DS Smith Plc

28 June 2012

DS Smith – 2011/12 Full-Year Results

"This has been a pivotal year for DS Smith with further improved operational and financial performance and the planned transformational acquisition of SCA Packaging."

Highlights

- Revenue +12% to £1,969.4m, +8% like-for-like (2010/11: £1,759.3m)
- Adjusted operating profit[1] +28% to £142.0m (2010/11: £110.9m)
- Profit before tax[1] +44% to £110.2m (2010/11: £76.7m)
- Free cash flow +31% to £94.5m (2010/11: £72.0m)
- ROACE[1] +310 bps, to 14.6% (2010/11: 11.5%)
- Return on sales[1] +90 basis points to 7.2% (2010/11: 6.3%)
- EPS[1] +28% to 12.8p (2010/11: 10.0p)
- Dividend + 31% to 5.9p (2010/11: 4.5p), cover of 2.2x in line with our policy
- Profit after tax £75.7m (2010/11: £70.7m)
- Strategic transformation well underway
    - First full year of Otor yields excellent synergies
    - Disposal of Spicers at 6.9x EBITDA
    - Acquisition of SCA Packaging (excluding kraftliner assets) at 6.0x EBITDA on track to complete at end of June, integration plans in place

(note 1: continuing operations, before exceptional items and amortisation)
Please refer to glossary of terms for definitions

Miles Roberts, Group Chief Executive, said: "2011/12 has been a pivotal year for DS Smith. Building on the success of the previous year we further improved the operational and financial performance of the business, with substantial improvements in revenue, growth, profitability, and returns on capital. Alongside our organic growth and business improvement we also significantly re-shaped the Group in line with our strategic aim to become the leader in recycled packaging for consumer goods."

"The full year benefits from our 2010 Otor acquisition are ahead of our original plans, and the integration of the business has been well received by our customers across Europe. For the year 2012/13 we have much more to accomplish with the planned completion and integration of the SCA Packaging acquisition, which will transform our pan-European market position."

"The economic conditions across Europe remain challenging. DS Smith is positioned to perform well in this environment, due to our resilient customer base, the opportunity for substantial cost and cash synergies as previously announced, and our track record of delivering sustainable returns in challenging market conditions. Accordingly, the Board views

the prospects for the enlarged Group in the coming year with confidence and expects to make continued progress."

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Dial-in details
There is a presentation for investors and analysts today at 09:30 BST at the City Presentation Centre, 4 Chiswell Street, London EC1Y 4UP. There is a dial-in facility on +44 (0)20 3003 2666, password: DS Smith. Callers will be able to participate in the Q&A at the end of the formal presentation. The accompanying slides will be available on our website shortly before the presentation begins.

A play-back facility will be available until 5 July 2012 on +44 (0)20 8196 1998, access pin: 3042049. A transcript of the presentation and Q&A will be available on our website within two working days of the presentation.

Next dates

Q1 IMS and AGM	4 September 2012
100-day update	11 October 2012
Half-year results	6 December 2012

Glossary of terms
Return on sales: earnings before interest, tax, amortisation and exceptional items as a percentage of revenue
Return on average capital employed: earnings before interest, tax, amortisation and exceptional items as a percentage of the average capital employed over the 12 month period
Free cash flow: cash generated from operations, after capital expenditure, tax and interest, please refer to note 9 to the financial statements attached
Like-for-like: excluding the impact of acquisitions, disposals and foreign exchange translation

GROUP CHIEF EXECUTIVE'S REVIEW

Overview

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

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

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

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

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

Delivering against our key performance indicators

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

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

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

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

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

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

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

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

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

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

Delivery against our existing cost-savings targets

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

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

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

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

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

Culture

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

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

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, 2.0 times to 2.5 times through the cycle.

The Board has decided to recommend a final dividend per share of 4.0 pence per share which, together with the interim dividend of 1.9 pence per share gives a total dividend for the full year of 5.9 pence per share (2010/11: 4.5 pence). This represents an increase of 31 per cent over the prior year and a cover of 2.2 times, in line with our target range.

Outlook

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

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

Operating Review

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

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

UK Packaging

	2011/12	2010/11	Change
Revenue	£960.2m	£917.7m	+5%
Operating profit*	£64.4m	£54.2m	+19%
Return on sales*	6.7%	5.9%	+80bps
Return on average capital employed*	13.9%	10.3%	+360bps

*before exceptional items and amortisation

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

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

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

In the corrugated packaging business, we have outperformed a difficult market, while swift decision making and pricing discipline has meant that we have succeeded in recovering costs. We have continued to see success from the development of R-Flute® in the UK which has

shown volume improvements considerably ahead of the market. We continue to see growth in our FMCG customers, where our focus on delivering high quality, innovative products, with high standards of service has helped us gain market share, principally by expanding our position with existing customers.

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

Continental European Corrugated Packaging

	2011/12	**2010/11**	**Change**
Revenue	£743.9m	£599.4m	+24%
Operating profit*	£55.6m	£39.8m	+40%
Return on sales*	7.5%	6.6%	+90bps
Return on average capital employed*	14.0%	12.5%	+150bps

*before exceptional items and amortisation

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

In France, volumes have been robust with a focus on high quality, innovation-led products for FMCG customers driving our increase in market share. We have been working with our customers, not only to supply corrugated boxes, but also supplying bespoke packaging machinery for the end of packaging lines. This technology, combined with our boxes manufactured to a high degree of accuracy, can substantially improve the performance of the packaging while using lighter weight material, delivering greater value to our customers. This innovative approach allows us to develop a long-term working partnership with those customers.

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

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

Plastic Packaging

	2011/12	2010/11	Change
Revenue	£265.3m	£242.2m	+10%
Operating profit*	£22.0m	£16.9m	+30%
Return on sales*	8.3%	7.0%	+130bps
Return on average capital employed*	19.6%	14.9%	+470bps

*before exceptional items and amortisation

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

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

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

FINANCIAL REVIEW

Overview

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

a rigorous focus on our core business and are delivering on the strategic, medium-term financial targets we have set ourselves.

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

Trading results

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

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

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

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

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

Exceptional items

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

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

Interest, tax and earnings per share

Net interest expense decreased from £20.0 million in 2010/11 to £18.4 million in 2011/12, the reduction being principally due to interest received on the proceeds from the rights issue and the proceeds arising from the disposal of the Office Products Wholesaling division. The employment benefit net finance expense, which is largely a non-cash item, was £4.8 million (2010/11: £7.4 million), reflecting a lower deficit of the defined benefit schemes following the actions taken at the end of last year to reduce the liabilities of the UK scheme.

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

The Group's effective tax rate from continuing operations, excluding exceptional items and associate, at 27.6 per cent, was marginally lower than the previous year's rate of 28.2 per cent, principally due to a reduction in the UK corporation tax rate. A tax credit on exceptional items of £17.3 million resulted from both the tax allowances for SCA Packaging acquisition costs of £1.9 million and a tax credit of £15.4 million on other exceptional items. Reported profit after tax from continuing operations was £8.4 million (2010/11: £53.1 million).

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

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

Discontinued operations

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

Dividend

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

Rights issue

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

Cash flow

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

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

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

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

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

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

Net proceeds from acquisitions / disposals of £182.2 million primarily relate to the sale of the Office Products Wholesaling division.

SCA Packaging acquisition costs of £7.0 million were paid during the year. The cash outflow in respect of other exceptional costs was £19.5 million (2010/11: £15.1million).

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

Financial position

Shareholders' funds of £1,057.5 million at 30 April 2012 were up from £584.2 million at 30 April 2011, principally due to an increase in share capital as a result of the rights issue and retained profit for the year. Profit attributable to shareholders was £75.3 million (2010/11: £70.1 million) and dividends of £31.5 million (2010/11: £22.6 million) were paid during the year. In addition, actuarial gains of £16.1 million from the Group's defined benefit pension schemes were credited to reserves. Other items recognised directly in reserves include currency translation losses of £14.2 million, adverse movements on cash flow hedges of £6.6 million, a reclassification from the foreign exchange reserve in relation to the disposal of the Office Products Wholesaling division of £9.8 million and a tax charge relating to these items of £14.3 million.

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

The Group's banking covenants for the syndicated loan specify an EBITDA to net interest payable of not less than 4.5 times, a maximum ratio of net debt to EBITDA of 3.25 times and net assets to be in excess of £360 million. The covenant calculations exclude from the income statement exceptional items and the net interest income/charge arising from the defined benefit pension schemes. The calculation of net assets excludes the net asset or liability arising from the defined benefit pension schemes. As at 30 April 2012, the most sensitive covenant is EBITDA to net interest payable and this has an EBITDA headroom of £122.1 million (a ratio of 11.1 times).

Just as the DS Smith business model is resilient and focused on cash generation we have made sure the financing strategy is equally resilient. During the financial year 2011/12 and in the year to date we have therefore put in place a diverse mix of bank and US private placement funding and we have renegotiated our covenants to provide further covenant headroom in a downturn scenario. The Group refinanced its medium-term borrowings in September 2011 with a new five-year revolving credit facility of £610 million. We also secured acquisition facilities totalling €700 million which are dependent upon completion of the acquisition of SCA Packaging, expected on 30 June 2012. Since the year end we have agreed pricing with debt investors

over the issuance of a new private placement with average maturity of nine years at a competitive 4.28 per cent annual finance charge and have fixed interest rates in euro and sterling. The new private placement will repay the shortest maturing element (€300 million three year bridge finance) of the SCA Packaging acquisition facility and consequently the next significant maturity is not until 2016. We now hedge EBITDA to debt by currency and ensure that in each country in which we operate, we have a substantial banking relationship with a leading bank in that country.

Energy costs

High energy costs continued to be a significant factor for the Group in 2011/12. The Group's total costs for gas, electricity and diesel fuel increased from c. £113 million in 2010/11 to c. £126 million in 2011/12. The Group continued with its strategy of hedging energy costs with suppliers and financial institutions, the purpose of which is to reduce the volatility of energy costs and to provide the Group with a degree of certainty over future energy costs.

Financial capital management

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

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

At 30 April 2012, the Group's total committed borrowing facilities were c. £1.5 billion. The total gross borrowings (including derivatives) at 30 April 2012 were £331.5 million. At 30 April 2012, the Group's borrowing facilities had a weighted-average maturity of four years and eight months (30 April 2011: four years and two months).

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

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

The Treasury Committee regularly reviews the Group's exposure to interest rates and considers whether to borrow on fixed or floating terms. Fixed-rate borrowings, taking into account the effect of related swaps, comprised 63 per cent of total borrowing at 30 April 2012 (30 April 2011: 58 per cent).

The Group has a net investment in major overseas subsidiary companies' foreign currency assets and liabilities, in particular those whose functional currency is the euro. The Group's policy is to hedge a large part of the resulting exposure to movements in foreign currency rates, by means of debt in the same currency, to a level determined by the Treasury Committee. The overseas net assets hedged through euro borrowing were 97 per cent at 30 April 2012 (30 April 2011: 87 per cent), as a proportion of the Group's euro net investment. Following completion of the SCA Packaging acquisition, the currency profile of the Group's borrowings will be aligned to the currency profile of the enlarged Group's EBITDA.

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

Impairment

When applying IAS 36, 'Impairment of Assets', the Group compares the carrying amounts of goodwill and intangible assets with the higher of their net realisable value and their value in use to determine whether an impairment exists. The value in use is calculated by discounting the future cash flows expected to be generated by the assets or group of assets being tested for impairment. During April 2012 a series of tests were undertaken to determine whether there had been any impairment to the balance sheet carrying values of goodwill and other intangible assets. The key assumptions behind the calculations are a growth rate of 3 per cent and an average pre-tax discount rate of 10.1 per cent.

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

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

Pensions

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

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

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

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

Guidance for the year 2012/13

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

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.

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

Consolidated Income Statement

Year ended 30 April 2012

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

Earnings per share **	Note	**2012**	2011
Adjusted from continuing operations ***			
Basic	6	**12.8p**	10.0p
Diluted	6	**12.6p**	9.8p
From continuing operations			
Basic	6	**1.2p**	8.6p
Diluted	6	**1.2p**	8.4p
From continuing and discontinued operations			
Basic		**11.1p**	11.5p
Diluted		**10.9p**	11.2p

* restated following the sale of the Office Products Wholesaling division and subsequent classification as a discontinued operation (note 10)

** restated for rights issue

*** adjusted for amortisation and exceptional items

Notes:

(a) The Annual Report and statement for the year ended 30 April 2012 will be posted to shareholders on 23 July 2012. Statutory accounts for the year ended 30 April 2011 have been delivered to the Registrar of Companies.

(b) Subject to approval of shareholders at the Annual General Meeting to be held on 4 September 2012, the final dividend of 4.0p will be paid on 1 November 2012 to ordinary shareholders on the register on 5 October 2012.

(c) The 2011/12 and 2010/11 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 comparatives have been extracted from the 2011/12 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 (note 2).

Consolidated Statement of Comprehensive Income

Year ended 30 April 2012

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

Consolidated Statement of Financial Position

At 30 April 2012

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

Consolidated Statement of Changes in Equity

Year ended 30 April 2012

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

Consolidated Statement of Cash Flows

Year ended 30 April 2012

Continuing operations	Note	**2012 £m**	2011 £m *
Operating activities			
Cash generated from operations	8	**199.0**	141.1
Interest received		**0.4**	0.4
Interest paid		**(20.2)**	(16.2)
Tax paid		**(25.3)**	(16.0)
Cash flows from operating activities		**153.9**	109.3
Investing activities			
Acquisition of subsidiary businesses	10	**(2.3)**	(158.9)
Divestment of subsidiary business	10	**184.5**	4.8
Capital expenditure		**(94.2)**	(62.3)
Proceeds from sale of property, plant and equipment and intangible assets		**8.0**	4.6
Proceeds from sale of investments in associate and other investments		**0.3**	0.5
Cash flows from/(used in) investing activities		**96.3**	(211.3)
Financing activities			
Proceeds from issue of share capital		**450.2**	50.1
Purchase of own shares		**(0.3)**	(6.5)
Acquisition of non-controlling interest		**–**	(9.3)
(Repayment of)/increase in borrowings		**(72.0)**	121.6
Repayment of finance lease obligations		**(2.7)**	(2.5)
Dividends paid to Group shareholders	7	**(31.5)**	(22.6)
Cash flows used in financing activities		**343.7**	130.8
Increase in cash and cash equivalents from continuing operations		**593.9**	28.8
Discontinued operations			
Cash (used in)/generated from discontinued operations	10	**(29.0)**	26.2
Increase in cash and cash equivalents		**564.9**	55.0
Net cash and cash equivalents at 1 May		**88.2**	32.8
Exchange gains on cash and cash equivalents		**0.1**	0.4
Net cash and cash equivalents at 30 April		**653.2**	88.2

* restated following the sale of the Office Products Wholesaling division and subsequent classification as a discontinued operation (note 10)

Notes to the Consolidated Financial Statements

1. Segment reporting

Operating segments

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

* adjusted for amortisation and exceptional items

Geographical areas

Continuing operations	External revenue 2012 £m	2011 £m *
UK	**988.4**	949.6
France	**606.6**	503.4
Rest of Western Continental Europe	**180.7**	117.6
Eastern Continental Europe	**109.9**	110.7
Rest of the World	**83.8**	78.0
	1,969.4	1,759.3

* restated following the sale of the Office Products Wholesaling division and subsequent classification as a discontinued operation (note 10)

2. Exceptional items

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

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

* restated following the sale of the Office Products Wholesaling division and subsequent classification as a discontinued operation (note 10)

2011/12

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

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

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

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

2010/11

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

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

3. Post-retirement benefits

	2012 £m	2011 £m
Gross deficit 1 May	**(147.5)**	(203.1)
Expense recognised in operating profit	(0.9)	(8.3)
Employment benefit net finance expense	(4.8)	(7.4)
Annual contributions to the DS Smith Group Pension Scheme	29.8	30.1
Other payments and contributions	4.9	(8.5)
Curtailment	0.7	35.3
Reclassification	(2.5)	–
Actuarial gains	16.1	14.4
Gross deficit at 30 April	**(104.2)**	(147.5)
Deferred tax asset	27.1	35.7
Net deficit at 30 April	**(77.1)**	(111.8)

The table above is the aggregate value of all Group pension schemes. The gross deficit reduced by £43.3m. The main UK scheme was closed to future accrual on 30 April 2011.

4. Finance income and costs

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

* restated following the sale of the Office Products Wholesaling division and subsequent classification as a discontinued operation (note 10)

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

5. Income tax expense

Continuing operations	**2012 £m**	2011 £m *
Current tax expense		
Current year	**(36.6)**	(21.4)
Adjustment in respect of prior years	**5.4**	–
	(31.2)	(21.4)
Deferred tax expense		
Origination and reversal of temporary differences	**(1.8)**	(7.0)
Reduction in UK tax rate from 28% to 26%	**3.0**	2.7
Adjustment in respect of prior years	**(0.6)**	4.1
Total income tax expense before exceptional items	**(30.6)**	(21.6)
Tax relating to SCA acquisition costs (note 2)	**1.9**	–
Tax relating to other exceptional items (note 2)	**15.4**	(2.9)
Total income tax expense in the income statement from continuing operations	**(13.3)**	(24.5)
Discontinued operations		
Total income tax expense before exceptional items	**(4.8)**	(7.0)
Tax relating to other exceptional items	**(9.1)**	–
Total income tax expense in the income statement from discontinued operations	**(13.9)**	(7.0)

* restated following the sale of the Office Products Wholesaling division and subsequent classification as a discontinued operation (note 10)

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

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

6. Earnings per share

Basic earnings per share from continuing operations

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

Diluted earnings per share from continuing operations

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

Basic earnings per share from discontinued operations

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

Diluted earnings per share from discontinued operations

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

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

Adjusted earnings per share from continuing operations

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

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

* restated for the bonus element of the rights issue

7. Dividends proposed and paid

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

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

* restated for the bonus element of the rights issue

A final dividend in respect of 2011/12 of 4.0 pence per share (£36.8m) has been proposed by the Directors after the balance sheet date and has not been included as a liability in these financial statements.

8. Cash generated from operations

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

* restated following the sale of the Office Products Wholesaling division and subsequent classification as a discontinued operation (note 10)

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

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

* restated following the sale of the Office Products Wholesaling division and subsequent classification as a discontinued operation (note 10)

10. Acquisitions and divestments

(a) Office Products Wholesaling

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

Discontinued operations

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

Cash generated from discontinued operations

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

Effect of disposal on the financial position of the Group

	2012 £m
Intangible assets	**13.9**
Property, plant and equipment	**31.2**
Inventories	**68.1**
Trade and other receivables	**140.4**
Trade and other payables	**(109.4)**
Other liabilities	**(2.6)**
Net assets and liabilities disposed	**141.6**
Total disposal consideration	**204.7**
Reclassification from foreign exchange reserve arising on disposal	**9.8**
Transaction costs	**(5.8)**
Profit on disposal before tax	**67.1**
Tax charge on profit on disposal	**(9.1)**
Profit on disposal after tax	**58.0**

Cash inflow on disposal

Consideration received	**204.7**
Defined benefit pension scheme contribution paid on disposal	**(16.3)**
Transaction costs paid	**(3.9)**
Net cash inflow	**184.5**

10. Acquisitions and divestments continued

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

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

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

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

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

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

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