CHAIRMAN'S STATEMENT

I am confident the Group will continue to manage the impact of the difficult trading environment.

In common with most manufacturing businesses, DS Smith saw its markets weaken during the course of our financial year. The pace of decline accelerated during the second half of the year, when we also faced growing pressure on prices. The demand for packaging materials for industrial customers and for plasterboard liner was especially affected. Reduced paper demand led to significant reductions in corrugated case material (CCM) prices on the continent, which in turn led to lower CCM prices in the UK.

The impact of these exceptionally difficult market conditions was mitigated by the continued implementation of the Group's strategy and management's decisive response to implement an action programme to reduce costs and conserve cash.

As set out in the Strategy section on pages 10 and 11, management has refocused the business over recent years. The Group is now a net consumer of CCM. The major markets for its corrugated boxes are for the fast-moving consumer goods sector, where it has established a leading position in the supply of retail-ready packaging. It has focused on innovation in both products and services, in particular, linked to its expertise in recycling and solving customers' packaging problems.

As a result, although adjusted operating profit of £94.0 million (2007/08: £119.6 million) and adjusted earnings per share of 12.6 pence (2007/08: 19.9 pence) were down on the previous record year, these results reflect a robust performance in such difficult market conditions.

Management reacted swiftly to the changing market. Early in the financial year they renegotiated the Group's major borrowing facilities, extending repayment terms at limited cost. In December, they announced a comprehensive programme to reduce costs and conserve cash that will result in savings of over £26 million a year. The programme to control working capital was further strengthened during the year such that, despite the capital expenditure to convert the newly acquired paper machine at Kemsley, and the cash costs arising from the action programme, the Group remained cash generative. Free cash flow, before dividends, exceptional items and net acquisitions, was £59.9 million (2007/08: £84.8 million).

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

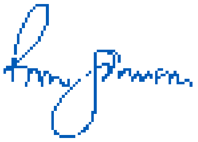
The financial and operational performance of the Group during the year are set out fully in the following reports, together with an assessment of the risks facing the Group, its performance on environmental and other matters of corporate responsibility and reports on the Audit and Remuneration Committees. During these difficult times, the Board has maintained a strong focus on identifying and managing risks, ensuring the Group's financial position remains strong and on ensuring it is well placed, financially and operationally, to benefit from recovery in our markets, whenever that might happen. An increased focus was placed on ensuring the business strategy was clear and being implemented as well as on shorter-term financial strength. The strategies for our businesses are set out in this report. The Board continues to keep the composition of the Group under review.

The Nomination Committee reviews longer-term succession plans both for the senior Executive team and for the Board. There were no Board changes during 2008/09. However, with effect from 16 June 2009, George Adams was appointed Divisional Chief Executive of Spicers, our Office Products Wholesaling division, and as a result stood down from the DS Smith Plc Board when his appointment was confirmed on 26 May 2009. George had served as a most effective Non-Executive Director of DS Smith from 29 January 2008 and I would like to thank him for his contribution.

Jonathan Nicholls will join the Board of DS Smith Plc as a Non-Executive Director with effect from 1 December 2009. Jonathan has considerable Board level experience, including having been Group Finance Director of Hanson Plc and, most recently, Group Finance Director of Old Mutual Plc and we look forward to his contribution.

Richard Marton will retire from the Board on 31 August 2009 having served DS Smith Plc as a Non-Executive Director since 13 March 2000. Richard has made an outstanding contribution during his time in office and I thank him for his sound advice and wise counsel.

On behalf of the Board, I thank all our colleagues across the world for their ongoing efforts and commitment. The trading environment in the year ahead is likely to prove at least as challenging as was the financial year being reported on. I am confident the Group will continue to manage the impact of this difficult environment, benefiting from its strong market positions and the results of its action programme.



PETER JOHNSON
Chairman

CHIEF EXECUTIVE'S REVIEW

SUMMARY OF THE YEAR

GROUP

- Adjusted profits down: a robust performance given the economic conditions
- Strong cash flow
- Significant restructuring under way
- Full-year dividend reduced

PACKAGING

- Successful modification and start-up of our machine producing lightweight CCM at Kemsley
- Weaker demand affected all our markets
- UK Paper and Corrugated Packaging results were impacted by the fall in CCM prices
- Strong performance in continental Europe

OFFICE PRODUCTS WHOLESALING

- Slow-down in demand across Europe
- UK – reinforced position but margins under pressure
- Continental Europe – good performance, particularly in Germany and Italy

ASSOCIATE

- Exceptional charge taken to impair fully the carrying value of Rubezhansk

We have taken action aimed at underpinning the Group's future results in these challenging trading conditions.

In 2008/09, the Group's results were significantly affected by an external environment that worsened as the year progressed. Adjusted operating profit at £94.0 million was 21.4% lower than in the previous year. All our business segments felt the impact of lower demand for their products and services as a result of the general contraction in economic activity. This weakening of demand gathered pace in the second half of our financial year.

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

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

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

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

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

CHIEF EXECUTIVE'S REVIEW CONTINUED

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

OPERATING OVERVIEW

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

PACKAGING

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

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

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

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

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

UK Paper and Corrugated Packaging

In 2008/09, the UK Paper and Corrugated Packaging segment, which accounted for 37.3% of Group revenue and 54.0% of Group average capital employed, reported a slight increase in revenue to £785.8 million (2007/08: £753.2 million). Revenue benefited from a tolling contract with the previous owner of the New Thames Mill. This revenue supported the fixed costs of the site during the period when the mill was being converted to produce lightweight CCM. Operating profit was lower at £36.5 million (2007/08: £68.5 million), primarily due to reduced sales volumes, the reduction in CCM prices and a weaker paper sales mix during the second half of the year.

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

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

Our UK box business produced a good result in a market that weakened considerably in the second half of the year. Our emphasis on the FMCG sector and higher value-added products assisted our performance significantly, when compared to the UK corrugated industry as a whole.

Continental European Corrugated Packaging

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

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

Plastic Packaging

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

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

OFFICE PRODUCTS WHOLESALING

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

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

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

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

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

STRATEGY

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

Each activity has a well-established strategy. The key elements of these strategies are described in detail on pages 10 and 11. We believe that progress in the implementation of these strategies has contributed to our robust performance in 2008/09. In addition, in the current difficult economic environment, we believe our strategies have established a strong base from which we can develop further when activity levels improve.

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

OUR PEOPLE

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

OUTLOOK

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

TONY THORNE
Group Chief Executive