DS Smith Plc

23 June 2011

DS SMITH PLC – 2010/11 FULL-YEAR RESULTS

Strong momentum continuing into 2011/12

DS Smith Plc ("DS Smith"), the international supplier of recycled packaging for consumer goods and office products wholesaling business, announces its results for the year to 30 April 2011.

Financial highlights

Our results this year show a significant improvement on the prior year, despite substantial increases in input costs:

	2010/11	2009/10	Change	Underlying change[1]
Revenue	£2,474.5m	£2,070.6m	+19.5%	+10.0%
Adjusted operating profit[2]	£136.1m	£98.1m	+38.7%	+20.0%
Adjusted operating profit margin[2]	5.5%	4.7%	+80bps	
Profit before tax	£102.2m	£55.0m	+85.8%	
Free cash flow[3]	£100.7m	£76.8m	+31.1%	
Adjusted EPS[2]	18.9p	13.9p	+36.0%	
Dividend per share	6.5p	4.6p	+41.3%	
ROACE[2]	12.7%	10.1%	+260bps	

(1) excluding the effect of the Otor acquisition
(2) before amortisation of intangible assets and exceptional items
(3) cash generated from operations before exceptional items, less capital expenditure payments, tax paid, and net interest, plus proceeds from sale of assets and investments

Delivering on our strategy – actions taken

We have made significant steps towards refocusing our business on recycled packaging and improving the efficiency of the Group:

- 8% volume growth in packaging, gaining share in our major markets
- Adjusted operating profit margin improving, +80bps, despite substantial input costs increases
- Adjusted EPS +36.0%, dividend per share for the full year +41.3%

- Contractual price-review period reduced to four months, reducing cyclicality
- Otor (acquired on 1 September 2010) cost synergies now expected to be €13.0 million, above previous guidance of €10.3 million. Annualised return on invested capital on the acquisition in this financial year of 13.6%
- Consultation commenced on the proposal to close one UK paper mill (output 95 thousand tonnes per annum) in line with our strategy to progressively reduce our involvement in non-integrated paper manufacturing
- R-Flute® being rolled out in continental Europe demonstrating the success of our innovation pipeline

Delivery on our strategy – financial impact

Our results give us great confidence that our medium term targets are achievable:

Target	**Delivery in 2010/11**
Organic volume growth of 3% or more	8% in packaging, 3% for Group
Return on sales[(1)] of 6 – 8%	80bps improvement to 5.5%
Return on average capital employed[(1)] 12 – 15%	12.7%, a 260bps increase on the prior year
Net debt / EBITDA[(2)] less than 2.0x	1.6x
Operating cash flow / operating profit[(3)] >120%	125%

(1) before amortisation of intangible assets and exceptional items
(2) adjusted to reflect a full year EBITDA contribution from Otor in accordance with our covenant calculations
(3) before growth capital expenditure

Miles Roberts, Group Chief Executive, said

"I am very pleased with the performance of the business this year, which has moved the Group closer to delivering our medium term targets. The strong performance was achieved in the context of significant increases in input costs, which we have been dedicated to recovering. The result is a business now delivering a return on capital above its cost of capital, which is a critical milestone.

Whilst I am pleased with the progress to date, there is substantially further to go to realise the full potential of the Group. Over the coming year, we plan to focus further on business mix – building the recycled packaging business in our target regions and reducing non-core activities.

The strong momentum in the business seen at the end of the prior year is continuing into the current financial year, where trading has started very well. The Group expects to continue to make further significant progress towards its financial objectives in the financial year 2011/12, with our confidence in the future reflected in the decision of the Board to increase

the dividend by 41.3%. This progress is driven by the successful integration of Otor combined with the continued implementation of our proven strategy.”

Enquiries

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Dial-in details

There will be a presentation for investors and analysts today at 09:30 GMT at JPMorgan Cazenove, 20 Moorgate, London EC2R 6DA. There is a listen-only dial-in facility on +44 (0)20 7162 0125, reference 897075. The slides will be available on our web-site from 5 minutes before the presentation begins.

A play-back facility will be available until 07 July 2011. The dial-in number is +44 (0)20 7031 4064, passcode 897075.

A transcript of the presentation and Q&A will be available on our web-site within two working days of the presentation.

Next dates

AGM and Q1 IMS	Tuesday 6 September 2011
Half-year results	Wednesday 7 December 2011

GROUP CHIEF EXECUTIVE'S REVIEW

Overview

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

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

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

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

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

Delivery against our strategic goals

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

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

With regard to business mix, the biggest change has been the acquisition of Otor, which transforms our focus on FMCG customers in continental Europe and raises the proportion of

revenue from FMCG customers across the packaging business. Our recycling business, another key area for growth, has made considerable progress developing its activities organically in the UK and undertaking preparatory work in Central and Eastern Europe, in advance of further expansion. Our capital expenditure has been applied in line with our strategy, with 80% of our net capital expenditure spent in either packaging or recycling.

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

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

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

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

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

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

Dividend

The Board considers the dividend to be an important component of shareholder returns. As first set out in December 2010, our policy is that dividends will be progressive and, in the medium term, dividend cover should be, on average, 2.0x to 2.5x through the cycle.

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

Outlook

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

Operating review

Packaging

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

Volume growth of 8% across the packaging businesses (excluding the impact of Otor) was achieved through our approach to winning and retaining business by delivering high levels of

customer service, quality and innovation which enabled us to gain new customers and expand our position with existing customers.

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

UK Packaging

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

*before exceptional items and amortisation

Our UK Packaging operations, which include our recycling business, UK paper manufacturing and our UK corrugated packaging businesses, have delivered revenue growth of 22.3%, driven by volume growth as well as pricing to recover rising costs. The resilience and growth demonstrated by our FMCG customers has provided an attractive market, which we have targeted with our focus on service, quality and innovation. For example, this year has seen the successful commercialisation of the innovative R-Flute® design, offering our customers optimised performance whilst minimising material content and thickness, with commensurate savings in transportation and storage costs. Some of our major customers have converted entirely to R-Flute®. The UK corrugated packaging business has maintained its high levels of customer service, which has enabled us to expand our position with key customers.

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

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

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

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

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

Continental European Corrugated Packaging

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

*before exceptional items and amortisation

Revenue for the period was up 68.7% (up 13.2% excluding the 8 months contribution from Otor), and volumes were up 8.7% year-on-year, excluding the contribution from Otor. Pricing increased to recover rising input costs. Our service levels remained consistently high, facilitating our ability to recover costs promptly.

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

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

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

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

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

Plastic Packaging

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

*before exceptional items and amortisation

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

Office Products Wholesaling

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

*before exceptional items and amortisation

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

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

Our people

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

FINANCIAL REVIEW

Overview

The Group has achieved a strong financial performance despite an environment of significant input cost pressures. The results reflect the success of our pricing strategy to recover increased input costs faster and incorporate the eight months results from the acquisition of Otor. Excluding Otor our underlying adjusted operating profit (excluding amortisation and exceptional items) increased by £19.5 million compared to 2009/10. Otor generated adjusted operating profits of €21.7 million with a return on sales of 9.4% and an annualised return on

invested capital of 13.6%. Free cash flow was higher than in 2009/10 due to improved management of working capital despite the impact of price increases and higher volumes.

Trading results

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

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

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

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

Exceptional items

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

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

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

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

Interest, tax and earnings per share

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

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

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

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

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

Cash flow

The Group generated free cash flow of £100.7 million (2009/10: £76.8 million). Adjusted EBITDA rose by £40.8 million to £206.8 million. Despite the increase in paper, energy and box prices, our tight control of working capital resulted in a working capital cash inflow of £7.6 million (2009/10: outflow of £2.4 million). Given the increase in revenue of £207 million excluding acquisitions and disposals, the expected working capital impact would have been, at an average working capital to revenue of 8%, an outflow of £16.6 million. Therefore the working capital inflow represents a productivity improvement of £24.2 million. Cash generated from operations (before exceptional items) was £191.4 million (2009/10: £153.9 million).

Capital expenditure payments were £66.6 million (2009/10: £52.6 million). Interest paid was £0.6 million lower than 2009/10 mainly due to timing of interest payments. Tax payments were £18.6 million (2009/10: £21.3 million).

Acquisitions included the acquisition of the Otor Group for £203.2 million (including net debt acquired). Also during the year the Group disposed of its subsidiary Copikas in Turkey, and a small UK packaging subsidiary.

Cash dividend cover, defined as free cash flow divided by dividends declared for the year, was 3.6 times, down from 4.3 times in 2009/10. The cash outflow in respect of exceptional costs was £17.0 million (including cash outflows related to exceptional charges made in 2009/10), compared with a cash outflow of £18.4 million in 2009/10.

In respect of pension payments, the contributions into the UK Group Pension Scheme were £30.1 million in 2010/11 (2009/10: £15.6 million) comprising £15.6 million in respect of the historical agreed annual contributions and an additional one-off payment of £14.5 million, in respect of the agreed new contribution to the Pension Scheme deficit, following agreement with the trustees to close the UK Group Pension Scheme and for the future financing of the Pension Scheme.

Overall, the Group had an increase in net debt of £111.5 million compared to a reduction in net debt of £52.0 million in 2009/10.

Financial position

Shareholders' funds totalled £586.3 million at 30 April 2011, up from £474.8 million at 30 April 2010, due to the increase in share capital and profit for the year in excess of dividends. Net assets per share were 138.3 pence (30 April 2010: 121.0 pence). The profit attributable to the shareholders of DS Smith Plc was £70.1 million (2009/10: £37.9 million) and dividends of £22.6 million (2009/10: £12.9 million) were paid during the year. In addition, actuarial gains of £14.4 million on the Group's defined benefit pension schemes were credited to reserves through the Consolidated Statement of Comprehensive Income. Other items recognised directly in equity included currency translation gains of £1.9 million movements on cash flow hedges of £15.4 million, and a tax charge on these items of £10.3 million.

The Group has committed facilities to November 2012 of £709.0 million. The closing net debt was £351.0 million, £111.5 million higher than at the start of the year, reflecting the net cash outflow during the year of £97.0 million and non-cash movements, principally exchange differences and related fair value movements, of £14.5 million. Gearing, defined as net debt as a percentage of net assets, was 60.1% (30 April 2010: 50.6%); the movement reflected the increase in borrowings from the Otor acquisition. Adjusted Interest Cover (as defined in the loan agreements) was 7.6 times, compared with 6.9 times last year. The higher cover reflected the higher adjusted operating profit. The ratio of net debt to EBITDA (before exceptional items) was 1.6 times (2009/10: 1.4 times). This includes a full year for EBITDA from Otor, as specified in the Group's borrowing agreements.

The Group's banking covenants for the syndicated loan and the private placements specify an Adjusted Interest Cover of not less than 3.0 times, a maximum ratio of net debt to EBITDA of 3.25 times and net assets to be in excess of £360 million. The covenant calculations exclude from the income statement exceptional items and the net interest income/charge

arising from the defined benefit pension schemes. The calculation of net assets excludes the net asset or liability arising from the defined benefit pension schemes. As at 30 April 2011, the most sensitive covenant is the Adjusted Interest Cover and this had an Adjusted Profit headroom of £84.0 million (2009/10: £56.6 million).

Energy costs

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

Capital structure and treasury management

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

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

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

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

The Group manages the risks associated with its purchases of energy in the UK through its Energy Procurement Group, which operates under the oversight of the Treasury Committee.

UK purchases of energy represent the significant majority of the Group's overall energy costs.

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

The Group has a net investment in major overseas subsidiary companies' foreign currency assets and liabilities, in particular those whose functional currency is the euro. The Group's policy is to hedge a large part of the resulting exposure to movements in foreign currency rates, by means of debt in the same currency, to a level determined by the Treasury Committee. The overseas net assets hedged through euro borrowing increased from 76% at 30 April 2010 to 87% at 30 April 2011, as a proportion of the Group's euro net investment.

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

Impairment

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

An impairment of £10.8 million has been made to the fixed assets of certain paper making facilities in order reflect the estimated reduction in the useful economic life of these assets. Additionally, an impairment of £1.7 million has been made to the fixed assets of a small underperforming packaging business in the UK.

These costs were recorded as exceptional items and in total comprised impairments against intangible items of £3.4 million and £12.5 million charged to fixed assets.

Whilst the Board considers that its assumptions are realistic, it is possible that impairment would be identified if any of the key assumptions were changed significantly. The net book

value of goodwill and other intangibles at 30 April 2011 was £344.8 million (30 April 2010: £221.2 million).

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

Pensions

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

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

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

Going concern

A review of the Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Group Chief Executive's Review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are shown in the Consolidated statement of financial position, Consolidated statement of cash flows and in the Financial Review.

Management's review of liquidity and the adherence to banking covenants takes into account the Group's budget and forecasts for the next two financial years. Furthermore, the forecasts have been subjected to a number of 'downside' and mitigation scenarios in order to evaluate

the impact on liquidity and adherence to banking covenants if the Group's plans are not achieved. A summary of the outcome of this evaluation by management has been provided to, and discussed with, the Board of Directors.

In arriving at their opinion, the Directors have taken into account the risks and uncertainties which arise as a result of the current economic environment. The principal risks and uncertainties which would have a direct impact on liquidity and banking covenants are summarised below

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

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

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

Consolidated Income Statement
For the year ended 30 April 2011

	Note	Before exceptional items 2011 £m	Exceptional items (note 2) 2011 £m	After exceptional items 2011 £m	Before exceptional items 2010 £m	Exceptional items (note 2) 2010 £m	After exceptional items 2010 £m
Revenue	1	**2,474.5**	**–**	**2,474.5**	2,070.6	–	2,070.6
Cost of sales		**(1,884.9)**	**(1.0)**	**(1,885.9)**	(1,558.4)	–	(1,558.4)
Gross Profit		**589.6**	**(1.0)**	**588.6**	512.2	–	512.2
Operating expenses		**(453.5)**	**2.2**	**(451.3)**	(414.1)	(13.3)	(427.4)
Operating profit before amortisation	1	**136.1**	**1.2**	**137.3**	98.1	(13.3)	84.8
Amortisation of intangible assets		**(7.9)**	**–**	**(7.9)**	(4.1)	–	(4.1)
Operating profit		**128.2**	**1.2**	**129.4**	94.0	(13.3)	80.7
Finance income	4	**1.2**	**–**	**1.2**	1.5	–	1.5
Finance costs	4	**(21.0)**	**–**	**(21.0)**	(15.9)	–	(15.9)
Employment benefit net finance expense		**(7.4)**	**–**	**(7.4)**	(11.5)	–	(11.5)
Net financing costs		**(27.2)**	**–**	**(27.2)**	(25.9)	–	(25.9)
Profit after financing costs		**101.0**	**1.2**	**102.2**	68.1	(13.3)	54.8
Share of profit of associates		**–**	**–**	**–**	0.2	–	0.2
Profit before income tax and amortisation		**108.9**	**1.2**	**110.1**	72.4	(13.3)	59.1
Amortisation of intangible assets		**(7.9)**	**–**	**(7.9)**	(4.1)	–	(4.1)
Profit before income tax		**101.0**	**1.2**	**102.2**	68.3	(13.3)	55.0
Income tax (expense)/credit	5	**(28.5)**	**(3.0)**	**(31.5)**	(17.8)	0.9	(16.9)
Profit for the financial year		**72.5**	**(1.8)**	**70.7**	50.5	(12.4)	38.1
Profit for the financial year attributable to:							
Owners of the parent		**71.9**	**(1.8)**	**70.1**	50.3	(12.4)	37.9
Non-controlling interests		**0.6**	**–**	**0.6**	0.2	–	0.2
Earnings per share (pence)							
Basic – adjusted for amortisation	6	**18.9p**	**(0.4)p**	**18.5p**	13.9p	(3.2)p	10.7p
Diluted – adjusted for amortisation	6	**18.5p**	**(0.4)p**	**18.1p**	13.6p	(3.1)p	10.5p
Basic earnings per share	6	**17.0p**	**(0.4)p**	**16.6p**	12.9p	(3.2)p	9.7p
Diluted earnings per share	6	**16.7p**	**(0.4)p**	**16.3p**	12.6p	(3.1)p	9.5p
Dividend per share – interim, paid	7			**2.0p**			1.5p
– final, proposed	7			**4.5p**			3.1p

Notes:

(a) The Annual Report and statements for the year ended 30 April 2011 will be posted to shareholders on 14 July 2011. Statutory accounts for the year ended 30 April 2010 have been delivered to the Registrar of Companies.

(b) Subject to approval of shareholders at the Annual General Meeting to be held on 6 September 2011, the final dividend of 4.5p will be paid on 13 September to ordinary shareholders on the register on 12 August 2011.

(c) The 2010/11 and 2009/10 results in this preliminary statement do not constitute the statutory accounts of DS Smith Plc within the meaning of section 435 of the Companies Act 2006. The 2010/11 and 2009/10 comparatives have been extracted from the 2010/11 statutory accounts, which have been prepared under International Financial Reporting Standards as adopted by the EU (IFRS) and which contained an unqualified audit report with no adverse statement under Section 498 (2) or (3) of the Companies Act 2006 or equivalent preceding legislation.

(d) Whilst the financial information included in the preliminary announcement has been prepared in accordance with IFRS, this announcement does not in itself contain sufficient information to comply with all the disclosure requirements of IFRS.

(e) Items are presented as exceptional in the accounts 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 (see note 2).

Consolidated Statement of Comprehensive Income
For the year ended 30 April 2011

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

Consolidated Statement of Financial Position
As at 30 April 2011

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

Consolidated Statement of Changes in Equity
For the year ended 30 April 2011

	Share capital £m	Share premium £m	Hedging reserve £m	Translation reserve £m	Own shares £m	Retained earnings £m	Total reserves attributable to equity shareholders £m	Non-controlling interests £m	Total equity £m
Balance at 1 May 2009	39.3	263.1	2.7	27.4	(4.2)	129.7	458.0	(1.6)	456.4
Profit for the period	–	–	–	–	–	37.9	37.9	0.2	38.1
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	(10.3)	(10.3)	–	(10.3)
Foreign currency translation differences	–	–	–	8.0	–	–	8.0	(0.1)	7.9
Changes in the fair value of cash flow hedges	–	–	(2.7)	–	–	–	(2.7)	–	(2.7)
Movement from cash flow hedge reserve to income statement	–	–	(11.3)	–	–	–	(11.3)	–	(11.3)
Income tax on other comprehensive income	–	–	3.9	(2.4)	–	3.3	4.8	–	4.8
Total comprehensive income	**–**	**–**	**(10.1)**	**5.6**	**–**	**30.9**	**26.4**	**0.1**	**26.5**
Acquisitions	–	–	–	–	–	–	–	0.3	0.3
Share-based payment expense	–	–	–	–	–	2.9	2.9	–	2.9
Dividends paid to Group shareholders	–	–	–	–	–	(12.9)	(12.9)	–	(12.9)
Transactions with non-controlling interest (Toscana Ondulati SpA)	–	–	–	–	–	0.4	0.4	(0.4)	–
Other changes in equity in the year	**–**	**–**	**–**	**–**	**–**	**(9.6)**	**(9.6)**	**(0.1)**	**(9.7)**
Balance at 30 April 2010	**39.3**	**263.1**	**(7.4)**	**33.0**	**(4.2)**	**151.0**	**474.8**	**(1.6)**	**473.2**
Profit for the period	–	–	–	–	–	70.1	70.1	0.6	70.7
Actuarial gains on defined benefit pension schemes	–	–	–	–	–	14.4	14.4	–	14.4
Foreign currency translation differences	–	–	–	1.8	–	–	1.8	0.1	1.9
Changes in the fair value of cash flow hedges	–	–	18.5	–	–	–	18.5	–	18.5
Movement from cash flow hedge reserve to income statement	–	–	(3.1)	–	–	–	(3.1)	–	(3.1)
Income tax on other comprehensive income	–	–	(5.0)	3.0	–	(8.3)	(10.3)	–	(10.3)
Total comprehensive income	**–**	**–**	**10.4**	**4.8**	**–**	**76.2**	**91.4**	**0.7**	**92.1**
Acquisitions/divestments	–	–	–	–	–	–	–	2.5	2.5
Acquisition of non-controlling interests without a change in control	–	–	–	–	–	(5.2)	(5.2)	(3.3)	(8.5)
Issue of share capital	4.3	46.0	–	–	–	–	50.3	–	50.3
Ordinary shares purchased	–	–	–	–	(6.5)	–	(6.5)	–	(6.5)
Employee share trust	–	–	–	–	1.3	–	1.3	–	1.3
Share-based payment expense	–	–	–	–	–	2.4	2.4	–	2.4
Dividends paid to Group shareholders	–	–	–	–	–	(22.6)	(22.6)	–	(22.6)
Transactions with non-controlling interests (Toscana Ondulati SpA)	–	–	–	–	–	0.4	0.4	(0.4)	–
Other changes in equity in the year	**4.3**	**46.0**	**–**	**–**	**(5.2)**	**(25.0)**	**20.1**	**(1.2)**	**18.9**
Balance at 30 April 2011	**43.6**	**309.1**	**3.0**	**37.8**	**(9.4)**	**202.2**	**586.3**	**(2.1)**	**584.2**

Consolidated Statement of Cash Flows
For the year ended 30 April 2011

	Note	**2011 £m**	2010 £m
Operating Activities			
Cash generated from operations	8	**174.4**	135.5
Interest received		**0.4**	0.8
Interest paid		**(16.0)**	(17.0)
Tax paid		**(18.6)**	(21.3)
Cash flows from operating activities		**140.2**	98.0
Investing Activities			
Acquisition of subsidiary businesses and joint ventures, net of cash and cash equivalents acquired		**(158.9)**	(1.0)
Disposal of subsidiary businesses, net of cash and cash equivalents		**4.8**	8.1
Capital expenditure payments		**(66.6)**	(52.6)
Proceeds from the sale of property, plant and equipment and intangible assets		**4.8**	4.8
Proceeds from the sale of investments in associates and other investments, net of additions of £nil (2010: £0.8m)		**0.5**	0.1
Cash flows used in investing activities		**(215.4)**	(40.6)
Financing Activities			
Proceeds from issue of share capital		**50.1**	–
Purchase of own shares		**(6.5)**	–
Acquisition of non-controlling interest		**(9.3)**	–
Increase in/(repayment of) borrowings		**121.5**	(65.9)
Repayment of finance lease obligations		**(3.0)**	(0.4)
Dividends paid to Group shareholders		**(22.6)**	(12.9)
Cash flows from/(used in) financing activities		**130.2**	(79.2)
Increase/(decrease) in cash and cash equivalents		**55.0**	(21.8)
Net cash and cash equivalent at 1 May		**32.8**	54.1
Exchange (losses)/gains on cash and cash equivalents		**0.4**	0.5
Net cash and cash equivalents at 30 April		**88.2**	32.8

Notes to the Financial Statements

1. Segment Reporting

Operating segments

Year ended 30 April 2011	UK Packaging £m	Continental European Corrugated Packaging £m	Plastic Packaging £m	Packaging Sub-total £m	Office Products Wholesaling £m	Total Group £m
External revenue (sales of goods)	**917.7**	**599.4**	**242.2**	**1,759.3**	**715.2**	**2,474.5**
Adjusted operating profit[1]	**54.2**	**39.8**	**16.9**	**110.9**	**25.2**	**136.1**
Amortisation	**(2.6)**	**(3.1)**	**(1.1)**	**(6.8)**	**(1.1)**	**(7.9)**
Exceptional items (note 2)	**9.5**	**(8.4)**	**(0.2)**	**0.9**	**0.3**	**1.2**
Segment result	**61.1**	**28.3**	**15.6**	**105.0**	**24.4**	**129.4**
Other segment items:						
Adjusted return on sales [1]	**5.9%**	**6.6%**	**7.0%**	**6.3%**	**3.5%**	**5.5%**
Adjusted EBITDA – £m[1]	**88.0**	**63.0**	**26.8**	**177.8**	**29.0**	**206.8**
Adjusted EBITDA margin [1]	**9.6%**	**10.5%**	**11.1%**	**10.1%**	**4.1%**	**8.4%**
Year-end capital employed – £m	**492.4**	**397.9**	**114.2**	**1,004.5**	**108.5**	**1,113.0**
Average capital employed – £m[2]	**527.9**	**319.4**	**113.6**	**960.9**	**112.6**	**1,073.5**
Adjusted return on average capital employed [1-2]	**10.3%**	**12.5%**	**14.9%**	**11.5%**	**22.4%**	**12.7%**
Capital expenditure – £m	**30.8**	**28.6**	**8.4**	**67.8**	**4.8**	**72.6**
Depreciation and amortisation – £m	**36.6**	**26.2**	**11.0**	**73.8**	**4.8**	**78.6**

Year ended 30 April 2010	UK Packaging £m	Continental European Corrugated Packaging £m	Plastic Packaging £m	Packaging Sub-total £m	Office Products Wholesaling £m	Total Group £m
External revenue (sales of goods)	**750.2**	**355.4**	**231.3**	**1,336.9**	**733.7**	**2,070.6**
Adjusted operating profit[1]	**37.0**	**23.1**	**16.6**	**76.7**	**21.4**	**98.1**
Amortisation	**(1.6)**	**(0.2)**	**(1.1)**	**(2.9)**	**(1.2)**	**(4.1)**
Exceptional items	**(4.5)**	**(7.1)**	**0.1**	**(11.5)**	**(1.8)**	**(13.3)**
Segment result	**30.9**	**15.8**	**15.6**	**62.3**	**18.4**	**80.7**
Other segment items:						
Adjusted return on sales [1]	**4.9%**	**6.5%**	**7.2%**	**5.7%**	**2.9%**	**4.7%**
Adjusted EBITDA – £m[1]	**74.4**	**38.7**	**27.6**	**140.7**	**25.3**	**166.0**
Adjusted EBITDA margin [1]	**9.9%**	**10.9%**	**11.9%**	**10.5%**	**3.4%**	**8.0%**
Year-end capital employed – £m	**504.0**	**187.7**	**115.4**	**807.1**	**114.7**	**921.8**
Average capital employed – £m[2]	**538.6**	**192.4**	**123.2**	**854.2**	**119.4**	**973.6**
Adjusted return on average capital employed [1-2]	**6.9%**	**12.0%**	**13.4%**	**9.0%**	**17.9%**	**10.1%**
Capital expenditure – £m	**20.0**	**12.7**	**5.4**	**38.1**	**3.1**	**41.2**
Depreciation and amortisation – £m	**38.9**	**15.8**	**12.1**	**66.8**	**5.2**	**72.0**

1. Before amortisation and exceptional items (see note 2).
2. The return on average capital employed is defined as operating profit before exceptional items divided by average capital employed, average capital employed being the average monthly capital employed over the previous 12 months.

1. Segmental Reporting continued

Geographical areas

Year ended 30 April	External revenue 2011 £m	2010 £m
UK	**1,268.0**	1,106.3
France	**689.6**	449.3
Rest of Western Continental Europe	**328.2**	335.8
Eastern Continental Europe	**110.7**	108.6
Rest of the World	**78.0**	70.6
Total	**2,474.5**	2,070.6

2. Exceptional items

Items are presented as 'exceptional' in the accounts 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.

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

2010/2011

The UK Packaging restructuring costs of £(0.9)m relate to restructuring in two small packaging plants in the UK; Plastic Packaging costs of £(0.5)m relate to restructuring in France; restructuring costs of £(4.7)m within Office Products Wholesaling predominantly relates to Spicers France. Following the acquisition of Otor in September 2010, a restructuring program was put in place in France to facilitate Otor's integration with the Group, this resulted in restructuring costs of £(2.3)m within Continental European Corrugated Packaging.

The acquisition related costs relate to the acquisition of the Otor Group. The pension curtailment gains primarily relate to the closure of the UK Group scheme to future accrual. Impairment costs relate to intangible assets and property, plant and equipment within UK Packaging and Plastic Packaging segments. Disposal costs mainly relate to the disposal of Çopikas, the Group's subsidiary in Turkey, and a small packaging business in the UK.

2. Exceptional items continued

2009/10

The Continental European Corrugated Packaging restructuring of £(1.2)m relates to restructuring in France; the Plastic Packaging £0.3m relates to a gain on reversal of under-utilised provisions; restructuring of £(1.8)m within Office Products Wholesaling relates to Spicers UK.

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

Disposal costs predominantly relate to the sales of Demes Logistics.

3. Post Retirement Benefits

	2011	2010
	£m	£m
Gross deficit 1 May	**(203.1)**	(191.3)
Expense recognised in operating profit	**(8.3)**	(8.5)
Employment benefit net finance expense	**(7.4)**	(11.5)
Annual contributions to the DS Smith Group Pension Scheme	**30.1**	15.6
Other payments and contributions	**(8.5)**	2.9
Curtailment	**35.3**	–
Actuarial gains/(losses)	**14.4**	(10.3)
Gross deficit at 30 April	**(147.5)**	(203.1)
Deferred tax asset	**35.7**	57.0
Net deficit at 30 April	**(111.8)**	(146.1)

The table above is the aggregate value of all Group pension schemes. The gross deficit reduced by £55.6m. The main UK scheme was closed to future accrual on 30 April 2011 and a curtailment gain of £35.0m recorded, which has been reported as an exceptional item, together with a £0.3m curtailment from the closure of a small scheme in the Republic of Ireland.

4. Finance income and costs

	2011	2010
	£m	£m
Interest on loans and overdrafts	**18.4**	14.8
Finance lease interest	**0.3**	0.1
Other	**2.3**	1.0
Financing costs	**21.0**	15.9
Interest income from financial assets held at amortised cost	**(0.9)**	(0.7)
Other	**(0.3)**	(0.8)
Finance income	**(1.2)**	(1.5)

Other financing costs include the increase in the fair value of the non-controlling shareholders' put options in a Group subsidiary.

5. Income tax expense recognised in the income statement

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

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

	2011 **£m**	2010 £m
Profit before tax	**102.2**	55.0
Less: Share of profit of associates	**–**	(0.2)
Profit before tax and share of profit of associates	**102.2**	54.8
Income tax calculated using the UK corporation tax rate of 27.83% (2010: 28%)	**(28.4)**	(15.3)
Effect of tax rates in overseas jurisdictions	**(4.9)**	(2.8)
Non-deductible expenses	**(5.3)**	(3.9)
(Origination)/utilisation of tax losses not recognised	**(0.5)**	0.5
Adjustment in respect of prior years	**4.2**	4.0
Effect of change in UK corporation tax rate	**2.7**	–
Other	**0.7**	0.6
Income tax expense	**(31.5)**	(16.9)

6. Earnings per share

Basic earnings per share

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

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

Diluted earnings per share

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

	2011 £m	2010 £m
Profit attributable to ordinary shareholders	**70.1**	37.9
In millions of shares		
Weighted average number of ordinary shares at 30 April	**422.4**	391.0
Potentially dilutive shares issuable under share-based payment arrangements	**8.6**	8.5
Weighted average number of ordinary shares (diluted) at 30 April	**431.0**	399.5
Diluted earnings per share	**16.3p**	9.5p

Adjusted earnings per share

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

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

7. Dividends

Dividends proposed and paid by the Group are as follows:

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

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

A final dividend in respect of 2010/11 of 4.5 pence per share (£19.6m) has been proposed by the Directors after the statement of financial position date.

8. Cash generated from operations

	2011	**2011**	2010	2010
	£m	**£m**	£m	£m
Profit for the financial year		**70.7**		38.1
Adjustments for:				
Exceptional items (credited)/charged to income statement	**(1.2)**		13.3	
Cash outflow for exceptional items	**(17.0)**		(18.4)	
Depreciation and amortisation	**78.6**		72.0	
Profit on sale of non-current assets	**(0.7)**		(1.0)	
Share of profit of associates	**–**		(0.2)	
Employee benefit net finance expense	**7.4**		11.5	
Share-based payment expense	**2.9**		1.4	
Finance income	**(1.2)**		(1.5)	
Finance costs	**21.0**		15.9	
Other non-cash items	**0.5**		0.6	
Income tax expense	**31.5**		16.9	
		121.8		110.5
Changes in:				
Inventories	**(13.3)**		(8.0)	
Trade and other receivables	**(10.0)**		(36.3)	
Trade and other payables	**30.9**		41.9	
Provisions and employee benefits	**(25.7)**		(10.7)	
		(18.1)		(13.1)
Cash generated from operations		**174.4**		135.5

9. Reconciliation of net cash flow to movements in net debt

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

10. Acquisitions and divestments

(a) Otor Group

On 1 September 2010 the Group acquired 100% of the voting share capital of Otor Finance S.A., a holding company which owns and controls 80% of Otor S.A. On this date and as part of the same acquisition, the Group acquired an additional 15% of the voting share capital of Otor S.A. Otor S.A. is a leading fast moving consumer goods (FMCG) focused corrugated packaging company in France. As a result, the Group's total voting and ownership interest in Otor S.A. at acquisition date was 95%. Total consideration transferred comprised cash of £156.6m. As noted below, in October 2010 the Group increased its ownership interest to 100%.

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

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

10. Acquisitions and divestments continued

	Carrying values before acquisition 2011 £m	Fair value of assets acquired 2011 £m
Intangible assets	**4.4**	**26.5**
Property, plant and equipment	**46.1**	**61.8**
Deferred tax assets	**11.9**	**(7.6)**
Other non-current receivables	**2.5**	**2.5**
Non-current bank deposits	**6.8**	**6.8**
Inventories	**34.3**	**34.3**
Trade and other receivables	**55.9**	**55.9**
Interest-bearing loans and borrowings – non-current	**(6.1)**	**(6.1)**
Post-retirement benefits	**(11.6)**	**(11.6)**
Other payables – non current	**(3.6)**	**(3.6)**
Bank overdrafts	**(2.3)**	**(2.3)**
Interest-bearing loans and borrowings – current	**(34.2)**	**(34.2)**
Trade and other payables	**(57.6)**	**(57.6)**
Provisions	**–**	**(0.9)**
Total identifiable assets acquired	**46.5**	**63.9**
Goodwill arising		**95.9**
Total consideration		**159.8**
Satisfied by:		
Cash consideration		**156.6**
Fair value of non-controlling interest acquired		**3.2**
		159.8
Net cash flow arising on acquisition		
Cash consideration (at acquisition date)		**(156.6)**
Cash and cash equivalents acquired		**(2.3)**
Acquisition of subsidiary business, net of cash and cash equivalents acquired		**(158.9)**
Cash consideration (acquisition of non-controlling interest)		**(8.5)**
Total cash outflow		**(167.4)**

The fair value adjustments relate to the valuation of land and buildings included within property, plant and equipment, and identified intangible assets as determined by external valuation firms. The intangible assets acquired as part of the acquisition primarily relate to customer relationships.

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

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

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

Acquisition-related costs

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

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

(b) Divestments
On 1 October 2010 the Group sold its subsidiary in Turkey, DS Smith Çopikas A. S. , for a consideration of £4.8m. On 30 April 2011 the Group sold a small packaging business in the UK.

2009/10
Wirth
On 17 February 2010, the Group obtained control of Winfried Wirth GmbH, a corrugated packaging business in Germany. As a result, the Group's equity interest in Wirth increased from 25% to 55%.

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

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