

GOVERNANCE

CORPORATE GOVERNANCE

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

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

BOARD AND BOARD COMMITTEES

The role of the Board

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

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

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

The Board currently comprises the Chairman, two Executive and four Non-Executive Directors. The offices of Chairman and Group Chief Executive are held separately. Mr R G Beeston is the Senior Independent Director. As referred to in the Chairman's Statement on page 6, Mr G M B Adams became Chief Executive of Spicers, the Group's Office Products Wholesaling division, with effect from 16 June 2009. As a result of this appointment he resigned as a Non-Executive Director on 26 May 2009. As previously announced, Mr J C Nicholls will join the Board with effect from 1 December 2009 and Mr R E C Marton will retire from the Board on 31 August 2009, having served nine years as a Non-Executive Director. During the year, each of the Non-Executive Directors has at all times acted independently of management and has no relationships which would materially interfere with the exercise of their independent judgement and decision making.

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

The Board and its Committees, as detailed below, receive timely information of a quality that enables them to carry out their roles effectively. All Directors have access to the advice and services of the Company Secretary. A procedure is in place for any Director to take independent professional advice in the furtherance of his duties at the

Company's expense. No such advice was sought by any Director during the year. The Directors are provided with opportunities for training to ensure that they are kept up-to-date on relevant new legislation and changing commercial risks. On appointment, new Directors are given appropriate induction training, including site visits to major business units.

During the year, the Board carried out a comprehensive appraisal which was led by the Chairman and the Senior Independent Director with the assistance of an independent third party. The Board used external support for the review process to give a degree of independence to the process. The Board concluded that the review process showed that the Board and its Committees operated effectively. The review resulted in an action plan aimed at further enhancing the effectiveness of the Board. The review comprised feedback from a questionnaire and individual discussions. All Directors and the Company Secretary participated in the exercise. The appraisal included the performance of Board Committees, although a separate and more detailed appraisal of the Audit Committee was also carried out during the year. In addition, the Senior Independent Director conducted a review of the performance of the Chairman which concluded that the Chairman had led the Board effectively. The Non-Executive Directors met separately in April to give them the opportunity to discuss any matters they wished to raise in the absence of the Chairman.

Board Committees

The principal Committees of the Board are the Audit, Remuneration and Nomination Committees. The Audit and Remuneration Committees comprise independent Non-Executive Directors. The Nomination Committee comprises a majority of independent Non-Executive Directors. All Board Committees have written terms of reference agreed by the Board. These are available on the Company's website at www.dssmith.uk.com/pages/CorporateGovernance.asp or are available on request to the Company Secretary. The Audit Committee is chaired by Mr C J Bunker, the Remuneration Committee is chaired by Mr Beeston and the Nomination Committee is chaired by Mr P M Johnson. The membership of each Committee and the experience of its members can be seen on pages 36 and 37. The Board has used the criteria proposed by the National Association of Pension Funds for determining whether a Non-Executive Director is independent.

Audit Committee

In addition to the Committee members listed on pages 36 and 37, the Chairman, the Group Chief Executive, the Group Finance Director, the Head of Operational Audit and the Group Financial Controller attended parts of each meeting by invitation. Mr Adams ceased to be a member of the Committee when he resigned from the Board on 26 May 2009. The Board is satisfied that Mr Bunker has both current and relevant financial experience.

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

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

- the Group's compliance with the Combined Code on Corporate Governance.

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

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

The Committee monitors compliance with the Board's policy in respect of services provided by, and fees paid to, auditors. Audit fees are negotiated with the Group Finance Director and approved by the Audit Committee. The policy on the supply of non-audit services by external auditors is as follows. The Group should not employ the Auditors to provide non-audit services where either the nature of the work or the extent of such services might impair the Auditors' independence or objectivity. The external Auditors are permitted to undertake some non-audit services, providing they have the skill, competence and integrity to carry out the work in the best interests of the Group, on, for example, advisory services and due diligence activities associated with potential acquisitions and disposals and major changes in accounting regulations. Non-audit services and fees are reported to the Audit Committee twice a year. For guidance, annual non-audit fees payable to the external Auditors should not exceed 75% of the annual Group audit fee without prior formal approval of the Committee: during 2008/09, non-audit fees were 10% of the annual Group audit fee. Approval for permitted non-audit services is sought as required by this Group policy which specifies that individual projects which would cost over £100,000 must be referred to the Chairman of the Committee for prior approval.

Deloitte LLP, a leading international audit partnership, was first appointed as Auditor to the Group companies in 2006 and its fees are regularly compared with peer companies by the Committee. There are no contractual restrictions on the Group with regard to its appointment. In accordance with professional standards, the partner responsible for the audit is changed every five years.

During the year, the Committee met on three occasions and there were no absences. On each of these occasions the Committee also met privately with both the external Auditors and the Head of Operational Audit. The Chairman of the Audit Committee also held separate private meetings during the year with the external Auditors, the Head of Operational Audit and the Group Finance Director.

At its meeting in June, the Committee reviewed the annual financial statements of the Company and received reports from Group Operational Audit on internal control matters and from the external Auditors on the conduct of their audit, their review of accounting policies, areas of judgement and the financial statements and their comments on statements concerning risk and internal control. A similar review was undertaken in December when the half-year results were considered. At these meetings and the meeting in April, the Committee dealt with the following particular matters:

- it reviewed the terms of reference of the Audit Committee and Group Operational Audit;
- at each meeting it received a report from the Head of Operational Audit covering, amongst other things, the work undertaken by the Group Operational Audit function and management responses to proposals made in the audit reports issued by the function during the year;
- it considered the effectiveness of systems for monitoring and reporting on risks faced by the Group;

- it carried out an appraisal of the effectiveness of the Audit Committee (as part of the Board evaluation process referred to on page 38), the external Auditors and Group Operational Audit, the results of which were reported to the Board. The Committee concluded that each area operated satisfactorily during the year; and

- it oversaw the continuing development and the operation of the Group's Workplace Malpractice Policy.

Nomination Committee

Mr Bunker became a member of the Committee in December 2008. The Nomination Committee considers the appointment of Directors, reviews succession planning at Board level and makes recommendations to the Board as a whole. A rigorous process is in place for the appointment of new Directors, involving the use of external recruitment consultants followed by meetings both with the Committee and then with the Board. The Committee met four times during the year and there were no absences.

Remuneration Committee

The Chairman and the Group Chief Executive attend these meetings by invitation, except when their remuneration is being discussed. The Remuneration Committee is responsible for determining the remuneration of the Executive Directors, the Chairman and the Company Secretary and for advising on the remuneration of senior management. The Remuneration Report is set out on pages 41 to 48. During the year, the Committee met four times. Mr Marton did not attend the meeting in May 2008, but otherwise there were no absences.

Other Board Committees

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

Conflicts of interest

At the Company's Annual General Meeting in 2008, the Company's Articles of Association were amended following implementation of the relevant provisions of the Companies Act 2006 to permit the Board of Directors to authorise a conflict of interest or potential conflict of interest notified by a Director provided that the Board considers this to be in the best interests of the Company.

Each of the Directors reviewed their individual positions prior to the implementation date for the new legislation of 1 October 2008. The Company has put procedures in place via the Company Secretary whereby the Directors can notify any future conflicts or potential conflicts of interest that may arise so that the Board can consider whether authorisation is appropriate.

RELATIONS WITH SHAREHOLDERS

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

INTERNAL CONTROL

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. Such a system, however, can only be designed to manage rather than to eliminate risk and can therefore provide only reasonable and not absolute assurance against material misstatement or loss. In accordance with the Turnbull Committee guidance, the Company established the procedures necessary to ensure that there is an ongoing process for identifying, evaluating and managing the significant risks to the Group. These procedures have been in place for the whole of the financial year ended 30 April 2009 and up to the date of the approval of these financial statements and they are reviewed regularly. In April 2008 a Group Risks Committee was established, comprised of the Group Chief Executive, the Group Finance Director, the Group Human Resources Director, the Company Secretary, the Divisional Chief Executives and the Head of Operational Audit. This Committee meets at least four times a year to review the risks faced by the Group and the adequacy and suitability of the mitigation arrangements in place to manage those risks.

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

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

The Group's Operational Audit function undertakes regular reviews of the Group's operations and their systems of internal control and internal financial control. The work of the function is overseen by the Audit Committee, which regularly reviews its plans and activities. The Directors can confirm that they have reviewed the effectiveness of the Group's system of internal control. This included a process of self-certification by senior divisional management in which they are asked to confirm that their

divisions have complied with Group policies and procedures and to report any significant control weaknesses identified during the past year. It also involved reviewing the results of the work of the Group's Operational Audit function and the risk identification and management processes identified above.

GOING CONCERN

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 pages 7 to 9 of 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, the accompanying notes to the financial statements on pages 54 to 106 and in the Financial Review on pages 22 to 26. Further information concerning the Group's objectives, policies and process for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk can be found in the section covering risk management on pages 27 to 29.

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. These risks are described in the section covering risk management (pages 27 to 29). The planning assumptions and sensitivities of these risks are covered on pages 27 to 29. 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. The action programme announced in December 2008 is described on pages 7 to 9, 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.