

DS SMITH PLC – 2008/09 FULL-YEAR RESULTS

DS Smith Plc, the international packaging and office products wholesaling company, announces its results for the year ended 30 April 2009.

Highlights

- Adjusted profits down: a robust performance given the economic conditions
- Strong cash generation
- Packaging: good results in Corrugated Packaging; profits in Paper well down
- Office Products Wholesaling: continental European profit advance offset by lower results in the UK
- Action programme implemented to secure future results
- Full year dividend reduced: one of a range of measures to underpin financial strength

Financial Summary

	2008/09	2007/08	Change
Revenue – £m	2,106.6	1,967.5	7.1%
Adjusted profit before tax ⁽¹⁾ – £m	72.5	111.0	(34.7)%
Profit before tax – £m	16.8	109.1	(84.6)%
Adjusted earnings per share ⁽¹⁾ – pence	12.6	19.9	(36.7)%
(Loss)/earnings per share – pence	(3.0)	19.6	-
Adjusted return on average capital employed ⁽¹⁾ – %	9.3	12.9	(3.6)ppts
Free cash inflow ⁽²⁾ – £m	59.9	84.8	(24.9)
Net debt/adjusted EBITDA ⁽³⁾ – times	1.8	1.4	0.4
Total dividend per share – pence	4.4	8.8	(4.4)

(1) before exceptional charge of £55.7m (2007/08: net exceptional charge of £1.9m)

(2) before exceptional cash costs, dividends and net acquisitions

(3) adjusted for exceptional charge of £50.6m (2007/08:£1.9m)

Commenting on the results, Chairman, Peter Johnson said:

“All our activities were affected by the global recession and its impact on demand for our products. To underpin our financial strength, we have undertaken a programme of actions to reduce costs and improve cash generation. As part of this, the Board is recommending a reduced final dividend of 1.8 pence. The programme will reinforce the Group’s financial position through the downturn and enable DS Smith to emerge stronger as the market recovers.”

Tony Thorne, Group Chief Executive said:

“Economic indicators continue to show a global economy in recession. The timing of any recovery remains uncertain. Although it is early in our financial year, trading is in line with our expectations. Our consistent strategy to build leadership positions is standing us in good stead in the downturn, and we are confident that this, combined with the continued implementation of our action programme, will underpin our results. We expect to benefit strongly from the upturn when it arrives.”

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Andrew Dowler

A briefing for analysts and investors will take place today at 9.30am BST at Financial Dynamics, Holborn Gate, 28 Southampton Buildings, London WC2A 1PB.

This briefing may be heard live by dialling + 44 (0)1452 569 393.

The presentation slides used at this briefing will be posted in the Investors/Presentations section of the Group's website (www.dssmith.uk.com) from 9.25am.

A replay of the briefing will be available by telephone for five days, from 30 minutes after the meeting has ended, on +44 (0) 1452 550 000 (PIN: 14985982) and an audio recording of the briefing will be available on the website from approximately 2.00pm BST today.

CHIEF EXECUTIVE'S REVIEW**Overview**

In 2008/09, the Group's results were significantly affected by an external environment that worsened as the year progressed. Adjusted operating profit at £94.0 million was 21.4% lower than in 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. This weakening of demand gathered pace in the second half of our financial year.

Profit before exceptional items and tax was £72.5 million (2007/08: £111.0 million). As previously advised, the Group has incurred operating profit exceptional charges in the year of £50.6 million (2007/08: £1.9 million) of which £23.6 million are non-cash impairment charges, principally related to our associate business in Ukraine and our packaging operation in Turkey. After exceptional items, the Group made a post-tax loss of £11.2 million. After exceptional cash costs, the Group was cash generative, reflecting our ongoing focus on cash management.

We have taken action aimed at underpinning the Group's future results in these challenging trading conditions. In December, we announced an action programme focused on cost reduction and cash generation. This programme is now well advanced and we are on course to achieve the expected annual benefits of over £26 million per annum. The programme has an up-front cash cost of circa £27 million, giving a payback period of just over one year. The programme includes restructuring activities designed to improve performance in currently under-performing products and territories, together with actions to optimise performance in areas of strength. We remain committed to exiting non-core businesses and smaller businesses which consistently under-perform.

Net capital expenditure in the year of £79.7 million (2007/08: £57.2 million) reflected the costs of the conversion of New Thames Mill, acquired in February 2008, which now forms part of our Kemsley paper manufacturing operation. This expenditure is enabling the Group to compete strongly in the growing market for lightweight packaging. In the coming year it is anticipated that net capital expenditure will be held below £50 million.

The net deficit on our defined benefits pension schemes increased by £83.5 million to £138.0 million, the principal component of which is the UK defined benefit pension scheme. We are keeping the position as regards the deficit of this scheme under review. It was closed to new members in April 2005.

The Group's adjusted return on average capital employed was lower in 2008/09 at 9.3% (2007/08: 12.9%). Our returns were affected by both the general business environment and by the inherent cyclicality of parts of our business, especially corrugated case material (CCM). Our target is to exceed the Group's estimated pre-tax weighted average cost of capital of 11.8% over the industry cycle. The actions taken to reduce costs and conserve cash, together with the ongoing development of our strong market positions are aimed at achieving our targeted returns.

The Group extended its financing facilities in August 2008 with the renewal of its five-year syndicated revolving facility of £287.5 million (previously £250 million). As a consequence, the weighted average maturity of the Group's committed borrowing facilities, as at 30 April 2009, was four years and one month.

Outlook

Economic indicators continue to show a global economy in recession. The timing of any recovery remains uncertain. Although it is early in our financial year, trading is in line with our expectations. Our consistent strategy to build leadership positions is standing us in good stead in the downturn and we are confident that this, combined with the continued implementation of our action programme, will underpin our results. We expect to benefit strongly from the upturn when it arrives.

Dividend

As part of a series of actions designed to ensure the Group remains financially sound through this period of economic uncertainty, the Board has decided to recommend a reduced final dividend for 2008/09 of 1.8 pence per share (2007/08: 6.2 pence) which, together with the interim dividend of 2.6 pence, would give a total dividend for the year of 4.4 pence (2007/08: 8.8 pence). The Board recognises the importance of dividends to shareholders and remains committed to the payment of dividends in the future that reflect the sustainable earnings and cash generation of the Group over the cycle.

Operating Overview

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

Packaging

Across Europe packaging demand fell progressively throughout the year. The current level of market decline is at levels that are unprecedented in recent times. Packaging demand in the fast-moving consumer goods (FMCG) sector has held up better than in the industrial sectors and we have benefited from our actions in recent years to focus on this area of the market.

Lower box demand has caused CCM prices to fall significantly. This is now putting downward pressure on box prices.

The cost of our key raw material, waste paper, declined during the course of the year, however this is now rising as a result of renewed demand for waste paper from the Far East, especially China. The current cost of waste paper is high relative to CCM prices. Energy costs followed a similar trend, declining during 2008/09 and now moving upwards.

Profits in our UK Paper and Corrugated Packaging operations declined significantly, reflecting not just lower demand but also our high exposure in the UK to movements in CCM prices. Results in our Continental European Corrugated Packaging business were very good, with its performance being assisted by its status as a net buyer of CCM and by the strength of the euro.

Profits in Plastic Packaging declined as a result of lower demand. We have a relatively large exposure to the industrial sector in this product area.

UK Paper and Corrugated Packaging

In 2008/09, the UK Paper and Corrugated Packaging segment, which accounted for 37.3% of Group revenue and 54.0% of Group average capital employed, reported a slight increase in revenue to £785.8 million (2007/08: £753.2 million). Revenue benefited from a tolling contract with the previous owner of the New Thames Mill. This revenue supported the fixed costs of the site during the period when the mill was being

converted to produce lightweight CCM. Operating profit was lower at £36.5 million (2007/08: £68.5 million), primarily due to reduced sales volumes, the reduction in CCM prices and a weaker paper sales mix during the second half of the year.

Sevenside Recycling, which supplies the waste paper raw material for our own recycled paper mills, experienced a small decline in profit on slightly lower sales volumes; this was due to the reduced availability of waste as a consequence of the slow-down in the economy. Sourcing of the additional raw material required for the new lightweight CCM production capacity at Kemsley went well. Sevenside is continuing to expand its activities and has secured a number of new retail customers.

Our UK paper business was significantly affected by the lower demand for both CCM and plasterboard liner, the latter due to the sharp decline in the construction sector. Margins were also put under pressure by the relatively high cost of raw materials. In general, demand for paper to supply boxes to the FMCG sector has performed better than that relating to the industrial sector. We have been producing high-quality lightweight CCM at Kemsley since January 2009. This project was completed on time and with a very favourable customer reaction to the product's performance.

Our UK box business produced a good result in a market that weakened considerably in the second half of the year. 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.

Continental European Corrugated Packaging

Despite lower volumes, sales revenue increased to £363.4 million (2007/08: £346.0 million) reflecting the benefit of movements in exchange rates. Operating profits increased to £30.4 million (2007/08: £20.3 million), assisted by reduced CCM costs. In France, our corrugated box business increased its operating profit, thanks to efficiency improvements and our ongoing focus on higher value-added sectors of the market. Despite poor market conditions, our Italian business performed well primarily as a result of its strong position in the FMCG sector. Our Polish operation performed very strongly as a result of continued sales growth and a good product mix. Market conditions in Turkey remain particularly depressed and we have taken an impairment charge of £5.0 million against the assets of our Turkish business.

Profits at our Ukrainian associate business, Rubezhansk, were significantly affected by an exchange rate loss incurred as a result of the devaluation of the Ukrainian Hryvnia against the US dollar. Rubezhansk has a US dollar denominated loan of \$87 million related to its investment project to increase its paper capacity and develop a capability to produce plasterboard liner. Currency movements on the loan resulted in an exceptional loss of £5.1 million. Reflecting the issue with the loan, an exceptional charge of £18.1 million has been taken to impair fully the carrying value of our investment in Rubezhansk. There is no recourse to the Group in relation to the loan. The cumulative net cash cost of our investment in Rubezhansk has been less than £5 million, after taking into account the acquisition investment less the dividends received. Rubezhansk continues to trade profitably and to generate cash. We are continuing to work with our partner and the lending banks to resolve the position in relation to the loan.

Plastic Packaging

Including the positive impact of foreign exchange translation, revenue in Plastic Packaging increased by 6.0% over the year to £236.9 million (2007/08: £223.4 million) and adjusted operating profit fell to £7.0 million (2007/08: £10.7 million). The returnable transit packaging (RTP) sector experienced lower profitability due to reduced demand. RTP volumes were impacted by the decline in economic activity across all our major markets: beverage crates, automotive and construction.

The liquid packaging and dispensing (LP&D) sector saw increased volumes in both taps and bags. Overall profits were ahead of the prior year but prices remained under pressure. Our US business in this sector performed well. In Europe, further restructuring has taken place, which will reduce the cost base during the current year. The benefits of this action will augment the benefits that will be derived from the restructuring of our German bag-in-box operations, which was completed in April 2009.

Office Products Wholesaling

Overall revenue increased by 11.7% to £720.5 million (2007/08: £644.9 million), reflecting some sales growth combined with the translation benefits of the strong euro. The trading environment became progressively more difficult as the year progressed; this resulted in de-stocking and down-trading by both our customers and end-users. We have increased sales, almost entirely in electronic office supplies (EOS), which is a growing, but lower margin, sector of the market. The decline in the non-EOS or traditional products market has continued.

In Spicers UK, turnover increased but operating profit came under significant and increasing pressure. This was due to much lower sales of traditional products, as well as the highly competitive nature of this market. A number of actions based on improving the sales mix and lowering costs are underway to reverse this downward trend.

In the continental European businesses, which account for just over 50% of Spicers' total revenue, profit was slightly ahead of the previous year, assisted by the strength of the euro. Difficult trading conditions for our more established businesses depressed both revenue and operating profit, but results were good relative to their markets. Our developing German and Italian operations continued to grow both their revenue and profit.

George Adams, who was appointed to the role of Chief Executive of Spicers in June 2009, brings with him a wealth of relevant business experience both in the UK and Europe as well as a good understanding of the Spicers business.

The current year will be testing, especially in the UK, but Spicers is well placed to take advantage of improved economic circumstances, due to its strong market positions.

Strategy

The Group has two distinct activities, Packaging and Office Products Wholesaling. The Board regularly reviews the structure of the Group.

Each activity has a well-established strategy. The key elements of these strategies are outlined below. We believe that progress in the implementation of these strategies has contributed to our robust performance in 2008/09. In addition, in the current difficult economic environment, we believe our strategies have established a strong base from which we can develop further when activity levels improve.

Our aim is to generate enhanced returns and cash flows for our investors over the longer term, while maintaining a strong balance sheet. We recognise that there is a significant degree of cyclicity in parts of our portfolio and the effects of this are particularly apparent as a result of the current downturns in both the general economic and the CCM sector cycles. Our strategy and operational actions are designed to manage the negative impacts of the volatility of the Group's results through the cycle, while ensuring that there is sufficient profit growth in the less cyclical parts of our packaging operations to achieve long-term progress.

We will continue to drive for progress in the implementation of our strategies, but given the current outlook for the trading environment, the pace of development is likely to be slower.

Packaging

Our strategy is to:

- enhance our leadership position in cost-efficient supply chain solutions, across our chosen geographies, particularly in relation to retail-ready packaging, decorative promotional packaging for the retail market and heavy-duty packaging for the industrial segments;
- increase our leadership position across the supply chain in the UK and to build strong businesses in selected continental European countries, concentrating on the production and marketing of corrugated packaging;
- provide a range of innovative and cost-efficient RTP solutions for selected industrial and retail market segments;
- be a high specification, low-cost supplier of CCM for the packaging industry and plasterboard liner for the construction industry; and

- extend our recycling capability to ensure that we have a cost-effective supply of waste paper for our paper operations and a market leading recycling business.

In the UK we are seeking to maintain our leadership positions in all three parts of the paper and corrugated supply chain, through both organic development and acquisition. We believe that a combination of scale and the interaction between our three businesses will allow us to meet our target cost of capital through the industry cycle.

- Severnside is the UK's leading collector and processor of waste paper.
- St Regis is the leading and most cost competitive UK producer of CCM.
- DS Smith Packaging is the UK market leader in the production and marketing of corrugated packaging.

A significant element of our Packaging strategy continues to be the drive for growth both in the UK and in selected geographical markets in continental Europe. We will concentrate on the production and marketing of corrugated packaging, rather than CCM, since our objective is for the Group, as a whole, to be a net buyer of CCM. In light of the fluctuation in CCM prices we believe this net buyer status will provide us with a more consistent earnings profile through the industry cycle.

The Group is developing sizeable and highly profitable businesses in France, Italy and Poland. Our Polish business now acts as a hub for supply into other East European countries. We also have a market-leading associate company in the Ukraine.

Our continental European corrugated business is a market leader in heavy-duty industrial packaging, a high value-added product which is competitively supplied to both local and export markets. Through our investment in equipment and people we are increasing the proportion of FMCG packaging products within our European portfolio. The FMCG market segment is growing and we believe it will be less impacted by overall economic factors than the industrial packaging sector in the longer term.

In our Plastic Packaging business we are focused on two sectors, LP&D and RTP. We are number two globally in LP&D with leading market positions in Europe, the USA and Australasia. The RTP market is highly fragmented but we have built good positions in our selected market sectors. Going forward, we will seek to consolidate our existing positions and grow further in RTP.

Office Products Wholesaling

Our strategy is to be a pan-European, highly efficient wholesaler of office products. Our primary aim is to support our network of dealers in growing their share of the market. We especially concentrate on developing our fulfilment service for those dealers who outsource their logistics and also on supplying products that resellers choose to sell but not to stock. We provide this support through: offering a wide range of both traditional office products and electronic office supplies; cost-effective purchasing, both on a local and pan-European basis; stocking, breaking bulk and distributing small quantities cost-efficiently; the production of catalogues and other marketing tools and giving access to highly effective e-commerce packages.

Today, approximately 50% of our sales are in the UK and Ireland, with the other half spread across the major markets of France and Benelux, where we have significant market shares, and Germany, Spain and Italy, where our businesses are in a development phase. We are prepared to consider further geographic expansion but in the short term our emphasis will be on: raising profits substantially in the UK and Ireland; strengthening further our market positions in the continental European markets in which we have an established position; and extending our businesses in our developing markets, especially Germany and Italy.

Our People

The employees of DS Smith have shown themselves to be not only tough but also resilient, in the face of the most difficult trading conditions seen in a generation. I feel confident in saying that because of their dedication and resourcefulness we have performed at levels above those which might otherwise have been expected. They have my thanks.

Board Changes

Jonathan Nicholls will join the Board of DS Smith Plc as a Non-Executive Director with effect from 1 December 2009. Jonathan has considerable Board level experience, including having been Group Finance Director of Hanson Plc and, most recently, Group Finance Director of Old Mutual Plc. Richard Marton will retire from the Board on 31 August 2009 having served as a Non-Executive Director since 13 March 2000. Richard has made an outstanding contribution during his time in office and we thank him for his sound advice and wise counsel.

FINANCIAL REVIEW

Overview

The Group has achieved a robust financial performance in challenging trading conditions. The cash flow performance in the year demonstrates the Group's ability to generate cash despite significant capital investment and restructuring programmes. In August 2008 we successfully refinanced a syndicated loan facility at market competitive rates.

Trading Results

The major drivers of the 2008/09 results were: lower volumes across the Packaging activity as a whole due to the weak economic environment; decreases in CCM selling prices in the UK Paper and Corrugated Packaging segment; and continuing strong competition combined with lower demand in the UK business of the Office Products Wholesaling segment. The improvement in margins in our continental European packaging operations together with the effects of the depreciation of sterling against both the euro and US dollar offset some of the decline.

Revenue for the financial year ended 30 April 2009 increased by 7.1% over the prior year; it was 17.0% higher in the first half of the year and 2.0% lower in the second half. Excluding the effects of the acquisition, in February 2008, of New Thames Mill within UK Paper and Corrugated Packaging, revenue was up 3.5%. In addition, if the effect of movements in foreign exchange rates is excluded, revenue was down 4.5% on 2007/08.

Adjusted Group operating profit (excluding exceptional items) in 2008/09 was £94.0 million (2007/08: £119.6 million). The decrease in adjusted Group operating profit resulted from declines in UK Paper and Corrugated Packaging and Plastic Packaging of £32.0 million and £3.7 million respectively, which were partially offset by an increase in Continental European Corrugated Packaging of £10.1 million. Adjusted operating profit in Office Products Wholesaling was flat. Group adjusted operating profit in the first half of the year was £54.4 million (2007/08 H1: £60.4 million) and in the second half was £39.6 million (2007/08 H2: £59.2 million). The Group's adjusted return on sales was 4.5% (2007/08: 6.1%).

The Group's adjusted return on capital employed (which is defined as the adjusted operating profit divided by the average capital employed) decreased from 12.9% in 2007/08 to 9.3% in 2008/09 below the Group's estimated pre-tax cost of capital of 11.8%. The decline in the Group's return on capital employed reflected lower returns in 2008/09 across UK Paper and Corrugated Packaging, Plastic Packaging and Office Products Wholesaling, which were partially offset by a better return in Continental European Corrugated Packaging.

Exceptional items

The Group recorded net exceptional charges before tax of £55.7 million during the year (2007/08: £1.9 million). A total of £50.6 million was recorded against operating profits which included £18.1 million in respect of the impairment of the carrying value of the Group's Ukrainian associate and £5.0 million in respect of our Turkish business, as well as £0.5 million against an investment in Italy. The balance of £27.0 million related to the restructuring costs and provisions as part of the Group's previously announced action programme. Restructuring costs of £18.2 million were incurred in UK Paper and Corrugated Packaging, £1.6 million in Continental European Corrugated Packaging, £3.5 million in Plastic Packaging and £3.7 million in Office Products Wholesaling. The restructuring costs comprise redundancy and other cash costs of £25.1 million and a balance of £1.9 million of non-cash items, principally impairments of tangible fixed assets. The cash return on this expenditure is expected to be £26.0 million in 2009/10 (2008/09: £nil) and this will help to

underpin the Group's performance in the current year. Operating profit after exceptional items was £43.4 million (2007/08: £117.7 million).

Interest, tax and earnings per share

Net interest expense increased from £20.8 million in 2007/08 to £23.6 million in 2008/09, mainly reflecting higher interest rates following the refinancing completed in August and increased average net debt.

Employment benefit net finance income, which is a non-cash item, was £1.5 million (2007/08: £8.8 million), reflecting a higher opening deficit on the defined benefit schemes. For 2009/10, given the higher discount rates used, higher opening deficit and reduced return on assets, it is anticipated that there will be an increase in the employment benefit finance charge to circa £11 million.

The Group's adjusted share of the non-exceptional after-tax profits of Rubezhansk, the Group's associate paper and packaging company in Ukraine was £0.6 million, down from £3.4 million in 2007/08. The Group has reported an exceptional loss of £5.1 million as the Group's share of the after-tax net loss at Rubezhansk incurred in the second half of 2008/09, principally as a result of foreign exchange losses incurred on Rubezhansk's US \$87 million loan, following the significant decline in the Ukrainian Hryvnia against the US dollar. Exchange rate movements have resulted in Rubezhansk breaching its banking covenants. Consequently due to the uncertainty of the financial position of Rubezhansk the Group has fully impaired the carrying value of its investment in Rubezhansk. This impairment of £18.1 million has been charged to operating profit as an exceptional charge. The net cash cost of this investment has been less than £5 million. Having reduced the carrying value of the investment to zero the Group has no further exposure to potential future losses at Rubezhansk. There is no recourse to the Group for the loan held by Rubezhansk.

Adjusted profit before tax was £72.5 million (2007/08: £111.0 million). Profit before tax after exceptional items was £16.8 million (2007/08: £109.1 million).

The Group's effective tax rate, excluding exceptional items and associates, at 31.4%, was higher than last year's rate of 29.4% as a result of a shift in the mix of profits towards the higher tax rate jurisdictions in continental Europe. The tax charge on exceptional items of £5.4 million comprises an exceptional charge £13.3 million in respect of UK taxation following the announcement of the cessation of industrial building allowances, partially offset by tax allowances of £7.9 million for restructuring costs.

Adjusted basic earnings per share were 12.6 pence (2007/08: 19.9 pence). Basic losses per share were 3.0 pence (2007/08: earnings 19.6 pence).

Dividend

The proposed final dividend is 1.8 pence (2007/08: 6.2 pence), giving a total dividend for the year of 4.4 pence (2007/08: 8.8 pence). Dividend cover before exceptional items was 2.9 times in 2008/09 (2007/08: 2.3 times). After exceptional items the dividend was not covered (2007/08: cover 2.2 times).

Cash flow

The Group generated free cash flow of £59.9 million (2007/08: £84.8 million). Adjusted EBITDA fell by £17.7 million to £163.9 million, however a strong focus on working capital resulted in a cash inflow of £30.8 million (2007/08: £13.2 million). Cash generated from operations (before exceptional items) was £2.0 million below the prior year at £183.6 million.

Net capital expenditure payments after disposals were £79.7 million (2007/08: £57.2 million), the most significant expenditure being the investment to convert the paper machine at New Thames Mill. The interest paid increased in line with the income statement charge after excluding last year's non-cash charge relating to an increase in the fair value of put options held by minority, non-continuing shareholders in a subsidiary of the Group.

Tax payments were £21.0 million (2007/08: £27.8 million) and were reduced by the lower adjusted trading profit described above. Cash dividend cover, defined as free cash flow divided by dividends paid/declared for the year, was 1.7 times, down from 2.5 times in 2007/08.

The cash outflow in respect of exceptional restructuring costs was £17.2 million (including cash outflows related to exceptional charges made in 2007/08), compared with a cash outflow from restructuring costs of £5.8 million in 2007/08.

The net cash outflow on acquisitions and disposals was £1.2 million (2007/08: £87.2 million) principally accounted for by the acquisition of a small recycling business in north-west England.

In respect of pension payments, the agreed annual contributions into the UK Group Pension Scheme were £15.6 million in 2008/09 (2007/08: £14.6 million).

Overall, the Group generated cash of £5.2 million after funding additional capital expenditure and restructuring costs.

Financial position

Shareholders' funds totalled £458.0 million at 30 April 2009, down from £601.7 million at 30 April 2008, principally due to the increase in the net liability to the Group Pension Scheme and the impairment of the carrying value of the Group's associate in Ukraine. Net assets per share were 116.7 pence (30 April 2008: 153.9 pence). The loss attributable to the shareholders of DS Smith Plc was £11.8 million and dividends of £34.4 million were paid during the year. In addition, after-tax actuarial losses of £88.5 million on the Group's defined benefit pension schemes were debited to reserves through the Statement of Recognised Income and Expense. Other items recognised directly in equity, relate to currency translation of £0.7 million and movements in cash flow hedges of £10.3 million.

The Group has committed facilities to 2012 of £535 million. The closing net debt was £291.5 million, £39.7 million higher than at the start of the year, reflecting the net cash inflow during the year of £5.2 million and non-cash movements, principally exchange differences and related fair-value movements, of £44.5 million.

Gearing, defined as net debt as a percentage of net assets, was 63.9% (30 April 2008: 41.8%); the movement reflected the increase in borrowings from the net cash outflow for the year which was proportionally greater than the increase in shareholders' funds. Adjusted Interest Cover (as defined in the loan agreements) was 4.5 times, compared with 7.6 times last year, the lower cover reflected the lower adjusted operating profit combined with the increased interest charge. The ratio of net debt to EBITDA (before exceptional items) was 1.8 times (2007/08: 1.4 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 2009, the most important covenant is the Adjusted Interest Cover and this had an Adjusted Profit headroom of £34.6 million (2007/08: £78.9 million).

Energy costs

The high level of energy costs continued to be a significant factor for the Group in 2008/09. The Group's total costs for gas, electricity and diesel fuel increased from circa £91 million in 2007/08 to circa £114 million in 2008/09. After adjusting for the effect of the acquisition of New Thames Mill in February 2008 this represents an underlying increase of circa £5 million. 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.

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

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. The key assumptions behind the calculations are as follows:

- Cash forecasts were derived from the latest budgets and forecasts for the two years ending 30 April 2011 as approved by the Board. Cash flows for the three following years were extrapolated assuming a progressive recovery in margins to historical averages by 2013/14;
- The pre-tax weighted average cost of capital (WACC) for the Group is 11.8%;
- Whilst the Group operates in different markets and geographies, management are of the opinion that the risk profiles are not sufficiently different as to require the application of differing WACC rates to individual markets or geographies;
- Long-term growth rates are either equal to or less than the long-term inflation assumption.

In summary, the test indicated that, despite the weak markets currently being experienced, the value of discounted future cash flow meant it remained appropriate not to write off any of the goodwill previously acquired by the Group. The tests for impairments did indicate that due to the uncertain state of the corrugated box market in Turkey it was appropriate to make an impairment of £5.0 million against the plant and equipment of Copikas, the Group's subsidiary in Turkey.

Approximately 73% of the carrying value of the Group's goodwill is allocated to UK Paper and Corrugated Packaging.

Whilst the Board considers that its assumptions are realistic, it is possible impairment would be identified if any of the above key assumptions were changed significantly. The net book value of goodwill and other intangibles at 30 April 2009 were £222.0 million (30 April 2008: £215.2 million).

As noted above the Board has reviewed the carrying value of the Group's Ukrainian associate, Rubezhansk, and has determined that due to the financial position of Rubezhansk it is prudent to impair fully the carrying value of this investment.

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 2009 were £555.3 million and the gross liabilities at 30 April 2009, calculated under IAS 19, were £746.6 million, resulting in the recognition of a gross balance sheet deficit of £191.3 million (30 April 2008: £75.9 million), a net deficit of £138.0 million (30 April 2008: £54.5 million) after the establishment of a deferred tax asset of £53.3 million (30 April 2008: £21.4 million). The increase in the gross balance sheet deficit of £115.4 million was principally due to a reduction in asset values of £166.5 million resulting from the decline in global equity 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 2008/09, amounted to £9.7 million compared with £8.7 million in 2007/08. The Group's agreed annual cash contributions to the main UK scheme were £15.6 million (2007/08: £14.6 million). A triennial valuation of the scheme was carried out as at 30 April 2007.

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 Chief Executive's review of the year. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are shown in the balance sheet, cash flow 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 and increasing 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. An action programme was announced in December 2008 and management will take further actions, including additional restructuring, as may be appropriate to the changing circumstances.

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.

OPERATING REVIEW

PACKAGING

Paper and Corrugated Packaging Market Overview

The Corrugated Packaging Market

Usage of corrugated packaging (boxes) for the fast-moving consumer goods (FMCG) sector, which accounts for approximately two-thirds of the corrugated market, has been affected by the slow-down in retail demand but has remained significantly stronger than that for industrial market sectors. Demand from the FMCG sector continues to benefit from the trend towards the use of retail-ready packaging (RRP), which can be readily converted from its initial role as a protective transit pack into a box or tray that can be placed on display in the retail store. RRP benefits retailers by reducing the manual work involved in loading goods onto store shelves and reducing the amount of damage to goods in store, while enabling products to be presented more attractively. RRP requires more sophisticated packaging manufacturing capabilities for cutting, printing and gluing the corrugated board to form the more complicated box structures. The increased proportion of these higher value-added boxes, often requiring multi-passes within the production process, has contributed to capacity utilisation across the corrugated industry remaining higher than would be indicated by the overall level of demand.

In the calendar year 2008, the European market for corrugated packaging, measured in square metres, declined by 2.8%¹. Demand in western Europe fell by 3.3% and within this the UK market fell by 3.5%. Demand in eastern and central Europe continued to be relatively stronger but only grew by 0.1%. Owing to cost and environmental pressures, there is a continuing emphasis in most markets on reducing the average weight of packaging. As a result, European demand when measured by weight declined by 3.6% and the UK

¹ Source: European Federation of Corrugated Board Manufacturers

market, which is at the forefront of the 'lightweighting' trend, fell by 4.6%. Across Europe, demand deteriorated as the year progressed and this trend continued in the early months of 2009.

The corrugated case material market

Whereas boxes are generally sold locally, CCM is sold on a pan-European basis and pricing is therefore affected by pan-European supply and demand. The total demand for CCM in Europe (including eastern and central Europe but not Russia) is circa 23 million tonnes. The market for CCM in Europe is dependent upon European demand for corrugated packaging, as the imports and exports of unfilled boxes are negligible. Approximately 80% of the CCM used in Europe is made from recycled fibre, with the balance principally comprising kraftliner, which is made from virgin wood pulp.

The lower demand for boxes has resulted in reduced demand for CCM. However, within the overall CCM market there is strong demand for high-quality, lightweight CCM to produce lighter-weight packaging. The growth in the usage of lightweight CCM continues to be limited by the available supply of lightweight paper as the majority of the existing CCM machines are unable to manufacture lightweight papers cost-effectively or to an acceptable quality. This increased demand for high-quality lightweight CCM is resulting in the addition of new CCM capacity capable of producing lightweight paper. In January 2009, the Group started production of its 'K-light' lightweight CCM product at Kemsley. Other European producers plan to commence production of lightweight CCM on new machines located in Poland, Hungary and Germany during the second half of 2009 and in 2010. This new capacity, which is expected to be started in 2009 and 2010, will produce circa 1.5 million tonnes per annum when it is fully operational. It is anticipated that the production from the new machines will principally be targeted at satisfying the rapidly growing European demand for lightweight paper.

During 2008 and 2009, a number of closures of older recycled CCM machines, representing circa 0.8 million tonnes of capacity, have been announced and implemented across the industry. Despite these closures it is estimated that there is currently an oversupply of some three to four million tonnes of CCM in Europe as a result of the current lower demand for boxes.

CCM and Box Prices

The reduced demand for corrugated packaging during 2008 resulted in an increase in European industry CCM stocks and this, coupled with the developing oversupply position, led to a progressive weakening of the price of recycled CCM. In continental Europe recycled CCM prices fell by approximately 50%² between December 2007 and April 2009. Recycled CCM prices in the UK, which were supported to some extent by the weakness of sterling, fell by approximately 30% over the same period. The combination of weaker demand and lower CCM prices has resulted in a fall in box prices. This fall in box prices has been more marked in continental Europe than in the UK.

Waste Paper

Waste paper, the principal raw material for recycled CCM, is a globally traded commodity. The price of old corrugated containers (OCC), the principal grade of waste paper used for producing CCM fell sharply in autumn 2008 as a result of substantially reduced demand from Asia. The price of OCC has firmed in recent months as a result of some recovery in purchasing from Asia and the lower level of availability in Europe, which is due to the lower overall level of economic activity. In the UK, the value of Packaging Recovery Notes (PRNs), which are issued as evidence that packaging has been reprocessed in compliance with the UK Packaging Waste Regulations, has remained at a low level.

² Source: RISI, Inc

UK Paper and Corrugated Packaging

	2008/09	2007/08
Revenue – £m	785.8	753.2
Adjusted operating profit – £m*	36.5	68.5
Adjusted EBITDA – £m*	73.2	100.4
Key performance indicators:		
Revenue growth – %	4.3	9.6
Adjusted return on sales – %*	4.6	9.1
Adjusted EBITDA margin – %*	9.3	13.3
Adjusted return on average capital employed – %*	6.7	14.3

* before exceptional items of £18.2 million (2007/08: £nil)

2008/09 Performance

Results in the UK Paper and Corrugated Packaging segment were adversely affected by lower demand and a sharp fall in the price of CCM. Our corrugated box business performed well despite a lower demand for boxes but this was not sufficient to offset the weaker results in our paper business. Revenue advanced by 4.3% to £785.8 million; on a like-for-like basis, excluding New Thames Mill, acquired in February 2008, revenue declined by 4.4%. Adjusted operating profit was significantly lower at £36.5 million (2007/08: £68.5 million).

Our waste collection business, Severnside Recycling, performed satisfactorily despite the effects of large swings in the price of waste material during the year and lower sales volumes. The amount of waste available for collection was lower due to the reduced levels of activity at retailers and other businesses. The dislocation in the market for waste caused by the sharply reduced demand from Asia resulted in Severnside acquiring a number of significant new customers who recognised the benefits of Severnside's expertise and infrastructure for waste collection and recycling. The Group's reprocessing capability at its paper mills and the Group's own requirement for waste paper were increased during the year by the start-up of the converted paper machine at Kemsley which produces lightweight CCM. In addition to fulfilling its primary role of securing the required quantities of fibre for our UK paper mills, Severnside developed further its value-added waste management services in response to growing demand, which is being stimulated by government action to reduce the amount of waste going to landfill. During the course of the year, Severnside and our UK box business, DS Smith Packaging, have further strengthened their marketing collaboration for our 'cradle-to-cradle' environmental capability. Customers are increasingly recognising the benefits of the Group's expertise in the design of waste-minimising packaging, the manufacture of fully recyclable boxes and waste recycling and disposal services.

St Regis, our UK paper business, was affected by significantly lower sales volume and a squeeze on its margins due to the fall in the price of CCM and continuing high input costs. These factors increasingly affected results during the second half of the year. In addition to the lower demand for CCM as a result of reduced box demand, plasterboard liner sales were severely affected by the slow-down in the construction industry. Production at the mills was adjusted in recognition of the reduced level of demand.

In January 2009, production of lightweight CCM commenced on schedule on the recently acquired and modified paper machine at Kemsley, which has an initial capacity of 260,000 tonnes per annum. The quality of the 'K-light' product being produced is exceeding our high expectations and there is strong demand for this lightweight paper despite the generally weak demand for CCM as a whole. Although prices currently being obtained for the product are below those anticipated when the project was initiated, this investment has, we believe, materially strengthened the long-term competitiveness of our UK Paper and Corrugated Packaging business. It has established us as a leader in high-quality lighter-weight packaging and given us a significant capability as well as an increased share of this growth market segment.

As a result of the lower overall demand for CCM we closed, with effect from 1 May 2009, the PM1 machine at Kemsley, which was the Group's oldest paper machine and had a capacity of 75,000 tonnes per annum.

DS Smith Packaging, our UK box business, achieved a good result, maintaining its share in a weaker overall market. Prices began to come under pressure during the second half of the year. We benefited from our

expanded and strengthened position in the FMCG sector of the market and particularly from our focus on RRP, which continues to increase its share of the market. We are continuing to develop our innovative supply chain support service, as part of which we work with customers to produce packaging solutions that will reduce customers' transportation and handling costs. In our sheet feeding operations, which supply corrugated sheet to box converters, we have retained our market share and have had a positive response to the use of our 'K-light' material. We have adjusted capacity levels and costs in our corrugated operations to reflect the reduced demand and changes in product mix.

As we enter 2009/10, the recent trends in both demand and pricing across the UK Paper and Corrugated Packaging segment have been adverse and energy and waste paper input costs are exerting further pressure on our margins. We have taken action to reduce costs and raise operational performance and are focused on maximising the opportunities presented by our strong market positions.

Continental European Corrugated Packaging

	2008/09	2007/08
Revenue – £m	363.4	346.0
Adjusted operating profit – £m*	30.4	20.3
Adjusted EBITDA – £m*	45.8	33.9
Key performance indicators:		
Revenue growth – %	5.0	12.3
Adjusted return on sales – %*	8.4	5.9
Adjusted EBITDA margin – %*	12.6	9.8
Adjusted return on average capital employed – %*	15.2	10.9

* before an exceptional charge of £24.7 million (2007/08: £nil)

2008/09 Performance

The Continental European Corrugated Packaging segment achieved a strong result despite weak demand across its markets. Revenue increased by 5% to £363.4 million (2007/08: £346.0 million). This segment, which is a substantial net buyer of paper, benefited from our previous actions to raise prices, the fall in the price of CCM and good cost control. Together these factors enabled us to offset the effects of lower sales volumes. Operating profit increased by 50% to £30.4 million. Excluding the effects of foreign exchange translation, revenue was £40.5 million lower than in 2007/08. Operating profit, excluding the effects of foreign exchange, was £3.3 million higher than in the prior year.

In our established markets, the French paper business, which focuses on supplying speciality products, maintained its profits despite substantially lower sales volume. Our French corrugated packaging business made good progress, assisted by better margins and operational improvements at the main facilities. Our particularly strong market position in heavy-duty packaging for the industrial sector in France was severely affected by the sharply lower level of activity in its customers' industries. The effects of this were partly offset by the benefits of our actions and investment aimed at increasing our business in the FMCG sector. Based on its strong market positions in the FMCG sector, our Italian business performed well in a worsening trading environment.

In our developing markets, the Polish business achieved a further strong advance, gaining share in a broadly static market. We are benefiting from the investments we have made over a number of years and our focus on developing sales of higher value-added products. Our small converting businesses in the Czech Republic and Slovakia, aimed principally at the automotive industry in central Europe, experienced especially tough trading conditions. Results at our business in Turkey, which focuses on the brown and white goods and automotive sectors were also depressed by the international economic slow-down. We have extended our programme aimed at lowering costs and improving performance and we are taking an impairment charge against this business. Operating results at our Ukrainian associate business, Rubezhansk, which is reported under associates, were affected by weaker sales volume and margin pressure. Although the business remains profitable and cash generative we have fully impaired the value of our investment in it because of its exposure to a large US dollar denominated loan.

In 2009/10, we expect margins to come under increased pressure while sales volumes remain subdued. Our priorities are to maintain good levels of profitability in our three principal markets, France, Italy and Poland. We will continue to develop the Polish business and concentrate on supplying the higher value-added product sectors in all our markets.

Plastic Packaging

	2008/09	2007/08
Revenue – £m	236.9	223.4
Adjusted operating profit – £m*	7.0	10.7
Adjusted EBITDA – £m*	19.2	21.2

Key performance indicators:

Revenue growth – %	6.0	10.7
Adjusted return on sales – %*	3.0	4.8
Adjusted EBITDA margin – %*	8.1	9.5
Adjusted return on average capital employed – %*	5.3	8.4

* before an exceptional charge of £4.0 million (2007/08: £1.9 million)

Market Overview

Returnable transit packaging (RTP) products are mostly used within the retail, automotive, electronics and beverage sectors. Demand is heavily influenced by industry sector activity levels. RTP is often a capital purchase for our customers, being driven by particular projects, hence annual demand can be uneven. The European market for RTP, which is estimated to be approximately €1 billion, is fragmented into many product sub-sectors and has a large number of suppliers. In western Europe, the markets we serve are estimated to have declined in 2008 by 15% as a result of the slow-down in industrial and retail activity. The previous trend towards the use of multi-trip, reusable packaging on cost and environmental grounds has reduced in recent years, although there remain many market sectors that are well suited to returnable systems. This slow-down in demand has been partly a result of the fluctuations in polymer costs and partly a result of the general decline in economic activity.

The global market for liquid packaging and dispensing (LP&D) products is estimated to be approximately £400 million. The principal uses of bag-in-box packaging are for wine, agricultural produce (such as fruit juice and dairy products) and food service applications such as carbonated soft-drink concentrate (for the hotel and restaurant industries). The market for dispensing products (principally taps), other than for bag-in-box systems, is fragmented across a wide range of applications. DS Smith Plastics is a major supplier to the wine and liquid detergent sector; the latter has grown strongly in recent years in the USA and has more recently started to grow in Europe.

The recent volatility of polymer prices has contributed additional uncertainty into our markets over the last year. During the first half of calendar year 2008 polymer prices rose substantially, as a result of the high oil price, reaching a peak in August 2008. They then fell sharply during the autumn and early winter months before firming again during the first half of 2009. This volatility contributed to the uncertainty of demand during this period as it exacerbated the tendency of customers to defer ordering products, particularly in the RTP sector.

2008/09 Performance

DS Smith Plastics' revenue increased by 6% to £236.9 million, including the positive effect of foreign exchange translation. Results were lower in both of our major sectors and consequently overall adjusted operating profit fell by 34.6% to £7.0 million. The effects of foreign exchange translation improved revenue and operating profit by £33.9 million and £3.1 million respectively compared with 2007/08.

Revenue in RTP, which accounted for 43% of the segment revenue, was 6.0% lower due to weak and variable demand from almost all its main customer sectors. Sales to the construction and automotive sectors fell sharply and our beverage crate business was significantly affected by the deferral by our customers of anticipated crate replacement programmes.

In LP&D, revenue, which accounted for 45% of the segment, grew by 16.2%. Our USA operations maintained their good performance, partly due to the development of new market sectors for bag-in-box packaging. Our European operations continued to be affected by competitive pressures, particularly in the wine sector. The restructuring of our operations in Germany was completed in April 2009 and further restructuring of our tap and bag operations in the UK is being implemented.

We are seeking to mitigate the effects of the ongoing weak demand, especially in RTP, through our restructuring actions and productivity improvements.

OFFICE PRODUCTS WHOLESALING

	2008/09	2007/08
Revenue – £m	720.5	644.9
Adjusted operating profit – £m*	20.1	20.1
Adjusted EBITDA – £m*	25.7	26.1
Key performance indicators:		
Revenue growth – %	11.7	13.3
Adjusted return on sales – %*	2.8	3.1
Adjusted EBITDA margin – %*	3.6	4.0
Adjusted return on average capital employed – %*	15.2	15.1

* before an exceptional charge of £3.7 million (2007/08: £nil)

Market Overview

The office products markets of the UK, France and Germany, in which Spicers currently has approximately 85% of its sales, are estimated to be worth approximately £5 billion, €6 billion and €7 billion respectively, at manufacturers' selling prices. The demand for office products is principally influenced by the level of economic activity. The value of the markets in which Spicers operates fell in 2008, with the traditional stationery sector declining significantly although the EOS sector continued to show modest growth³. The value of the market is being held back by price deflation caused by intense competition between suppliers and the trend for consumers to buy lower specification or own-branded products. EOS, which is a growing sector of the market, accounts for approximately 50% of the total office products market. It is especially price-competitive on the high-volume EOS products.

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

2008/09 Performance

Office Products Wholesaling – Spicers – showed an overall sales growth, which was magnified by the translation benefits of the strong euro. Despite the adverse impact of the economic environment on the demand for office products, revenue increased by 11.7% to £720.5 million (2007/08: £644.9 million). Adjusted operating profit was flat at £20.1 million, due to a fall in profit in the UK and Ireland while profits in continental Europe as a whole increased slightly, assisted by the strength of the euro. The effects of foreign exchange translation improved revenue by £57.9 million and operating profit by £3.1 million compared with 2007/08.

In the UK, which accounts for approximately half of our office products wholesaling revenue, we grew sales. However this growth masks a significant decline in traditional office products, offset by a large growth in lower margin EOS. Despite our actions to reduce the cost to sales ratio, the fall off in traditional product sales, combined with the effects of a highly competitive market situation, put substantial pressure on profits. Action has been taken to improve the sales mix and to further raise efficiency levels, with the aim of reversing this downward profit trend.

³ DS Smith estimates based on national data

In continental Europe, our well-established businesses in France and the Benelux region performed solidly despite their revenue being affected by the decline in the overall market; our Benelux operations were additionally impacted by a change in government policy in Flanders regarding the supply of stationery to younger school children. Spicers Germany continued its development, reporting good revenue growth, assisted by further improvement in its service levels. Our Italian operation once again showed good overall growth, consolidating its position as a significant supplier in this market and reporting its first full year of profit. Spicers Spain produced a creditable result in light of the severity of the national economic slow-down, which affected its overall revenue despite growing its EOS sales.

George Adams, who was appointed to the role of Chief Executive of Spicers in June 2009, brings with him a wealth of relevant business experience both in the UK and Europe as well as a good understanding of the Spicers business.

We expect the current year to be testing, especially in the UK market. Throughout 2009/10 our priorities at Spicers are to maintain our good overall performance in continental Europe while re-establishing profit improvement in the UK. We will focus on improving our overall sales levels, primarily in traditional office products, and on tight cost control. We believe that Spicers is well placed to take advantage of improved economic conditions when they arrive, due to its strong market positions and its thorough understanding of supply chain management.

Consolidated Income Statement

For the year ended 30 April 2009

	Note	Before exceptional items 2009 £m	Exceptional items (note 2) 2009 £m	After exceptional items 2009 £m	Before exceptional items 2008 £m	Exceptional items (note 2) 2008 £m	After exceptional items 2008 £m
Revenue	1	2,106.6	-	2,106.6	1,967.5	-	1,967.5
Cost of sales		(1,604.4)	-	(1,604.4)	(1,468.7)	-	(1,468.7)
Gross Profit		502.2	-	502.2	498.8	-	498.8
Operating expenses		(408.2)	(50.6)	(458.8)	(379.2)	(1.9)	(381.1)
Operating profit	1	94.0	(50.6)	43.4	119.6	(1.9)	117.7
Finance income	4	2.5	-	2.5	3.3	-	3.3
Finance costs	4	(26.1)	-	(26.1)	(24.1)	-	(24.1)
Employment benefit net finance income		1.5	-	1.5	8.8	-	8.8
Net financing costs		(22.1)	-	(22.1)	(12.0)	-	(12.0)
Profit after financing costs		71.9	(50.6)	21.3	107.6	(1.9)	105.7
Share of profit of associates		0.6	(5.1)	(4.5)	3.4	-	3.4
Profit before income tax		72.5	(55.7)	16.8	111.0	(1.9)	109.1
Income tax (expense) / credit	5	(22.6)	(5.4)	(28.0)	(31.6)	0.7	(30.9)
(Loss)/profit for the financial year		49.9	(61.1)	(11.2)	79.4	(1.2)	78.2
(Loss)/profit for the financial year attributable to:							
DS Smith Plc equity shareholders		49.3	(61.1)	(11.8)	77.8	(1.2)	76.6
Minority interest		0.6	-	0.6	1.6	-	1.6
Basic earnings per share (pence)		12.6p	(15.6)p	(3.0)p	19.9p	(0.3)p	19.6p
Diluted earnings per share (pence)		12.6p	(15.6)p	(3.0)p	19.8p	(0.4)p	19.4p
Dividend per share – interim, paid (pence)				2.6p			2.6p
– final, proposed (pence)				1.8p			6.2p

Notes:

- The Group's results shown above are derived from continuing operations.
- The difference between the reported and historical cost profits for each of the years reported above is not material.
- The Annual Report and statements for the year ended 30 April 2009 will be posted to shareholders on [16] July 2009 Statutory accounts for the year ended 30 April 2008 have been delivered to the Registrar of Companies.
- Subject to approval of shareholders at the Annual General Meeting to be held on 8 September 2009, the final dividend of 1.8p will be paid on 15 September 2009 to ordinary shareholders on the register on 14 August 2009
- The 2008/09 and 2007/08 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 2008/09 results and 2007/08 comparatives have been extracted from the 2008/09 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.
- Whilst the financial information included in the preliminary announcement has been prepared in accordance with IFRS, this announcement does not itself contain sufficient information to comply with all the disclosure requirements of IFRS.
- 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 Recognised Income and Expense

For the year ended 30 April 2009

	2009 £m	2008 £m
Actuarial losses on defined benefit pension schemes	(123.4)	(73.0)
Movements on deferred tax relating to actuarial losses	34.9	21.4
Currency translation gains, including tax	0.7	25.0
Movements in cash flow hedging reserve, including tax	(10.3)	14.5
Net expense recognised directly in equity	(98.1)	(12.1)
(Loss)/profit for the financial year	(11.2)	78.2
Total recognised income and expense attributable to equity shareholders and minority interest relating to the financial year	(109.3)	66.1
Total recognised income and expense relating to the financial year attributable to:		
DS Smith Plc equity shareholders	(110.3)	63.8
Minority interest	1.0	2.3

Consolidated Balance Sheet

As at 30 April 2009

	2009 £m	2008 £m
Assets		
Non-current assets		
Intangible assets	222.0	215.2
Property, plant and equipment	637.1	607.1
Investments in associates	0.3	30.0
Other investments	0.8	1.5
Deferred tax assets	73.2	31.4
Other receivables	0.9	0.8
Derivative financial instruments	13.7	10.2
Total non-current assets	948.0	896.2
Current assets		
Inventories	170.2	187.7
Other investments	0.5	0.1
Income tax receivable	1.3	1.6
Trade and other receivables	356.1	406.9
Cash and cash equivalents	62.9	69.7
Derivative financial instruments	11.7	7.3
Total current assets	602.7	673.3
Total assets	1,550.7	1,569.5
Liabilities		
Non-current liabilities		
Interest-bearing loans and borrowings	(331.5)	(260.7)
Post-retirement benefits	(191.3)	(75.9)
Other payables	(3.8)	(4.0)
Provisions	(14.0)	(15.7)
Deferred tax liabilities	(70.5)	(71.2)
Derivative financial instruments	(23.7)	(41.2)
Total non-current liabilities	(634.8)	(468.7)
Current liabilities		
Bank overdrafts	(8.8)	(13.7)
Interest-bearing loans and borrowings	(5.8)	(6.4)
Trade and other payables	(412.1)	(455.0)
Income tax liabilities	(10.0)	(9.7)
Provisions	(22.1)	(13.3)
Derivative financial instruments	(0.7)	(0.8)
Total current liabilities	(459.5)	(498.9)
Total liabilities	(1,094.3)	(967.6)
Net assets	456.4	601.9
Equity		
Issued capital	39.3	39.3
Share premium	263.1	263.1
Reserves	155.6	299.3
DS Smith Plc shareholders' equity	458.0	601.7
Minority interest	(1.6)	0.2
Total equity	456.4	601.9

Consolidated Statement of Cash Flows

For the year ended 30 April 2009

	Note	2009 £m	2008 £m
Operating Activities			
Cash generated from operations	8	166.4	179.8
Interest received		1.1	2.6
Interest paid		(24.1)	(19.4)
Dividends received from associate		-	1.0
Tax paid		(21.0)	(27.8)
Cash flows from operating activities		122.4	136.2
Investing Activities			
Acquisition of subsidiary businesses and joint ventures*		(1.2)	(89.2)
Disposal of subsidiary businesses*		-	2.0
Capital expenditure payments		(87.4)	(66.5)
Proceeds from the sale of property, plant and equipment and intangible assets		7.7	8.2
(Purchases)/proceeds from the sale of investments		(0.1)	1.1
Cash flows used in investing activities		(81.0)	(144.4)
Financing Activities			
Proceeds from issue of share capital		-	0.2
Purchase of own shares		(0.2)	(2.0)
(Repayment) / New borrowings		(12.8)	10.6
Repayment of finance lease obligations		(1.0)	(0.4)
Dividends paid to Group shareholders		(34.4)	(33.7)
Dividends paid to minorities in Group subsidiaries		(1.9)	-
Cash flows used in financing activities		(50.3)	(25.3)
(Decrease) in cash and cash equivalents		(8.9)	(33.5)
Net cash and cash equivalents at 1 May		56.0	81.6
Exchange gains on cash and cash equivalents		7.0	7.9
Net cash and cash equivalents at 30 April		54.1	56.0

* Including net of cash and cash equivalents acquired/(disposal).

Notes to the Financial Statements

1. Segment Reporting

Primary reporting format – business segments

Year ended 30 April 2009	Packaging			Sub-total £m	Office Products Wholesaling £m	Total Group £m
	UK Paper and Corrugated £m	Continental European Corrugated £m	Plastic £m			
External revenue	785.8	363.4	236.9	1,386.1	720.5	2,106.6
Adjusted operating profit¹	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%

Year ended 30 April 2008

External revenue	753.2	346.0	223.4	1,322.6	644.9	1,967.5
Adjusted operating profit¹	68.5	20.3	10.7	99.5	20.1	119.6
Exceptional items	-	-	(1.9)	(1.9)	-	(1.9)
Segment result	68.5	20.3	8.8	97.6	20.1	117.7
Other segment items:						
Adjusted return on sales - % ¹	9.1%	5.9%	4.8%	7.5%	3.1%	6.1%
Adjusted EBITDA - £m ¹	100.4	33.9	21.2	155.5	26.1	181.6
Adjusted EBITDA margin - % ¹	13.3%	9.8%	9.5%	11.8%	4.0%	9.2%
Year-end capital employed - £m	503.8	190.0	119.4	813.2	123.6	936.8
Average capital employed - £m ²	479.4	186.2	126.7	792.3	133.4	925.7
Adjusted return on average capital employed - % ^{1,2}	14.3%	10.9%	8.4%	12.6%	15.1%	12.9%

Secondary reporting format – geographical segments

Year ended 30 April	Revenue	
	2009 £m	2008 £m
UK	1,147.6	1,097.1
Western Continental Europe	779.2	708.1
Eastern Continental Europe	113.0	104.4
Rest of the World	66.8	57.9
Total	2,106.6	1,967.5

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.

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	2009	2008
	£m	£m
Restructuring costs		
UK Paper and Corrugated Packaging	(18.2)	-
Continental European Corrugated Packaging	(1.6)	-
Plastic Packaging	(3.5)	(1.9)
Office Products Wholesaling	(3.7)	-
Total restructuring costs	(27.0)	(1.9)
Impairment of associate	(18.1)	-
Other Impairments	(5.5)	-
Total exceptional items recognised in operating profit	(50.6)	(1.9)
Group's share of exceptional losses on associate	(5.1)	-
Total pre-tax exceptional items	(55.7)	(1.9)
Deferred tax charge following amendment to UK Industrial Building Allowance regime	(13.3)	-
Income tax credit on exceptional items	7.9	0.7
Total exceptional tax items	(5.4)	0.7
Total post-tax exceptional items	(61.1)	(1.2)

2008/09

The UK Paper and Corrugated Packaging restructuring of £18.2m relates to the costs of restructuring the Group's paper making and corrugated packaging facilities across the UK. This includes the cost of redundancies following the conversion of the lightweight corrugated case material facility at Kemsley mill.

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

The Plastic Packaging restructuring costs of £3.5m relate to the closure of the Rugby offices and related restructurings.

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

Impairment of associate of £18.1m is in respect of the write down of the Group's investment in Rubezhansk.

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

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

The exceptional tax comprises £13.3m, deferred tax charge following amendment to UK Industrial Building Allowance regime this is partially offset by income tax credits on the restructuring costs of £7.9m.

2007/08

The exceptional charge of £1.9m relates to the restructuring of our European liquid packaging and dispensing operations within Plastic Packaging.

3. Post Retirement Benefits

	2009 £m	2008 £m
Gross deficit 1 May	(75.9)	(18.6)
Expense recognised in operating profit	(11.7)	(9.8)
Employment benefit net finance income	1.5	8.8
Annual contributions to the DS Smith Group Pension Scheme	15.6	14.6
Other payments and contributions	2.6	2.1
Actuarial loss	(123.4)	(73.0)
Gross deficit at 30 April	(191.3)	(75.9)
Deferred tax asset	53.3	21.4
Net deficit at 30 April	(138.0)	(54.5)

The table above is the aggregate value of all Group pension schemes. As a consequence of the decline in global equity prices the gross pension deficit has increased to £191.3m from £75.9. The decrease in asset values has been partially mitigated by an increase in the discount rate based on the AA rated corporate bond. The rate has increased from 5.9% at 30 April 2008 to 6.4% at 30 April 2009.

4. Financing income and costs	2009 £m	2008 £m
Interest on loans and overdrafts	23.7	19.4
Finance lease interest	0.3	0.3
Other	2.1	4.4
Total financing costs	26.1	24.1
Interest income from financial assets held at amortisation cost	(1.7)	(2.7)
Other	(0.8)	(0.6)
Total finance income	(2.5)	(3.3)

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	2009 £m	2008 £m
Current tax expense		
Current year	(21.0)	(29.9)
Over-provided in prior years	-	0.1
	(21.0)	(29.8)
Deferred tax (expense)/credit		
Origination and reversal of temporary differences	5.9	(3.0)
Reduction in UK tax rate from 30% to 28%	-	2.4
Abolition of Industrial Building Allowances	(13.3)	-
Over/(under) -provided in prior years	0.4	(0.5)
	(7.0)	(1.1)
Total income tax expense in income statement	(28.0)	(30.9)

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

	2009	2008
	£m	£m
Profit before tax	16.8	109.1
Less: Share of profit of associates	4.5	(3.4)
Profit before tax and share of profit of associates	21.3	105.7
Income tax calculated using the domestic corporation tax rate of 28% (2008: 29.8%)	(6.0)	(31.5)
Effect of tax rates in foreign jurisdictions	(2.7)	(1.2)
Non-deductible expenses	(5.7)	(2.2)
Origination of tax losses not recognised	(2.0)	(0.2)
Adjustment in respect of prior years	0.4	0.4
Effect of change in UK corporation tax rate	-	2.4
Abolition of Industrial Building Allowances	(13.3)	-
Other	1.3	1.4
Income tax expense	(28.0)	(30.9)

6. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 April 2009 is based on the net profit attributable to ordinary shareholders of £(11.8)m (2007/08: £76.6m) and the weighted average number of ordinary shares outstanding during the year ended 30 April 2009 of 390.9m (2007/08: 391.5m). 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 (2007/08: 1.9m).

	2009	2008
Net profit attributable to ordinary shareholders (£m)	£(11.8)m	£76.6m
Weighted average number of ordinary shares at 30 April (millions)	390.9m	391.5m
Basic earnings per share (pence per share)	(3.0)p	19.6p

Diluted earnings per share

The calculation of diluted earnings per share at 30 April 2009 is based on net profit attributable to ordinary shareholders of £(11.8)m (2007/08: £76.6m) and the weighted average number of ordinary shares outstanding during the year ended 30 April 2009, as adjusted for potentially issuable ordinary shares, of 393.3m (2007/08: 393.9m), calculated as follows:

	2009	2008
	£m	£m
Net profit attributable to ordinary shareholders	(11.8)	76.6

In millions of shares

Weighted average number of ordinary shares at 30 April	390.9	391.5
Potentially dilutive shares issuable under share-based payment arrangements	1.6	2.4
Weighted average number of ordinary shares (diluted) at 30 April	392.5	393.9
Diluted earnings per share (pence per share)	(3.0)p	19.4p

Adjusted earnings per share

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

	2009			2008		
	£m	Basic - Pence per share	Diluted - Pence Per Share	£m	Basic - Pence per share	Diluted - Pence Per Share
Basic earnings	(11.8)	(3.0)p	(3.0)p	76.6	19.6p	19.4p
Add-back exceptional items after tax	61.1	15.6p	15.6p	1.2	0.3p	0.4p
Adjusted earnings	49.3	12.6p	12.6p	77.8	19.9p	19.8p

7. Dividends

Dividends proposed and paid by the Group are as follows:

	2009		2008	
	Pence per share	£m	Pence per share	£m
Interim dividend paid	2.6p	10.2	2.6p	10.2
Final dividend proposed	1.8p	7.0	6.2p	24.4
	4.4p	17.2	8.8p	34.6
			2009	2008
			£m	£m
Paid during the year			34.4	33.7

A final dividend in respect of 2008/09 of 1.8 pence per share (£7.0m) has been proposed by the Directors after the balance sheet date.

8. Cash generated from operations

	2009	2009	2008	2008
	£m	£m	£m	£m
(Loss)/Profit for the financial year		(11.2)		78.2
Adjustments for:				
Exceptional items charged to income statement	55.7		1.9	
Cash outflow for exceptional items	(17.2)		(5.8)	
Depreciation and amortisation	69.9		62.0	
Profit on sale of non-current assets	(1.7)		(4.4)	
Share of profit of associates before exceptional loss of £5.1m (2007/08: £nil)	(0.6)		(3.4)	
Employee benefit net finance income	(1.5)		(8.8)	
Share-based payment expense	0.3		2.1	
Finance income	(2.5)		(3.3)	
Finance costs	26.1		24.1	
Other non-cash items	-		(1.3)	
Income tax expense	28.0		30.9	
		156.5		94.0
Changes in:				
Inventories	25.5		(11.8)	
Trade and other receivables	70.8		(20.1)	
Trade and other payables	(65.5)		45.1	
Provisions and employee benefits	(9.7)		(5.6)	
		21.1		7.6
Cash generated from operations		166.4		179.8

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

	2009 £m	2008 £m
Operating profit before exceptional items	94.0	119.6
Depreciation and amortisation	69.9	62.0
EBITDA	163.9	181.6
Working capital movement	30.8	13.2
Other	(11.1)	(9.2)
Cash generated from operations before exceptional cash items	183.6	185.6
Capital expenditure payments	(87.4)	(66.5)
Proceeds from sales of assets and investments	7.7	9.3
Tax paid	(21.0)	(27.8)
Interest paid	(23.0)	(16.8)
Dividend received from associate	-	1.0
Free cash flow before net acquisitions and dividends	59.9	84.8
Exceptional cash costs	(17.2)	(5.8)
Dividends paid to Group shareholders	(34.4)	(33.7)
Dividends paid to minorities in Group subsidiaries	(1.9)	-
Net acquisitions of subsidiaries	(1.2)	(87.2)
Net cash flow	5.2	(41.9)
Proceeds from the issue of share capital	-	0.2
Purchase of own shares	(0.2)	(2.0)
Net debt acquired	(0.2)	(1.3)
Foreign exchange and fair value movements	(44.5)	(25.6)
Net debt movement	(39.7)	(70.6)
Opening net debt	(251.8)	(181.2)
Closing net debt	(291.5)	(251.8)