DS Smith Plc

24 June 2010

DS SMITH PLC – 2009/10 FULL-YEAR RESULTS

DS Smith Plc, the international packaging and office products wholesaling company, announces its results for the year ended 30 April 2010.

Highlights

- Robust performance in challenging markets
- Revenue £2,070.6 million (£2008/09: £ 2,106.6 million)
- Adjusted EBITDA up 1.3% to £166.0 million
- Adjusted earnings per share up 2.4% to 12.9 pence
- Strong cash flow generation drives net debt down £52.0 million to £239.5 million
- Full year dividend increased by 4.5% to 4.6 pence per share
- Successful implementation of 2008/09 cost reduction plan
- The Group has continued to build its market position in corrugated packaging for the fast-moving consumer goods sector across Europe
- Review of strategy and business operations launched by new Group Chief Executive

Commenting on the results, Chairman, Peter Johnson said:
"In 2009/10 we improved earnings and delivered strong cash flow, gaining share in all our main packaging markets. This robust performance sets a good platform from which we will develop and grow the Group. I am delighted to welcome Miles Roberts to the Group as our new Chief Executive. His skills and experience are ideally suited to taking advantage of the opportunities we see and I look forward to working with him."

Miles Roberts, Group Chief Executive said:
"Since joining DS Smith in May 2010, I have visited many parts of the Group and its customers. This has confirmed my view that there is significant potential within DS Smith. Our objective is to create a growing business that is more focused, producing higher margins and returns with less cyclicality. The plan to achieve this objective will be completed over the coming months.

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

Financial Summary

	2009/10	2008/09	Change
Revenue – £m	2,070.6	2,106.6	(1.7)%
Adjusted EBITDA(1) – £m	166.0	163.9	1.3%
Adjusted EBITDA(1) margin – %	8.0%	7.8%	0.2ppts
Adjusted operating profit(1) – £m	94.0	94.0	-
Adjusted profit before tax(3) – £m	68.3	72.5	(5.8)%
Profit before tax – £m	55.0	16.8	227%
Adjusted earnings per share(4) – pence	12.9	12.6	2.4%
Earnings/(loss) per share – pence	9.7	(3.0)	-
Adjusted return on average capital employed(1) – %	9.7%	9.3%	0.4ppts
Free cash inflow(2) – £m	76.8	59.9	28.2%
Net debt/adjusted EBITDA(1) – times	1.4	1.8	-
Total dividend per share – pence	4.6	4.4	4.5%

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

Enquiries

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A briefing for analysts and investors will take place today at 9.30 am BST at JP Morgan Cazenove, 20 Moorgate, London EC2R 6DA.

This briefing may be heard live by dialling in on +44 (0)20 7138 0826.

The presentation will be webcast. Please use the link to http://www.dssmith.uk.com/pages/Investors.asp to access the webcast. The slides used at this briefing will be posted in the Investors/Presentations section of the Group's website (www.dssmith.uk.com) from 9.25 am BST.

A replay of the briefing will be available by telephone for five days, from 2 hours after the meeting has ended, on +44 (0)20 7111 1244 (PIN: 1904813#).

GROUP CHIEF EXECUTIVE'S REVIEW

Overview

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

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

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

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

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

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

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

Dividend

The Board has decided to recommend a final dividend for 2009/10 of 3.1 pence per share (2008/09: 1.8 pence) which, together with the interim dividend of 1.5 pence, would give a total dividend for the year of 4.6 pence (2008/09: 4.4 pence). The Board recognises the importance of dividends to shareholders and remains committed to the payment of dividends that reflect the sustainable earnings and cash generation of the Group over the cycle.

Outlook

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

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

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

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

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

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

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

UK Paper and Corrugated Packaging

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

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

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

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

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

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

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

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

Continental European Corrugated Packaging

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

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

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

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

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

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

Plastic Packaging

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

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

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

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

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

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

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

Office Products Wholesaling

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

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

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

serve. An increase in sales of electronic office supplies (EOS), was partly offset by lower sales in traditional office products.

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

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

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

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

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

FINANCIAL REVIEW

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

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

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

Adjusted Group operating profit (excluding exceptional items) in 2009/10 matched the 2008/09 figure of £94.0 million. UK Paper and Corrugated Packaging was marginally down, as compared to 2008/09, at £35.4 million whilst Continental European Corrugated Packaging declined by £7.5 million to £22.9 million. The performance in these two segments was offset by a strong performance in Plastic Packaging which increased

operating profits by £8.5 million to £15.5 million and Office Products Wholesaling which was £0.1 million ahead of last year at £20.2 million. The Group's adjusted return on sales was maintained at 4.5%.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial position

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

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

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

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

Energy costs

The high level of energy costs continued to be a significant factor for the Group in 2009/10. The Group's total costs for gas, electricity and diesel fuel fell from circa £114 million in 2008/09 to circa £109 million in

2009/10. The Group continued with its strategy of hedging the 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 energy costs.

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 UK Paper and Corrugated Packaging required these values to be impaired by £4.3 million.

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

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

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

Pensions

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

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

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

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 2010

	Note	**Before exceptional items 2010 £m**	**Exceptional items (note 2) 2010 £m**	**After exceptional items 2010 £m**	Before exceptional items 2009 £m	Exceptional items (note 2) 2009 £m	After exceptional items 2009 £m
Revenue	1	**2,070.6**	–	**2,070.6**	2,106.6	-	2,106.6
Cost of sales		**(1,558.4)**	–	**(1,558.4)**	(1,604.4)	-	(1,604.4)
Gross Profit		**512.2**	–	**512.2**	502.2	-	502.2
Operating expenses		**(418.2)**	**(13.3)**	**(431.5)**	(408.2)	(50.6)	(458.8)
Operating profit	1	**94.0**	**(13.3)**	**80.7**	94.0	(50.6)	43.4
Finance income	4	**1.5**	–	**1.5**	2.5	-	2.5
Finance costs	4	**(15.9)**	–	**(15.9)**	(26.1)	-	(26.1)
Employment benefit net finance (charge)/income		**(11.5)**	–	**(11.5)**	1.5	-	1.5
Net financing costs		**(25.9)**	–	**(25.9)**	(22.1)	-	(22.1)
Profit after financing costs		**68.1**	**(13.3)**	**54.8**	71.9	(50.6)	21.3
Share of profit/(loss) of associates		**0.2**	–	**0.2**	0.6	(5.1)	(4.5)
Profit before income tax		**68.3**	**(13.3)**	**55.0**	72.5	(55.7)	16.8
Income tax (expense) / credit	5	**(17.8)**	**0.9**	**(16.9)**	(22.6)	(5.4)	(28.0)
Profit/(loss) for the financial year		**50.5**	**(12.4)**	**38.1**	49.9	(61.1)	(11.2)
Profit /(loss) for the financial year attributable to:							
Owners of the parent		**50.3**	**(12.4)**	**37.9**	49.3	(61.1)	(11.8)
Non-controlling interests		**0.2**	–	**0.2**	0.6	-	0.6
Basic earnings per share (pence)		**12.9p**	**(3.2)p**	**9.7p**	12.6p	(15.6)p	(3.0)p
Diluted earnings per share (pence)	6	**12.6p**	**(3.1)p**	**9.5p**	12.6p	(15.6)p	(3.0)p
Dividend per share – interim, paid (pence)				**1.5p**			2.6p
– final, proposed (pence)	7			**3.1p**			1.8p

Notes:

(a) The Annual Report and statements for the year ended 30 April 2010 will be posted to shareholders on 15 July 2010. Statutory accounts for the year ended 30 April 2009 have been delivered to the Registrar of Companies.

(b) Subject to approval of shareholders at the Annual General Meeting to be held on 7 September 2010, the final dividend of 3.1p will be paid on 14 September to ordinary shareholders on the register on 13 August 2010.

(c) The 2009/10 and 2008/09 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 2009/10 and 2008/09 comparatives have been extracted from the 2009/10 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 2010

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

Consolidated Statement of Financial Position
As at 30 April 2010

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

Consolidated Statement of Changes in Equity

For the year ended 30 April 2010

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

Consolidated Statement of Cash Flows
For the year ended 30 April 2010

	Note	**2010 £m**	**2009 £m**
Operating Activities			
Cash generated from operations	8	**135.5**	166.4
Interest received		**0.8**	1.1
Interest paid		**(17.0)**	(24.1)
Tax paid		**(21.3)**	(21.0)
Cash flows from operating activities		**98.0**	122.4
Investing Activities			
Acquisition of subsidiary businesses and joint ventures		**(1.0)**	(1.2)
Disposal of subsidiary businesses net of cash and cash equivalents		**8.1**	–
Capital expenditure payments		**(52.6)**	(87.4)
Proceeds from the sale of property, plant and equipment and intangible assets		**4.8**	7.7
Proceeds/(purchases) from the sale of investments		**0.1**	(0.1)
Cash flows used in investing activities		**(40.6)**	(81.0)
Financing Activities			
Purchase of own shares		–	(0.2)
Repayment of borrowings		**(65.9)**	(12.8)
Repayment of finance lease obligations		**(0.4)**	(1.0)
Dividends paid to Group shareholders		**(12.9)**	(34.4)
Dividends paid to non-controlling interests		–	(1.9)
Cash flows used in financing activities		**(79.2)**	(50.3)
(Decrease) in cash and cash equivalents		**(21.8)**	(8.9)
Net cash and cash equivalent at 1 May		**54.1**	56.0
Exchange gains on cash and cash equivalents		**0.5**	7.0
Net cash and cash equivalents at 30 April		**32.8**	54.1

Notes to the Financial Statements

1. Segment Reporting

Operating segments

Year ended 30 April 2010	Packaging: UK Paper And Corrugated £m	Packaging: Continental European Corrugated £m	Packaging: Plastic £m	Packaging: Sub-total £m	Office Products Wholesaling £m	Total Group £m
External revenue (sales of goods)	**750.2**	**355.4**	**231.3**	**1,336.9**	**733.7**	**2,070.6**
Adjusted operating profit[1]	**35.4**	**22.9**	**15.5**	**73.8**	**20.2**	**94.0**
Exceptional items	(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]	4.7%	6.4%	6.7%	5.5%	2.8%	4.5%
Adjusted EBITDA – £m[1]	74.4	38.7	27.6	140.7	25.3	166.0
Adjusted EBITDA margin – %[1]	9.9%	10.9%	11.9%	10.5%	3.4%	8.0%
Year-end capital employed – £m	504.0	187.7	115.4	807.1	114.7	921.8
Average capital employed – £m[2]	538.6	192.4	123.2	854.2	119.4	973.6
Adjusted return on average capital employed – %[1-2]	6.6%	11.9%	12.6%	8.6%	16.9%	9.7%
Year ended 30 April 2009						
External revenue (sales of goods)	**785.8**	**363.4**	**236.9**	**1,386.1**	**720.5**	**2,106.6**
Adjusted operating profit[1]	**36.5**	**30.4**	**7.0**	**73.9**	**20.1**	**94.0**
Exceptional items	(18.2)	(24.7)	(4.0)	(46.9)	(3.7)	(50.6)
Segment result	**18.3**	**5.7**	**3.0**	**27.0**	**16.4**	**43.4**
Other segment items:						
Adjusted return on sales – %[1]	4.6%	8.4%	3.0%	5.3%	2.8%	4.5%
Adjusted EBITDA – £m[1]	73.2	45.8	19.2	138.2	25.7	163.9
Adjusted EBITDA margin – %[1]	9.3%	12.6%	8.1%	10.0%	3.6%	7.8%
Year-end capital employed – £m	504.2	193.7	123.0	820.9	121.6	942.5
Average capital employed – £m[2]	545.2	199.6	132.8	877.6	131.9	1,009.5
Adjusted return on average capital employed – %[1-2]	6.7%	15.2%	5.3%	8.4%	15.2%	9.3%

1. Before 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 is the average monthly capital employed.

Geographical areas

	Revenue	
Year ended 30 April	**2010 £m**	2009 £m
UK	**1,106.3**	1,147.6
France	**449.3**	447.3
Rest of Western Continental Europe	**335.8**	331.9
Eastern Continental Europe	**108.6**	113.0
Rest of the World	**70.6**	66.8
Total	**2,070.6**	2,106.6

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

2009/2010

The Continental European Corrugated Packaging restructuring of £(1.2)m relates to restructuring in France; Plastic Packaging £0.3m relates to a gain on reversal of underutilised 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

2008/09

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

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

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

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

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

Impairment of associate is in respect of the write down of the Group's investment in Rubezhansk.

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

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

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

3. Post Retirement Benefits

	2010 **£m**	2009 £m
Gross deficit 1 May	**(191.3)**	(75.9)
Expense recognised in operating profit	**(8.5)**	(11.7)
Employment benefit net finance (charge)/income	**(11.5)**	1.5
Annual contributions to the DS Smith Group Pension Scheme	**15.6**	15.6
Other payments and contributions	**2.9**	2.6
Actuarial loss	**(10.3)**	(123.4)
Gross deficit at 30 April	**(203.1)**	(191.3)
Deferred tax asset	**57.0**	53.3
Net deficit at 30 April	**(146.1)**	(138.0)

The table above is the aggregate value of all Group pension schemes. As a consequence of the decrease in the discount rate from 6.4% to 5.6% (based on the AA rated corporate bonds) liabilities increased by £145.6m. The total market value of assets increased by £133.8m, as a result of the recovery in global equity and bond prices.

4. Financing income and costs

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

Other financing costs largely relate to 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

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

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

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

	2010 **£m**	2009 £m
Profit before tax	**55.0**	16.8
Less: Share of (profit)/loss of associates	**(0.2)**	4.5
Profit before tax and share of profit of associates	**54.8**	21.3
Income tax calculated using the UK corporation tax rate of 28% (2009: 28%)	**(15.3)**	(6.0)
Effect of tax rates in foreign jurisdictions	**(2.8)**	(2.7)
Non-deductible expenses	**(3.9)**	(5.7)
Utilisation / (origination) of tax losses not recognised	**0.5**	(2.0)
Adjustment in respect of prior years	**4.0**	0.4
Abolition of Industrial Building Allowances	**–**	(13.3)
Other	**0.6**	1.3
Income tax expense	**(16.9)**	(28.0)

6. Earnings per share

Basic earnings per share

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

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

Diluted earnings per share

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

	2010 £m	2009 £m
Net profit/(loss) attributable to ordinary shareholders	**37.9**	(11.8)
In millions of shares		
Weighted average number of ordinary shares at 30 April	**391.0**	390.9
Potentially dilutive shares issuable under share-based payment arrangements	**8.5**	1.6
Weighted average number of ordinary shares (diluted) at 30 April	**399.5**	392.5
Diluted earnings/(loss) per share (pence per share)	**9.5p**	(3.0)p

Adjusted earnings per share

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

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

7. Dividends

Dividends proposed and paid by the Group are as follows:

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

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

A final dividend in respect of 2009/10 of 3.1 pence per share (£12.1m) has been proposed by the Directors after the statement of financial position date.

8. Cash generated from operations

	2010 £m	**2010 £m**	2009 £m	2009 £m
Profit/(loss) for the financial year		**38.1**		(11.2)
Adjustments for:				
Exceptional items charged to income statement	**13.3**		55.7	
Cash outflow for exceptional items	**(18.4)**		(17.2)	
Depreciation and amortisation	**72.0**		69.9	
Profit on sale of non-current assets	**(1.0)**		(1.7)	
Share of profit of associates before exceptional loss of £nil (2008/09: £(5.1)m)	**(0.2)**		(0.6)	
Employee benefit net finance charge/(income)	**11.5**		(1.5)	
Share-based payment expense	**1.4**		0.3	
Finance income	**(1.5)**		(2.5)	
Finance costs	**15.9**		26.1	
Other non-cash items	**0.6**		-	
Income tax expense	**16.9**		28.0	
		110.5		156.5
Changes in:				
Inventories	**(8.0)**		25.5	
Trade and other receivables	**(36.3)**		70.8	
Trade and other payables	**41.9**		(65.5)	
Provisions and employee benefits	**(10.7)**		(9.7)	
		(13.1)		21.1
Cash generated from operations		**135.5**		166.4

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

	2010 **£m**	2009 £m
Operating profit before exceptional items	**94.0**	94.0
Depreciation and amortisation	**72.0**	69.9
EBITDA	**166.0**	163.9
Working capital movement	**(2.4)**	30.8
Other	**(9.7)**	(11.1)
Cash generated from operations before exceptional cash items	**153.9**	183.6
Capital expenditure payments	**(52.6)**	(87.4)
Proceeds from sales of assets and investments	**13.0**	7.7
Tax paid	**(21.3)**	(21.0)
Net interest paid	**(16.2)**	(23.0)
Free cash flow before net acquisitions and dividends	**76.8**	59.9
Exceptional cash costs	**(18.4)**	(17.2)
Dividends paid to Group shareholders	**(12.9)**	(34.4)
Dividends paid to non-controlling interests	**–**	(1.9)
Net acquisitions of subsidiaries	**(1.0)**	(1.2)
Net cash flow	**44.5**	5.2
Purchase of own shares	**–**	(0.2)
Net debt acquired	**(0.9)**	(0.2)
Foreign exchange and fair value movements	**8.4**	(44.5)
Net debt movement	**52.0**	(39.7)
Opening net debt	**(291.5)**	(251.8)
Closing net debt	**(239.5)**	(291.5)