

**FINANCIAL STATEMENTS**
**CONSOLIDATED INCOME STATEMENT**

For the year ended 30 April 2009

	Note	Before exceptional items 2009 £m	Exceptional items (note 4) 2009 £m	After exceptional items 2009 £m	Before exceptional items 2008 £m	Exceptional items (note 4) 2008 £m	After exceptional items 2008 £m
<b>Revenue</b>	2	<b>2,106.6</b>	<b>-</b>	<b>2,106.6</b>	1,967.5	-	1,967.5
Cost of sales		<b>(1,604.4)</b>	<b>-</b>	<b>(1,604.4)</b>	(1,468.7)	-	(1,468.7)
<b>Gross profit</b>		<b>502.2</b>	<b>-</b>	<b>502.2</b>	498.8	-	498.8
Operating expenses	3	<b>(408.2)</b>	<b>(50.6)</b>	<b>(458.8)</b>	(379.2)	(1.9)	(381.1)
<b>Operating profit</b>	2,3	<b>94.0</b>	<b>(50.6)</b>	<b>43.4</b>	119.6	(1.9)	117.7
Finance income	5	<b>2.5</b>	<b>-</b>	<b>2.5</b>	3.3	-	3.3
Finance costs	5	<b>(26.1)</b>	<b>-</b>	<b>(26.1)</b>	(24.1)	-	(24.1)
Employment benefit net finance income	24	<b>1.5</b>	<b>-</b>	<b>1.5</b>	8.8	-	8.8
<b>Net financing costs</b>		<b>(22.1)</b>	<b>-</b>	<b>(22.1)</b>	(12.0)	-	(12.0)
<b>Profit after financing costs</b>		<b>71.9</b>	<b>(50.6)</b>	<b>21.3</b>	107.6	(1.9)	105.7
Share of profit/(loss) of associates	12	<b>0.6</b>	<b>(5.1)</b>	<b>(4.5)</b>	3.4	-	3.4
<b>Profit before income tax</b>		<b>72.5</b>	<b>(55.7)</b>	<b>16.8</b>	111.0	(1.9)	109.1
Income tax (expense)/credit	7	<b>(22.6)</b>	<b>(5.4)</b>	<b>(28.0)</b>	(31.6)	0.7	(30.9)
<b>(Loss)/profit for the financial year</b>	23	<b>49.9</b>	<b>(61.1)</b>	<b>(11.2)</b>	79.4	(1.2)	78.2

**(Loss)/profit for the financial year attributable to:**

DS Smith Plc equity shareholders	23	<b>49.3</b>	<b>(61.1)</b>	<b>(11.8)</b>	77.8	(1.2)	76.6
Minority interest	23	<b>0.6</b>	<b>-</b>	<b>0.6</b>	1.6	-	1.6
Basic earnings per share (pence)	8	<b>12.6p</b>	<b>(15.6)</b>	<b>(3.0)p</b>	19.9p	(0.3)	19.6p
Diluted earnings per share (pence)	8	<b>12.6p</b>	<b>(15.6)</b>	<b>(3.0)p</b>	19.8p	(0.4)	19.4p
Dividend per share							
- interim, paid (pence)	9			<b>2.6p</b>			2.6p
- final, proposed (pence)	9			<b>1.8p</b>			6.2p

# CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the year ended 30 April 2009

	Note	2009 £m	2008 £m
Actuarial losses on defined benefit pension schemes	24	<b>(123.4)</b>	(73.0)
Movements on deferred tax relating to actuarial losses		<b>34.9</b>	21.4
Currency translation gains, including tax of £14.5m (2008: tax of £11.0m)		<b>0.7</b>	25.0
Cash flow hedges (losses)/gains, including tax of £3.9m (2008: tax of £(5.7)m)		<b>(10.3)</b>	14.5
<b>Net expense recognised directly in equity</b>		<b>(98.1)</b>	(12.1)
<b>(Loss)/profit for the financial year</b>	23	<b>(11.2)</b>	78.2
<b>Total recognised income and expense attributable to equity shareholders and minority interest relating to the financial year</b>		<b>(109.3)</b>	66.1
<b>Total recognised income and expense relating to the financial year attributable to:</b>			
DS Smith Plc equity shareholders		<b>(110.3)</b>	63.8
Minority interest		<b>1.0</b>	2.3

FINANCIAL STATEMENTS

**CONSOLIDATED BALANCE SHEET**

As at 30 April 2009

	Note	2009 £m	2008 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	10	222.0	215.2
Property, plant and equipment	11	637.1	607.1
Investments in associates	12	0.3	30.0
Other investments	13	0.8	1.5
Deferred tax assets	21	73.2	31.4
Other receivables	15	0.9	0.8
Derivative financial instruments	20	13.7	10.2
<b>Total non-current assets</b>		<b>948.0</b>	896.2
<b>Current assets</b>			
Inventories	14	170.2	187.7
Other investments	13	0.5	0.1
Income tax receivable		1.3	1.6
Trade and other receivables	15	356.1	406.9
Cash and cash equivalents	18	62.9	69.7
Derivative financial instruments	20	11.7	7.3
<b>Total current assets</b>		<b>602.7</b>	673.3
<b>Total assets</b>		<b>1,550.7</b>	1,569.5
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	19	(331.5)	(260.7)
Post-retirement benefits	24	(191.3)	(75.9)
Other payables	16	(3.8)	(4.0)
Provisions	22	(14.0)	(15.7)
Deferred tax liabilities	21	(70.5)	(71.2)
Derivative financial instruments	20	(23.7)	(41.2)
<b>Total non-current liabilities</b>		<b>(634.8)</b>	(468.7)
<b>Current liabilities</b>			
Bank overdrafts	18	(8.8)	(13.7)
Interest-bearing loans and borrowings	19	(5.8)	(6.4)
Trade and other payables	16	(412.1)	(455.0)
Income tax liabilities		(10.0)	(9.7)
Provisions	22	(22.1)	(13.3)
Derivative financial instruments	20	(0.7)	(0.8)
<b>Total current liabilities</b>		<b>(459.5)</b>	(498.9)
<b>Total liabilities</b>		<b>(1,094.3)</b>	(967.6)
<b>Net assets</b>		<b>456.4</b>	601.9
<b>Equity</b>			
Issued capital	23	39.3	39.3
Share premium	23	263.1	263.1
Reserves	23	155.6	299.3
<b>DS Smith Plc shareholders' equity</b>		<b>458.0</b>	601.7
<b>Minority interest</b>	23	<b>(1.6)</b>	0.2
<b>Total equity</b>		<b>456.4</b>	601.9

Approved by the Board on 24 June 2009 and signed on its behalf by  
A D Thorne, Director  
S W Dryden, Director  
The notes on pages 58 to 100 form part of these accounts.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 April 2009

	Note	2009 £m	2008 £m
<b>Operating activities</b>			
Cash generated from operations	26	<b>166.4</b>	179.8
Interest received		<b>1.1</b>	2.6
Interest paid		<b>(24.1)</b>	(19.4)
Dividends received from associate		<b>-</b>	1.0
Tax paid		<b>(21.0)</b>	(27.8)
<b>Cash flows from operating activities</b>		<b>122.4</b>	136.2
<b>Investing activities</b>			
Acquisition of subsidiary businesses and joint ventures, net of cash and cash equivalents acquired		<b>(1.2)</b>	(89.2)
Disposal of subsidiary businesses, net of cash and cash equivalents disposed of		<b>-</b>	2.0
Capital expenditure payments		<b>(87.4)</b>	(66.5)
Proceeds from the sale of property, plant and equipment and intangible assets		<b>7.7</b>	8.2
(Purchases)/proceeds from the sale of investments in associates and other investments, net of additions of £0.4m (2008: £1.0m)		<b>(0.1)</b>	1.1
<b>Cash flows used in investing activities</b>		<b>(81.0)</b>	(144.4)
<b>Financing activities</b>			
Proceeds from the issue of share capital		<b>-</b>	0.2
Purchase of own shares		<b>(0.2)</b>	(2.0)
New/(repayment of) borrowings		<b>(12.8)</b>	10.6
Repayment of finance lease obligations		<b>(1.0)</b>	(0.4)
Dividends paid to Group shareholders	9	<b>(34.4)</b>	(33.7)
Dividends paid to minorities in Group subsidiaries		<b>(1.9)</b>	-
<b>Cash flows used in financing activities</b>		<b>(50.3)</b>	(25.3)
<b>Decrease in cash and cash equivalents</b>		<b>(8.9)</b>	(33.5)
Net cash and cash equivalents at 1 May		<b>56.0</b>	81.6
Exchange gains on cash and cash equivalents		<b>7.0</b>	7.9
<b>Net cash and cash equivalents at 30 April</b>	18	<b>54.1</b>	56.0

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('adopted IFRSs'). The Company has elected to prepare its parent Company financial statements in accordance with UK GAAP; these are presented on pages 101 to 106.

The consolidated financial statements are presented in sterling in millions, rounded to one decimal place, unless otherwise indicated. They are prepared on the historical cost basis except that assets and liabilities of certain financial instruments, defined benefit pension plans and share-based payments are stated at their fair value.

The consolidated financial statements have been prepared on a going concern basis as set out on page 40 of the Corporate Governance section.

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect whether and how policies are applied and affect the reported amounts of assets and liabilities, income and expenses. Judgements made by management in the application of adopted IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in accounting policy (u).

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The accounting policies have been applied consistently by all Group entities.

### (b) Basis of consolidation

#### (i) Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

#### (ii) Associates

The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

#### (iii) Joint ventures

The consolidated financial statements include the Group's proportionate share of its joint ventures' assets, liabilities, revenue and expenses with items of a similar nature on a line-by-line basis, from the date that joint control commences until the date that joint control ceases.

#### (iv) Minority interests

The share of profit attributable to minority interests is shown as a component of profit for the period in the income statement and minority interests are shown as a component of equity in the balance sheet net of the value of options over interests held by minorities in the Group's subsidiaries.

### (c) Revenue

Revenue comprises the fair value of the sale of goods and services, net of value added tax, rebates and discounts and after eliminating sales within the Group. Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

### (d) Government grants

#### (i) Emission quotas

The Group participates in Phase II of the EU Emissions Trading Scheme. Emission quotas received in a period are initially recognised at a nominal value of nil. As a result, no asset or liability is recognised on the balance sheet at initial recognition. A provision is recognised if there is any anticipated shortfall in the level of quotas received or purchased when compared with actual emissions in any given period, measured at the market price of such quotas at the balance sheet date. Excess emission quotas acquired as part of a business combination are recognised as an intangible asset at their fair value on the date of acquisition.

#### (ii) Other

Other government grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are offset against the expenses in the same periods in which the expenses are incurred.

### (e) Dividends

Dividends attributable to the equity holders of the Company declared during the year are recognised directly in equity.

### (f) Foreign currency translation

Transactions in foreign currencies are translated into sterling at the foreign exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation of monetary assets and liabilities are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the transactions.

The assets and liabilities of all the Group entities that have a functional currency other than sterling are translated at the closing exchange rate at the date of the balance sheet. Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transactions). On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings, and other financial instruments designated as hedges of such investments, are recognised in the translation reserve. On the disposal of foreign currency entities, the cumulative exchange difference recorded in the translation reserve is taken to the income statement as part of the gain or loss on disposal.

### (g) Intangible assets

#### (i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill (positive and negative) arising on the acquisition of subsidiaries, associates and joint ventures, represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less accumulated impairment losses (refer to accounting policy (i)). The useful life of goodwill is considered to be indefinite. Goodwill is allocated to cash-generating units and is tested annually for impairment. Negative goodwill arising on an acquisition is recognised immediately in the income statement.

**(ii) Research and development**

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses (refer to accounting policy (i)).

**(iii) Computer software**

Computer software that is integral to a related item of hardware is included within tangible fixed assets. All other computer software is treated as an intangible asset.

**(iv) Intellectual property**

Intellectual property is stated at cost less accumulated amortisation (see below) and impairment losses (refer to accounting policy (i)).

**(v) Other intangible assets**

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses (refer to accounting policy (i)).

**(vi) Amortisation**

Amortisation of intangible assets (excluding goodwill) is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets (other than goodwill) are amortised from the date they are available for use. The estimated useful lives are as follows:

Intellectual property	Up to 20 years
Computer software	3 – 5 years

Goodwill is systematically tested for impairment at each balance sheet date, and when there is an indication for impairment.

**(h) Property, plant and equipment and other investments**

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (refer to accounting policy (i)). The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each item of property, plant and equipment, and major components that are accounted for separately (or in the case of leased assets, the lease period, if shorter). Land is not depreciated.

The estimated useful lives are as follows:

Freehold and long leasehold properties	10 – 50 years
Plant, machinery, fixtures and fittings (including IT hardware)	3 – 20 years
Motor vehicles	3 – 5 years

Other investments consist of available for sale investments in unquoted equity and debt securities and are carried at cost, less any impairment.

**(i) Impairment**

The carrying amounts of the Group's assets, including tangible and intangible non-current assets, other than inventories (refer to accounting policy (l)) and deferred tax assets (refer to accounting policy (t)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

**(i) Calculation of recoverable amount**

The recoverable amount of the Group's assets is calculated as the value-in-use, being the present value of expected future cash flows, using a pre-tax discount rate that reflects the current assessment of the time value of money, or the net selling price, if greater. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

**(ii) Reversals of impairment**

Impairment losses in respect of goodwill are not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(j) Derivative financial instruments**

The Group uses derivative financial instruments, primarily interest rate, currency and commodity swaps, to manage interest rate, currency and commodity risks associated with the Group's underlying business activities and the financing of these activities. The Group has a policy not to, and does not, undertake any speculative activity in these instruments.

Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivative financial instruments are accounted for as hedges when designated as hedges at the inception of the contract and when the financial instruments provide an effective hedge of the underlying risk. Any gains or losses arising from the hedging instruments are offset against the hedged items.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability;
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with either a balance sheet item or a highly probable forecast transaction; or
- hedges of the net investment in a foreign entity.

**1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED****(j) Derivative financial instruments** *continued*

Any gains or losses arising from changes in the fair value of all other derivatives are taken to the income statement. These may arise from derivatives for which hedge accounting is not applied because they are not effective as hedging instruments.

The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship as follows:

**Fair value hedges:** the carrying amount of the hedged item is adjusted for gains or losses attributable to the risk being hedged; the derivative is remeasured at fair value and gains and losses from both are taken to the income statement. The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

**Cash flow hedges:** the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the income statement. Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, the hedged transaction ceases to be highly probable, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs and are transferred to the income statement or to the initial carrying amount of a non-financial asset liability as above. If a forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement.

**Hedges of net investment in a foreign entity:** the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the income statement. Amounts taken to equity are transferred to the income statement when the foreign entity is sold.

The net present value of the expected future payments under options over interests held by minorities in the Group's subsidiaries are shown as a financial liability. At the end of each period, the valuation of the liability is reassessed with any changes recognised in the profit or loss for the period.

**(k) Trade and other receivables**

Trade and other receivables are stated at their cost less impairment provisions (refer to accounting policy (i)).

**(l) Inventories**

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

**(m) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

**(n) Treasury shares**

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

**(o) Borrowings**

Borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with borrowing costs being accounted for on an accruals basis in the income statement using the effective interest method. At the balance sheet date, accrued interest is recorded separately from the associated borrowings within current liabilities.

**(p) Employee benefits****(i) Defined contribution schemes**

Contributions to defined contribution pension schemes are recognised as an expense in the income statement as personnel expense, as incurred.

**(ii) Defined benefit schemes**

The Group's net obligation in respect of defined benefit pension schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to its present value amount and recognised in the income statement as personnel expense; a corresponding liability for all future benefits is established on the balance sheet and the fair value of any schemes' assets is deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the duration of the schemes' obligations. The calculation is performed by a qualified actuary using the projected unit method.

Actuarial gains and losses are recognised immediately in the statement of recognised income and expense.

**(iii) Long-term service benefits**

The Group's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

**(iv) Share-based payment transactions**

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The fair value of the options granted is measured using a stochastic model, taking into account the terms and conditions upon which the options were granted. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

**(q) Provisions**

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and are discounted to present value where the effect is material.

## (r) Trade and other payables

Trade and other payables are stated at their cost.

## (s) Leases

Property, plant and equipment acquired under a lease that transfers substantially all of the risks and rewards of ownership to the Group are capitalised as tangible fixed assets. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

## (t) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided for using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future and the Group is able to control the reversal of such temporary differences. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## (u) Critical accounting policies

The application of the Group's accounting policies requires the management of DS Smith Plc to make estimates and assumptions; these estimates and assumptions affect the reported assets and liabilities and financial results of the Group. Actual outcomes could differ from the estimates and assumptions used.

The Group's accounting policies that are most critical to an understanding of the results and position of the Group, and the judgements involved in their application, are as follows:

### (i) Impairments

When applying IAS 36, 'Impairment of Assets', the Group compares the carrying value of goodwill and intangible assets with the higher of their net realisable value and value-in-use to determine whether an impairment exists.

Value-in-use is calculated by discounting the cash flows expected to be generated by the asset/group of assets being tested for evidence of impairment. The use of different estimates, assumptions and judgements, in particular those involved in (a) determining a value based on our current expectations of future conditions and the associated cash flows from the Group's operations, (b) our determination of the level at which groups of assets can be reasonably tested for impairment separately from other parts of the business and (c) our treatment of centrally held assets, could each

result in materially different carrying values of assets and assessments of impairment. See note 10 of the Notes to the financial statements for additional information regarding the Group's annual impairment exercise.

### (ii) Pensions and other post-retirement benefits

IAS 19, 'Employee Benefits', requires the Group to make assumptions including, but not limited to, future asset returns, rates of inflation, discount rates and life expectancies. The use of different assumptions, in any of the above calculations, could have a material effect on the accounting values of the relevant balance sheet assets and liabilities which could also result in a change to the cost of such liabilities as recognised in the income statement over time. These assumptions are subject to periodic review. See note 24 of the Notes to the financial statements for additional information regarding the Group's pension and other post-retirement benefits.

### (iii) Accounting for carbon dioxide (CO<sub>2</sub>) emissions

There are currently no accounting standards that specifically address accounting for emission allowances. The Group, with the agreement of its auditors, has applied a 'net liability' approach. Under a 'net liability' approach, no assets or government grants are recognised when allowances are initially received. This is because they are ascribed a nominal value of nil. As allowances granted to the Group are used to offset the liability from CO<sub>2</sub> emissions, no accounting entries are required so long as the related emissions generated are within the allowance received from the government. If such emissions are in excess of the allowance received (known as a shortfall position) a provision is made at the current market price for carbon credits. In the case where emission quotas are acquired through an acquisition, any surplus emission quotas are fair valued in accordance with IFRS 3 'Business Combinations'.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

**(v) IFRS standards and interpretations in issue but not yet effective**

The IASB and IFRIC have issued new standards and interpretations with an effective date after the date of these financial statements. The Group does not anticipate that the adoption of those standards and interpretations that are effective for the financial year ending 30 April 2009 will have a material effect on its financial statements on initial adoption; the Group is evaluating the effect of those standards and interpretations that are effective subsequently. The standards and interpretation to be adopted include:

		Effective date – financial years ending
<b>International Financial Reporting Standards (IFRS/IAS)</b>		
IFRS 8	Operating Segments	30 April 2010
Revised IAS 23	Borrowing Costs	30 April 2010
Revised IAS 1	Presentation of Financial Statements	30 April 2010
Revised IAS 27	Consolidated and Separate Financial Statements	30 April 2010
IFRS 2	Amendment to IFRS 2 – Share-based payment – Vesting Conditions and Cancellations	30 April 2010
IAS 32	Amendment to IAS 32 – Financial Instruments: Presentation	30 April 2010
Revised IFRS 3	Business Combinations	30 April 2011
IAS 39	Amendment to IAS 39 – Intangible Assets – Eligible Hedged Items	30 April 2010
IAS 32 and IAS 1	Puttable Financial Instruments and Obligations Arising on Liquidation	30 April 2010
IFRS 1 and IAS 27	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	30 April 2010
IAS 39 and IFRS 7	Reclassification of Financial Assets	30 April 2010
Improvements to IFRSs made in May 2008.		30 April 2010
<b>International Financial Reporting Interpretations Committee (IFRIC)</b>		
IFRIC 12	Service Concession Arrangements	30 April 2010
IFRIC 13	Customer Loyalty Programmes	30 April 2010
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction	30 April 2010
IFRIC 15	Agreements for the Construction of Real Estate	30 April 2010
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	30 April 2010

## 2. SEGMENT REPORTING

### Primary reporting format – business segments

	Packaging				Office Products Wholesaling £m	Total Group £m
	UK Paper and Corrugated £m	Continental European Corrugated £m	Plastic £m	Sub-total £m		
<b>For the year ended 30 April 2009</b>						
<b>External revenue (sales of goods)</b>	<b>785.8</b>	<b>363.4</b>	<b>236.9</b>	<b>1,386.1</b>	<b>720.5</b>	<b>2,106.6</b>
<b>Adjusted operating profit<sup>1</sup></b>	<b>36.5</b>	<b>30.4</b>	<b>7.0</b>	<b>73.9</b>	<b>20.1</b>	<b>94.0</b>
Exceptional items (note 4)	(18.2)	(24.7)	(4.0)	(46.9)	(3.7)	(50.6)
<b>Segment result</b>	<b>18.3</b>	<b>5.7</b>	<b>3.0</b>	<b>27.0</b>	<b>16.4</b>	<b>43.4</b>
Net financing costs						(22.1)
Share of loss of associates						(4.5)
<b>Profit before income tax</b>						<b>16.8</b>
Income tax expense						(28.0)
<b>Loss for the financial year attributable to:</b>						<b>(11.2)</b>
DS Smith Plc equity shareholders						(11.8)
Minority interest						0.6
<b>Balance sheet</b>						
Segment assets	<b>687.7</b>	<b>265.4</b>	<b>172.4</b>	<b>1,125.5</b>	<b>259.8</b>	<b>1,385.3</b>
Unallocated items						
Investments in associates						2.6
Other non-current assets						-
Derivative financial instruments						25.4
Cash and cash equivalents						62.9
Tax balances						74.5
<b>Total assets</b>						<b>1,550.7</b>
Segment liabilities	<b>(183.5)</b>	<b>(71.7)</b>	<b>(49.4)</b>	<b>(304.6)</b>	<b>(138.2)</b>	<b>(442.8)</b>
Unallocated items						
Borrowings and accrued interest						(355.3)
Derivative financial instruments						(24.4)
Tax balances						(80.5)
Post-retirement benefits						(191.3)
<b>Total liabilities</b>						<b>(1,094.3)</b>
<b>Other segment items:</b>						
Adjusted return on sales – % <sup>1</sup>	<b>4.6%</b>	<b>8.4%</b>	<b>3.0%</b>	<b>5.3%</b>	<b>2.8%</b>	<b>4.5%</b>
Adjusted EBITDA – £m <sup>1</sup>	<b>73.2</b>	<b>45.8</b>	<b>19.2</b>	<b>138.2</b>	<b>25.7</b>	<b>163.9</b>
Adjusted EBITDA margin – % <sup>1</sup>	<b>9.3%</b>	<b>12.6%</b>	<b>8.1%</b>	<b>10.0%</b>	<b>3.6%</b>	<b>7.8%</b>
Year-end capital employed – £m	<b>504.2</b>	<b>193.7</b>	<b>123.0</b>	<b>820.9</b>	<b>121.6</b>	<b>942.5</b>
Average capital employed – £m <sup>2</sup>	<b>545.2</b>	<b>199.6</b>	<b>132.8</b>	<b>877.6</b>	<b>131.9</b>	<b>1,009.5</b>
Adjusted return on average capital employed – % <sup>1,2</sup>	<b>6.7%</b>	<b>15.2%</b>	<b>5.3%</b>	<b>8.4%</b>	<b>15.2%</b>	<b>9.3%</b>
Capital expenditure – £m <sup>3</sup>	<b>55.2</b>	<b>18.9</b>	<b>7.1</b>	<b>81.2</b>	<b>2.0</b>	<b>83.2</b>
Depreciation and amortisation – £m	<b>36.7</b>	<b>15.4</b>	<b>12.2</b>	<b>64.3</b>	<b>5.6</b>	<b>69.9</b>

<sup>1</sup> before exceptional items

<sup>2</sup> average capital employed is defined on page 65

<sup>3</sup> capital expenditure represents additions to intangible assets and property, plant and equipment

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 2. SEGMENT REPORTING CONTINUED

## Primary reporting format – business segments continued

For the year ended 30 April 2008	Packaging			Sub-total £m	Office Products Wholesaling £m	Total Group £m
	UK Paper and Corrugated £m	Continental European Corrugated £m	Plastic £m			
<b>External revenue (sales of goods)</b>	753.2	346.0	223.4	1,322.6	644.9	1,967.5
<b>Adjusted operating profit<sup>1</sup></b>	68.5	20.3	10.7	99.5	20.1	119.6
Exceptional items (note 4)	–	–	(1.9)	(1.9)	–	(1.9)
<b>Segment result</b>	68.5	20.3	8.8	97.6	20.1	117.7
Net financing costs						(12.0)
Share of profit of associates						3.4
<b>Profit before income tax</b>						109.1
Income tax expense						(30.9)
<b>Profit for the financial year attributable to:</b>						78.2
DS Smith Plc equity shareholders						76.6
Minority interest						1.6
<b>Balance sheet</b>						
Segment assets	713.9	273.8	178.2	1,165.9	251.1	1,417.0
Unallocated items						
Investments in associates						30.0
Other non-current assets						2.3
Derivative financial instruments						17.5
Cash and cash equivalents						69.7
Tax balances						33.0
<b>Total assets</b>						1,569.5
Segment liabilities	(210.1)	(83.8)	(58.8)	(352.7)	(127.5)	(480.2)
Unallocated items						
Borrowings and accrued interest						(288.6)
Derivative financial instruments						(42.0)
Tax balances						(80.9)
Post-retirement benefits						(75.9)
<b>Total liabilities</b>						(967.6)
<b>Other segment items:</b>						
Adjusted return on sales – % <sup>1</sup>	9.1%	5.9%	4.8%	7.5%	3.1%	6.1%
Adjusted EBITDA – £m <sup>1</sup>	100.4	33.9	21.2	155.5	26.1	181.6
Adjusted EBITDA margin – % <sup>1</sup>	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 <sup>2</sup>	479.4	186.2	126.7	792.3	133.4	925.7
Adjusted return on average capital employed – % <sup>1,2</sup>	14.3%	10.9%	8.4%	12.6%	15.1%	12.9%
Capital expenditure – £m <sup>3</sup>	36.6	16.9	11.0	64.5	4.1	68.6
Depreciation and amortisation – £m	31.9	13.6	10.5	56.0	6.0	62.0

<sup>1</sup> before exceptional items

<sup>2</sup> average capital employed is defined on page 65

<sup>3</sup> capital expenditure represents additions to intangible assets and property, plant and equipment

## 2. SEGMENT REPORTING CONTINUED

The Group's primary format for segment reporting is business segments based on the Group's management and internal reporting structure. The secondary format is geographical segments showing the geographical origin of the Group's activity and net assets. Further details on these business segments are given in the Business Review on pages 1 to 35. The Group operates in two principal geographical areas: the UK and Western Continental Europe. Two further segments are identified: Eastern Continental Europe and the Rest of the World. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Central administration costs are allocated to the individual segments on a consistent basis year-on-year. Assets and liabilities have been analysed by segment at a capital employed level. Capital employed excludes items of a financing nature, taxation balances, post-retirement benefit liabilities and non-current asset investments; segmental capital employed comprises identifiable segment assets less segmental liabilities. Average capital employed is the average monthly capital employed. The adjusted return on average capital employed is defined as operating profit before exceptional items divided by average capital employed.

### Secondary reporting format – geographical segments

Year ending 30 April	Revenue		Segment assets		Capital expenditure	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
UK	<b>1,147.6</b>	1,097.1	<b>833.1</b>	860.9	<b>57.2</b>	41.4
Western Continental Europe	<b>779.2</b>	708.1	<b>438.7</b>	422.3	<b>17.8</b>	18.1
Eastern Continental Europe	<b>113.0</b>	104.4	<b>73.6</b>	85.7	<b>5.5</b>	6.3
Rest of the World	<b>66.8</b>	57.9	<b>39.9</b>	48.1	<b>2.7</b>	2.8
	<b>2,106.6</b>	1,967.5	<b>1,385.3</b>	1,417.0	<b>83.2</b>	68.6

## 3. OPERATING PROFIT

	2009 £m	2008 £m
<b>Operating expenses</b>		
Distribution expenses	<b>220.0</b>	207.5
Administrative expenses	<b>238.8</b>	173.6
	<b>458.8</b>	381.1

Details of exceptional items recorded within operating profit are set out in note 4.

Operating profit is stated after charging/(crediting) the following:

	2009 £m	2008 £m
Depreciation – owned assets	<b>65.5</b>	57.9
– leased assets	<b>0.9</b>	0.6
Amortisation of intangible assets	<b>3.5</b>	3.5
Hire of plant and machinery	<b>12.3</b>	12.5
Other operating lease rentals	<b>11.9</b>	12.8
Research and development	<b>1.2</b>	1.1
Gains on the sale of land and buildings	<b>(1.2)</b>	(1.1)
Amounts paid to Deloitte LLP	<b>1.3</b>	1.1

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 3. OPERATING PROFIT CONTINUED

Auditors' remuneration	2009			2008		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Fees payable to the Company's auditors for the audit of the Company's annual accounts	0.2	-	0.2	0.2	-	0.2
Fees payable to the Company's auditors and their associates for other services:						
The audit of the Company's subsidiaries, pursuant to legislation	0.4	0.6	1.0	0.4	0.5	0.9
Tax and other services	0.1	-	0.1	-	-	-
	0.7	0.6	1.3	0.6	0.5	1.1

Total non-audit fees relating to tax and other services are £0.1m.

## 4. EXCEPTIONAL ITEMS

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

	2009 £m	2008 £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 (loss)/profit	(50.6)	(1.9)
Group's share of exceptional losses on associate	(5.1)	-
<b>Total pre-tax exceptional items</b>	<b>(55.7)</b>	<b>(1.9)</b>
Deferred tax charge following amendment to UK Industrial Building Allowance regime	(13.3)	-
Income tax credit on exceptional items	7.9	0.7
<b>Total exceptional tax items</b>	<b>(5.4)</b>	<b>0.7</b>
<b>Total post-tax exceptional items</b>	<b>(61.1)</b>	<b>(1.2)</b>

## 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 restructuring following the conversion of the New Thames Mill.

The Continental European Corrugated Packaging 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 office 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.

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

Impairment of associate is in respect of the write down of the Group's investment in Rubezhansk (note 12).

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

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

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

## 2007/08

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

## 5. FINANCE INCOME AND COSTS

	2009 £m	2008 £m
Interest on bank loans and overdrafts	<b>23.7</b>	19.4
Finance lease interest	<b>0.3</b>	0.3
Other	<b>2.1</b>	4.4
<b>Finance costs</b>	<b>26.1</b>	24.1
Interest income from financial assets held at amortised cost	<b>(1.7)</b>	(2.7)
Other	<b>(0.8)</b>	(0.6)
<b>Finance income</b>	<b>(2.5)</b>	(3.3)

Other finance costs largely relate to the increase in the fair value of the non-controlling shareholders' put options in Toscana Ondulati SpA (see note 23).

Included within other finance income is £0.6m (2007/08: cost of £0.3m) of hedge ineffectiveness on net investment hedges and fair value hedges. Refer to note 20(c) for further details of cash flow, fair value and net investment hedges.

## 6. PERSONNEL EXPENSES

	2009 £m	2008 £m
Wages and salaries	<b>318.6</b>	288.3
Social security costs	<b>49.9</b>	44.6
Contributions to defined contribution pension plans	<b>2.9</b>	3.3
Service costs for defined benefit schemes (see note 24)	<b>11.7</b>	9.8
Share-based payment expense (see note 25)	<b>0.3</b>	2.1
<b>Personnel expenses</b>	<b>383.4</b>	348.1

The average number of employees (full-time equivalents) during the financial year, analysed by geographical region was:

	2009 Number	2008 Number
UK	<b>6,913</b>	6,755
Western Continental Europe	<b>3,173</b>	3,075
Eastern Continental Europe	<b>1,120</b>	1,008
Rest of the World	<b>504</b>	511
<b>Average number of employees</b>	<b>11,710</b>	11,349

**7. INCOME TAX EXPENSE****Income tax expense recognised in the income statement**

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

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

	2009 £m	2008 £m
Profit before tax	<b>16.8</b>	109.1
Add/(Less): share of loss/(profit) of associates	<b>4.5</b>	(3.4)
Profit before tax and share of profit of associates	<b>21.3</b>	105.7
Income tax calculated using the domestic corporation tax rate of 28.0% (2007/08: 29.8%)	<b>(6.0)</b>	(31.5)
Effect of tax rates in overseas jurisdictions	<b>(2.7)</b>	(1.2)
Non-deductible expenses	<b>(5.7)</b>	(2.2)
Origination of tax losses not recognised	<b>(2.0)</b>	(0.2)
Adjustment in respect of prior years	<b>0.4</b>	0.4
Effect of change in UK corporation tax rate	-	2.4
Abolition of Industrial Buildings Allowances	<b>(13.3)</b>	-
Other	<b>1.3</b>	1.4
Income tax expense	<b>(28.0)</b>	(30.9)

	2009 £m	2008 £m
<b>Deferred tax recognised directly in equity</b>		
Relating to post-retirement benefits	<b>34.9</b>	21.4
Other	<b>18.4</b>	(3.0)
	<b>53.3</b>	18.4

**Current tax recognised directly in equity**

Relating to post-retirement benefits	-	(0.7)
Tax relating to hedging transactions taken directly to reserves	-	7.4
	-	6.7

## 8. EARNINGS PER SHARE

### Basic earnings per share

The calculation of basic earnings per share at 30 April 2009 is based on the net (loss)/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 (loss)/profit attributable to ordinary shareholders (£m)	<b>£(11.8)m</b>	£76.6m
Weighted average number of ordinary shares at 30 April (millions)	<b>390.9m</b>	391.5m
Basic (loss)/earnings per share (pence per share)	<b>(3.0)p</b>	19.6p

### Diluted earnings per share

The calculation of diluted earnings per share at 30 April 2009 is based on net (loss)/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 392.5m (2007/08: 393.9m), calculated as follows:

	2009	2008
Net (loss)/profit attributable to ordinary shareholders	<b>(11.8)</b>	76.6

### In millions of shares

	2009	2008
Weighted average number of ordinary shares at 30 April	<b>390.9</b>	391.5
Potentially dilutive shares issuable under share-based payment arrangements	<b>1.6</b>	2.4
Weighted average number of ordinary shares (diluted) at 30 April	<b>392.5</b>	393.9
Diluted (loss)/earnings per share (pence per share)	<b>(3.0)p</b>	19.4p

### Adjusted earnings per share

The Directors believe that the presentation of an adjusted earnings per share amount, being the basic (loss)/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 (loss)/earnings	<b>(11.8)</b>	<b>(3.0)p</b>	<b>(3.0)p</b>	76.6	19.6p	19.4p
Add back/(deduct) exceptional items, after tax	<b>61.1</b>	<b>15.6p</b>	<b>15.6p</b>	1.2	0.3p	0.4p
Adjusted earnings	<b>49.3</b>	<b>12.6p</b>	<b>12.6p</b>	77.8	19.9p	19.8p

## 9. DIVIDENDS

Dividends proposed and paid by the Group are as follows:

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

## 10. INTANGIBLE ASSETS

	Goodwill £m	Software £m	Intellectual property £m	Other £m	Total £m
<b>Cost</b>					
Balance at 1 May 2008	207.0	34.7	12.9	9.1	263.7
Acquisitions through business combinations	0.2	–	–	1.7	1.9
Additions	0.1	1.6	–	1.5	3.2
Disposals	–	(1.5)	–	(1.7)	(3.2)
Effect of movements in foreign exchange	7.1	1.6	0.2	0.4	9.3
Balance at 30 April 2009	<b>214.4</b>	<b>36.4</b>	<b>13.1</b>	<b>11.0</b>	<b>274.9</b>
<b>Amortisation</b>					
Balance at 1 May 2008	(14.1)	(29.8)	(4.3)	(0.3)	(48.5)
Amortisation for the year	–	(2.2)	(0.7)	(0.6)	(3.5)
Disposals	–	1.4	–	–	1.4
Effect of movements in foreign exchange	(1.0)	(1.3)	–	–	(2.3)
Balance at 30 April 2009	<b>(15.1)</b>	<b>(31.9)</b>	<b>(5.0)</b>	<b>(0.9)</b>	<b>(52.9)</b>
<b>Carrying amount</b>					
Balance as at 1 May 2008	192.9	4.9	8.6	8.8	215.2
<b>Balance as at 30 April 2009</b>	<b>199.3</b>	<b>4.5</b>	<b>8.1</b>	<b>10.1</b>	<b>222.0</b>
<b>Cost</b>					
Balance at 1 May 2007	191.7	32.3	12.6	0.8	237.4
Acquisitions through business combinations	10.2	0.1	–	7.7	18.0
Additions	–	2.3	–	0.6	2.9
Disposals	–	(1.4)	–	(0.1)	(1.5)
Effect of movements in foreign exchange	5.1	1.4	0.3	0.1	6.9
Balance at 30 April 2008	207.0	34.7	12.9	9.1	263.7
<b>Amortisation</b>					
Balance at 1 May 2007	(13.6)	(27.2)	(3.6)	(0.1)	(44.5)
Amortisation for the year	–	(2.7)	(0.7)	(0.1)	(3.5)
Disposals	–	1.4	–	–	1.4
Effect of movements in foreign exchange	(0.5)	(1.3)	–	(0.1)	(1.9)
Balance at 30 April 2008	(14.1)	(29.8)	(4.3)	(0.3)	(48.5)
<b>Carrying amount</b>					
Balance as at 1 May 2007	178.1	5.1	9.0	0.7	192.9
Balance as at 30 April 2008	192.9	4.9	8.6	8.8	215.2

The amortisation charge for the year of £3.5m (2007/08: £3.5m) is included within administrative expenses. The other items above include acquired emissions quotas which are capitalised as an asset when granted to the Group and treated as a disposal when used to satisfy the Group's obligations or sold, as explained in note 1.

## 10. INTANGIBLE ASSETS CONTINUED

### Impairment tests for cash-generating units containing goodwill

The following segments have cash-generating units containing significant carrying amounts of goodwill:

	2009 £m	2008 £m
UK Paper and Corrugated Packaging	144.3	144.2
Plastic Packaging	39.1	34.8
	183.4	179.0
Segments with no cash-generating units containing individually significant goodwill	15.9	13.9
	199.3	192.9

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the cash-generating units ('CGU') are determined from value-in-use calculations.

The key assumptions in the value-in-use calculation were:

- cash forecasts derived from the latest budgets and forecasts for the two years ending 30 April 2011 as approved by the Directors. Cash flows for the following three years were extrapolated assuming a progressive recovery in margins to historical levels;
- the pre-tax weighted average cost of capital ('WACC') for the Group is 11.8% (2007/08: 10.6%). The Group believes that the risk profile across the significant markets in which it operates are not significantly different, hence the same WACC is universally applied across all CGUs; and
- long-term growth rates are either equal to or less than, the inflation assumption.

The outcome of the impairment task for the CGUs containing significant carrying amounts of goodwill is summarised as follows:

Headroom	£m
UK Paper and Corrugated Packaging	47.6
Plastic Packaging	55.3

The headroom represents the difference between the calculated value-in-use and the net asset carrying value of the CGU.

Whilst management believe the assumptions are realistic, it is possible an impairment would be identified if any of the above key assumptions were changed significantly. For instance, factors which could cause impairment are:

- significant underperformance relative to the forecast results;
- changes to the way the assets are used or our strategy for the business;
- a further deterioration in the industry or the wider economy; and
- an increase in the Group's WACC.

The value-in-use is based upon anticipated discounted future cash flows. The Directors believe the assumptions used are appropriate, but in addition have conducted sensitivity analysis to determine the changes in assumptions that would result in an impairment.

A half percentage point increase in the WACC to 12.3% would result in a reduction in the headroom for UK Paper and Corrugated Packaging reducing to circa £20m. The headroom for Plastic Packaging would similarly reduce to circa £45m.

In order for there to be no impairments within UK Paper and Corrugated Packaging adjusted operating profits will need to achieve circa £56m in 2014/15; this compares to £68.5m in 2007/08 and £36.5m in 2008/09. For there to be no impairments within Plastic Packaging, adjusted operating profits will need to achieve circa £16.0m in 2014/15, which compares to £10.7m in 2007/08 and £7.0m in 2008/09. The assumptions underpinning UK Paper and Corrugated Packaging adjusted operating profits reflect managements' expectations of a return to historic levels of margins and profitability by 2014/15. The benefits of the restructuring of the Plastic Packaging segment are forecast to deliver the incremental profit growth over the next five years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Plant and equipment £m	Fixtures and fittings £m	Under construction £m	Total £m
<b>Cost</b>					
Balance at 1 May 2008	321.8	1,078.1	63.1	21.9	1,484.9
Acquisitions through business combinations	–	0.2	–	–	0.2
Additions	3.5	71.2	1.3	5.0	81.0
Disposals	(2.8)	(51.6)	(2.6)	(0.5)	(57.5)
Transfers	0.3	7.0	(0.3)	(7.0)	–
Reclassification from inventory	–	2.4	0.8	0.2	3.4
Effect of movements in foreign exchange	11.8	41.5	4.1	1.3	58.7
Balance at 30 April 2009	<b>334.6</b>	<b>1,148.8</b>	<b>66.4</b>	<b>20.9</b>	<b>1,570.7</b>
<b>Depreciation</b>					
Balance at 1 May 2008	(82.3)	(743.9)	(51.6)	–	(877.8)
Depreciation charge for the year	(7.4)	(55.9)	(3.2)	0.1	(66.4)
Impairments	–	(5.6)	–	–	(5.6)
Disposals	3.5	48.3	2.4	–	54.2
Reclassification from inventory	–	(1.2)	(0.2)	(0.1)	(1.5)
Effect of movements in foreign exchange	(4.0)	(29.3)	(3.2)	–	(36.5)
Balance at 30 April 2009	<b>(90.2)</b>	<b>(787.6)</b>	<b>(55.8)</b>	<b>–</b>	<b>(933.6)</b>
<b>Carrying amount</b>					
Balance as at 1 May 2008	239.5	334.2	11.5	21.9	607.1
<b>Balance as at 30 April 2009</b>	<b>244.4</b>	<b>361.2</b>	<b>10.6</b>	<b>20.9</b>	<b>637.1</b>

In 2008/09, capital spares with a net book value of £1.9m have been reclassified from inventory to property, plant and equipment in accordance with the Group accounting policy.

**Leased property, plant and equipment**

The amounts above include land and buildings held under finance lease agreements. At 30 April 2009, the carrying amount of land and buildings held under finance leases was £6.9m (2008: £6.9m).

**Property, plant and equipment under construction**

Assets under construction mainly related to production machines being built for various sites across the Group.

## 11. PROPERTY, PLANT AND EQUIPMENT CONTINUED

	Land and buildings £m	Plant and equipment £m	Fixtures and fittings £m	Under construction £m	Total £m
<b>Cost</b>					
Balance at 1 May 2007	261.5	972.2	62.2	23.0	1,318.9
Acquisitions through business combinations	39.2	24.8	–	0.3	64.3
Additions	6.5	45.6	2.8	10.8	65.7
Disposals	(2.3)	(18.0)	(5.7)	–	(26.0)
Transfers	2.7	4.9	0.3	(7.9)	–
Reclassification from property, plant and equipment to other receivables	–	–	–	(5.8)	(5.8)
Effect of movements in foreign exchange	14.2	48.6	3.5	1.5	67.8
Balance at 30 April 2008	321.8	1,078.1	63.1	21.9	1,484.9
<b>Depreciation</b>					
Balance at 1 May 2007	(72.9)	(677.8)	(51.1)	–	(801.8)
Depreciation charge for the year	(5.8)	(49.3)	(3.4)	–	(58.5)
Disposals	0.4	15.0	5.5	–	20.9
Effect of movements in foreign exchange	(4.0)	(31.8)	(2.6)	–	(38.4)
Balance at 30 April 2008	(82.3)	(743.9)	(51.6)	–	(877.8)
<b>Carrying amount</b>					
Balance as at 1 May 2007	188.6	294.4	11.1	23.0	517.1
Balance as at 30 April 2008	239.5	334.2	11.5	21.9	607.1

## 12. INVESTMENT IN ASSOCIATES

	2009 £m	2008 £m
Balance at 1 May	30.0	30.5
Share of profit of associates after interest and tax, including exceptional loss of £5.1m (2007/08: £nil)	(4.5)	3.4
Dividends received	-	(1.0)
Additions	-	-
Disposals	-	(0.9)
Intra-group profit elimination	(0.4)	(2.8)
Impairment	(18.1)	-
Exchange differences	(6.7)	0.8
<b>Balance at 30 April</b>	<b>0.3</b>	30.0

	Nature of business	Principal country of operation	Financial year-end	Ownership 2009
OJSC Rubezhansk Paper and Packaging Mill (Rubezhansk)	Manufacturer of paper and packaging	Ukraine	31 December	49.6%

Rubezhansk is accounted for using the equity method within these financial statements.

Included within the share of profit of associates after interest and tax is an exceptional loss of £5.1m being the Group's share of the after-tax net loss at Rubezhansk incurred in the second half of 2008/09. This is principally as a result of foreign exchange losses on the US\$87 million loan, following the significant decline in the Ukrainian Hryvnia against the US\$. 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 that associate at the year-end.

Summary of financial information in associate – 49.6%

	2009 £m	2008 £m
<b>Rubezhansk</b>		
Assets	116.1	98.2
Liabilities	(71.8)	(32.4)
Revenues	82.8	58.8
(Loss)/profit after tax	(9.5)	6.7

The remaining £0.3m investment in associates relates to the Group's investment in Wirth, a plastic packaging business in Germany.

## 13. OTHER INVESTMENTS

	2009 £m	2008 £m
Non-current investments	0.8	1.5
Current investments	0.5	0.1

Non-current investments comprise investments in the equity and debt securities of unlisted companies.

## 14. INVENTORIES

	2009 £m	2008 £m
Raw materials and consumables	<b>54.0</b>	67.7
Work in progress	<b>3.2</b>	4.2
Finished goods	<b>113.0</b>	115.8
	<b>170.2</b>	187.7

The Group consumed £1,604.4m (2008: £1,468.7m) of inventories during the year. Provisions against inventories totalled £20.2m (30 April 2008: £19.5m).

## 15. TRADE AND OTHER RECEIVABLES

	2009		2008	
	Non-current £m	Current £m	Non-current £m	Current £m
<b>Trade receivables and provisions</b>				
Trade receivables	-	<b>346.4</b>	-	375.5
Provisions for bad and doubtful receivables	-	<b>(21.7)</b>	-	(13.7)
Prepayments and other receivables	<b>0.9</b>	<b>31.4</b>	0.8	45.1
	<b>0.9</b>	<b>356.1</b>	0.8	406.9

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of trade receivables from the date credit was initially granted up to the reporting date. The fair value of trade and other receivables is not materially different from their carrying amounts above. Refer to note 20(d)(iii) for further quantitative and qualitative analysis of credit risk.

## 16. TRADE AND OTHER PAYABLES

	2009		2008	
	Non-current £m	Current £m	Non-current £m	Current £m
Trade payables	-	<b>288.8</b>	-	321.1
Non-trade payables and accrued expenses	<b>3.8</b>	<b>123.3</b>	4.0	133.9
	<b>3.8</b>	<b>412.1</b>	4.0	455.0

The fair value of trade and other payables is not materially different from their carrying amounts shown above.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 17. NET DEBT

	Note	2009 £m	2008 £m
Non-current liabilities	19	<b>331.5</b>	260.7
Current liabilities	19	<b>5.8</b>	6.4
Derivative financial instruments	20	<b>8.3</b>	40.7
Net cash and cash equivalents	18	<b>(54.1)</b>	(56.0)
<b>Net debt</b>		<b>291.5</b>	251.8
Net debt divided by EBITDA (before exceptional items)		<b>1.8x</b>	1.4x
Gearing (net debt expressed as a percentage of net assets)		<b>63.9%</b>	41.8%

The movement in Group net debt is as set out in the table below:

	At 1 May 2008 £m	Cash flow £m	Acquisitions and disposals £m	Foreign exchange and fair value movements £m	At 30 April 2009 £m
Cash and cash equivalents	69.7	(16.9)	–	10.1	<b>62.9</b>
Overdrafts	(13.7)	8.0	–	(3.1)	<b>(8.8)</b>
Net cash and cash equivalents	56.0	(8.9)	–	7.0	<b>54.1</b>
Interest-bearing loans and borrowings due after one year	(255.3)	12.2	–	(83.1)	<b>(326.2)</b>
Interest-bearing loans and borrowings due within one year	(5.5)	0.6	–	–	<b>(4.9)</b>
Finance leases	(6.3)	1.1	(0.2)	(0.8)	<b>(6.2)</b>
Derivative financial instruments					
– assets	0.4	–	–	10.6	<b>11.0</b>
– liabilities	(41.1)	–	–	21.8	<b>(19.3)</b>
	(307.8)	13.9	(0.2)	(51.5)	<b>(345.6)</b>
<b>Total net debt</b>	<b>(251.8)</b>	<b>5.0</b>	<b>(0.2)</b>	<b>(44.5)</b>	<b>(291.5)</b>

## 18. CASH AND CASH EQUIVALENTS

	2009 £m	2008 £m
Bank balances	<b>55.4</b>	63.2
Short-term deposits	<b>7.5</b>	6.5
<b>Cash and cash equivalents (per balance sheet)</b>	<b>62.9</b>	69.7
Bank overdrafts	<b>(8.8)</b>	(13.7)
<b>Net cash and cash equivalents (per cash flow statement)</b>	<b>54.1</b>	56.0

## 19. INTEREST-BEARING LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, refer to note 20.

	2009		2008	
	Current £m	Non-current £m	Current £m	Non-current £m
<b>Borrowings measured at amortised cost</b>				
Bank and other loans	4.9	80.2	5.5	71.3
Note purchase agreements	–	50.6	–	37.9
Finance lease liabilities	0.9	5.3	0.9	5.4
	<b>5.8</b>	<b>136.1</b>	6.4	114.6
<b>Borrowings in a fair value hedge relationship</b>				
Note purchase agreements	–	195.4	–	146.1
	<b>5.8</b>	<b>331.5</b>	6.4	260.7

Bank loans, other loans and overdrafts of certain subsidiaries totalling £3.4m (2008: £3.6m) are secured over the properties and machinery of these companies. The holder of the security does not have the right to sell or re-pledge the assets as security.

The repayment dates of the Group's borrowings are as follows:

	2009				
	1 year or less £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Interest-bearing loans and borrowings					
Fixed-rate	0.4	0.2	67.1	50.8	118.5
Floating-rate	5.4	1.6	115.8	96.0	218.8
Total interest-bearing loans and borrowings	<b>5.8</b>	<b>1.8</b>	<b>182.9</b>	<b>146.8</b>	<b>337.3</b>
	2008				
	1 year or less £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Interest-bearing loans and borrowings					
Fixed-rate	5.0	0.6	–	38.0	43.6
Floating-rate	1.4	1.3	150.7	70.1	223.5
Total interest-bearing loans and borrowings	6.4	1.9	150.7	108.1	267.1

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 19. INTEREST-BEARING LOANS AND BORROWINGS CONTINUED

The Group's borrowings, after taking into account the effect of cross-currency swaps and interest rate swaps, are denominated in the following currencies:

	Sterling £m	Euro £m	US Dollar £m	Other £m	Total £m
<b>At 30 April 2009</b>					
Interest-bearing loans and borrowings					
Fixed-rate	51.1	67.4	–	–	118.5
Floating-rate	26.8	153.1	35.1	3.8	218.8
	<b>77.9</b>	<b>220.5</b>	<b>35.1</b>	<b>3.8</b>	<b>337.3</b>
Net cash and cash equivalents (including overdrafts)					
Fixed-rate	–	(9.9)	(2.9)	(4.3)	(17.1)
Floating-rate	(10.7)	(15.7)	(2.4)	(8.2)	(37.0)
	<b>(10.7)</b>	<b>(25.6)</b>	<b>(5.3)</b>	<b>(12.5)</b>	<b>(54.1)</b>
<b>Net borrowings/(cash) at 30 April 2009</b>	<b>67.2</b>	<b>194.9</b>	<b>29.8</b>	<b>(8.7)</b>	<b>283.2</b>
	Sterling £m	Euro £m	US Dollar £m	Other £m	Total £m
<b>At 30 April 2008</b>					
Interest-bearing loans and borrowings					
Fixed-rate	38.6	0.6	–	4.4	43.6
Floating-rate	24.1	173.8	25.6	–	223.5
	62.7	174.4	25.6	4.4	267.1
Net cash and cash equivalents (including overdrafts)					
Fixed-rate	(0.1)	(8.3)	(5.4)	(1.0)	(14.8)
Floating-rate	(8.5)	(12.8)	(1.0)	(18.9)	(41.2)
	(8.6)	(21.1)	(6.4)	(19.9)	(56.0)
Net borrowings/(cash) at 30 April 2008	54.1	153.3	19.2	(15.5)	211.1

## 19. INTEREST-BEARING LOANS AND BORROWINGS CONTINUED

Of the total borrowing facilities available to the Group, the undrawn committed facilities available at 30 April were as follows:

	2009 £m	2008 £m
Expiring within one year	<b>78.8</b>	6.5
Expiring between one and two years	<b>8.9</b>	76.8
Expiring between two and five years	<b>208.0</b>	181.8
	<b>295.7</b>	265.1

At 30 April 2009, 69% (30 April 2008: 72%) of the Group's net borrowings, after taking into account the effect of cross-currency swaps, were denominated in euros in order to hedge the underlying assets of the Group's relevant continental European operations. Interest rates on floating-rate borrowings are based on LIBOR, EURIBOR or base rates.

In August 2008, the Group entered into a syndicated revolving credit facility of £287.5m, which expires on 29 August 2013. In April 2008, the Group entered into a revolving credit facility of £50m, which expires on 30 April 2010. Advances drawn down under both facilities bear interest at a margin over LIBOR or EURIBOR.

In November 2002, the Group entered into a note purchase agreement with a number of institutions that purchased US\$105m of DS Smith Plc's 6.24% senior notes and £25m of 6.85% senior notes, which will mature on 14 November 2012. The Group entered into a swap transaction with a bank counterparty under which it made a payment of US\$80m in return for €81.6m. The swap counterparty also agreed to pay fixed-rate dollar interest of 6.24% per annum in exchange for floating euro rate interest at rates linked to EURIBOR. In addition, swap counterparties also agreed to pay fixed-rate dollar interest of 6.24% per annum on a principal amount of US\$25m in exchange for floating dollar interest linked to dollar LIBOR and fixed-rate sterling interest of 6.85% per annum on a principal of £25m in exchange for floating sterling interest linked to sterling LIBOR.

In August 2004, the Group entered into a further note purchase agreement with a number of institutions that purchased US\$105m of DS Smith Plc's 5.66% senior notes and US\$95m of 5.80% senior notes, which will mature on 25 August 2014 and 25 August 2016, respectively. The Group entered into swap transactions with a bank counterparty under which it made payments of US\$105m and US\$20m in return for €86.5m and €16.5m, respectively, and a payment of US\$75m in return for £40.8m. The swap counterparty agreed to pay fixed-rate dollar interest of 5.66% per annum and 5.80% per annum, respectively, in exchange for floating euro rate interest at rates linked to EURIBOR and fixed-rate dollar interest of 5.80% per annum in exchange for fixed-rate sterling interest at rates of 6.21% per annum.

### Finance lease obligations

	2009			2008		
	Minimum lease payments £m	Interest £m	Principal £m	Minimum lease payments £m	Interest £m	Principal £m
Less than one year	<b>1.0</b>	<b>(0.1)</b>	<b>0.9</b>	1.2	(0.3)	0.9
Between one and five years	<b>2.8</b>	<b>(0.7)</b>	<b>2.1</b>	2.9	(0.8)	2.1
More than five years	<b>3.5</b>	<b>(0.3)</b>	<b>3.2</b>	3.8	(0.5)	3.3
Finance lease obligations	<b>7.3</b>	<b>(1.1)</b>	<b>6.2</b>	7.9	(1.6)	6.3

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 20. FINANCIAL INSTRUMENTS

The Group's activities expose the Group to a number of key risks which have the potential to affect its ability to achieve its business objectives. A summary of the Group's key financial risks and the policies and objectives in place to manage these risks is set out in the Financial Review and Risk Management sections of the Business Review on pages 22 to 29.

The derivative financial instruments set out in this note have been entered into to help achieve the Group's risk management objectives.

The Group's treasury policy is not to engage in speculative transactions.

## a) Carrying amounts of financial assets and liabilities

Set out below is the accounting classification of all of the Group's financial instruments and their carrying values.

	2009				
	Loans and receivables £m	Available for sale financial assets £m	Derivative hedging instruments £m	Financial liabilities measured at amortised cost £m	Total carrying amount £m
Financial assets					
Other investments	-	1.3	-	-	1.3
Trade and other receivables	357.0	-	-	-	357.0
Other financial assets in designated hedge accounting relationships	-	-	25.4	-	25.4
Cash and cash equivalents	62.9	-	-	-	62.9
Financial liabilities					
Trade and other payables	-	-	-	(415.9)	(415.9)
Other financial liabilities in designated hedge accounting relationships	-	-	(24.4)	-	(24.4)
Loans and borrowings	-	-	-	(337.3)	(337.3)
Overdrafts	-	-	-	(8.8)	(8.8)
	<b>419.9</b>	<b>1.3</b>	<b>1.0</b>	<b>(762.0)</b>	<b>(339.8)</b>
2008					
	Loans and receivables £m	Available for sale financial assets £m	Derivative hedging instruments £m	Financial liabilities measured at amortised cost £m	Total carrying amount £m
Financial assets					
Other investments	-	1.6	-	-	1.6
Trade and other receivables	407.7	-	-	-	407.7
Other financial assets in designated hedge accounting relationships	-	-	17.5	-	17.5
Cash and cash equivalents	69.7	-	-	-	69.7
Financial liabilities					
Trade and other payables	-	-	-	(459.0)	(459.0)
Other financial liabilities in designated hedge accounting relationships	-	-	(42.0)	-	(42.0)
Loans and borrowings	-	-	-	(267.1)	(267.1)
Overdrafts	-	-	-	(13.7)	(13.7)
	<b>477.4</b>	<b>1.6</b>	<b>(24.5)</b>	<b>(739.8)</b>	<b>(285.3)</b>

## 20. FINANCIAL INSTRUMENTS CONTINUED

### b) Derivative financial instruments

The Group enters into derivative financial instruments, primarily interest rate, currency and commodity swaps, to manage interest rate, currency and commodity risks associated with the Group's underlying business activities and the financing of these activities. All derivatives have been designated as effective hedging instruments and are carried at their fair value.

The assets and liabilities of the Group as at 30 April in respect of derivative financial instruments are as follows:

	Assets		Liabilities		Net	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Derivatives held to						
Manage the interest rate and currency exposures on borrowings and net investments	<b>11.0</b>	0.4	<b>(19.3)</b>	(41.1)	<b>(8.3)</b>	(40.7)
Derivative financial instruments included in net debt	<b>11.0</b>	0.4	<b>(19.3)</b>	(41.1)	<b>(8.3)</b>	(40.7)
Derivatives held to						
Hedge future transactions – energy costs	<b>11.2</b>	17.1	<b>(4.5)</b>	(0.2)	<b>6.7</b>	16.9
Hedge future transactions – foreign exchange on purchases and sales of goods and services	<b>3.2</b>	–	<b>(0.6)</b>	(0.7)	<b>2.6</b>	(0.7)
<b>Total derivative financial instruments</b>	<b>25.4</b>	17.5	<b>(24.4)</b>	(42.0)	<b>1.0</b>	(24.5)
Current	<b>11.7</b>	7.3	<b>(0.7)</b>	(0.8)	<b>11.0</b>	6.5
Non-current	<b>13.7</b>	10.2	<b>(23.7)</b>	(41.2)	<b>(10.0)</b>	(31.0)
	<b>25.4</b>	17.5	<b>(24.4)</b>	(42.0)	<b>1.0</b>	(24.5)

## 20. FINANCIAL INSTRUMENTS CONTINUED

## c) Cash flow, fair value and net investment hedges

## (i) Cash flow hedging reserve movements

The following table identifies the movements in the cash flow hedging reserve during the year. All figures are post-tax.

	2009 £m	2008 £m
Balance at 1 May	13.0	(1.5)
Unrealised fair value gain/(loss) on designated cash flow hedges		
Forward exchange contracts	1.6	(0.4)
Cross-currency and interest rate swaps	(4.6)	1.5
Commodity contracts	(2.3)	13.0
Losses/(gains) in equity recycled to the income statement*		
Forward exchange contracts	0.6	0.2
Cross-currency and interest rate swaps	-	(0.3)
Commodity contracts	(5.1)	0.5
Losses/(gains) in equity recycled to the balance sheet**		
Forward exchange contracts	(0.5)	-
Cross-currency and interest rate swaps	-	-
Commodity contracts	-	-
<b>Balance at 30 April</b>	<b>2.7</b>	<b>13.0</b>

\* (Gains) and losses in equity transferred into profit or loss during the period are included in the following line items on the face of the income statement:

\*\* (Gains) and losses in equity transferred onto the balance sheet during the period are included in the following line items on the face of the balance sheet:

	2009 £m	2008 £m
Revenue	0.9	0.1
Cost of sales	(5.4)	0.6
Finance costs	-	(0.3)
	<b>(4.5)</b>	<b>0.4</b>
	<b>2009</b>	<b>2008</b>
	<b>£m</b>	<b>£m</b>
Property, plant and equipment	<b>(0.5)</b>	-

## (ii) Fair value hedges

At 30 April 2009, the Group held interest rate and currency swap contracts as fair value hedges of the interest rate and currency risk on fixed rate debt payable by the Group. The receive leg of the swap contracts is largely identical for all critical aspects to the terms of the underlying debt and thus the hedging is highly effective. The pre-tax gain on the hedging derivative instruments taken to the income statement in the year was £48.4m (2007/08: gain of £8.8m) offset by a pre-tax loss on the fair value of the debt of £47.2m (2007/08: loss of £8.4m).

## (iii) Hedges of net investments in foreign operations

The Group holds currency swap contracts as hedges of long-term investments in foreign subsidiaries. The pre-tax loss on the hedges recognised in equity in the year was £19.4m (2007/08: loss of £20.0m). The gain or loss is matched by a similar gain or loss in equity on the retranslation of the hedged foreign subsidiary's net assets. During the year, hedge ineffectiveness arising from hedges of net investments resulted in a loss of £0.6m (2007/08: loss of £0.7m).

## d) Risk identification and risk management

## (i) Capital risk

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

## 20. FINANCIAL INSTRUMENTS CONTINUED

### d) Risk identification and risk management continued

#### (i) Capital risk continued

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

#### (ii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument fluctuate because of a change in market prices. The Group is exposed to changes in interest rates, foreign currency exchange rates and commodity prices.

#### Interest rate risk

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate borrowings and by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with expectations of changes in interest rates, ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest rate expense through interest rate cycles. The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

At 30 April 2009, 35% (2008: 16%) of the Group's interest-bearing loans and borrowings were fixed for a period of at least one year. The sensitivity analysis below shows the impact on profit and total equity of a 100 basis points rise in market interest rates (representing management's assessment of the reasonably possible change in interest rates) in all currencies in which the Group had variable rate borrowings at 30 April.

To calculate the impact on the income statement for the year, the interest rates on all external interest-bearing loans and cash deposits have been increased by 100 basis points, and the resulting increase in the net interest charge has been adjusted for the effect of the Group's interest rate derivatives. The effect on equity includes the above impact on the income statement and the impact of a 100 basis point increase in interest rates on the market values of the Group's interest rate derivatives.

The results are presented before minority interests and tax.

	2009		2008	
	Impact on profit £m	Impact on total equity £m	Impact on profit £m	Impact on total equity £m
Increase in market interest rates by 100 basis points	(1.8)	–	(2.3)	–

Under interest rate swap contracts the Group agrees to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal amounts. At 30 April 2009, losses of £2.5m (2008: gains of £1.1m) (net of tax) are deferred in equity in respect of cash flow hedges of interest rate risk. This will be recycled to the income statement in the period in which the hedged item also affects the income statement, which will occur over time to 2016. During the year, £nil of gains deferred in equity were transferred to the income statement (2007/08: £0.3m).

#### Foreign exchange risk

##### Foreign exchange risk on investments

The Group is exposed to foreign exchange risk arising from net investments in Group entities, the functional currencies of which differ from the Group's presentational currency. The Group hedges this exposure through borrowings denominated in foreign currencies and through cross-currency swaps. Gains and losses for hedges of net investments are recognised in reserves.

##### Foreign exchange risk on borrowings

The Group is exposed to foreign exchange risk on borrowings denominated in foreign currencies. The Group hedges this exposure through cross-currency swaps designated as either cash flow or fair value hedges.

##### Foreign exchange risk on transactions

Foreign currency transaction risk arises where a business unit makes product sales and material purchases in a currency other than its functional currency. Part of this risk is hedged using foreign exchange contracts which are designated as cash flow hedges.

At 30 April 2009, £1.4m (2008: £(0.4)m) (net of tax) is deferred in equity in respect of cash flow hedges. This will be recycled to the income statement in the period in which the hedged item also affects the income statement, which occurs within two years. During the year, £0.6m of losses deferred in equity were transferred to the income statement (2007/08: £0.2m of losses).

The Group's main currency exposures are from the euro and US dollar. The following sensitivity analysis shows the impact on the Group's results of a 10% change in the year-end exchange rate of sterling against all other currencies. 10% represents management's assessment of the reasonably possible change in foreign exchange rates. The analysis is only on financial instruments denominated in a foreign currency and excludes the impact of financial instruments designated as net investment hedges. Loans that are treated as net investment hedges are not recorded within the impact on the Group's profit as the impact of foreign exchange movements on these are offset by equal and opposite movements in the foreign assets that the instruments hedge.

## 20. FINANCIAL INSTRUMENTS CONTINUED

## d) Risk identification and risk management continued

## Foreign exchange risk

The results are presented before minority interests and tax.

	2009		2008	
	Impact on profit £m	Impact on total equity £m	Impact on profit £m	Impact on total equity £m
10% strengthening of sterling	(0.8)	0.9	(0.3)	(0.9)
10% weakening of sterling	1.0	(1.1)	0.2	1.0

## Commodity risk

The Group's main commodity exposures are to changes in UK gas and UK electricity prices. Part of this commodity price risk is managed by a combination of physical supply agreements and derivative instruments. At 30 April 2009, £4.8m (2008: £12.3m) (net of tax) is deferred in equity in respect of cash flow hedges in accordance with IAS 39. This will be recycled to the income statement in the period in which the hedged item also affects the income statement, which occurs within two years. During the year, £5.1m of gains deferred in equity were transferred to the income statement (2007/08: £0.5m of losses).

The following table details the Group's sensitivity to a 10% increase in these prices, which is management's assessment of the reasonably possible approximation of how much markets can move, on average, over any given year. In some years prices will be less volatile and in others they may be more volatile. A decrease of 10% in these prices would produce an opposite effect on equity. As all of the Group's commodity financial instruments achieve hedge accounting under IAS 39, there is no impact on profit for either financial year.

The results are presented before minority interests and tax.

	2009		2008	
	Impact on profit £m	Impact on total equity £m	Impact on profit £m	Impact on total equity £m
10% increase in UK electricity prices	-	3.8	-	3.1
10% increase in UK gas prices	-	2.1	-	2.2

## (iii) Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will fail to perform or fail to pay amounts due, causing financial loss to the Group. In the current economic environment, the Group has placed increased emphasis on the management of credit risk. The majority of the Group's trade receivables are due for maturity within 90 days. Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and diverse. Management believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful debts (see note 15).

	Net carrying amount (see note 15) £m	Of which neither impaired nor past due £m	Of which past due but not impaired					2009 £m	2008 £m
			1 month or less £m	1-3 months £m	3-6 months £m	6-12 months £m	More than 12 months £m		
<b>The ageing of trade receivables</b>									
<b>As at 30 April 2009</b>	<b>324.7</b>	<b>300.7</b>	<b>16.6</b>	<b>5.4</b>	<b>1.0</b>	<b>0.6</b>	<b>0.4</b>		
As at 30 April 2008	361.8	334.9	19.2	3.8	1.3	1.9	0.7		

## Movement in the allowance for bad and doubtful receivables

Balance as at 1 May		(13.7)	(12.7)
Uncollectible amounts written off, net of receivables		0.3	2.2
Increase in allowance recognised in profit or loss		(7.1)	(2.2)
Effect of movements in foreign exchange		(1.2)	(1.0)
<b>Balance as at 30 April (see note 15)</b>		<b>(21.7)</b>	<b>(13.7)</b>

Credit risk on financial instruments held with financial institutions is assessed through reference to the long-term credit ratings assigned to that counterparty by Standard & Poor's and Moody's. During the year increased scrutiny has been given to all of the Group's banking counterparties and exposures have been reduced if deemed necessary.

## 20. FINANCIAL INSTRUMENTS CONTINUED

### d) Risk identification and risk management continued

#### (iv) Liquidity risk

Liquidity risk is the risk that the Group, although solvent, will have difficulty in meeting its obligations associated with its financial liabilities as they fall due.

The Group manages its liquidity risk by maintaining adequate financial resources, by continuously monitoring forecasted and actual cash flows and by matching the maturity profile of financial assets and liabilities to these risks.

### e) Fair value of financial assets and liabilities

The fair value is the amount for which an asset or liability could be exchanged or settled on an arm's-length basis. For financial instruments carried at fair value, market prices or rates are used to determine fair value where an active market exists. The Group uses forward prices for valuing forward foreign exchange and commodity contracts and uses valuation models with present value calculations based on market yield curves to value note purchase agreements, cross-currency swaps and interest rate swaps.

All derivative financial assets and liabilities are shown at fair value on the balance sheet. Under IAS 39 hedge accounting rules, only portions of the note purchase agreements which form part of an effective fair value hedge are carried at fair value in the balance sheet.

The fair value of financial assets and liabilities which bear floating-rates of interest is estimated to be equivalent to book value.

For current and non-current receivables (note 15) and current and non-current payables (note 16) and provisions (note 22), fair value is estimated to be equivalent to book value and is not included in the table below.

	Carrying amount		Fair value	
	2009 £m	2008 £m	2009 £m	2008 £m
Bank overdrafts	(8.8)	(13.7)	(8.8)	(13.7)
Bank borrowings	(85.1)	(76.8)	(85.1)	(76.8)
Note purchase agreements	(246.0)	(184.0)	(255.9)	(188.7)
Derivatives held to manage interest rate and the Group's exposure to foreign currency on investments and borrowings	(8.3)	(40.7)	(8.3)	(40.7)
Finance leases	(6.2)	(6.3)	(6.2)	(6.3)
	(354.4)	(321.5)	(364.3)	(326.2)
Cash and cash equivalents	62.9	69.7	62.9	69.7
<b>Net debt</b>	<b>(291.5)</b>	<b>(251.8)</b>	<b>(301.4)</b>	<b>(256.5)</b>
Derivatives held to hedge future energy costs	6.7	16.9	6.7	16.9
Derivatives held to hedge foreign exchange on future purchases and sales of goods and services	2.6	(0.7)	2.6	(0.7)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 20. FINANCIAL INSTRUMENTS CONTINUED

## f) Analysis of net debt cash flows

The following table is an analysis of the undiscounted cash flows relating to net debt at the balance sheet date (including the effect of cross-currency and interest rate swaps).

	Weighted average effective interest rate %	Contractual repayments			Total £m
		1 year or less £m	1-5 years £m	More than 5 years £m	
<b>As at 30 April 2009</b>					
Financial liabilities					
Bank overdrafts	2.2%	8.8	-	-	8.8
Bank loans	4.8%	4.9	80.2	-	85.1
Note purchase agreements	3.4%	-	95.9	135.0	230.9
Finance leases	4.6%	0.9	2.1	3.2	6.2
Financial assets					
Cash and cash equivalents	1.2%	(62.9)	-	-	(62.9)
<b>Total net borrowings/(cash)</b>	<b>4.4%</b>	<b>(48.3)</b>	<b>178.2</b>	<b>138.2</b>	<b>268.1</b>

	Weighted average effective interest rate %	Contractual repayments			Total £m
		1 year or less £m	1-5 years £m	More than 5 years £m	
<b>As at 30 April 2008</b>					
Financial liabilities					
Bank overdrafts	4.9%	13.7	-	-	13.7
Bank loans	4.5%	5.5	71.1	0.2	76.8
Note purchase agreements	6.0%	-	78.0	101.0	179.0
Finance leases	5.4%	0.9	2.1	3.3	6.3
Financial assets					
Cash and cash equivalents	2.3%	(69.7)	-	-	(69.7)
<b>Total net borrowings/(cash)</b>	<b>6.5%</b>	<b>(49.6)</b>	<b>151.2</b>	<b>104.5</b>	<b>206.1</b>

The tables above exclude interest expense estimated to be £18.4m in 2009/10, £18.2m in 2010/11, £17.6m in 2011/12, £16.4m in 2012/13, £6.4m in 2013/14 and £4.6m in 2014/15 and thereafter (assuming interest rates with respect to variable rate debt remain constant and there is no change in the aggregate principal amount of debt other than as a result of repayment at scheduled maturity).

The above table does not include forecast data for liabilities which may be incurred in the future which are not contracted as at 30 April 2009.

Refer to note 28 for an analysis of the Group's future operating lease payments and to note 29 for a summary of the Group's commitments.

The maturity profile of the Group's financial derivatives, using undiscounted cash flows, is presented in the tables on page 87. Where the payable and receivable legs of these derivatives are denominated in foreign currencies, the contractual payments/receipts have been calculated based on exchange rates as at the respective year ends.

## 20. FINANCIAL INSTRUMENTS CONTINUED

### f) Analysis of net debt cash flows continued

	Contractual payments/(receipts)			
	1 year or less £m	1-5 years £m	More than 5 years £m	Total £m
<b>Balance at 30 April 2009</b>				
Payable				
Energy derivatives	122.7	131.1	-	253.8
Foreign exchange	50.5	2.8	-	53.3
Interest rate and currency swaps	13.8	160.2	141.7	315.7
Receivable				
Energy derivatives	(131.0)	(129.2)	-	(260.2)
Foreign exchange	(53.1)	(2.8)	-	(55.9)
Interest rate and currency swaps	(16.8)	(152.6)	(146.3)	(315.7)
<b>Total derivatives</b>	<b>(13.9)</b>	<b>9.5</b>	<b>(4.6)</b>	<b>(9.0)</b>

	Contractual payments/(receipts)			
	1 year or less £m	1-5 years £m	More than 5 years £m	Total £m
<b>Balance at 30 April 2008</b>				
Payable				
Energy derivatives	72.8	62.0	-	134.8
Foreign exchange	23.0	2.8	-	25.8
Interest rate and currency swaps	14.3	119.7	139.0	273.0
Receivable				
Energy derivatives	(79.8)	(72.7)	-	(152.5)
Foreign exchange	(22.3)	(2.8)	-	(25.1)
Interest rate and currency swaps	(11.4)	(83.6)	(115.2)	(210.2)
<b>Total derivatives</b>	<b>(3.4)</b>	<b>25.4</b>	<b>23.8</b>	<b>45.8</b>

## 21. DEFERRED TAX ASSETS AND LIABILITIES

### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets		Liabilities		Net	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Property, plant and equipment and intangible assets	-	-	(70.5)	(66.2)	(70.5)	(66.2)
Employee benefits including pensions	55.7	23.1	-	-	55.7	23.1
Other items	17.5	8.3	-	(5.0)	17.5	3.3
<b>Tax assets/(liabilities)</b>	<b>73.2</b>	<b>31.4</b>	<b>(70.5)</b>	<b>(71.2)</b>	<b>2.7</b>	<b>(39.8)</b>

### Unrecognised deferred tax assets and liabilities

Deferred tax assets and liabilities have not been recognised in respect of the following items:

	Assets		Liabilities	
	2009 £m	2008 £m	2009 £m	2008 £m
Tax losses	3.7	3.6	-	-
Unremitted earnings of overseas operations	-	-	(5.2)	(3.7)
<b>Total</b>	<b>3.7</b>	<b>3.6</b>	<b>(5.2)</b>	<b>(3.7)</b>

The tax losses above include £2.7m which do not expire and £1.0m which expire between 2010 and 2014, under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom. Deferred tax liabilities have not been provided for in respect of unremitted earnings of overseas subsidiaries as there is no current intention for any of the relevant overseas entities to remit their earnings.

## 21. DEFERRED TAX ASSETS AND LIABILITIES CONTINUED

## Analysis of movements in recognised deferred tax assets and liabilities during the year

	Property, plant and equipment and intangible assets		Employee benefits including pensions		Other items		Total	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Balance at 1 May	(66.2)	(72.7)	23.1	7.1	3.3	5.6	(39.8)	(60.0)
Acquisitions and disposals	-	6.2	-	-	-	-	-	6.2
Credit/(charge) for the year	(0.6)	3.6	(2.3)	(4.6)	(4.2)	(0.1)	(7.1)	(1.1)
Recognised directly in equity	-	-	34.9	20.6	18.4	(2.2)	53.3	18.4
Exchange adjustments	(3.7)	(3.3)	-	-	-	-	(3.7)	(3.3)
Balance at 30 April	(70.5)	(66.2)	55.7	23.1	17.5	3.3	2.7	(39.8)

At 30 April 2009, deferred tax assets and liabilities were recognised for all taxable temporary differences:

- except where the deferred tax liability arises on goodwill;
- except on initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

At 30 April 2009, deferred tax assets were recognised for all taxable temporary differences, carry forward of unused tax assets and unused tax losses except where it is unlikely that taxable profit will be available against which to offset the loss.

Legislation to remove tax depreciation on UK Industrial Buildings was enacted in the year and as a result deferred tax of £13.3m has been provided in respect of temporary differences relating to certain UK buildings. This has been treated as an exceptional item.

## 22. PROVISIONS

	Employee benefits £m	Restructuring £m	Other £m	Total £m
Balance at 1 May 2008	5.2	11.3	12.5	29.0
Acquired during the year	-	-	0.5	0.5
Provisions made during the year	0.6	20.7	2.1	23.4
Provisions used during the year	(0.4)	(8.9)	(7.4)	(16.7)
Provisions reversed during the year	-	(1.3)	-	(1.3)
Effect of movements in foreign exchange	0.4	0.5	0.3	1.2
<b>Balance at 30 April 2009</b>	<b>5.8</b>	<b>22.3</b>	<b>8.0</b>	<b>36.1</b>
Non-current	5.5	5.4	3.1	14.0
Current	0.3	16.9	4.9	22.1
	<b>5.8</b>	<b>22.3</b>	<b>8.0</b>	<b>36.1</b>

The provision for employee benefits mainly represents that for long-service awards. The restructuring provision includes amounts associated with the closures and restructuring costs described in note 4. Other provisions mainly relate to an acquired onerous service contract (see note 30) and to provisions for vacant leaseholds and various legal claims. The timing of the utilisation of these provisions is uncertain, except where the associated costs are contractual, in which case the provision is utilised over the time period specified in the contract.

## 23. CAPITAL AND RESERVES

### Reconciliation of movement in capital and reserves

	Share capital £m	Share premium £m	Hedging reserve £m	Translation reserve £m	Retained earnings			Total reserves attributable to equity shareholders £m	Minority interests £m	Total equity £m
					Own shares £m	Other £m	Total retained earnings £m			
Balance at 1 May 2007	39.3	262.9	(1.5)	2.8	(3.0)	268.9	265.9	569.4	(2.3)	567.1
Profit for the period	–	–	–	–	–	76.6	76.6	76.6	1.6	78.2
Actuarial losses recognised in the pension schemes	–	–	–	–	–	(73.0)	(73.0)	(73.0)	–	(73.0)
Movement on deferred tax relating to the actuarial losses	–	–	–	–	–	21.4	21.4	21.4	–	21.4
Currency translation differences (including tax)	–	–	–	24.3	–	–	–	24.3	0.7	25.0
Changes in the fair value of cash flow hedges (including tax)	–	–	14.1	–	–	–	–	14.1	–	14.1
Amounts recognised in profit or loss during the year (including tax)	–	–	0.4	–	–	–	–	0.4	–	0.4
New share capital issued	–	0.2	–	–	–	–	–	0.2	–	0.2
Own shares acquired	–	–	–	–	(2.0)	–	(2.0)	(2.0)	–	(2.0)
Share-based payment expense (including tax)	–	–	–	–	0.8	0.1	0.9	0.9	–	0.9
Dividends paid to shareholders	–	–	–	–	–	(33.7)	(33.7)	(33.7)	–	(33.7)
Transactions with minority interest (Toscana Ondulati SpA)	–	–	–	–	–	3.1	3.1	3.1	1.2	4.3
Purchase of minority interest shares (DS Smith Polska S.A.)	–	–	–	–	–	–	–	–	(1.0)	(1.0)
Balance at 30 April 2008	39.3	263.1	13.0	27.1	(4.2)	263.4	259.2	601.7	0.2	601.9
Profit for the period	–	–	–	–	–	(11.8)	(11.8)	(11.8)	0.6	(11.2)
Actuarial losses recognised in the pension schemes	–	–	–	–	–	(123.4)	(123.4)	(123.4)	–	(123.4)
Movement on deferred tax relating to the actuarial gains	–	–	–	–	–	34.9	34.9	34.9	–	34.9
Currency translation differences (including tax)	–	–	–	0.3	–	–	–	0.3	0.4	0.7
Changes in the fair value of cash flow hedges (including tax)	–	–	(5.3)	–	–	–	–	(5.3)	–	(5.3)
Amounts recognised in profit or loss during the year (including tax)	–	–	(4.5)	–	–	–	–	(4.5)	–	(4.5)
Amounts recognised in property, plant and equipment during the year	–	–	(0.5)	–	–	–	–	(0.5)	–	(0.5)
Own shares acquired	–	–	–	–	(0.2)	–	(0.2)	(0.2)	–	(0.2)
Share-based payment expense (including tax)	–	–	–	–	0.2	0.1	0.3	0.3	–	0.3
Dividends paid to Group shareholders	–	–	–	–	–	(34.4)	(34.4)	(34.4)	–	(34.4)
Dividends paid to minority interest	–	–	–	–	–	–	–	–	(1.9)	(1.9)
Transactions with minority interest (Toscana Ondulati SpA)	–	–	–	–	–	0.9	0.9	0.9	(0.9)	–
<b>Balance at 30 April 2009</b>	<b>39.3</b>	<b>263.1</b>	<b>2.7</b>	<b>27.4</b>	<b>(4.2)</b>	<b>129.7</b>	<b>125.5</b>	<b>458.0</b>	<b>(1.6)</b>	<b>456.4</b>

**23. CAPITAL AND RESERVES CONTINUED****Share capital**

	Number of shares		2009 £m	2008 £m
	2009 Millions	2008 Millions		
Ordinary equity shares of 10 pence each:				
Authorised	410.0	410.0	41.0	41.0
Issued, allotted, called up and fully paid	393.4	393.4	39.3	39.3

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In respect of the Company's shares that are held by the Group (see below), all rights are suspended until those shares are reissued. A reconciliation of the movement in share capital is given in note 9 to the Company balance sheet on page 105.

**Translation reserve**

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

**Hedging reserve**

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred. Refer to note 20(c) for further analysis of movements in the hedging reserve.

**Own shares**

The reserve for the Company's own shares comprises the cost of the Company's shares held by the Group. The Group operates a General Employee Benefit Trust, which acquires shares in the Company that can be used to satisfy the requirements of the Executive Share Option scheme, the Restricted Share Plan (discontinued in 2004) and the Long-Term Incentive Plan (established in 2004). At 30 April 2009, the Trust held 2.4m shares (2008: 2.4m shares). The market value of the shares at 30 April 2009 was £1.9m (2008: £3.1m). Dividends receivable on the shares owned by the Trust have been waived.

**Minority interests**

At the beginning of the year, the Group had a liability of £3.5m and a corresponding entry against minority interests in respect of the non-controlling shareholders' put option in Toscana Ondulati SpA. This amount was calculated with reference to the recent profitability of the company using a multiple based formula. The fair value of the put options increased during the year by £0.9m. This charge was recorded within finance costs through the income statement and then transferred out of retained earnings into minority interest.

**24. POST-RETIREMENT BENEFITS****Liability for defined benefit obligations**

The Group operates a funded, defined benefit scheme in the UK, the DS Smith Group Pension scheme ('the Group scheme'). In 2006/07 the Group operated a second funded, defined benefit scheme in the UK, the DS Smith Containers Pension scheme ('the Containers scheme'); the assets and liabilities of the Containers scheme were transferred to the Group scheme on 30 April 2007, with the effect that only the Group scheme operated from 1 May 2007. The Group made agreed annual contributions of £15.6m to the Group scheme in 2008/09 (2007/08: £14.6m). The Group operates various local pension arrangements for overseas operations and unfunded arrangements for senior executives: these are, in aggregate, not significant to the Group. The financial information given on pages 91 to 93 includes amounts related to these other arrangements, where appropriate. A charge over certain assets of the Group has been made as security for certain of the unfunded arrangements. The most recent actuarial valuation of the Group scheme was as at 30 April 2007, which has been updated to 30 April 2009 by a qualified independent actuary. All UK valuations used the projected unit method. The Group scheme is closed to new entrants. Because of this, the average age of the active members is likely to increase at future valuations and this may lead to an increasing current service contribution rate; this may be offset by a falling total pensionable salary resulting from leavers and retirements.

## 24. POST-RETIREMENT BENEFITS CONTINUED

### Liability for defined benefit obligations

Principal actuarial assumptions are as follows:

	2009 %	2008 %	2007 %	2006 %
Discount rate for scheme liabilities	<b>6.4%</b>	5.9%	5.4%	5.1%
Inflation	<b>3.3%</b>	3.5%	2.9%	2.7%
Future salary increases	<b>4.3%</b>	4.5%	3.9%	3.7%
Future pension increases for pre 30 April 2005 service	<b>3.3%</b>	3.5%	2.9%	2.7%
Future pension increases for post 30 April 2005 service	<b>2.3%</b>	2.3%	2.3%	2.3%

The sensitivity of the liabilities and annual service costs in the main UK scheme to the key assumptions above is summarised below:

	Increase in pension liability £m	Increase in service costs £m
0.5% decrease in discount rate	(60.0)	(1.5)
0.5% increase in inflation	(60.0)	(0.9)
1 year increase in life expectancy	(20.0)	(0.3)

Future mortality is the most significant demographic assumption. The basic mortality table used by the Group at 30 April 2009 is PMA92/PFA92 (30 April 2008: PMA92/PFA92) with medium cohort mortality improvement. This means the mortality rates assumed for members of a particular age differ from those for members who will reach that age in the future. Studies have illustrated that the amount of pension, the location of employees and the nature of their work are significant factors on mortality. As a result, the basic mortality table rates are based on ages two years older than the members' actual age for non-pensioners and three years older for pensioners.

The current life expectancies (in years) are:

	2009		2008	
	Male	Female	Male	Female
<b>Life expectancy at age 65</b>				
Pensioner currently aged 65	<b>19.5</b>	<b>22.3</b>	19.4	22.2
Member currently aged 45	<b>21.3</b>	<b>24.1</b>	21.3	24.0

The amounts recognised in the balance sheet in respect of post-retirement benefits, and the expected long-term rates of return applied to the schemes' assets in the relevant financial period, are as follows:

	2009		2008		2007		2006	
	Expected rate of return %	Market value £m	Expected rate of return %	Market value £m	Expected rate of return %	Market value £m	Expected rate of return %	Market value £m
Equities	<b>7.4%</b>	<b>349.8</b>	7.6%	490.8	7.4%	527.1	7.5%	524.5
Bonds, gilts and cash (weighted average)	<b>5.1%</b>	<b>205.5</b>	4.4%	231.0	4.1%	210.8	4.3%	181.6
Total market value of assets		<b>555.3</b>		721.8		737.9		706.1
Present value of schemes' liabilities		<b>(746.6)</b>		(797.7)		(756.5)		(756.4)
<b>Deficit in the schemes</b>		<b>(191.3)</b>		(75.9)		(18.6)		(50.3)
Related deferred tax asset		<b>53.3</b>		21.4		5.6		15.0
<b>Net pension liability</b>		<b>(138.0)</b>		(54.5)		(13.0)		(35.3)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 24. POST-RETIREMENT BENEFITS CONTINUED

## Movements in the liability for defined benefit schemes' obligations recognised in the consolidated balance sheet

	2009 £m	2008 £m	2007 £m	2006 £m
Schemes' liabilities at 1 May	(797.7)	(756.5)	(756.4)	(674.1)
Employment benefit finance expense	(46.4)	(40.1)	(38.1)	(35.2)
Expense recognised in the income statement	(11.7)	(9.8)	(10.9)	(11.4)
Member contributions	(6.2)	(6.4)	(6.9)	(6.8)
Curtailments	-	-	-	3.3
Pension payments	31.6	28.0	31.3	24.2
Payments to the Pension Protection Fund	1.5	-	0.1	-
Actuarial gains and (losses) recognised in the consolidated statement of recognised income and expense	84.0	(10.8)	24.2	(56.4)
Effect of movements in foreign exchange	(1.7)	(2.1)	0.2	-
<b>Schemes' liabilities at 30 April</b>	<b>(746.6)</b>	<b>(797.7)</b>	<b>(756.5)</b>	<b>(756.4)</b>

## Movements in the fair value of defined benefit schemes' assets recognised in the consolidated balance sheet

	2009 £m	2008 £m	2007 £m	2006 £m
Schemes' assets at 1 May	721.8	737.9	706.1	559.3
Employer contributions	16.9	16.8	17.3	16.8
Member contributions	6.2	6.4	6.9	6.8
Other contributions	-	0.7	-	-
Expected return on schemes' assets	47.9	48.9	46.1	36.4
Actuarial gains and (losses) recognised in the consolidated statement of recognised income and expense	(207.4)	(62.2)	(7.2)	110.8
Pension payments	(31.4)	(27.8)	(31.2)	(24.0)
Effect of movements in foreign exchange	1.3	1.1	(0.1)	-
<b>Schemes' assets at 30 April</b>	<b>555.3</b>	<b>721.8</b>	<b>737.9</b>	<b>706.1</b>

## Expense recognised in the consolidated income statement

	2009 £m	2008 £m	2007 £m	2006 £m
Current service cost	(9.7)	(8.3)	(9.3)	(11.1)
Past service cost	(0.8)	(1.1)	(1.5)	(0.3)
Pension Protection Fund levy	(1.2)	(0.4)	(0.1)	-
<b>Total service cost</b>	<b>(11.7)</b>	<b>(9.8)</b>	<b>(10.9)</b>	<b>(11.4)</b>
Interest on schemes' liabilities	(46.4)	(40.1)	(38.1)	(35.2)
Expected return on schemes' assets	47.9	48.9	46.1	36.4
<b>Employment benefit net finance income</b>	<b>1.5</b>	<b>8.8</b>	<b>8.0</b>	<b>1.2</b>

## 24. POST-RETIREMENT BENEFITS CONTINUED

### Analysis of amounts recognised in the consolidated statement of recognised income and expense

	2009 £m	2008 £m	2007 £m	2006 £m
Actual return less expected return on pension schemes' assets	(207.4)	(62.2)	(7.2)	110.8
Experience gains and (losses) arising on schemes' liabilities	-	16.1	10.3	(17.9)
Changes in assumptions underlying present value of schemes' liabilities	84.0	(26.9)	13.9	(38.5)
<b>Actuarial (losses)/gains recognised in the consolidated statement of recognised income and expense</b>	<b>(123.4)</b>	<b>(73.0)</b>	<b>17.0</b>	<b>54.4</b>

### History of experience gains and losses

	2009 £m	2008 £m	2007 £m	2006 £m
Difference between expected and actual returns on schemes' assets	(207.4)	(62.2)	(7.2)	110.8
Above as a percentage of schemes' assets	(37)%	(9)%	(1)%	16%
Experience gains and (losses) arising on schemes' liabilities	-	16.1	10.3	(17.9)
Above as a percentage of the present value of schemes' liabilities	-	2%	1%	(2)%
Total amount recognised in the consolidated statement of recognised income and expense	(123.4)	(73.0)	17.0	54.4
Above as a percentage of the present value of schemes' liabilities	(17)%	(9)%	2%	7%

## 25. SHARE-BASED PAYMENT EXPENSE

The Group's share-based payment arrangements are as follows:

- (i) An Executive Share Option Scheme (ESOS) was operated for Executive Directors and other senior executives, this scheme ceased to be operated from September 2008. Approved and unapproved options were granted to UK and overseas executives on an annual basis. The vesting of any options granted under this Scheme is subject to the achievement of long-term performance conditions, being that the growth in the Company's normalised earnings per share must match or exceed the growth in the UK Retail Prices Index plus an average of 3% per annum over the three-year period following grant. The base financial year for the purposes of measuring earnings per share growth was the financial year prior to the grant date. Normally, no part of the option will vest unless the long-term performance conditions have been achieved and the vesting period of three years' service has been attained.
- (ii) In the past, Executive Directors and other senior executives received an award of shares in the Company equal in value to the participant's annual cash bonus, pursuant to a Restricted Share Plan (RSP). The award of these shares is dependent upon performance in the relevant financial year. There is a vesting period of three years' service. This scheme ceased to be operated from September 2004.
- (iii) In September 2004, the Group established a Long-Term Incentive Plan (LTIP), this scheme ceased to be operated from September 2008. The key features of the plan are that:
  - awards were made to selected Executive Directors and other senior executives over shares in the Company; performance will be measured over a single period of three financial years;
  - awards will vest based on the Company's total shareholder return (being the increase in share price and the value of reinvested dividends) compared to a comparator group of companies, being the constituents of the FTSE Mid 250 Index (excluding investment trusts) for initial awards;
  - if the Company's total shareholder return is ranked at the upper quartile of the comparator group or higher, the full award will vest, reducing on a straight-line basis to 30% of the award vesting for median performance. None of the award vests for below median performance; and
  - additionally, no awards will vest, irrespective of total shareholder return performance, unless the Company's earnings per share growth matches or exceeds the growth in the Retail Prices Index over the three-year period.
- (iv) A Deferred Share Bonus Plan (DSBP) is operated for Executive Directors. Shares awarded to Directors under the Plan will vest automatically if the Director is still employed by the Company three years after the grant of the award.
- (v) A Replacement Deferred Share Bonus Plan (RDSP) was introduced during 2007/08 for Mr S W Dryden. The shares awarded under the Plan replace similar deferred share awards granted to Mr Dryden by his previous employer.
- (vi) A Performance Share Plan (PSP) was approved during the year to replace the ESOS and LTIP plans above (see Remuneration Report for further details).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 25. SHARE-BASED PAYMENT EXPENSE CONTINUED

The key features of the PSP are as follows:

- awards are made to Executive Directors and other senior executives.
- the individual grant limit under the PSP is 150% of basic salary per annum (in exceptional circumstances this may be increased to 200% of basic salary). During the 2008/09 period Executive Directors received an award under the PSP of 150% of basic salary. The other most senior executives generally received a PSP award of 100% basic salary.
- the vesting of each 2008 award is subject to three equally weighted performance measures:
  - the Company's total shareholder return (TSR) compared to the constituents of the Industrial Goods and Services Supersector within the FTSE 250;
  - average adjusted earnings per share (EPS);
  - average adjusted return on average capital employed (ROACE).
- for those senior executives working in one of the four Business Segments, for 2008 the three measures are TSR of the Company, average adjusted operating profit and average adjusted ROACE for the relevant segment.
- future awards under the PSP will be subject to a combination of the same performance measures however the weightings of the measures may be altered and certain measures may not be used in all years.
- the 2009 award will be reduced to a maximum of 100% of basic salary and the award weightings will be as follows:
  - 80% each award will be based on a TSR component as per above; and
  - 20% of each award will be based on average adjusted ROACE.
- for those senior executives working in one of the four Business Segments, for 2009 the two measures are TSR and ROACE for the relevant segment.
- each award's performance will be measured over the three financial years commencing on 1 May preceding the award date.
- see the Remuneration Report on page 42 for a summary of threshold and upper targets for the 2008/09 and 2009/10 PSP awards.

The total number of options outstanding and exercisable under share arrangements as at 30 April 2009 was as follows:

	Options outstanding			Options exercisable		
	Number of shares	Option price range (p)	Weighted average remaining contract life (years)	Weighted average exercise price (p)	Number exercisable	Weighted average exercise price (p)
Executive Share Option Scheme (1992)	52,163	166.6	0.3	166.6	52,163	166.6
Executive Share Option Scheme (1999)	5,541,320	135.2-243.8	5.6	162.4	3,567,620	148.5
Restricted Share Plan	29,373	Nil	2.3	Nil	29,373	Nil
Long-Term Incentive Plan	1,943,348	Nil	0.7	Nil	Nil	Nil
Deferred Share Bonus Plan	222,595	Nil	1.9	Nil	Nil	Nil
Replacement Deferred Share Bonus Plan	113,178	Nil	1.5	Nil	Nil	Nil
Performance Share Plan	4,089,991	Nil	2.4	Nil	Nil	Nil

The effect on earnings per share of potentially dilutive shares issuable under share-based payment arrangements is shown in note 8.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Executive Share Option Scheme (1992)		Executive Share Option Scheme (1999)		Restricted Share Plan		Long-Term Incentive Plan	
	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)
<b>2009</b>								
Balance at 1 May 2008	172.0	218	161.7	6,790	Nil	54	Nil	3,588
Granted	Nil	-	Nil	-	Nil	-	Nil	-
Exercised	Nil	-	Nil	-	Nil	(25)	Nil	(56)
Lapsed	173.7	(165.4)	158.2	(1,249)	Nil	-	Nil	(1,589)
Balance at 30 April 2009	<b>166.6</b>	<b>53</b>	<b>162.4</b>	<b>5,541</b>	<b>Nil</b>	<b>29</b>	<b>Nil</b>	<b>1,943</b>
Exercisable at 30 April 2009	<b>166.6</b>	<b>53</b>	<b>148.5</b>	<b>3,568</b>	<b>Nil</b>	<b>29</b>	<b>Nil</b>	<b>Nil</b>

## 25. SHARE-BASED PAYMENT EXPENSE CONTINUED

	Deferred Share Bonus Plan		Replacement Deferred Share Bonus Plan		Performance Share Plan	
	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)
<b>2009 continued</b>						
Balance at 1 May 2008	Nil	69	Nil	143	Nil	–
Granted	Nil	153	Nil	–	Nil	4,090
Exercised	Nil	–	Nil	(30)	Nil	–
Lapsed	Nil	–	Nil	–	Nil	–
Balance at 30 April 2009	<b>Nil</b>	<b>222</b>	<b>Nil</b>	<b>113</b>	<b>Nil</b>	<b>4,090</b>
Exercisable at 30 April 2009	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>

	Executive Share Option Scheme (1992)		Executive Share Option Scheme (1999)		Restricted Share Plan		Long-Term Incentive Plan	
	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)
<b>2008</b>								
Balance at 1 May 2007	169.4	340	150.0	7,192	Nil	536	Nil	3,987
Granted	Nil	–	244.0	938	Nil	–	Nil	948
Exercised	164.8	(21)	148.2	(132)	Nil	482	Nil	(23)
Lapsed	164.8	(101)	157.6	(1,208)	Nil	–	Nil	(1,324)
Balance at 30 April 2008	172.0	218	161.7	6,790	Nil	54	Nil	3,588
Exercisable at 30 April 2008	172.0	218	146.4	126	Nil	54	Nil	Nil

	Deferred Bonus Plan		Replacement Deferred Share Bonus Plan	
	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)
<b>2008 continued</b>				
Balance at 1 May 2007	Nil	–	Nil	–
Granted	Nil	95	Nil	143
Exercised	Nil	–	Nil	–
Lapsed	Nil	(26)	Nil	–
Balance at 30 April 2008	Nil	69	Nil	143
Exercisable at 30 April 2008	Nil	Nil	Nil	Nil

The average share price of the Company during the financial year was 93.7 pence (2007/08: 205.4 pence).

**25. SHARE-BASED PAYMENT EXPENSE CONTINUED**

The total expense recognised as employee costs is as follows:

	<b>2009</b> <b>£m</b>	2008 £m
Share-based incentive awards granted in 2002/03	-	0.1
Share-based incentive awards granted in 2003/04	-	0.7
Share-based incentive awards granted in 2004/05	<b>(0.1)</b>	-
Share-based incentive awards granted in 2005/06	<b>0.2</b>	0.5
Share-based incentive awards granted in 2006/07	<b>(0.4)</b>	0.3
Share-based incentive awards granted in 2007/08	<b>0.2</b>	0.5
Share-based incentive awards granted in 2008/09	<b>0.4</b>	-
<b>Total expense recognised as employee costs</b>	<b>0.3</b>	2.1

The fair value of awards granted in the period relates to the PSP and the DSBP schemes. This is the first year of operation for the PSP scheme, accordingly there is no comparative information.

The fair value of the PSP award granted during the period determined using the stochastic valuation model, was £2.2m. The significant inputs into the model were share price of £1.24 for the PSP at the grant date; the exercise prices shown above; expected volatility of share price of 37.5%; scheme life disclosed above; annual risk-free interest rate of 4.2% and expected dividend yield of 7.1%. The volatility of share price returns measured as the standard deviation of expected share price returns is based on statistical analysis of average weekly share prices over a period of three years.

The significant input into the model for the DSBP plan was share price of £1.15 (2008: £2.37) at the grant date.

There were no grants for the LTIP or ESOS during the period as these plans ceased to be operated during the 2008/09 period.

The fair value of options granted during the 2008 period, determined using the stochastic valuation model, was £2.0m. The significant inputs into the model were: share price of £2.37 for LTIP, £2.44 for ESOS; exercise prices shown above; standard deviation of expected share price returns of 24.1% for LTIP and 26.6% for ESOS; options life disclosed above; annual risk-free interest rate of 5.5% for LTIP and 5.4% for ESOS; and expected dividend yield of 3.6% for LTIP and 3.5% for ESOS. The volatility of share price returns measured as the standard deviation of expected share price returns was based on statistical analysis of daily share prices over a period of three to six years.

## 26. CASH GENERATED FROM OPERATIONS

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 27. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2009 £m	2008 £m
Operating profit before exceptional items	94.0	119.6
Depreciation and amortisation	69.9	62.0
<b>EBITDA</b>	<b>163.9</b>	181.6
Working capital movement	30.8	13.2
Other	(11.1)	(9.2)
<b>Cash generated from operations before exceptional cash items</b>	<b>183.6</b>	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)
Net interest paid	(23.0)	(16.8)
Dividends received from associate	-	1.0
<b>Free cash flow before net (acquisitions)/disposals and dividends</b>	<b>59.9</b>	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)
<b>Net cash flow</b>	<b>5.2</b>	(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 (note 17)	(44.5)	(25.6)
<b>Net debt movement</b>	<b>(39.7)</b>	(70.6)
Opening net debt	(251.8)	(181.2)
<b>Closing net debt</b>	<b>(291.5)</b>	(251.8)

## 28. OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

	2009 £m	2008 £m
Less than one year	21.0	23.6
Between one and five years	58.9	65.7
More than five years	35.7	37.9
	<b>115.6</b>	127.2

Operating lease payments represent rentals payable by the Group for certain of its properties, machines, vehicles and office equipment.

As at 30 April 2009, the Group's future minimum sub-lease receipts totalled £1.1m (2008: £1.2m), of which: £0.2m (2008: £0.2m) falls within one year; £0.9m (2008: £0.8m) between one and five years; and £nil (2008: £0.2m) after five years.

## 29. CAPITAL COMMITMENTS

As at 30 April 2009, the Group had committed to incur capital expenditure of £2.9m (2008: £19.3m).

## 30. ACQUISITIONS AND DISPOSALS

### 2008/09

#### Vale Paper Limited

On 2 September 2008 the Group acquired the assets of Vale Paper Limited, a waste paper collection business in the UK, for a consideration of £1.2m. Further deferred consideration of £0.5m is due 18 months after the acquisition subject to certain performance measures being achieved.

### 2007/08

#### (a) New Thames and Grovehurst Energy

On 29 February 2008, the Group acquired 100% of the voting share capital of M-real New Thames Limited, which owned a paper mill in Kent, UK. On this date and also as part of the same acquisition, the Group acquired the balance of the voting share capital of its joint venture, Grovehurst Energy Limited, not already owned by the Group. Grovehurst Energy provides energy and other services to the site on which the New Thames Mill operates. The joint venture in Grovehurst Energy Limited was entered into in 1988 in connection with the Group's acquisition of the Kemsley Mill, which is adjacent to the New Thames Mill. The results of Grovehurst Energy have been consolidated as a subsidiary from 29 February 2008.

The impact on the Group's assets and liabilities was as follows:

	Carrying values before acquisition £m	Fair values £m
Intangible assets (EU emission allowances)	–	5.1
Property, plant and equipment	46.8	61.2
Inventories	3.0	3.0
Trade and other receivables	1.3	12.2
Trade and other payables	(2.5)	(3.9)
Provisions	–	(7.7)
Net assets acquired	48.6	69.9
Goodwill		–
Consideration		69.9

Consideration satisfied by:

Cash paid of £71.1m (including £1.1m of acquisition costs), being £67.4m in relation to New Thames and £3.7m for Grovehurst Energy, less cash and cash equivalents acquired of £1.2m.

The fair value adjustments relate to the valuation of surplus EU emission allowances received as part of the acquisition; the valuation of property, plant and equipment, as determined by an external valuation firm; recognition of a provision for an onerous service contract; and deferred and current tax assets recognised on acquisition. Deferred tax is also recognised on the temporary timing differences created by the fair value adjustments.

#### (b) Other acquisitions

On 4 March 2008, the Group acquired 100% of the voting equity instruments of Multigraphics Holdings Limited, a print and retail display business in the UK, for a consideration of £6.7m. The excess of the consideration over the fair value of net assets acquired of £3.1m, which includes an intangible asset of £2.6m recognised in relation to the value of the acquired order book (with an estimated useful life of ten years), has been recognised as goodwill in these consolidated financial statements.

During the year, further share capital in Toscana Ondulati SpA was acquired for £11.9m (see note 23).

On 30 September 2005, the Group acquired 100% of the voting share capital of Timmermans NV. During 2007/08, additional deferred consideration of £2.5m became due to the previous owners following the satisfaction of certain performance criteria of the acquired business.

## 31. RELATED PARTIES

### Identity of related parties

In the normal course of business the Group undertakes a wide variety of transactions with certain of its subsidiaries (see note 32) and associates (see note 12). The key management personnel of DS Smith Plc comprise the Chairman, Executive Directors and Non-Executive Directors. The compensation of key management personnel can be found in the Remuneration Report set out on pages 41 to 48 of the Annual Report. Certain key management also participate in the Group's share option programme (refer to note 25). Included within the share-based payment expense is a charge of £0.2m (2008: £0.7m) relating to key management.

### Other related party transactions

	2009 £m	2008 £m
Sales to associates and joint ventures	–	17.4
Purchases from associates and joint ventures	0.4	0.5

**32. DS SMITH GROUP COMPANIES****Control of the Group**

The Group's ultimate parent company is DS Smith Plc.

**List of key consolidated companies**

	Country of incorporation or registration	Ownership interest 2009
<b>UK Paper and Corrugated Packaging</b>		
St Regis Paper Company Limited	England	100%*
SRP New Thames Limited	England	100%*
A. A. Griggs and Company Limited	England	100%*
DS Smith Packaging Limited	England	100%*
<b>Continental European Corrugated Packaging</b>		
DS Smith Kaysersberg S.A.S.	France	100%*
DS Smith Polska S.A.	Poland	100%*
Toscana Ondulati SpA	Italy	92%*
DS Smith Çopikas AS	Turkey	100%*
<b>Plastic Packaging</b>		
DS Smith Plastics Limited	England	100%*
Cartón Plástico s.a.	Spain	100%*
DW Plastics NV	Belgium	100%*
Ducaplast S.A.S.	France	100%*
Demes Logistics GmbH & Co KG	Germany	100%*
David S. Smith America Inc.	USA	100%*
DSS Rapak Inc.	USA	100%*
StePac L.A. Limited	Israel	90%*
Rapak GmbH & Co KG Systemverpackungen	Germany	100%*
Rapak Asia Pacific Limited	New Zealand	100%*
<b>Office Products Wholesaling</b>		
Spicers Limited	England	100%*
Spicers (Ireland) Limited	Ireland	100%*
Spicers France SAS	France	100%*
Spicers NV	Belgium	100%*

\* indirectly held by DS Smith Plc

A complete list of the Group's companies is available from the registered office.

**33. SUBSEQUENT EVENTS**

No material events occurred after the balance sheet date that require disclosure.