total carrying amount £m
Financial assets					
Other investments	–	0.6	–	–	0.6
Trade and other receivables	352.6	–	–	–	352.6
Other financial assets in designated hedge accounting relationships	–	–	0.9	–	0.9
Cash and cash equivalents	92.4	–	–	–	92.4
Financial liabilities					
Trade and other payables	–	–	–	(389.9)	(389.9)
Other financial liabilities in designated hedge accounting relationships	–	–	(33.4)	–	(33.4)
Loans and borrowings	–	–	–	(232.5)	(232.5)
Overdrafts	–	–	–	(10.8)	(10.8)
	445.0	0.6	(32.5)	(633.2)	(220.1)

20. Financial instruments continued

b) Derivative financial instruments

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

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

	Assets		Liabilities		Net	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Derivatives held to						
Manage the Group's exposure to foreign exchange on foreign currency investments	–	–	(28.1)	(7.4)	(28.1)	(7.4)
Manage the interest rate and currency exposures on borrowings	0.4	0.2	(13.0)	(23.1)	(12.6)	(22.9)
Derivative financial instruments included in net debt	0.4	0.2	(41.1)	(30.5)	(40.7)	(30.3)
Derivatives held to						
Hedge future transactions – energy costs	17.1	0.7	(0.2)	(2.6)	16.9	(1.9)
Hedge future transactions – foreign exchange on purchases and sales of goods and services	–	–	(0.7)	(0.3)	(0.7)	(0.3)
Total derivative financial instruments	17.5	0.9	(42.0)	(33.4)	(24.5)	(32.5)
Current	7.3	0.7	(0.8)	(1.7)	6.5	(1.0)
Non-current	10.2	0.2	(41.2)	(31.7)	(31.0)	(31.5)
	17.5	0.9	(42.0)	(33.4)	(24.5)	(32.5)

Notes to the Consolidated Financial Statements continued

20. Financial instruments continued

c) Cash flow, fair value and net investment hedges

(i) Cash flow hedging reserve movements

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

	2008 £m	2007 £m
Balance at 1 May	**(1.5)**	(0.3)
Unrealised fair value gain/(loss) on designated cash flow hedges		
Forward exchange contracts	**(0.4)**	(0.2)
Cross currency and interest rate swaps	**1.5**	1.9
Commodity contracts	**13.0**	(1.7)
Losses/(gains) in equity recycled to the income statement*		
Forward exchange contracts	**0.2**	0.1
Cross currency and interest rate swaps	**(0.3)**	–
Commodity contracts	**0.5**	(1.3)
Balance at 30 April	**13.0**	(1.5)

* (Gains) and losses in equity transferred into profit or loss during the period are included in the following line items on the face of the income statement:

	2008 £m	2007 £m
Revenue	**0.1**	0.1
Cost of sales	**0.6**	(1.3)
Finance costs	**(0.3)**	–
	0.4	(1.2)

(ii) Fair value hedges

At 30 April 2008, 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 gain on the hedging derivative instruments taken to the income statement in the year was £8.8m (2006/07: loss of £7.5m) offset by a pre-tax loss on the fair value of the debt of £8.4m (2006/07: gain of £7.3m).

(iii) Hedges of net investments in foreign operations

The Group holds currency swap contracts as hedges of long-term investments in foreign subsidiaries. At 30 April 2008, these swaps had a fair value of £(28.1)m (2007: £(7.4)m) and the pre-tax loss on the hedges recognised in equity in the year was £20.0m (2006/07: gain of £2.1m). The gain or loss is matched by a similar gain or loss in equity on the retranslation of the hedged foreign subsidiary's net assets.

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 balance sheet and to provide continuity of financing by having a range of maturities and borrowings from a variety of sources.

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

(ii) Market risk

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

20. Financial instruments continued

d) Risk identification and risk management continued

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 balance sheet 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 2008, 16% (2007: 33%) 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 point increase in interest rates on the market values of the Group's interest rate derivatives.

The results are presented before minority interests and tax.

	2008		2007	
	Impact on profit £m	**Impact on total equity £m**	Impact on profit £m	Impact on total equity £m
Increase in market interest rates by 100 basis points	**(2.3)**	**–**	(1.7)	(0.1)

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 2008, £1.1m (2007: £(0.1)m) (net of tax) is 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, £0.3m of gains deferred in equity were transferred to the income statement (2006/07: £nil).

Foreign exchange risk

Foreign exchange risk on investments

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

Foreign exchange risk on borrowings

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

Foreign exchange risk on transactions

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

At 30 April 2008, £(0.4)m (2007: £(0.1)m) (net of tax) is deferred in equity in respect of cash flow hedges. This will be recycled to the income statement in the period in which the hedged item also affects the income statement, which occurs within two years. During the year, £0.2m of losses deferred in equity were transferred to the income statement (2006/07: £0.1m of losses).

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

The results are presented before minority interests and tax.

	2008		2007	
	Impact on profit £m	**Impact on total equity £m**	Impact on profit £m	Impact on total equity £m
10% strengthening of sterling	**(0.3)**	**(0.9)**	(0.1)	(0.1)
10% weakening of sterling	**0.2**	**1.0**	0.1	0.1

Notes to the Consolidated Financial Statements continued

20. Financial instruments continued

d) Risk identification and risk management continued

Commodity risk

The Group's main commodity exposures are to changes in UK gas and UK electricity prices. Part of this commodity price risk is managed by a combination of physical supply agreements and derivative instruments. At 30 April 2008, £12.3m (2007: £(1.3)m) (net of tax) is deferred in equity in respect of cash flow hedges in accordance with IAS 39. This will be recycled to the income statement in the period in which the hedged item also affects the income statement, which occurs within two years. During the year, £0.5m of losses deferred in equity were transferred to the income statement (2006/07: £1.3m of gains).

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

The results are presented before minority interests and tax.

	2008		2007	
	Impact on profit £m	Impact on total equity £m	Impact on profit £m	Impact on total equity £m
10% increase in UK electricity prices	–	3.1	–	0.8
10% increase in UK gas prices	–	2.2	–	0.5

(iii) Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will fail to perform or fail to pay amounts due, causing financial loss to the Group. This risk arises principally from credit exposures to customers relating to outstanding trade receivables. The majority of the Group's trade receivables are due for maturity within 90 days. Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and diverse. Management believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful debts (see note 15).

Credit risk on cash and cash equivalents is limited due to the Group's policy of restricting material deposits with banking counterparties to those with investment grade credit ratings or better.

			Of which past due but not impaired				
	Net carrying amount (see note 15)	Of which neither impaired nor past due	1 month or less	1–3 months	3–6 months	6–12 months	More than 12 months
The ageing of trade receivables							
As at 30 April 2008	**361.8**	**334.9**	**19.2**	**3.8**	**1.3**	**1.9**	**0.7**
As at 30 April 2007	321.0	286.7	25.1	5.6	1.3	2.0	0.3

	2008 £m	2007 £m
Movement in the allowance for bad and doubtful receivables		
Balance as at 1 May	**(12.7)**	(10.8)
Uncollectible amounts written off, net of receivables	**2.2**	5.1
Increase in allowance recognised in profit or loss	**(2.2)**	(6.9)
Effect of movements in foreign exchange	**(1.0)**	(0.1)
Balance as at 30 April (see note 15)	**(13.7)**	(12.7)

20. 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.

e) Fair value of financial assets and liabilities

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 balance sheet. Under IAS 39 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 balance sheet.

The fair value of financial assets and liabilities which bear floating-rates of interest is estimated to be equivalent to book value.

For current and non-current receivables (note 15) and current and non-current payables (note 16) and provisions (note 22), fair value is estimated to be equivalent to book value and is not included in the table below.

	Carrying amount		Fair value	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Bank overdrafts	**(13.7)**	(10.8)	**(13.7)**	(10.8)
Bank borrowings	**(76.8)**	(52.8)	**(76.8)**	(52.8)
Note purchase agreements	**(184.0)**	(174.9)	**(188.7)**	(180.7)
Derivatives held to manage the Group's exposure to foreign exchange exposure on investments	**(28.1)**	(7.4)	**(28.1)**	(7.4)
Derivatives held to manage interest rate and currency exposure on foreign currency borrowings	**(12.6)**	(22.9)	**(12.6)**	(22.9)
Finance leases	**(6.3)**	(4.8)	**(6.3)**	(4.8)
	(321.5)	(273.6)	**(326.2)**	(279.4)
Cash and cash equivalents	**69.7**	92.4	**69.7**	92.4
Net debt	**(251.8)**	(181.2)	**(256.5)**	(187.0)
Derivatives held to hedge future energy costs	**16.9**	(1.9)	**16.9**	(1.9)
Derivatives held to hedge foreign exchange on future purchases and sales of goods and services	**(0.7)**	(0.3)	**(0.7)**	(0.3)

Notes to the Consolidated Financial Statements continued

20. Financial instruments continued

f) Analysis of net debt cash flows

The following table is an analysis of the undiscounted cash flows relating to net debt at the balance sheet date (including the effect of cross-currency and interest rate swaps).

As at 30 April 2008	Weighted average effective interest rate %	Contractual repayments 1 year or less £m	1–5 years £m	More than 5 years £m	Total £m
Financial liabilities					
Bank overdrafts	4.9%	13.7	–	–	13.7
Bank loans	4.5%	5.5	71.1	0.2	76.8
Note purchase agreements	6.0%	–	78.0	101.0	179.0
Finance leases	5.4%	0.9	2.1	3.3	6.3
Financial assets					
Cash and cash equivalents	2.3%	(69.7)	–	–	(69.7)
Total net borrowings/(cash)	6.5%	(49.6)	151.2	104.5	206.1

As at 30 April 2007	Weighted average effective interest rate %	Contractual repayments 1 year or less £m	1–5 years £m	More than 5 years £m	Total £m
Financial liabilities					
Bank overdrafts	4.7%	10.8	–	–	10.8
Bank loans	4.0%	1.3	51.4	0.1	52.8
Note purchase agreements	5.5%	–	–	177.5	177.5
Finance leases	4.7%	0.3	1.4	3.1	4.8
Financial assets					
Cash and cash equivalents	3.1%	(92.4)	–	–	(92.4)
Total net borrowings/(cash)	6.2%	(80.0)	52.8	180.7	153.5

The tables above exclude interest expense estimated to be £18.6m in 2008/09, £17.2m in 2009/10, £17.2m in 2010/11, £14.2m in 2011/12, £14.2m in 2012/13 and £7.2m in 2013/14 and thereafter (assuming interest rates with respect to variable rate debt remain constant and there is no change in the aggregate principal amount of debt other than as a result of repayment at scheduled maturity).

The above table does not include forecast data for liabilities which may be incurred in the future which are not contracted as at 30 April 2008.

Refer to note 28 for an analysis of the Group's future operating lease payments and to note 29 for a summary of the Group's commitments.

The maturity profile of the Group's financial derivatives, using undiscounted cash flows, is presented in the tables on page 87. Where the payable and receivable legs of these derivatives are denominated in foreign currencies, the contractual payments/receipts have been calculated based on exchange rates as at the respective year ends.

20. Financial instruments continued

f) Analysis of net debt cash flows continued

Balance at 30 April 2008	**Contractual payments/(receipts)** 1 year or less £m	1–5 years £m	More than 5 years £m	Total £m
Payable				
Energy derivatives	**72.8**	**62.0**	**–**	**134.8**
Foreign exchange	**23.0**	**2.8**	**–**	**25.8**
Interest rate and currency swaps	**14.3**	**119.7**	**139.0**	**273.0**
Receivable				
Energy derivatives	**(79.8)**	**(72.7)**	**–**	**(152.5)**
Foreign exchange	**(22.3)**	**(2.8)**	**–**	**(25.1)**
Interest rate and currency swaps	**(11.4)**	**(83.6)**	**(115.2)**	**(210.2)**
Total derivatives	**(3.4)**	**25.4**	**23.8**	**45.8**

Balance at 30 April 2007	Contractual payments/(receipts) 1 year or less £m	1–5 years £m	More than 5 years £m	Total £m
Payable				
Energy derivatives	21.2	21.7	–	42.9
Foreign exchange	29.9	1.0	–	30.9
Interest rate and currency swaps	13.8	49.5	194.3	257.6
Receivable				
Energy derivatives	(21.2)	(19.2)	–	(40.4)
Foreign exchange	(29.6)	(1.0)	–	(30.6)
Interest rate and currency swaps	(13.1)	(43.8)	(164.8)	(221.7)
Total derivatives	1.0	8.2	29.5	38.7

21. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

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

	Assets		**Liabilities**		**Net**	
	2008 £m	2007 £m	**2008 £m**	2007 £m	**2008 £m**	2007 £m
Property, plant and equipment and intangible assets	**–**	–	**(66.2)**	(72.7)	**(66.2)**	(72.7)
Employee benefits including pensions	**23.1**	7.1	**–**	–	**23.1**	7.1
Other items	**8.3**	14.3	**(5.0)**	(8.7)	**3.3**	5.6
Tax assets/(liabilities)	**31.4**	21.4	**(71.2)**	(81.4)	**(39.8)**	(60.0)

Unrecognised deferred tax assets and liabilities

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

	Assets		**Liabilities**	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Tax losses	**3.6**	3.3	**–**	–
Unremitted earnings of overseas operations	**–**	–	**(3.7)**	(4.7)
Total	**3.6**	3.3	**(3.7)**	(4.7)

The tax losses above include £2.0m which do not expire and £1.6m which expire between 2009 and 2012, under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom. Deferred tax liabilities have not been provided for in respect of unremitted earnings of overseas subsidiaries as there is no current intention for any of the relevant overseas entities to remit their earnings.

Notes to the Consolidated Financial Statements continued

21. Deferred tax assets and liabilities continued

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	
	2008 £m	2007 £m	**2008 £m**	2007 £m	**2008 £m**	2007 £m	**2008 £m**	2007 £m
Balance at 1 May	**(72.7)**	(70.5)	**7.1**	16.1	**5.6**	2.1	**(60.0)**	(52.3)
Acquisitions and disposals	**6.2**	–	**–**	–	**–**	–	**6.2**	–
Credit/(charge) for the year	**3.6**	(2.5)	**(4.6)**	(4.4)	**(0.1)**	4.6	**(1.1)**	(2.3)
Recognised directly in equity	**–**	–	**20.6**	(4.6)	**(2.2)**	(1.1)	**18.4**	(5.7)
Exchange adjustments	**(3.3)**	0.3	**–**	–	**–**	–	**(3.3)**	0.3
Balance at 30 April	**(66.2)**	(72.7)	**23.1**	7.1	**3.3**	5.6	**(39.8)**	(60.0)

At 30 April 2008, 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.

At 30 April 2008, deferred tax assets were recognised for all taxable temporary differences, carry forward of unused tax assets and unused tax losses except where it is unlikely that taxable profit will be available against which to offset the loss.

In March 2007, the UK government announced an intention to amend UK tax legislation to remove tax depreciation on UK industrial buildings from 2011 onwards. At 30 April 2008, this change in legislation has not been substantively enacted and no amendment to deferred tax has been recognised in respect of temporary differences relating to certain UK buildings. Had the legislation been substantively enacted on 30 April 2008, the Group estimates its net deferred tax provision would have increased from £39.8m to £52.6m.

22. Provisions

	Employee benefits £m	Restructuring £m	Other £m	Total £m
Balance at 1 May 2007	4.4	12.9	2.2	19.5
Acquired during the year	–	–	7.7	7.7
Provisions made during the year	0.6	3.9	4.2	8.7
Provisions used during the year	(0.5)	(5.8)	(2.0)	(8.3)
Provisions reversed during the year	–	(0.1)	–	(0.1)
Effect of movements in foreign exchange	0.7	0.4	0.4	1.5
Balance at 30 April 2008	**5.2**	**11.3**	**12.5**	**29.0**
Non-current	4.9	5.2	5.6	15.7
Current	0.3	6.1	6.9	13.3
	5.2	**11.3**	**12.5**	**29.0**

The provision for employee benefits mainly represents that for long-service awards. The restructuring provision includes amounts associated with the closures and restructuring costs described in note 4. Other provisions mainly relate to an acquired onerous service contract (see note 30) and to provisions for vacant leaseholds and various legal claims. The timing of the utilisation of these provisions is uncertain, except where the associated costs are contractual, in which case the provision is utilised over the time period specified in the contract.

23. Capital and reserves

Reconciliation of movement in capital and reserves

					Retained earnings					
	Share capital £m	Share premium £m	Hedging reserve £m	Translation reserve £m	Own shares £m	Other £m	Total retained earnings £m	Total reserves attributable to equity shareholders £m	Minority interests £m	Total equity £m
Balance at 1 May 2006	39.1	259.4	(0.3)	9.4	(4.1)	228.6	224.5	532.1	9.4	541.5
Profit for the period	–	–	–	–	–	60.6	60.6	60.6	0.7	61.3
Actuarial gains recognised in the pension schemes	–	–	–	–	–	17.0	17.0	17.0	–	17.0
Movement on deferred tax relating to the actuarial gains	–	–	–	–	–	(5.1)	(5.1)	(5.1)	–	(5.1)
Currency translation differences (including tax)	–	–	–	(6.6)	–	–	–	(6.6)	(0.1)	(6.7)
Changes in the fair value of cash flow hedges (including tax)	–	–	–	–	–	–	–	–	–	–
Amounts recognised in profit or loss during the year (including tax)	–	–	(1.2)	–	–	–	–	(1.2)	–	(1.2)
New share capital issued	0.2	3.5	–	–	–	–	–	3.7	–	3.7
Share-based payment expense (including tax)	–	–	–	–	1.1	0.5	1.6	1.6	–	1.6
Dividends paid to shareholders	–	–	–	–	–	(32.7)	(32.7)	(32.7)	–	(32.7)
Minority interest: non-controlling shareholders' put option	–	–	–	–	–	–	–	–	(12.3)	(12.3)
Balance at 30 April 2007	39.3	262.9	(1.5)	2.8	(3.0)	268.9	265.9	569.4	(2.3)	567.1
Profit for the period	–	–	–	–	–	76.6	76.6	76.6	1.6	78.2
Actuarial losses recognised in the pension schemes	–	–	–	–	–	(73.0)	(73.0)	(73.0)	–	(73.0)
Movement on deferred tax relating to the actuarial losses	–	–	–	–	–	21.4	21.4	21.4	–	21.4
Currency translation differences (including tax)	–	–	–	24.3	–	–	–	24.3	0.7	25.0
Changes in the fair value of cash flow hedges (including tax)	–	–	14.1	–	–	–	–	14.1	–	14.1
Amounts recognised in profit or loss during the year (including tax)	–	–	0.4	–	–	–	–	0.4	–	0.4
New share capital issued	–	0.2	–	–	–	–	–	0.2	–	0.2
Own shares acquired	–	–	–	–	(2.0)	–	(2.0)	(2.0)	–	(2.0)
Share-based payment expense (including tax)	–	–	–	–	0.8	0.1	0.9	0.9	–	0.9
Dividends paid to shareholders	–	–	–	–	–	(33.7)	(33.7)	(33.7)	–	(33.7)
Transactions with minority interest (Toscana Ondulati SpA)	–	–	–	–	–	3.1	3.1	3.1	1.2	4.3
Purchase of minority interest shares (DS Smith Polska S.A.)	–	–	–	–	–	–	–	–	(1.0)	(1.0)
Balance at 30 April 2008	**39.3**	**263.1**	**13.0**	**27.1**	**(4.2)**	**263.4**	**259.2**	**601.7**	**0.2**	**601.9**

Notes to the Consolidated Financial Statements continued

23. Capital and reserves continued

Share capital

	Number of shares 2008 Millions	2007 Millions	2008 £m	2007 £m
Ordinary equity shares of 10 pence each:				
Authorised	**410.0**	410.0	**41.0**	41.0
Issued, allotted, called up and fully paid	**393.4**	393.2	**39.3**	39.3

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In respect of the Company's shares that are held by the Group (see below), all rights are suspended until those shares are reissued. A reconciliation of the movement in share capital is given in note 9 to the Company balance sheet on page 103.

Translation reserve

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

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred. Refer to note 20(c) for further analysis of movements in the hedging reserve.

Own shares

The reserve for the Company's own shares comprises the cost of the Company's shares held by the Group. The Group operates a General Employee Benefit Trust, which acquires shares in the Company that can be used to satisfy the requirements of the Executive Share Option scheme, the Restricted Share Plan (discontinued in 2004) and the Long-Term Incentive Plan (established in 2004). At 30 April 2008, the Trust held 2.4m shares (2007: 1.9m shares). The market value of the shares at 30 April 2008 was £3.1m (2007: £4.6m). Dividends receivable on the shares owned by the Trust have been waived.

Minority interests

At the beginning of the year, the Group had a liability of £12.3m and a corresponding entry against minority interests in respect of the non-controlling shareholders' put option in Toscana Ondulati SpA ('Toscana'). This amount was calculated with reference to the recent profitability of the company using a multiple based formula. The fair value of the put options increased during the year by £3.1m. This charge was recorded within finance costs through the income statement and then transferred out of retained earnings into minority interest.

Certain shareholders exercised their put options selling their share in Toscana to the Group for a consideration of £11.9m with £7.6m recorded in minority interest and £4.3m recorded within goodwill.

24. 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'). In 2006/07 the Group operated a second funded, defined benefit scheme in the UK, the DS Smith Containers Pension Scheme ('the Containers scheme'); the assets and liabilities of the Containers scheme were transferred to the Group scheme on 30 April 2007, with the effect that only the Group scheme operated from 1 May 2007. The Group made agreed annual contributions of £14.6m to the Group scheme in 2007/08 (2006/07: £14.6m). Future contributions will be in part dependent on the results of the triennial actuarial valuation of the scheme as at 30 April 2007 and related discussions between the Group and the Group scheme's trustees. 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 financial information given on pages 91 to 93 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 actuarial valuation of the Group scheme was as at 5 April 2004, which has been updated to 30 April 2008 by a qualified independent actuary. All UK valuations used the projected unit method. The Group scheme is closed to new entrants. Because of this, the average age of the active members is likely to increase at future valuations and this may lead to an increasing current service contribution rate; this may be offset by a falling total pensionable salary resulting from leavers and retirements.

24. Post-retirement benefits continued

Liability for defined benefit obligations

Principal actuarial assumptions are as follows:

	2008 %	2007 %	2006 %	2005 %
Discount rate for scheme liabilities	**5.9%**	5.4%	5.1%	5.3%
Inflation	**3.5%**	2.9%	2.7%	2.6%
Future salary increases	**4.5%**	3.9%	3.7%	3.6%
Future pension increases for pre 30 April 2005 service	**3.5%**	2.9%	2.7%	2.6%
Future pension increases for post 30 April 2005 service	**2.3%**	2.3%	2.3%	2.3%

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

	Increase in pension liability £m	Increase in service costs £m
0.25% decrease in discount rate	(35.0)	(1.0)
0.25% increase in inflation	(35.0)	(0.6)
1 year increase in life expectancy	(20.0)	(0.3)

Future mortality is the most significant demographic assumption. Recent studies have disclosed a faster increase in the rate of mortality improvement than had previously been expected. The basic mortality table used by the Group at 30 April 2008 is PMA92/PFA92 with medium cohort mortality improvement. This means the mortality rates assumed for members of a particular age differ from those for members who will reach that age in the future. Studies have also illustrated that the amount of pension, the location of employees and the nature of their work are significant factors on mortality. As a result, the basic mortality table rates are based on ages two years older than the members' actual age for non-pensioners and three years older for pensioners.

At 30 April 2007, the Group used PMA92/PFA92 mortality tables with a three year age reduction adjustment for non-pensioners.

The current life expectancies (in years) are:

	2008		2007	
	Male	**Female**	Male	Female
Life expectancy at age 65				
Pensioner currently aged 65	**19.4**	**22.2**	16.9	19.9
Member currently aged 45	**21.3**	**24.0**	19.4	22.4

The amounts recognised in the balance sheet 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:

	2008		2007		2006		2005	
	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	**7.6%**	**490.8**	7.4%	527.1	7.5%	524.5	7.9%	392.2
Bonds, gilts and cash (weighted average)	**4.4%**	**231.0**	4.1%	210.8	4.3%	181.6	4.7%	167.1
Total market value of assets		**721.8**		737.9		706.1		559.3
Present value of schemes' liabilities		**(797.7)**		(756.5)		(756.4)		(674.1)
Deficit in the schemes		**(75.9)**		(18.6)		(50.3)		(114.8)
Related deferred tax asset		**21.4**		5.6		15.0		34.5
Net pension liability		**(54.5)**		(13.0)		(35.3)		(80.3)

Notes to the Consolidated Financial Statements continued

24. Post-retirement benefits continued

Movements in the liability for defined benefit schemes' obligations recognised in the consolidated balance sheet

	2008 £m	2007 £m	2006 £m	2005 £m
Schemes' liabilities at 1 May	**(756.5)**	(756.4)	(674.1)	(567.6)
Transfer from provisions	**–**	–	–	(4.2)
Arising on acquisition of Linpac Containers	**–**	–	–	(32.7)
Employment benefit finance expense	**(40.1)**	(38.1)	(35.2)	(33.8)
Expense recognised in the income statement	**(9.8)**	(10.9)	(11.4)	(12.8)
Member contributions	**(6.4)**	(6.9)	(6.8)	(5.6)
Curtailments	**–**	–	3.3	–
Pension payments	**28.0**	31.4	24.2	16.5
Actuarial gains and (losses) recognised in the consolidated statement of recognised income and expense	**(10.8)**	24.2	(56.4)	(33.9)
Effect of movements in foreign exchange	**(2.1)**	0.2	–	–
Schemes' liabilities at 30 April	**(797.7)**	(756.5)	(756.4)	(674.1)

Movements in the fair value of defined benefit schemes' assets recognised in the consolidated balance sheet

	2008 £m	2007 £m	2006 £m	2005 £m
Schemes' assets at 1 May	**737.9**	706.1	559.3	489.5
Arising on acquisition of Linpac Containers	**–**	–	–	32.2
Employer contributions	**16.8**	17.3	16.8	10.7
Member contributions	**6.4**	6.9	6.8	5.6
Other contributions	**0.7**	–	–	–
Expected return on schemes' assets	**48.9**	46.1	36.4	34.9
Actuarial gains and (losses) recognised in the consolidated statement of recognised income and expense	**(62.2)**	(7.2)	110.8	2.7
Pension payments	**(27.8)**	(31.2)	(24.0)	(16.3)
Effect of movements in foreign exchange	**1.1**	(0.1)	–	–
Schemes' assets at 30 April	**721.8**	737.9	706.1	559.3

Expense recognised in the consolidated income statement

	2008 £m	2007 £m	2006 £m	2005 £m
Current service cost	**(8.7)**	(9.4)	(11.1)	(12.7)
Past service cost	**(1.1)**	(1.5)	(0.3)	(0.1)
Total service cost	**(9.8)**	(10.9)	(11.4)	(12.8)
Interest on schemes' liabilities	**(40.1)**	(38.1)	(35.2)	(33.8)
Expected return on schemes' assets	**48.9**	46.1	36.4	34.9
Employment benefit net finance income	**8.8**	8.0	1.2	1.1

Analysis of amounts recognised in the consolidated statement of recognised income and expense

	2008 £m	2007 £m	2006 £m	2005 £m
Actual return less expected return on pension schemes' assets	**(62.2)**	(7.2)	110.8	(4.5)
Experience gains and (losses) arising on schemes' liabilities	**16.1**	10.3	(17.9)	1.4
Changes in assumptions underlying present value of schemes' liabilities	**(26.9)**	13.9	(38.5)	(28.1)
Actuarial (losses)/gains recognised in the consolidated statement of recognised income and expense	**(73.0)**	17.0	54.4	(31.2)

24. Post-retirement benefits continued

History of experience gains and losses

	2008 £m	2007 £m	2006 £m	2005 £m
Difference between expected and actual returns on schemes' assets	**(62.2)**	(7.2)	110.8	(4.5)
Above as a percentage of schemes' assets	**(9)%**	(1)%	16%	(1)%
Experience gains and (losses) arising on schemes' liabilities	**16.1**	10.3	(17.9)	1.4
Above as a percentage of the present value of schemes' liabilities	**2%**	1%	(2)%	0%
Total amount recognised in the consolidated statement of recognised income and expense	**(73.0)**	17.0	54.4	(31.2)
Above as a percentage of the present value of schemes' liabilities	**(9)%**	2%	7%	(5)%

25. Share-based payment expense

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

(i) An Executive Share Option Scheme (ESOS) is operated for Executive Directors and other senior executives. Approved and unapproved options are granted to UK and overseas executives on a phased basis. The vesting of any options granted under this Scheme is subject to the achievement of long-term performance conditions, being that the growth in the Company's normalised earnings per share must match or exceed the growth in the UK Retail Prices Index plus an average of 3% per annum over the three year period following grant. The base financial year for the purposes of measuring earnings per share growth will be the financial year prior to the grant date. Normally, no part of the option will vest unless the long-term performance conditions have been achieved and the vesting period of three years' service has been attained.

(ii) In the past, Executive Directors and other senior executives received an award of shares in the Company equal in value to the participant's annual cash bonus, pursuant to a Restricted Share Plan (RSP). The award of these shares is dependent upon performance in the relevant financial year. There is a vesting period of three years' service. This scheme ceased to be operated from September 2004.

(iii) In September 2004, the Group established a Long-Term Incentive Plan (LTIP). The key features of the plan are that:

- awards will be made to selected Executive Directors and other senior executives over shares in the Company; performance will be measured over a single period of three financial years;
- awards will vest based on the Company's total shareholder return (being the increase in share price and the value of reinvested dividends) compared to a comparator group of companies, being the constituents of the FTSE Mid 250 Index (excluding investment trusts) for initial awards;
- if the Company's total shareholder return is ranked at the upper quartile of the comparator group or higher, the full award will vest, reducing on a straight-line basis to 30% of the award vesting for median performance. None of the award vests for below median performance; and
- additionally, 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.

(iv) A Deferred Share Bonus Plan (DSP) is operated for Executive Directors. Shares awarded to Directors under the Plan will vest automatically if the Director is still employed by the Company three years after the grant of the award.

(v) A Replacement Deferred Share Bonus Plan (RDSP) was awarded during the year for Mr S W Dryden. Mr Dryden was made an award of 143,404 shares on 1 April 2008, the date he joined DS Smith Plc. The award was made in exceptional circumstances due to 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 with his former employer.

As discussed in section (g) of the Remuneration Report (pages 44 and 45) the Company is seeking shareholder approval at the forthcoming Annual General Meeting for a new Performance Share Plan to replace the ESOS and LTIP described above.

The total number of options outstanding and exercisable under share arrangements as at 30 April 2008 was as follows:

	Options outstanding				Options exercisable	
	Number of shares	Option price range (p)	Weighted average remaining contract life (years)	Weighted average exercise price (p)	Number exercisable	Weighted average exercise price (p)
Executive Share Option Scheme (1992)	217,607	166.7–187.9	0.7	172.0	217,607	172.0
Executive Share Option Scheme (1999)	6,789,947	135.2–243.8	6.6	161.7	126,145	146.4
Restricted Share Plan	54,144	Nil	3.0	Nil	54,144	Nil
Long-Term Incentive Plan	3,587,048	Nil	1.2	Nil	Nil	Nil
Deferred Share Bonus Plan	69,473	Nil	2.3	Nil	Nil	Nil
Replacement Deferred Share Bonus Plan	143,404	Nil	2.1	Nil	Nil	Nil

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

Notes to the Consolidated Financial Statements continued

25. Share-based payment expense continued

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

2008	Executive Share Option Scheme (1992) Weighted average exercise price (p)	Executive Share Option Scheme (1992) Options ('000s)	Executive Share Option Scheme (1999) Weighted average exercise price (p)	Executive Share Option Scheme (1999) Options ('000s)	Restricted Share Plan Weighted average exercise price (p)	Restricted Share Plan Options ('000s)	Long-Term Incentive Plan Weighted average exercise price (p)	Long-Term Incentive Plan Options ('000s)
Balance at 1 May 2007	169.4	340	150.0	7,192	Nil	536	Nil	3,987
Granted	–	–	244.0	938	–	–	Nil	948
Exercised	164.8	(21)	148.2	(132)	Nil	(482)	Nil	(23)
Lapsed	164.8	(101)	157.6	(1,208)	Nil	–	Nil	(1,324)
Balance at 30 April 2008	**172.0**	**218**	**161.7**	**6,790**	**Nil**	**54**	**Nil**	**3,588**
Exercisable at 30 April 2008	**172.0**	**218**	**146.4**	**126**	**Nil**	**54**	**Nil**	**–**

2008 continued	Deferred Share Bonus Plan Weighted average exercise price (p)	Deferred Share Bonus Plan Options ('000s)	Replacement Deferred Share Bonus Plan Weighted average exercise price (p)	Replacement Deferred Share Bonus Plan Options ('000s)
Balance at 1 May 2007	–	–	–	–
Granted	Nil	95	Nil	143
Exercised	–	–	–	–
Lapsed	–	(26)	–	–
Balance at 30 April 2008	**Nil**	**69**	**Nil**	**143**
Exercisable at 30 April 2008	**Nil**	**–**	**Nil**	**–**

2007	Executive Share Option Scheme (1992) Weighted average exercise price (p)	Executive Share Option Scheme (1992) Options ('000s)	Executive Share Option Scheme (1999) Weighted average exercise price (p)	Executive Share Option Scheme (1999) Options ('000s)	Restricted Share Plan Weighted average exercise price (p)	Restricted Share Plan Options ('000s)	Long-Term Incentive Plan Weighted average exercise price (p)	Long-Term Incentive Plan Options ('000s)
Balance at 1 May 2006	182.9	2,024	150.5	7,132	Nil	1,265	Nil	2,929
Granted	–	–	148.7	1,533	–	–	Nil	1,521
Exercised	170.3	(1,353)	151.4	(924)	Nil	(697)	–	–
Lapsed	248.6	(331)	150.3	(549)	Nil	(32)	Nil	(463)
Balance at 30 April 2007	169.4	340	150.0	7,192	Nil	536	Nil	3,987
Exercisable at 30 April 2007	169.4	340	146.4	126	Nil	70	Nil	–

The average share price of the Company during the financial year was 205.4 pence (2006/07: 176.7 pence).

The total expense recognised as employee costs is as follows:

	2008 £m	2007 £m
Share options granted in 2002/03	**0.1**	–
Share options granted in 2003/04	**0.7**	–
Share options granted in 2004/05	**–**	0.2
Share options granted in 2005/06	**0.5**	0.4
Share options granted in 2006/07	**0.3**	0.4
Share options granted in 2007/08	**0.5**	–
Total expense recognised as employee costs	**2.1**	1.0

The fair value of options granted during the period, determined using a stochastic valuation model, was £2.0m (2007: £1.3m). The significant inputs into the model were: share prices of £2.37 for LTIP (2007: £1.50) and £2.44 for ESOS (2007: £1.48) at the grant date; the exercise prices shown above; standard deviation of expected share price returns of 24.1% for LTIP and 26.6% for ESOS; options life disclosed above; annual risk-free interest rate of 5.5% for LTIP and 5.4% for ESOS; and 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 is based on statistical analysis of daily share prices over a period of three to six years.

26. Cash generated from operations

	2008 £m	2008 £m	2007 £m	2007 £m
Profit for the financial year		**78.2**		61.3
Adjustments for				
Exceptional item charged/(credited) to income statement	**1.9**		(3.9)	
Cash outflow for exceptional items	**(5.8)**		(7.2)	
Depreciation and amortisation	**62.0**		62.9	
Profit on sale of non-current assets	**(4.4)**		(6.6)	
Share of profit of associates	**(3.4)**		(3.9)	
Employment benefit net finance income	**(8.8)**		(8.0)	
Share-based payment expense	**2.1**		1.0	
Finance income	**(3.3)**		(1.7)	
Finance costs	**24.1**		16.7	
Foreign exchange and fair value movements	**(1.3)**		–	
Income tax expense	**30.9**		17.2	
		94.0		66.5
Changes in				
Inventories	**(11.8)**		(1.9)	
Trade and other receivables	**(20.1)**		(11.5)	
Trade and other payables	**45.1**		21.9	
Provisions and employee benefits	**(5.6)**		(8.3)	
		7.6		0.2
Cash generated from operations		**179.8**		128.0

Notes to the Consolidated Financial Statements continued

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

	2008 £m	2007 £m
Operating profit before exceptional items	**119.6**	77.7
Depreciation and amortisation	**62.0**	62.9
Adjusted EBITDA	**181.6**	140.6
Working capital movement	**13.2**	8.5
Exceptional cash costs	**(5.8)**	(7.2)
Other	**(9.2)**	(13.9)
Cash generated from operations	**179.8**	128.0
Capital expenditure payments	**(66.5)**	(55.8)
Proceeds from sales of assets and investments	**9.3**	41.0
Tax paid	**(27.8)**	(15.1)
Net interest paid	**(16.8)**	(14.1)
Dividends received from associate	**1.0**	–
Free cash flow before net (acquisitions)/disposals and dividends	**79.0**	84.0
Dividends paid	**(33.7)**	(32.7)
Net (acquisitions)/disposals of subsidiaries	**(87.2)**	0.2
Net cash flow	**(41.9)**	51.5
Proceeds from the issue of share capital	**0.2**	3.7
Purchase of own shares	**(2.0)**	–
Net debt acquired	**(1.3)**	–
Foreign exchange and fair value movements	**(25.6)**	1.4
Net debt movement	**(70.6)**	56.6
Opening net debt	**(181.2)**	(237.8)
Closing net debt	**(251.8)**	(181.2)

28. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2008 £m	2007 £m
Less than one year	**23.6**	21.8
Between one and five years	**65.7**	68.7
More than five years	**37.9**	36.0
	127.2	126.5

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

As at 30 April 2008, the Group's future minimum sub-lease receipts totalled £1.2m (2007: £1.4m), of which: £0.2m (2007: £0.2m) falls within one year; £0.8m (2007: £0.8m) between one and five years; and £0.2m (2007: £0.4m) after five years.

29. Capital commitments

As at 30 April 2008, the Group had committed to incur capital expenditure of £19.3m (2007: £7.2m).

30. Acquisitions and disposals

(a) New Thames and Grovehurst Energy

On 29 February 2008, the Group acquired 100% of the voting share capital of M-real New Thames Limited, which owns a paper mill in Kent, UK. On this date and also as part of the same acquisition, the Group acquired the balance of the voting share capital of its joint venture, Grovehurst Energy Limited, not already owned by the Group. Grovehurst Energy provides energy and other services to the site on which the New Thames Mill operates. The joint venture in Grovehurst Energy Limited was entered into in 1988 in connection with the Group's acquisition of the Kemsley Mill, which is adjacent to the New Thames Mill. The results of Grovehurst Energy have been consolidated as a subsidiary from 29 February 2008.

The impact on the Group's assets and liabilities was as follows:

	Carrying values before acquisition £m	Provisional fair values £m
Intangible assets (EU emission allowances)	–	5.1
Property, plant and equipment	46.8	61.2
Inventories	3.0	3.0
Trade and other receivables	1.3	12.2
Trade and other payables	(2.5)	(3.9)
Provisions	–	(7.7)
Net assets acquired	48.6	69.9
Goodwill		–
Consideration		69.9

Consideration satisfied by:

Cash paid of £71.1m (including £1.1m of acquisition costs), being £67.4m in relation to New Thames and £3.7m for Grovehurst Energy, less cash and cash equivalents acquired of £1.2m.

The fair value adjustments relate to the valuation of surplus EU emission allowances received as part of the acquisition; the valuation of property, plant and equipment, as determined by an external valuation firm; recognition of a provision for an onerous service contract; and deferred and current tax assets recognised on acquisition. Deferred tax is also recognised on the temporary timing differences created by the fair value adjustments.

Due to the proximity of the acquisition to the year-end, the fair value adjustments are provisional; these will be finalised within 12 months of the acquisition.

New Thames and Grovehurst Energy contributed £0.1m to the Group's profit before tax for the period between the date of acquisition and the balance sheet date.

It is impracticable to state what the impact would have been on Group revenue and profit for the year had the acquisition been completed on 1 May 2007 due to the proximity of the acquisition to the year-end and the changes to the operating arrangements of the business following its acquisition.

(b) Other acquisitions

On 4 March 2008, the Group acquired 100% of the voting equity instruments of Multigraphics Holdings Limited, a print and retail display business in the UK, for a consideration of £6.7m. The excess of the consideration over the fair value of net assets acquired of £3.1m, which includes an intangible asset of £2.6m recognised in relation to the value of the acquired order book (with an estimated useful life of 10 years), has been recognised as goodwill in these consolidated financial statements.

During the year, further share capital in Toscana Ondulati SpA was acquired for £11.9m (see note 23).

On 30 September 2005, the Group acquired 100% of the voting share capital of Timmermans NV. During the year additional deferred consideration of £2.5m became due to the previous owners following the satisfaction of certain performance criteria of the acquired business. This amount has been provided for in other provisions, with an equal and opposite increase to goodwill.

31. Related parties

Identity of related parties

In the normal course of business the Group undertakes a wide variety of transactions with certain of its subsidiaries (see note 32) and associates (see note 12).

The key management personnel of DS Smith Plc 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 43 to 50 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 £0.7m (2007: £0.2m) relating to key management.

Notes to the Consolidated Financial Statements continued

31. Related parties continued

Other related party transactions

	2008 £m	2007 £m
Sales to associates and joint ventures	**17.4**	0.9
Purchases from associates and joint ventures	**0.5**	35.1
Amounts due from associates and joint ventures	**–**	0.1
Amounts due to associates and joint ventures	**–**	6.2

32. DS Smith Group companies

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

List of key consolidated companies

	Country of incorporation or registration	Ownership interest 2008
UK Paper and Corrugated Packaging		
St Regis Paper Company Limited	England	100%
SRP New Thames Limited	England	100%*
A. A. Griggs & Co Limited	England	100%*
DS Smith Packaging Limited	England	100%*
Continental European Corrugated Packaging		
DS Smith Kaysersberg S.A.S.	France	100%*
DS Smith Polska S.A.	Poland	100%*
Toscana Ondulati SpA	Italy	92%*
DS Smith Çopikas AS	Turkey	100%*
Plastic Packaging		
DS Smith Plastics Limited	England	100%*
Cartón Plástico s.a.	Spain	100%*
DW Plastics NV	Belgium	100%*
Ducaplast S.A.S.	France	100%*
Demes Logistics GmbH & Co KG	Germany	100%*
David S. Smith America Inc.	USA	100%*
DSS Rapak Inc.	USA	100%*
StePac L.A. Limited	Israel	90%*
Rapak GmbH & Co KG Systemverpackungen	Germany	100%*
Rapak Asia Pacific Limited	New Zealand	100%
Office Products Wholesaling		
Spicers Limited	England	100%
Spicers (Ireland) Limited	Ireland	100%
Spicers France SAS	France	100%*
Spicers NV	Belgium	100%*

* indirectly held by DS Smith Plc

A complete list of the Group's companies is available at DS Smith Plc, 4–16 Artillery Row, London SW1P 1RZ, United Kingdom.

33. Subsequent events
No material events occurred after the balance sheet date that require disclosure.

34. Interest in joint venture
During the year the Group acquired the balance of its 50% shareholding in Grovehurst Energy Limited (see note 30) which was previously accounted for as a joint venture.

Company Balance Sheet Prepared in Accordance with UK GAAP

As at 30 April 2008

	Note	2008 £m	2007 £m
Fixed assets			
Tangible assets	4	**1.5**	1.5
Investments	5	**995.3**	920.0
		996.8	921.5
Current assets			
Debtors: amounts falling due within one year	6	**48.0**	46.8
Debtors: amounts falling due after more than one year	6	**529.2**	216.9
Short-term investments		**–**	23.7
Cash at bank and in hand		**0.3**	0.3
		577.5	287.7
Creditors: amounts falling due within one year			
Trade and other creditors	7	**(68.0)**	(34.7)
Borrowings	7	**(32.4)**	(61.7)
Net current assets		**477.1**	191.3
Total assets less current liabilities		**1,473.9**	1,112.8
Creditors: amounts falling due after more than one year			
Trade and other creditors	7	**(46.3)**	(31.7)
Borrowings	7	**(798.6)**	(454.3)
Provisions for liabilities	8	**(0.6)**	(0.6)
Net assets excluding pension liability		**628.4**	626.2
Net pension liability	2	**(51.9)**	(9.8)
Net assets including pension liability		**576.5**	616.4
Capital and reserves			
Called up share capital	9	**39.3**	39.3
Share premium account	10	**263.1**	262.9
Acquisition reserve	10	**88.1**	88.1
Profit and loss account	10	**186.0**	226.1
Shareholders' funds		**576.5**	616.4

Approved by the Board on 25 June 2008 and signed on its behalf by
A D Thorne, Director
S W Dryden, Director
The notes on pages 100 to 104 form part of these accounts.

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

1. Significant accounting policies

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

(a) Accounting basis

The financial statements have been prepared in accordance with applicable accounting standards.

Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account.

As the results of the Company are being presented together with its consolidated financial statements (refer to pages 56 to 98), the Company has taken advantage of the exception contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the Group (or investees of the Group qualifying as related parties).

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

The amendment to FRS 17 'Retirement benefits' has been adopted for the first time and the disclosures it requires have been presented for both the current and comparative period.

(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. 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, machinery, fixtures and fittings	3 – 5 years

(d) Fixed asset investments

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

(e) Deferred taxation

In accordance with FRS 19, deferred tax 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 separately after other net assets on the face of the balance sheet.

(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 24 to the consolidated financial statements on page 90.

	2008 £m	2007 £m
Market value of schemes' assets	**711.4**	728.9
Present value of schemes' liabilities	**(783.5)**	(742.9)
Deficit in the schemes	**(72.1)**	(14.0)
Related deferred tax asset	**20.2**	4.2
Net pension liability	**(51.9)**	(9.8)

The movement in deficit during the year is as follows:

	2008 £m	2007 £m
Opening deficit	**(14.0)**	(45.8)
Service cost	**(9.2)**	(10.0)
Contributions	**15.4**	16.0
Other finance income	**8.8**	8.0
Actuarial gains and losses	**(73.3)**	17.6
Net payments	**0.2**	0.2
Closing deficit	**(72.1)**	(14.0)

Information on other aspects of the Company's defined benefit arrangements is materially the same as set out in note 24 to the consolidated financial statements.

3. Employee information

The average number of employees employed by the Company during the year was 35 (2006/07: 37).

	2008 £m	2007 £m
Wages and salaries	**5.1**	5.1
Social security costs	**0.6**	0.6
Pension costs	**0.3**	0.3
Total	**6.0**	6.0

Note 25 to the consolidated financial statements sets out the disclosure information required for the Company's share-based payments.

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 2007	1.4	3.1	4.5
Additions	–	0.1	0.1
Balance at 30 April 2008	**1.4**	**3.2**	**4.6**
Depreciation and impairment losses			
Balance at 1 May 2007	–	(3.0)	(3.0)
Depreciation charge for the year	–	(0.1)	(0.1)
Balance at 30 April 2008	**–**	**(3.1)**	**(3.1)**
Carrying amount			
Balance as at 1 May 2007	1.4	0.1	1.5
Balance as at 30 April 2008	**1.4**	**0.1**	**1.5**

5. Fixed asset investments

	Shares in Group undertakings £m	Other £m	Total £m
Balance at 1 May 2007	918.7	1.3	920.0
Additions	76.6	–	76.6
Disposals	–	(1.3)	(1.3)
Balance at 30 April 2008	**995.3**	**–**	**995.3**

The Company's principal trading subsidiary undertakings at 30 April 2008 are shown in note 32 of the consolidated financial statements.

6. Debtors

	2008 £m	2007 £m
Amounts falling due within one year		
Amounts owed by subsidiary undertakings	**29.7**	30.2
Corporation tax	**9.2**	11.5
Other debtors	**1.6**	3.8
Prepayments and accrued income	**0.2**	0.2
Derivative financial instruments	**7.3**	1.1
	48.0	46.8
Amounts falling due after more than one year		
Amounts owed by subsidiary undertakings	**518.5**	215.0
Deferred tax asset	**0.5**	1.7
Derivative financial instruments	**10.2**	0.2
	529.2	216.9
Total debtors	**577.2**	263.7

7. Creditors

	2008 £m	2007 £m
Trade and other creditors falling due within one year		
Amounts owed to subsidiary undertakings	**52.8**	22.1
Other tax and social security payables	**2.6**	1.8
Accruals and deferred income	**12.4**	9.0
Derivative financial instruments	**0.2**	1.8
	68.0	34.7
Trade and other creditors falling due after more than one year		
Deferred tax liability	**5.2**	–
Derivative financial instruments	**41.1**	31.7
	46.3	31.7
Borrowings falling due within one year		
Bank loans and overdrafts	**32.4**	61.7
	32.4	61.7
Borrowings falling due after more than one year (see note 19 of the consolidated accounts for further details)		
Bank loans	**68.2**	47.9
Loans from subsidiary undertakings	**546.4**	231.5
Other loans	**184.0**	174.9
	798.6	454.3
Total creditors	**945.3**	582.4

8. Provisions for liabilities

	Total £m
Balance at 1 May 2007	0.6
Utilised	–
Balance at 30 April 2008	**0.6**

9. Share capital

	Number of shares			
	2008 Millions	2007 Millions	**2008 £m**	2007 £m
Ordinary equity shares of 10 pence each				
Authorised	**410.0**	410.0	**41.0**	41.0
Issued, allotted, called up and fully paid	**393.4**	393.2	**39.3**	39.3

Shares issued during the year to 30 April 2008 and the consideration received were:

	Allotted, called up and fully paid			
	Number of shares '000	**Nominal value £'000**	**Share premium £'000**	**Total consideration £'000**
Reason for issue				
Executive options	**154**	**15**	**216**	**231**

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

10. Reserves

	Share premium account £m	Acquisition reserve £m	Profit and loss account: Own shares £m	Hedging reserve £m	Other £m	Total £m
At 1 May 2007	262.9	88.1	(3.0)	(1.4)	230.5	226.1
Premium arising on shares issued under option schemes	0.2	–	–	–	–	–
Retained profit for the financial year	–	–	–	–	(2.2)	(2.2)
Actuarial losses on pension schemes	–	–	–	–	(73.3)	(73.3)
Tax on actuarial losses on pension schemes	–	–	–	–	20.5	20.5
Changes in the fair value of cash flow hedges (including tax)	–	–	–	14.7	–	14.7
Own shares acquired	–	–	(2.0)	–	–	(2.0)
Share-based payments (after tax)	–	–	0.8	–	1.4	2.2
At 30 April 2008	**263.1**	**88.1**	**(4.2)**	**13.3**	**176.9**	**186.0**

The Company made a profit for the financial year of £31.4m (2006/07: £5.0m) including the recognition of intra-group dividends.

No separate profit and loss account is presented for the Company as permitted by Section 230(4) of the Companies Act 1985.

The Company's profit and loss account includes an amount of £76.6m (2006/07: £76.6m) which is considered non-distributable.

11. Contingent liabilities

The Company has guaranteed the gross overdrafts and loans of certain subsidiary undertakings, which at 30 April 2008 amounted to £124.1m (2007: £113.7m).

Five-Year Financial Summary

	Reported under UK GAAP[4]	Reported under IFRS[4]			
	Year ended 30 April 2004 £m	Year ended 30 April 2005 £m	Year ended 30 April 2006 £m	Year ended 30 April 2007 £m	**Year ended 30 April 2008 £m**
Revenue					
UK Paper and Corrugated Packaging	748.9	631.2	649.6	687.1	**753.2**
Continental European Corrugated Packaging		265.7	276.6	308.0	**346.0**
Plastic Packaging	208.7	195.9	202.4	201.8	**223.4**
Office Products Wholesaling	498.8	499.7	518.7	569.2	**644.9**
Office Products Manufacturing[5]	48.0	46.8	5.4	–	**–**
Intra-segment	(15.9)	(14.4)	–	–	**–**
Group revenue	1,488.5	1,624.9	1,652.7	1,766.1	**1,967.5**
Operating profit[1, 4]					
UK Paper and Corrugated Packaging	41.4	31.6	20.5	36.5	**68.5**
Continental European Corrugated Packaging		20.2	20.1	18.2	**20.3**
Plastic Packaging	14.0	9.3	7.2	10.2	**10.7**
Office Products Wholesaling	19.7	21.5	12.6	12.8	**20.1**
Office Products Manufacturing[5]	0.3	nil	nil	–	**–**
Group operating profit[1, 4]	75.4	82.6	60.4	77.7	**119.6**
Share of profit of associates[6]	3.0	3.4	4.1	3.9	**3.4**
Net finance cost	(10.4)	(13.2)	(12.3)	(15.0)	**(20.8)**
Employee benefit net finance income[4]	(3.2)	1.1	1.2	8.0	**8.8**
Profit before taxation, exceptional items and amortisation of intangibles[4]	64.8	73.9	53.4	74.6	**111.0**
Exceptional items	–	(9.6)	(42.4)	3.9	**(1.9)**
Amortisation of intangibles	(3.6)	–	–	–	**–**
Profit before income tax[4]	61.2	64.3	11.0	78.5	**109.1**
Free cash flow	63.0	55.8	63.2	84.0	**79.0**
Capital expenditure[7]	49.8	53.6	62.7	66.0	**68.6**
Depreciation and amortisation	64.5	68.6	67.2	62.9	**62.0**
Average capital employed[2]	789.3	949.0	930.0	895.0	**925.7**
Shareholders' funds[4]	494.4	519.8	541.5	567.1	**601.9**
Net debt	274.7	260.7	237.8	181.2	**251.8**
Adjusted return on sales[1, 4]	5.1%	5.1%	3.7%	4.4%	**6.1%**
Adjusted return on average capital employed[1, 4]	9.6%	8.7%	6.5%	8.7%	**12.9%**
Gearing[4]	54.9%	50.2%	43.9%	32.0%	**41.8%**
Adjusted earnings per share[1, 3, 4]	13.6p	14.4p	10.0p	13.1p	**19.9p**
Dividends per share[3]	8.2p	8.4p	8.4p	8.6p	**8.8p**
Adjusted dividend cover[1, 4]	1.5x	1.7x	1.2x	1.5x	**2.3x**
Adjusted net assets per share[3, 4]	129.2p	133.6p	138.5p	144.9p	**153.9p**

1 before exceptional items and, for 2003/04 reported under UK GAAP, amortisation of intangibles
2 average capital employed is defined in note 2 on page 66
3 adjusted for the bonus element of the rights issue which took place during the year ended 30 April 2004
4 profit and profit-related figures for the financial year 2003/04 are not comparable with those for the subsequent years. Results for 2003/04 are stated under pensions accounting standard FRS 17 and include a pension charge; and results for 2004/05, 2005/06, 2006/07 and 2007/08 are stated under pensions accounting standard IAS 19. Shareholders' funds, gearing and net assets per share for the financial year 2003/04 are presented under UITF 38; 2004/05, 2005/06, 2006/07 and 2007/08 are presented under adopted IFRS
5 the Office Products Manufacturing business was sold in July 2005
6 before exceptional items
7 capital expenditure represents additions to intangible assets and property, plant and equipment

Notice of Annual General Meeting 2008

Notice is hereby given that the Annual General Meeting of DS Smith Plc will be held at the Andaz (formerly Great Eastern) Hotel, Liverpool Street, London EC2M 7QN, on Wednesday 3 September 2008 at 12 noon to consider and, if thought fit, pass the following resolutions, of which Resolutions 1 to 8 will be proposed as ordinary resolutions and Resolutions 9, 10 and 11 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 2008.

2 To declare a final dividend on the ordinary shares.

3 To approve the Report on Remuneration.

4 To elect Mr G M B Adams as a Director of the Company.

5 To elect Mr S W Dryden as a Director of the Company.

6 To re-appoint Deloitte & Touche LLP as auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are to be laid before the Company and to authorise the Directors to determine the remuneration of the auditors.

7 That the DS Smith Plc 2008 Performance Share Plan (the 'Plan'), the main features of which are summarised on pages 108 to 109, be approved and the Directors be authorised to:

(a) do all such acts and things as they may consider appropriate to implement the Plan; and

(b) establish further plans based on the 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 and overall participation in the Plan.

8 That:

(a) in accordance with article 6 of the Articles of Association of the Company, the Directors be authorised to allot relevant securities up to a maximum nominal amount of £11,013,965;

(b) this authority shall expire at the conclusion of the Annual General Meeting to be held in 2009 or, if earlier, 2 December 2009 save that the Company shall be entitled under such authority to honour at any time before expiry thereof any commitment to allot its ordinary shares which will or might be concluded wholly or partly after the expiry of such authority; and

(c) all previous authorities under Section 80 of the Companies Act 1985 be revoked.

9 That:

(a) in accordance with article 7 of the Articles of Association of the Company, the Directors be given power to allot equity securities for cash;

(b) the Directors be empowered to allot equity securities within Section 94(3A) of the Companies Act 1985 as if Section 89(1) of the Act did not apply;

(c) the powers under paragraph (a) above (other than in connection with a rights issue) and paragraph (b) above shall be limited to the allotment of equity securities having a maximum nominal amount of £1,966,779;

(d) these authorities shall expire at the conclusion of the Annual General Meeting to be held in 2009 or, if earlier, 2 December 2009 save that the Company shall be entitled under such authorities to honour at any time before expiry thereof any commitment to allot its ordinary shares which will or might be concluded wholly or partly after the expiry of such authority; and

(e) all previous authorities under Section 95 of the Companies Act 1985 be revoked.

10 That in accordance with article 11 of the Articles of Association of the Company and the Companies Act 1985, the Company is generally and unconditionally authorised to make market purchases (within the meaning of the Companies Act 1985) of ordinary shares of 10p each in the capital of the Company in such manner and on such terms as the Directors may from time to time determine provided that:

(a) the maximum number of ordinary shares hereby authorised to be purchased is 39,335,589 ordinary shares;

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

(c) the maximum price which may be paid for each ordinary share is an amount equal to 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); and

(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 2009 or, if earlier, 2 December 2009, save that the Company shall be entitled under such authority to make at any time before the expiry thereof any contract to purchase its ordinary shares which will or might be concluded wholly or partly after the expiry of such authority.

11 That the regulations set out in the printed document submitted to the Meeting and for the purpose of identification initialled by the Chairman be adopted as the Articles of Association of the Company in substitution for and to the exclusion of all existing articles of association of the Company with effect on and from 1 October 2008.

By Order of the Board

Carolyn Cattermole
Company Secretary
4–16 Artillery Row
London SW1P 1RZ
17 July 2008

Notes

(i) Only those Members registered in the Register of Members of the Company as at 6 pm on 1 September 2008 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 Form of Proxy is enclosed. 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.

(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) 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 3 September 2008 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 7RA01) 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.

(vii) As at 25 June 2008 (being the latest practicable date prior to publication of this document), the Company's issued share capital consists of 393,355,893 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 25 June 2008 are 393,355,893.

(viii) In order to facilitate voting by corporate representatives at the Meeting, arrangements will be put in place at the Meeting so that (a) if a corporate shareholder has appointed the Chairman of the Meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the Meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (b) if more than one corporate representative for the same corporate shareholder attends the Meeting but the corporate shareholder has not appointed the Chairman of the Meeting as its corporate representative, a designated corporate representative will be nominated from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – www.icsa.org.uk – for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (a) above.

(ix) 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 6AO during normal business hours and at the place of the Meeting from 11.45 am until its conclusion:

(a) service contracts of the Executive Directors;

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

(c) the current Articles of Association; and

(d) the proposed new Articles of Association.

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

Explanatory notes on the resolutions

Resolution 1:
Report and financial statements

The Directors present to shareholders at the Annual General Meeting the Reports of the Directors and Auditors and the financial statements of the Company for the year ended 30 April 2008. 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 6.2p net per ordinary share.

Notice of Annual General Meeting 2008 continued

Resolution 3:
Approval of Report on Remuneration

As required by the Directors' Remuneration Report Regulations 2002, shareholder approval is sought for the Remuneration Report set out on pages 43 to 50.

Resolutions 4 – 5:
Election of Directors

The Articles of Association of the Company require that a Director appointed since the previous Annual General Meeting shall be subject to election by the shareholders. Mr Adams was appointed Director with effect from 29 January 2008 and, in accordance with the Articles, he retires from office at the Meeting. He is a member of the Audit Committee. Mr Dryden was appointed a Director with effect from 1 April 2008. He is a member of the General Purposes Committee. Being eligible they both offer themselves for election. A biography of each Director, including those seeking election, appears on page 39 of the Annual Report.

The Articles of Association of the Company require that all Directors who, at the start of business on the date which is 30 clear days prior to the date of this Notice of Meeting, have held office for more than 30 months since they were last appointed or reappointed to the Company in general meeting retire from office but are eligible to submit themselves for re-election by the shareholders. There are no Directors who are in this position.

Resolution 6:
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 6 proposes the re-appointment of the Company's existing auditors, Deloitte & Touche LLP, until the next Annual General Meeting and also gives authority to the Directors to determine the auditors' remuneration.

Resolution 7:
Approval of the DS Smith Performance Share Plan

The rationale for the introduction of the DS Smith Plc 2008 Performance Share Plan (the 'Plan') is set out in the Remuneration Report on page 44. The following is a summary of the principal terms of the Plan.

(a) Operation
The Remuneration Committee of the Board of Directors of the Company (the 'Committee') will supervise the operation of the Plan.

(b) Eligibility
Any employee (including an Executive Director) of the Company and its subsidiaries (the 'Group') will be eligible to participate in the Plan at the discretion of the Committee.

(c) Grant of awards
The Committee may grant awards to acquire Ordinary Shares in the Company ('Shares') within six weeks of shareholder approval of the Plan and it is intended that the first awards will be made within this period. The Committee may also grant awards within six weeks of the Company's announcement of its results for any period and at any other time when the Committee considers there are exceptional circumstances which justify the granting of awards.

An award will normally be in the form of a conditional award of free Shares which will normally vest on its third anniversary subject to the satisfaction of performance conditions and the continued employment of the participant within the Group. The Committee may also decide to grant cash-based awards of an equivalent value to share-based awards or to satisfy share-based awards in cash, although it does not currently intend to do so.

An award may not be granted more than ten years after shareholder approval of the Plan.

No payment is required for the grant of an award. Awards are not transferable, except on death. Awards are not pensionable.

(d) Individual limit
An employee may not receive awards in any financial year over Shares having a market value in excess of 150% of his annual base salary in that financial year. In exceptional circumstances, such as recruitment or retention, this limit is increased to 200% of an employee's annual base salary. The Committee intends to grant initial awards at the 150% level to the Executive Directors of the Company and at generally lower levels for other executives.

(e) Performance conditions
The vesting of awards will be subject to performance conditions set by the Committee.

For the initial awards which are due to be made to those employees with Group-related roles (which includes the Company's Executive Directors), each award will be subject to three equally weighted performance measures comprising: (i) total shareholder return ('TSR') relative 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'). In each case, performance will be measured over three financial years starting on 1 May 2008. Vesting of the awards will be as follows:

Percentage vesting as a proportion of that element of the award	Relative TSR	Average adjusted EPS	Average adjusted ROACE
100%	Upper quartile	19.0p	12.5%
Between 25% and 100%	Between median and upper quartile	Between 16.5p and 19.0p	Between 11.5% and 12.5%
25%	Median	16.5p	11.5%

The Company's TSR will be compared with the TSR of each of the companies in the Industrial Goods and Services Supersector within the FTSE 250 as at the date of grant of the award. Relative TSR performance will be assessed using a 60-day averaging period before the beginning and the end of the three-year measurement period.

The EPS measure will be based on the average adjusted EPS as reported in the Annual Report over the three-year measurement period. The Committee may adjust the EPS figure in exceptional circumstances.

The ROACE measure will be based on the average adjusted Group operating profit divided by the monthly average of capital employed in the year, measured over the three-year measurement period.

Executives working in one of the four separate Business Segments of the Group will have a different set of measures, reflecting responsibility for performance in their own segment. One-third of these awards will be based on the Company's relative TSR performance as described above, but the remaining two-thirds will be based, as to one-third on the average adjusted operating profit for the relevant business segment, and as to the final third on the average adjusted ROACE for the same business segment.

The Committee may set different performance conditions from those described above for future awards provided that, in the reasonable opinion of the Committee, the new targets are not materially less challenging in the circumstances than those described above.

The Committee may also vary the performance conditions applying to existing 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. While 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.

(f) Vesting of awards
Awards normally vest three years after grant to the extent that the applicable performance conditions (see above) have been satisfied and provided the participant is still employed in the Group.

(g) 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 awards, of an amount based on the dividends that would have been paid on those Shares between the time when the awards were granted and the time when they vest. The amount of the payment may take into account reinvestment of the notional dividends. Alternatively, participants may have their awards increased as if dividends were paid on the Shares subject to their award and then reinvested in further Shares.

(h) Leaving employment
As a general rule, an award will lapse upon a participant ceasing to hold employment or be a Director within the Group. However, if a participant ceases to be an employee or Director because of his death, injury, disability, retirement, redundancy, his employing company or the business for which he works being sold out of the Group or in other circumstances at the discretion of the Committee, then his award will normally vest on the normal vesting date. The extent to which an 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 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 an 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 Group for one of the 'good leaver' reasons specified above, the Committee can decide, in exceptional circumstances, that his award will vest on the date of leaving employment or office. The extent to which an award will vest in this situation will depend upon: (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.

(i) Corporate events
In the event of a takeover, scheme of arrangement or winding up of the Company (not being an internal corporate reorganisation) all awards will vest early 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) the pro-rating of the 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, awards will be replaced by equivalent new awards over shares in a new holding company unless the Committee decides that awards should vest on the basis which would apply in the case of a takeover.

(j) Participants' rights
Awards will not confer any shareholder rights until they have vested and the participants have received their Shares.

(k) Rights attaching to Shares
Any Shares allotted when an 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 an award.

(m) Overall Plan limits
The 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:

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

(b) 5% of the issued ordinary share capital of the Company under the Plan 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 Plan in any respect, provided that the prior approval of shareholders is obtained for any amendments that are to the advantage of participants in respect of the rules governing eligibility, limits on participation, the overall limits on the issue of Shares or the transfer of treasury Shares, the basis for determining a participant's entitlement to, and the terms of, the Shares or cash to be acquired and the adjustment of awards.

The requirement to obtain the prior approval of shareholders will not, however, apply to any minor alteration made to benefit the administration of the Plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Group. Shareholder approval will also not be required for any amendments to any performance condition applying to an award.

(o) Overseas plans
This Resolution to approve the Plan will allow the Board to establish further plans for overseas territories, any such plan to be similar to the Plan, but modified to take account of local tax, exchange control or securities laws, provided that any Shares made available under such further plans are treated as counting against the limits on individual and overall participation in the Plan. The rules of the Plan include a schedule to allow the grant of French tax-advantaged awards. This schedule makes minor modifications to the Plan rules for French participants.

Resolution 8:
Directors' authority to allot shares

Authority was granted to the Directors at last year's Annual General Meeting, pursuant to Section 80 of the Companies Act 1985, to allot shares in the Company without the prior consent of shareholders. Resolution 8, which will be proposed as an ordinary resolution, will, if passed, give the Directors renewed authority to allot shares up to a maximum nominal value of £11,013,965 (representing approximately 28% of the issued share capital of the Company on 25 June 2008, being the latest practicable date prior to publication of this document).

Other than in connection with any exercise of options under the Group's employee share option schemes, the Directors have no present intention of exercising the allotment authority proposed by this Resolution. This authority will expire at the conclusion of the next Annual General Meeting, or, if earlier, on 2 December 2009, except in so far as commitments to allot shares have been entered into before that date. It is the present intention of the Directors to seek a similar authority annually.

Resolution 9:
Directors' power to disapply pre-emption rights

This Resolution, which will be proposed as a special resolution, supplements

Notice of Annual General Meeting 2008 continued

the Directors' authority to allot shares in the Company (proposed by Resolution 8). Section 89 of the Companies Act 1985 requires a company proposing to allot equity securities for cash to offer them first to existing shareholders pro rata to their existing shareholdings. Authority was granted to the Directors at last year's Annual General Meeting and the Directors propose to seek shareholders' approval to renew this authority, pursuant to Section 95 of the Companies Act 1985, to allot such securities, notwithstanding the requirement imposed by Section 89, in two cases:

– in connection with a rights issue; and

– allotments of shares for cash up to a total nominal value of £1,966,779 (representing approximately 5% of the Company's issued share capital at 25 June 2008, being the latest practicable date prior to publication of this document) although it is not intended without prior consultation with the investment committee of the Association of British Insurers to issue or transfer in this way more than 7.5% of the share capital in a rolling three-year period. This gives the Directors flexibility to take advantage of business opportunities as they arise, including the sale of any shares the Company has purchased and held in treasury, whilst the 5% limit ensures that existing shareholders' interests are protected, and is in line with guidelines issued by institutional investors' bodies.

This authority will expire at the conclusion of the next Annual General Meeting, or, if earlier, on 2 December 2009, except in so far as commitments to allot shares have been entered into before that date. It is the present intention of the Directors to seek a similar authority annually.

Resolution 10:
Company's authority to purchase shares

This Resolution, which will be proposed as a special resolution, seeks to renew the existing authority for the Company to purchase its own shares in the market. This authority gives the Company greater flexibility in managing its capital resources. The Directors have no specific intention of using this authority and would do so only when, in the light of market conditions, they believed that the effect of such purchases would be to increase earnings per share, and that the purchases were in the interests of shareholders generally. The Directors would also give careful consideration to gearing levels of the Company and its general financial position. The purchase price would be paid out of distributable profits. Resolution 10 specifies the maximum number of shares which may be purchased (representing approximately 10% of the Company's issued share capital at 30 April 2008, being the latest practicable date prior to publication of this document), the minimum and maximum prices at which they may be bought and when the authority will expire, reflecting the requirements of the Companies Act 1985 and the Listing Rules of the FSA.

The maximum price at which the shares may be purchased is the higher of 5% above the average of the middle market values of those shares for the five business days before the purchase is made and the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003.

The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 enable certain listed companies to hold shares in treasury, as an alternative to cancelling them, following a purchase of own shares by the Company in accordance with the Companies Act 1985. Shares held in treasury may subsequently be cancelled, sold for cash or used to satisfy share options and share awards under the Company's share schemes. Once held in treasury, the Company is not entitled to exercise any rights, including the right to attend and vote at meetings, in respect of those shares. Further, no dividend or distribution of the Company's assets may be made to the Company in respect of those shares whilst held in treasury.

Accordingly, if the Directors exercise the authority conferred by Resolution 10, 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 25 June 2008 (being the latest practicable date prior to publication of this notice) is 7,007,554 of which 5,980,440 are options over unissued ordinary shares. The proportion of issued ordinary share capital that the options over unissued ordinary shares represented on this date was 1.52% 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 1.38%. The authority will expire on 2 December 2009 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 11:
Adoption of new Articles

It is proposed to ask shareholders to approve, with effect from 1 October 2008, a number of amendments to the Company's current Articles of Association primarily to reflect certain provisions of the Companies Act 2006 (the 'CA 2006').

Resolution 11 proposes to adopt new Articles of Association (the 'New Articles') with effect from 1 October 2008. These update the Company's current Articles of Association (the 'Current Articles') primarily to take account of changes in English company law brought about by certain provisions of the CA 2006.

The principal changes introduced in the New Articles are set out below. Other changes, which are of a minor, technical or clarifying nature, have not been noted.

(a) Articles which duplicate statutory provisions
Provisions in the Current Articles which reflect provisions contained in the Companies Act 1985 are amended to bring them into line with the equivalent provisions contained in the CA 2006. Examples of such provisions, including provisions relating to proxies and to convening and notice of general meetings, are detailed below.

(b) Form of resolution
The Current Articles contain a provision that, subject to legislation where for any purpose an ordinary resolution is required, a special or extraordinary resolution is also effective and that, where an extraordinary resolution is required, a special resolution is also effective. This provision and certain other provisions are being amended as the concept of extraordinary resolutions has not been retained under the CA 2006.

(c) Convening and notice of general meetings
It is proposed that the provisions in the Current Articles dealing with convening of general meetings and the length of notice required to convene general meetings be amended to conform to the new provisions in the CA 2006. In particular, a general meeting (other than an annual general meeting) to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required.

(d) Quorum requirements
The CA 2006 provides that in general terms the quorum for a general meeting be calculated by reference to the numbers of 'qualifying persons' who are present at the meeting, which includes an individual who is a member of the Company, a person authorised under Section 323 of the CA 2006 to act as the representative of a corporation, and a person appointed as proxy of a member. As before, it is proposed that the quorum for a general meeting will be two but in line with the CA 2006, the New Articles make clear that there will be no double counting for qualifying persons who are representatives of the same corporation or proxies of the same member.

(e) Proxies
A proxy has a statutory right under the CA 2006 to speak at any general meeting. Under the CA 2006, proxies are also entitled to vote on a show of hands whereas under the Current Articles proxies are only entitled to vote on a poll. Multiple proxies may be appointed to exercise the rights attached to a different share held by the shareholder. The New Articles reflect these new rules, as appropriate.

(f) Remuneration of Non-Executive Directors
The cap on aggregate fees payable to Non-Executive Directors is being

increased to £750,000 per annum. The Remuneration Committee believes that this increase will ensure that the Company will continue in the future to have the ability to appoint and retain the best Non-Executive Directors.

(g) Electronic and web communications
Provisions of the CA 2006 which came into force in January 2007 enable companies to communicate with members by electronic and/or website communications. The New Articles continue to allow communications to members in electronic form and, in addition, they also permit the Company to take advantage of the new provisions relating to website communications. Before the Company can communicate with a member by means of website communication, the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to him by means of a website, and the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The Company will notify the member (either in writing, or by other permitted means) when a relevant document or information is placed on the website and a member can always request a hard copy version of the document or information. It is not currently envisaged that the Company will utilise this authority to communicate with members by means of website communication.

(h) Directors' indemnities
The CA 2006 has in some areas widened the scope of the powers of a company to indemnify directors. This is reflected in the New Articles. The opportunity is also being taken to clarify that, subject to the CA 2006, the Company may grant indemnities to directors of associated companies.

(i) Directors' interests
The CA 2006 sets out directors' general duties. The provisions largely codify the existing law, but with some changes. Under the CA 2006, from 1 October 2008, a Director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. The requirement is very broad and could apply, for example, if a Director becomes a director of another company or a trustee of another organisation. The CA 2006 allows directors of public companies to authorise conflicts and potential conflicts where the articles of association contain a provision to this effect. The CA 2006 also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. The New Articles, which will take effect on and from 1 October 2008, give the Directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards which will apply when Directors decide whether to authorise a conflict or potential conflict. These include firstly, only independent Directors (i.e. those who have no interest in the matter being considered) will be able to take the relevant decision, and secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors will be able to impose limits or conditions when giving authorisation or subsequently if they think this is appropriate.

It is proposed to include provisions relating to confidential information, attendance at Board meetings and availability of Board papers to protect a Director being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the Directors.

A copy of the New Articles and a copy of the Current Articles marked to show changes being proposed by resolution 11 are available for inspection as noted in Note (ix) above.

Due to the phased nature of implementation of the CA 2006, it is likely that further related changes to the Articles of Association will be proposed at a subsequent Annual General Meeting.

Recommendation
Your Directors believe that all the proposals 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
Wednesday 3 September 2008

Location
Andaz (formerly Great Eastern) Hotel, Liverpool Street, London EC2M 7QN

Timing
The Meeting will start promptly at 12 noon and shareholders wishing to attend are advised to be in the venue no later than 11.50 am. The reception area will be open from 11.30 am, from which time refreshments will be served.

Travel information
See map on the reverse of Admittance Card for the location of the Andaz (formerly Great Eastern) Hotel and the nearest underground and railway stations. The venue is less than five minutes' walk from Liverpool Street station. There are no car-parking facilities at the venue.

Admission
Please bring the Admittance Card (which is the tear-off section at the bottom of the Form of Proxy) with you to the Meeting. You may be asked to show the Card before being admitted to the venue. Shareholders and proxy holders may also be required to provide proof of identity. The registration process may take longer without these documents. Shareholders are politely requested to bring no more than one guest to the Meeting except by prior arrangement with the Company Secretary.

Facilities
The Andaz (formerly Great Eastern) Hotel has wheelchair access. If you are planning to come to the Meeting and are a wheelchair user, it would be helpful if you would telephone the venue in advance on 020 7618 5618.

Enquiries and questions
Shareholders who intend to ask a question related to the business of the Meeting are asked to provide their name, address and question at the Registration desk. Staff from Equiniti will be on hand to provide advice and assistance.

Shareholder Information

Financial diary

26 June 2008
Preliminary announcement of results for the year ended 30 April 2008

13 August 2008
Ex-dividend date for final dividend

3 September 2008
Annual General Meeting

16 September 2008
Payment of final dividend

3 December 2008*
Announcement of interim results for the six months ended 31 October 2008

28 January 2009*
Ex-dividend date for interim dividend

3 March 2009*
Payment of interim dividend

25 June 2009*
Preliminary announcement of results for the year ended 30 April 2009

* provisional date

Company website

The Company's website at www.dssmith.uk.com contains the latest information for shareholders, including press releases and an updated financial diary. E-mail alerts of the latest news, press releases and financial reports about DS Smith Plc may be obtained by registering for the e-mail news alert service on the website.

Share price information

The latest price of the Company's ordinary shares is available from the FT Cityline service. Calls within the UK are charged at 60 pence per minute at all times. To access this service, telephone 0906 843 4044 and enter the code 4044 when requested to do so. Alternatively click on www.londonstockexchange.com. DS Smith's ticker symbol is SMDS. It is recommended that you consult your financial adviser and verify information obtained from these services before making any investment decision.

Registrars

Please contact the Registrars at the address below to advise of a change of address or for any enquiries relating to dividend payments, lost share certificates or other share registration matters.

The Registrars provide on-line facilities at www.shareview.co.uk. Once you have registered you will be able to access information on your DS Smith Plc shareholding, update your personal details and amend your dividend payment instructions on-line without having to call or write to the Registrars.

Dividends

Shareholders who wish to have their dividends paid directly into a bank or building society account should contact the Registrars. In addition, the Registrars are now able to pay dividends in 36 foreign currencies. This service is called 'TAPS' and enables the payment of your dividends directly into your bank account in your home currency. A charge of £2.50 is deducted from each dividend payment to cover the costs involved. Please contact the Registrars to request further information.

Share dealing services

The Registrars offer a real-time telephone and internet dealing service. Further details including terms and rates can be obtained by logging on to the website at www.shareview.co.uk/dealing or by calling 0845 603 7037. Lines are open between 8 am and 4.30 pm, Monday to Friday.

JPMorgan Cazenove operates a low cost share dealing service for private investors who wish to buy or sell ordinary shares of the Company. This is an execution-only service and further details can be obtained from The Share Dealing Service, JPMorgan Cazenove, 20 Moorgate, London EC2R 6DA. Telephone 020 7606 1768. Please note there is a minimum transaction level of £500 for using this service.

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Visit us at: www.dssmith.uk.com

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

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

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