

We believe that progress in the implementation of our strategy has contributed to our robust performance in 2008/09.

GROUP STRATEGY

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

Each activity has a well-established strategy. The key elements of these strategies are outlined below. We believe that progress in implementation has contributed to our robust performance in 2008/09. This progress has included the development of our recycling business, the enlargement of our corrugated box business, particularly through growth in products for the fast-moving consumer goods (FMCG) sector, and the continued development of our Office Products Wholesaling operations in continental Europe.

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. In the short term, we will focus on maximising returns from our existing strong market positions, cost reduction and cash conservation. Capital investment will be limited, highly selective and focused on optimising our current asset base. We will exit businesses that are non-core, or are not expected to meet our financial objectives through the industry cycle.

PACKAGING STRATEGY

Our strategy is to:

- enhance our leadership position in cost-efficient supply chain solutions across our chosen geographies, particularly in relation to retail-ready packaging, decorative promotional packaging for the retail market and heavy-duty packaging for the industrial segments;
- increase our leadership position across the supply chain in the UK and to build strong businesses in selected continental European countries, concentrating on the production and marketing of corrugated packaging;
- provide a range of innovative and cost-efficient returnable transit packaging (RTP) solutions for selected industrial and retail market segments;
- be a high specification, low-cost supplier of corrugated case material (CCM) for the packaging industry and plasterboard liner for the construction industry; and
- extend our recycling capability to ensure that we have a cost-effective supply of waste paper for our paper operations and a market-leading recycling business.

Our strategic goals are:

- to be recognised as a leader in transit packaging solutions and promotional packaging, concentrated on corrugated and plastic packaging;
- to be an overall net purchaser of CCM; in the UK, however, to be a strong net supplier of CCM; and
- to safeguard the supply and minimise the cost to our paper-making operations of their key raw material by managing a total quantity of waste paper greater than is used internally; the balance being sold to other users.

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

- Severnside is the UK's leading collector and processor of waste paper.
- St Regis is the leading and most cost-competitive UK producer of CCM. The recent commissioning of a machine to make lightweight CCM completes our range of packaging papers and gives us a high specification product in a growth sector of the market. Despite the significant volumes of CCM used in our UK corrugated business, we remain a net CCM supplier in the UK. Additionally, we are a leader in the supply of top quality plasterboard liner to the European construction industry.
- DS Smith Packaging is the UK market leader in the production and marketing of corrugated packaging. We will continue to increase our capability to supply the FMCG sector of the market, which is more resilient than the industrial sector.

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

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

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

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

Our financial objective in Packaging remains to generate an adjusted return on average capital employed over the business cycle in excess of the Group's pre-tax weighted average cost of capital, which we estimate to be 11.8%. Due to the prevailing market conditions we are currently well below this target. We believe that the actions we have planned, and those we have currently under way, will ensure we are well placed to meet our financial objectives when the economy improves.

OFFICE PRODUCTS WHOLESALING

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

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

Our longer-term financial objective for Office Products Wholesaling is to generate a return on average capital employed in excess of 20%.

FINANCIAL OBJECTIVES

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

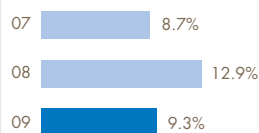
We measure the financial success of our strategy using the financial key performance indicators (KPIs) described below. Our performance in 2008/09 was significantly affected by the deterioration in trading conditions. Our action plans are designed to improve the Group's performance against these KPIs within the context of the economic and industry cycles.

OUR KEY PERFORMANCE INDICATORS

ADJUSTED RETURN ON AVERAGE CAPITAL EMPLOYED

Target: to achieve an adjusted return on average capital employed over the business cycle that is comfortably in excess of the Group's weighted average cost of capital, which we estimate to be 11.8% (before tax).

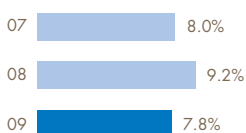
Definition: operating profit before exceptional items divided by average capital employed, expressed as a percentage.



ADJUSTED EBITDA MARGIN

Target: to generate an adjusted EBITDA margin which enables us to grow our dividend while providing funds for development.

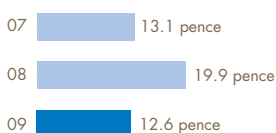
Definition: earnings before interest, tax, depreciation, amortisation and exceptional items divided by revenue, expressed as a percentage.



ADJUSTED EARNINGS PER SHARE

Target: to achieve an improved adjusted earnings per share between one business cycle and the next.

Definition: net profit attributable to shareholders before exceptional items divided by the weighted average number of shares outstanding (see note 8 on page 69).



NET DEBT/ADJUSTED EBITDA

Target: to maintain a healthy balance sheet, sufficient to support our dividend through the business cycle.

Definition: net debt divided by earnings before interest, tax, depreciation, amortisation and exceptional items.

