

13 October 2005

DS SMITH PLC RESTATEMENT OF 2004/05 FINANCIAL INFORMATION UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

DS Smith Plc today releases information about the restatement under IFRS of its financial statements for the year ended 30 April 2005 and the six months ended 31 October 2004. These restated 2004/05 financial statements will form the comparative figures in the 2005/06 financial statements.

DS Smith's underlying business and cash flows are unaffected by IFRS. As the Group adopted FRS 17 for pension accounting in 2004/05 (DS Smith Plc's adoption of FRS 17 is consistent in all material aspects with its adoption of IAS 19 (Amended), which governs pensions accounting under IFRS), what otherwise would have been the major effect of adopting IFRS has already been reported in the UK GAAP accounts; the further changes described in this release are therefore limited. The primary changes to the Group's reported 2004/05 financial information following the adoption of IFRS are:

- the ending of goodwill amortisation
- the recognition of an expense for share-based payments
- the statement of the Group's share of the associates' results after interest and tax
- the recognition of dividends only after they have been declared
- the recording of deferred tax liabilities for temporary timing differences that were not recognised under UK GAAP.

The format of the financial statements and the disclosures presentation will be different under IFRS but the underlying information presented about the Group's financial performance and position will not change materially. The most significant presentational difference is the disclosure of the Group's paper and corrugated businesses under two key geographical segments. The Group's borrowings arrangements are unaffected. Dividend policy and the ability to pay dividends are also unaffected.

Under UK GAAP, the Group reported its result on an unadjusted basis, which included the amortisation of goodwill (2004/05: amortisation of £8.8m). When the result was presented on an adjusted basis, this amortisation was excluded. Under IFRS, this goodwill will not be amortised and the Group's unadjusted result will improve accordingly.

Under UK GAAP, intellectual property intangible assets were amortised (2004/05: amortisation of £0.6m). When the result was presented on an adjusted basis, this amortisation was excluded. Under IFRS, this amortisation will continue. However, because the amortisation of intellectual property is not significant, this amortisation will not be adjusted for in any re-presentation of the results that adjusts for other items, such as the presentation of the IFRS result before exceptional items in the table below.

The effect of IFRS on key financial performance measures is as follows:-

	Full Year to 30 April 2005	Full Year to 30 April 2005	Change	Half Year to 31 October 2004	Half Year to 31 October 2004	Change
	UK GAAP	IFRS		UK GAAP	IFRS	
Revenue	£1,624.9m	£1,624.9m	-	£800.1m	£800.1m	-
Profit before tax	£57.1m	£64.3m	+\$7.2m	£32.6m	£37.4m	+\$4.8m
Adjusted* profit before tax	£76.1m	£73.9m	-\$2.2m	£37.3m	£37.4m	+\$0.1m
Basic earnings per share	10.1p	12.2p	+2.1p	6.0p	7.3p	+1.3p
Adjusted* earnings per share	14.7p	14.4p	-0.3p	7.2p	7.3p	+0.1p
Free cash inflow before dividends and acquisitions	£55.4m	£55.8m	+\$0.4m [†]	£26.0m	£26.5m	+\$0.5m [†]
Net assets	£490.1m	£519.8m	+\$29.7m	£515.5m	£529.9m	+\$14.4m
Full year dividend per share	8.4p	8.4p	-	2.6p	2.6p	-

*Adjusted profit before tax and adjusted earnings per share are presented above (i) for UK GAAP numbers, before exceptional items and amortisation of intangibles and (ii) for IFRS, before exceptional items. Exceptional items are defined in section 7.(c) of the IFRS Restatement Report.

[†]Change due to inclusion of share of joint venture's cash flow, not a change in the Group's own cash flows.

Segmental Analysis

The presentation of revenue and operating profit under the IFRS segments is shown in the table below. Previously under UK GAAP, the UK Paper and Corrugated Packaging and Continental European Corrugated Packaging segments were presented as a single Paper and Corrugated Packaging segment. Further segmental information is given in section 4.7 of the IFRS Restatement Report.

	UK Paper and Corrugated Packaging	Continental European Corrugated Packaging	Plastic Packaging	Office Products Wholesaling	Other Operations	Total
	£m	£m	£m	£m	£m	£m
<u>Six months to 31 October 2004</u>						
Revenue	312.7	131.5	99.9	240.0	16.0	800.1
Operating profit	19.8	9.9	6.2	6.9	(0.2)	42.6
[no exceptional items during the period]						
<u>Year ended 30 April 2005</u>						
Revenue	631.2	265.7	195.9	499.7	32.4	1,624.9
Group operating profit before exceptional items	31.6	20.2	9.3	21.5	-	82.6
Exceptional operating items	(4.9)	-	(5.8)	-	-	(10.7)
Operating profit	26.7	20.2	3.5	21.5	-	71.9

Financial Instruments

The effect of the adoption of IAS 32, 'Financial Instruments: Disclosure and Presentation', and IAS 39, 'Financial Instruments: Recognition and Measurement', as shown in section 8 of the IFRS Restatement Report, is to reduce the Group's net assets at 1 May 2005 by £1.5m (after tax). The Group has designated substantially all of its derivative financial instruments as hedges and believes that the following are unlikely to have a significant effect on the future income statement: (a) hedge ineffectiveness; and (b) movements in the fair value of any financial instruments that cannot be designated as hedges under IAS 39.

Basis of Preparation

This restatement has been prepared taking into account all International Financial Reporting Standards ('IFRSs'), including International Accounting Standards ('IASs') and interpretations issued by the International Accounting Standards Board ('IASB') and its committees. These IFRSs are subject to ongoing amendment by the IASB and subsequent endorsement by the European Commission and are therefore subject to possible change. Further changes may therefore be required to the information presented in the IFRS Restatement Report before it is published as comparative information in the 2006 Annual Report and Accounts.



DS SMITH PLC – IFRS RESTATEMENT REPORT

FINANCIAL INFORMATION

ON THE TRANSITION TO

INTERNATIONAL FINANCIAL REPORTING STANDARDS

13 OCTOBER 2005

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1. Introduction

DS Smith Plc has, for the accounting periods up to and including 30 April 2005, prepared its consolidated financial statements under UK Generally Accepted Accounting Principles (UK GAAP). From 1 May 2005, the Group is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). The first published results under IFRS will be the interim results for the six months ending 31 October 2005 and the first IFRS annual report will be for the year ending 30 April 2006. As comparative figures are provided, the effective date for transition to IFRS is 1 May 2004.

This announcement explains how the Group's previously reported UK GAAP financial performance and position are reported under IFRS. It includes:

- a summary of the basis of preparation of the IFRS information;
- a summary of the effect of adopting IFRS;
- restated Income Statements, Statements of Recognised Income and Expense, Balance Sheets, Statements of Changes in Equity, Cash Flow Statements and Segmental Analysis for the 6 months ended 31 October 2004 and the year ended 30 April 2005;
- reconciliations of Profit and Equity for those periods;
- an explanation of the IFRS adjustments;
- a summary of the Group's IFRS accounting policies used in the restatement; and
- the Group's Balance Sheet as at 1 May 2005 following adoption of IAS 32 and 39.

DS Smith's underlying business and cash flows are unaffected by IFRS. IFRS does not affect the Group strategy or commercial decision making. Dividend policy and ability to pay dividends remain unchanged and banking arrangements are not affected.

2. Basis of preparation

The restated financial information has been prepared on the basis of the accounting policies that are expected to be followed when the Group produces its first IFRS financial statements for the year ended 30 April 2006. These accounting policies are in accordance with IFRSs published as at 1 January 2005 as endorsed by the EU, with the exception of IAS 19, 'Employee Benefits'. It has been assumed that IAS 19 (Amended) will be adopted by the EU in sufficient time that it will be available for use in the annual financial statements for the period ending 30 April 2006. However, these standards may be subject to interpretive guidance issued by the International Financial Reporting Interpretations Committee ('IFRIC'), and best practice regarding the interpretation and application of IFRS continues to develop. New standards may also be issued by the International Accounting Standards Board ('IASB') for adoption for financial years beginning on or after 1 January 2005. Any or all of these factors could impact upon the 2006 Annual Report and Accounts.

Transitional arrangements

IFRS 1, 'First-time Adoption of International Financial Reporting Standards', sets out the procedures that the Group must follow when it adopts IFRS for the first time. The Group is required to establish its IFRS accounting policies for the year ending 30 April 2006 and in general to apply these retrospectively to determine the IFRS opening balance sheet at its date of transition, 1 May 2004 ('the transition date') and for the comparative year ended 30 April 2005.

IFRS 1 permits those companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS on the transition from UK GAAP to IFRS, as from 1 May 2004. DS Smith has taken the following key exemptions:

- (i) business combinations: the Group has chosen not to apply IFRS 3 retrospectively to business combinations that took place before the transition date of 1 May 2004;
- (ii) employee benefits (IAS 19 (Amended)): all cumulative actuarial gains and losses have been recognised in equity at the transition date. This approach is taken on the basis that IAS 19 (Amended) will be endorsed by the European Commission;
- (iii) share-based payments: the Group has chosen to apply IFRS 2, 'Share-based Payment', only to awards made after 7 November 2002;
- (iv) financial instruments: the Group has taken the exemption not to restate comparatives for IAS 32, 'Financial Instruments: Disclosure and Presentation', and IAS 39, 'Financial Instruments: Recognition and Measurement'. As a result, the comparative information in respect of financial statements in this restatement and the comparative information in the 2005/06 financial statements will be presented on the existing UK GAAP basis. The effect of the adoption of IAS 32 and IAS 39 at 1 May 2005 is set out in section 8 below;
- (v) cumulative translation differences: the Group has adopted the exemption allowing cumulative translation differences to be reset to zero at the transition date; and
- (vi) fair value or revaluation at deemed cost: previous fixed asset revaluations prior to the transition date have been taken as deemed cost.

3. Summary of the effect of adopting IFRS

As the Group adopted FRS 17 for pension accounting in 2004/05 (DS Smith Plc's adoption of FRS 17 is consistent in all material aspects with its adoption of IAS 19 (Amended), which governs pensions accounting under IFRS), what otherwise would have been the major effect of adopting IFRS has already been reported in the UK GAAP accounts; the further changes described below are therefore limited. The most significant changes for the Group in its financial statements for 2005 following the adoption of IFRS are:

- changes in presentation and disclosure (IAS 1);
- segmental reporting (IAS 14)
- the ending of goodwill amortisation (IFRS 3);
- the recognition of an expense for share-based payments (IFRS 2) (the future effect of share-based payment accounting will be somewhat greater than in the 2004/05 year, as explained in section 6.(d));
- the statement of the Group's share of the associates' results after interest and tax (IAS 1);
- the recognition of additional deferred tax liabilities on historical temporary differences, with a consequent effect in the income statement as any deferred tax raised will reverse when the underlying book to tax temporary difference is amortised (IAS 12); and
- the recognition of dividends only after they have been declared. (IAS 10)

Under UK GAAP, the Group reported its result on an unadjusted basis, which included the amortisation of goodwill (2004/05: amortisation of £8.8m). When the result was presented on an adjusted basis, this amortisation was excluded. Under IFRS, this goodwill will not be amortised and the Group's unadjusted result will improve accordingly.

Under UK GAAP, intellectual property intangible assets were amortised (2004/05: amortisation of £0.6m). When the result was presented on an adjusted basis, this amortisation was excluded. Under IFRS, this amortisation will continue. However, because the amortisation of intellectual property is not significant, this amortisation will not be adjusted for in any re-presentation of the results that adjusts for other items, such as the presentation of the IFRS result before exceptional items in the table below.

These are explained in the following sections.

The effect of IFRS on key performance measures is as follows:-

	Full Year to 30 April 2005	Full Year to 30 April 2005	Change	Half Year to 31 October 2004	Half Year to 31 October 2004	Change
	UK GAAP	IFRS		UK GAAP	IFRS	
Revenue	£1,624.9m	£1,624.9m	-	£800.1m	£800.1m	-
Profit before tax	£57.1m	£64.3m	+\$7.2m	£32.6m	£37.4m	+\$4.8m
Adjusted* profit before tax	£76.1m	£73.9m	-\$2.2m	£37.3m	£37.4m	+\$0.1m
Basic earnings per share	10.1p	12.2p	+2.1p	6.0p	7.3p	+1.3p
Adjusted* earnings per share	14.7p	14.4p	-0.3p	7.2p	7.3p	+0.1p
Free cash inflow before dividends and acquisitions	£55.4m	£55.8m	+\$0.4m [†]	£26.0m	£26.5m	+\$0.5m [†]
Net assets	£490.1m	£519.8m	+\$29.7m	£515.5m	£529.9m	+\$14.4m
Full year dividend per share	8.4p	8.4p	-	2.6p	2.6p	-

* Adjusted profit before tax and adjusted earnings per share are presented above (i) for UK GAAP numbers, before exceptional items and amortisation of intangibles and (ii) for IFRS, before exceptional items. Exceptional items are defined in section 7.(c) of this restatement report.

†Change due to inclusion of share of joint venture's cash flow, not a change in the Group's own cash flows.

Financial Instruments

The effect of the adoption of IAS 32, 'Financial Instruments: Disclosure and Presentation', and IAS 39, 'Financial Instruments: Recognition and Measurement', as shown in section 8 of this restatement report, is to reduce the Group's net assets at 1 May 2005 by £1.5m (after tax). The Group has designated substantially all of its derivative financial instruments as hedges and believes that the following are unlikely to have a significant effect on the future income statement: (a) hedge ineffectiveness; and (b) movements in the fair value of any financial instruments that cannot be designated as hedges under IAS 39.

4.1
DS Smith Plc
Group Income Statement

	Six months to 31 October 2004 (IFRS restated) £m	Year to 30 April 2005 (IFRS restated) £m
Revenue	<u>800.1</u>	<u>1,624.9</u>
Group operating profit		
Before exceptional items	42.6	82.6
Exceptional operating items [see section 6.(k)]	<u>-</u>	<u>(10.7)</u>
Operating profit	42.6	71.9
Net interest expense	<u>(6.8)</u>	<u>(13.2)</u>
Employment benefit finance income	0.5	1.1
Net finance expense	<u>(6.3)</u>	<u>(12.1)</u>
Profit after financing costs	36.3	59.8
Share of profit of associates	1.1	3.4
Exceptional item - reversal of previous impairment of associate [see section 6.(k)]	<u>-</u>	<u>1.1</u>
Profit before income tax	37.4	64.3
Income tax expense	<u>(9.1)</u>	<u>(16.2)</u>
Profit for the financial period	<u>28.3</u>	<u>48.1</u>
Profit for the financial period attributable to:		
Equity holders of the parent	28.1	47.1
Minority interest [see section 6.(i)]	<u>0.2</u>	<u>1.0</u>
	<u>28.3</u>	<u>48.1</u>
Basic earnings per share (pence)	7.3p	12.2p
Diluted earnings per share (pence)	7.2p	12.1p

4.2

DS Smith Plc

Group Statement of Recognised Income and Expense

	Six months to 31 October 2004 (IFRS restated) £m	Year to 30 April 2005 (IFRS restated) £m
Actuarial losses on defined benefit pension schemes	-	(31.2)
Movements on deferred tax relating to the actuarial gains	-	9.5
Exchange differences on foreign currency net investments	3.5	(0.3)
Net expense recognised directly in equity	3.5	(22.0)
Profit for the financial period	28.3	48.1
Total recognised income and expense relating to the financial period	31.8	26.1
Attributable to:		
Equity holders of the parent	31.6	25.1
Minority interest	0.2	1.0
	31.8	26.1

4.3

DS Smith Plc Group Balance Sheet

	31 October 2004 (IFRS restated) £m	30 April 2005 (IFRS restated) £m
ASSETS		
Non-current assets		
Property, plant and equipment	563.5	559.3
Intangible assets	196.8	190.9
Investments in associates	22.0	22.1
Other investments	10.3	10.1
Deferred tax assets	24.2	35.6
Other receivables	16.4	1.0
Total non-current assets	833.2	819.0
Current assets		
Inventories	156.1	161.7
Other investments	21.3	28.4
Income tax receivable	1.0	1.0
Trade and other receivables	348.9	358.4
Cash and cash equivalents	42.3	30.4
Total current assets	569.6	579.9
Total assets	1,402.8	1,398.9
LIABILITIES		
Non-current liabilities		
Interest-bearing loans and borrowings	(320.2)	(294.1)
Employee benefits	(83.2)	(114.8)
Other creditors	(1.9)	(2.4)
Provisions	(0.6)	(7.2)
Deferred tax liabilities	(73.9)	(78.7)
Total non-current liabilities	(479.8)	(497.2)
Current liabilities		
Bank overdrafts	(19.5)	(17.6)
Interest-bearing loans and borrowings	(11.7)	(7.8)
Trade and other payables	(326.0)	(335.5)
Income tax liabilities	(25.3)	(18.7)
Provisions	(10.6)	(2.3)
Total current liabilities	(393.1)	(381.9)
Total liabilities	(872.9)	(879.1)
NET ASSETS	529.9	519.8
EQUITY		
Issued capital	38.7	38.9
Share premium	254.7	257.0
Reserves	12.0	7.7
Retained earnings	216.6	207.9
Total equity attributable to equity holders of the parent	522.0	511.5
Minority interests	7.9	8.3
Total equity	529.9	519.8

4.4 DS Smith Plc Group Statement of Changes in Equity

	Attributable to equity shareholders of DS Smith Plc									
	Share capital £m	Share premium £m	Revaluation reserve £m	Fair value and other reserves £m	Retained earnings			Total attributable to equity shareholders £m	Minority interests £m	Total equity £m
					Own shares £m	Other £m	Total £m			
At 1 May 2004	38.7	254.6	8.5		(2.8)	214.6	211.8	513.6	7.3	520.9
Exchange differences on foreign currency net investments				3.5				3.5		3.5
Share-based payments						0.5	0.5	0.5		0.5
Profit for the period						28.1	28.1	28.1	0.2	28.3
Dividends						(21.7)	(21.7)	(21.7)		(21.7)
New share capital issued		0.1					-	0.1		0.1
Share trust arrangements					(2.1)		(2.1)	(2.1)		(2.1)
Exchange differences on minority interests									0.4	0.4
At 31 October 2004	38.7	254.7	8.5	3.5	(4.9)	221.5	216.6	522.0	7.9	529.9

	Attributable to equity shareholders of DS Smith Plc									
	Share capital £m	Share premium £m	Revaluation reserve £m	Fair value and other reserves £m	Retained earnings			Total attributable to equity shareholders £m	Minority interests £m	Total equity £m
					Own shares £m	Other £m	Total £m			
At 1 May 2004	38.7	254.6	8.5		(2.8)	214.6	211.8	513.6	7.3	520.9
Actuarial losses recognised in the pension schemes						(31.2)	(31.2)	(31.2)		(31.2)
Movement on deferred tax relating to the actuarial losses						9.5	9.5	9.5		9.5
Exchange differences on foreign currency net investments			(0.1)	(0.2)			-	(0.3)		(0.3)
Share-based payments						3.7	3.7	3.7		3.7
Profit for the period						47.1	47.1	47.1	1.0	48.1
Dividends						(31.6)	(31.6)	(31.6)		(31.6)
New share capital issued	0.2	2.4					-	2.6		2.6
Share trust arrangements					(1.9)		(1.9)	(1.9)		(1.9)
Transfer between reserves			(0.5)			0.5	0.5	-		-
At 30 April 2005	38.9	257.0	7.9	(0.2)	(4.7)	212.6	207.9	511.5	8.3	519.8

4.5

DS Smith Plc

Group Statement of Cash Flows

	Six months to 31 October 2004 (IFRS restated) £m	Year to 30 April 2005 (IFRS restated) £m
Operating Activities		
Cash generated from operations (see 4.6)	70.2	139.7
Interest paid	(6.5)	(13.3)
Income tax paid	(13.0)	(23.7)
Net cash from operating activities	50.7	102.7
Investing Activities		
Acquisition of subsidiary, net of cash acquired	(10.5)	(11.7)
Purchases of property, plant and equipment	(25.1)	(53.6)
Proceeds from sale of property, plant and equipment	0.6	5.2
Proceeds from sale of other investments	0.3	1.5
Cash flows from investing activities	(34.7)	(58.6)
Financing Activities		
Proceeds from issue of share capital	0.1	2.6
Purchase of own shares	(2.3)	(2.1)
Increase in borrowings	19.2	-
Repayments of borrowings	-	(3.7)
Payment of finance leases	(0.5)	(0.9)
Dividends paid	(21.6)	(31.6)
Cash flows from financing activities	(5.1)	(35.7)
Net increase in cash and cash equivalents	10.9	8.4
Cash and cash equivalents at 1 May	31.1	31.1
Exchange gains on cash and cash equivalents	2.3	1.7
Closing cash and cash equivalents	44.3	41.2

4.6

DS Smith Plc

Note to the Group Statement of Cash Flows

Reconciliation of profit to cash generated from operations

	Six months to 31 October 2004 (IFRS restated)		Year to 30 April 2005 (IFRS restated)	
	£m	£m	£m	£m
Profit for the period		28.3		48.1
Adjustments for:				
- Exceptional items including goodwill impairment		-	7.1	
- Depreciation	34.0		68.2	
- Amortisation	0.4		0.4	
- Profit on sale of property, plant and equipment	(0.2)		(1.8)	
- Equity settled share-based payment expenses	0.4		1.1	
- Share of profit of associates	(1.5)		(3.2)	
- Other finance income	(0.5)		(1.1)	
- Interest income	(2.5)		(4.9)	
- Interest expense	9.3		17.9	
- Income tax expense	9.6		16.2	
		<u>49.0</u>		<u>99.9</u>
		77.3		148.0
Changes in working capital:				
- Inventories	(2.9)		(9.1)	
- Trade and other receivables	(6.0)		(9.5)	
- Trade and other payables	4.7		11.7	
- Provisions and employee benefits	(2.9)		(1.4)	
		<u>(7.1)</u>		<u>(8.3)</u>
Cash generated from operations		<u>70.2</u>		<u>139.7</u>

4.7 DS Smith Plc Group Segmental Analysis

Six months to 31 October 2004

	UK Paper and Corrugated Packaging	Continental European Corrugated Packaging	Plastic Packaging	Office Products Wholesaling	Other Operations	Total
Revenue (£m)	312.7	131.5	99.9	240.0	16.0	800.1
Operating profit (£m) [no exceptional operating items during the period]	19.8	9.9	6.2	6.9	(0.2)	42.6
Adjusted return on sales (%)	6.3%	7.5%	6.2%	2.9%	-	5.3%
Period end capital employed (£m)	520.7	143.7	141.6	119.9	13.3	939.2
Average capital employed (£m)	525.9	142.9	139.9	114.0	14.2	936.9
Adjusted return on average capital employed (%)	7.5%	13.9%	8.9%	12.1%	-	9.1%

Year ended 30 April 2005

	UK Paper and Corrugated Packaging	Continental European Corrugated Packaging	Plastic Packaging	Office Products Wholesaling	Other Operations	Total
Revenue (£m)	631.2	265.7	195.9	499.7	32.4	1,624.9
Group operating profit before exceptional items (£m)	31.6	20.2	9.3	21.5	-	82.6
Exceptional operating items	(4.9)	-	(5.8)	-	-	(10.7)
Operating profit (£m)	26.7	20.2	3.5	21.5	-	71.9
Adjusted return on sales (%)	5.0%	7.6%	4.7%	4.3%	-	5.1%
Year end capital employed (£m)	508.3	149.6	130.8	126.2	12.6	927.5
Average capital employed (£m)	528.3	147.1	140.5	119.0	14.1	949.0
Adjusted return on average capital employed (%)	6.0%	13.7%	6.6%	18.1%	-	8.7%

a) Adjusted return on sales is defined as operating profit before exceptional items divided by revenue.

(See section 7.(c) for definition of exceptional items).

b) Average capital employed is the average monthly capital employed including the intangible assets on the balance sheet.

c) Capital employed excludes net borrowings, income tax balances, deferred tax provisions, dividends payable, fixed assets investments and net pension liabilities.

d) Adjusted return on average capital employed is defined as operating profit before exceptional items divided by the average capital employed. (See section 7.(c) for definition of exceptional items).

5.1 DS Smith Plc Group Reconciliation of Profit

Six months to 31 October 2004

	Previously reported under UK GAAP	IFRS 3 Goodwill amortisation (a)	IFRS 3 Negative goodwill (b)	IAS 12 Deferred taxation (c)	IFRS 2 Share-based Payments (d)	IAS 19 Holiday Pay (e)	IAS 1 Associates Presentation (g)	Restated under IFRS
	£m	£m	£m	£m	£m	£m	£m	£m
Revenue	800.1	-	-	-	-	-	-	800.1
Group operating profit								
Before exceptional items	37.2	4.5			(0.5)	1.4		42.6
Exceptional operating items								-
Operating profit	37.2	4.5	-	-	(0.5)	1.4	-	42.6
Net interest expense	(6.8)							(6.8)
Employment benefit finance income	0.5							0.5
Profit after financing costs	30.9	4.5	-	-	(0.5)	1.4	-	36.3
Share of profit of associates	1.7	(0.2)					(0.4)	1.1
Profit before income tax	32.6	4.3	-	-	(0.5)	1.4	(0.4)	37.4
Income tax expense	(9.3)			0.1	0.1	(0.4)	0.4	(9.1)
Profit for the period	23.3	4.3	-	0.1	(0.4)	1.0	-	28.3

Year ended 30 April 2005

	Previously reported under UK GAAP	IFRS 3 Goodwill amortisation (a)	IFRS 3 Negative goodwill (b)	IAS 12 Deferred taxation (c)	IFRS 2 Share-based Payments (d)	IAS 19 Holiday Pay (e)	IAS 1 Associates Presentation (g)	Restated under IFRS
	£m	£m	£m	£m	£m	£m	£m	£m
Revenue	1,624.9	-	-	-	-	-	-	1,624.9
Group operating profit								
Before exceptional items	74.1	9.2	0.2		(1.1)	0.2		82.6
Exceptional operating items	(10.7)							(10.7)
Operating profit	63.4	9.2	0.2	-	(1.1)	0.2	-	71.9
Net interest expense	(13.0)						(0.2)	(13.2)
Employment benefit finance income	1.1							1.1
Profit after financing costs	51.5	9.2	0.2	-	(1.1)	0.2	(0.2)	59.8
Share of profit of associates	4.5	(0.4)					(0.7)	3.4
Reversal of previous impairment of associate	1.1							1.1
Profit before income tax	57.1	8.8	0.2	-	(1.1)	0.2	(0.9)	64.3
Income tax expense	(17.6)			0.3	0.3	(0.1)	0.9	(16.2)
Profit for the year	39.5	8.8	0.2	0.3	(0.8)	0.1	-	48.1

5.2
DS Smith Plc
Group Reconciliation of Equity
As at 1 May 2004

	Previously reported under UK GAAP	IFRS 3 Negative Goodwill (b)	IAS 12 Deferred taxation (c)	IFRS 2 Share-based Payments (d)	IAS 19 Holiday Pay (e)	IAS 31 Joint Venture (f)	IAS 10 Proposed Dividends (h)	IAS 27 Minority Interests (i)	Reclassi- fications (j)	Restated under IFRS
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
ASSETS										
Non-current assets										
Property, plant and equipment	568.5					3.8			(7.2)	565.1
Intangible assets	185.6	1.8							7.2	194.6
Investments in associates	18.0	7.0								21.7
Other investments	10.6									10.6
Deferred tax assets	-			0.1	0.8					24.3
Other receivables	1.4									1.4
Total non-current assets	784.1	8.8	-	0.1	0.8	0.5	-	-	23.4	817.7
Current assets										
Inventories	154.9									154.9
Other investments	20.8									20.8
Income tax receivable	1.1									1.1
Trade and other receivables	344.0					3.2				347.2
Cash and cash equivalents	40.8									40.8
Total current assets	561.6	-	-	-	-	3.2	-	-	-	564.8
Total assets	1,345.7	8.8	-	0.1	0.8	3.7	-	-	23.4	1,382.5
LIABILITIES										
Non-current liabilities										
Interest-bearing loans and borrowings	(296.6)									(296.6)
Employee benefits	(54.7)								(23.4)	(78.1)
Other creditors	(2.4)									(2.4)
Provisions	-				(0.3)	(0.3)				(0.6)
Deferred tax liabilities	(74.8)		(7.4)							(82.2)
Total non-current liabilities	(428.5)	-	(7.4)	-	(0.3)	(0.3)	-	-	(23.4)	(459.9)
Current liabilities										
Bank overdrafts	(29.8)						(0.7)			(30.5)
Interest-bearing loans and borrowings	(9.9)									(9.9)
Trade and other payables	(341.1)				(2.7)	(3.0)	21.7			(325.1)
Income tax liabilities	(20.4)									(20.4)
Provisions	(15.8)									(15.8)
Total current liabilities	(417.0)	-	-	-	(2.7)	(3.7)	21.7	-	-	(401.7)
Total liabilities	(845.5)	-	(7.4)	-	(3.0)	(4.0)	21.7	-	(23.4)	(861.6)
NET ASSETS	500.2	8.8	(7.4)	0.1	(2.2)	(0.3)	21.7	-	-	520.9
EQUITY										
Issued capital	38.7									38.7
Share premium	254.6									254.6
Reserves	8.5									8.5
Retained earnings	192.6	8.8	(7.4)	0.1	(2.2)	(0.3)	21.7	(1.5)		211.8
Total equity attributable to equity holders of the parent	494.4	8.8	(7.4)	0.1	(2.2)	(0.3)	21.7	(1.5)	-	513.6
Minority interests	5.8							1.5		7.3
Total equity	500.2	8.8	(7.4)	0.1	(2.2)	(0.3)	21.7	-	-	520.9

5.2
DS Smith Plc
Group Reconciliation of Equity
As at 31 October 2004

	Previously reported under UK GAAP	IFRS 3 Goodwill amortised (a)	IFRS 3 Negative Goodwill (b)	IAS 12 Deferred taxation (c)	IFRS 2 Share-based Payments (d)	IAS 19 Holiday Pay (e)	IAS 31 Joint Venture (f)	IAS 10 Proposed Dividends (h)	IAS 27 Minority Interests (i)	Reclassifications (j)	Restated under IFRS
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
ASSETS											
Non-current assets											
Property, plant and equipment	566.7						3.8			(7.0)	563.5
Intangible assets	183.5	4.5	1.8							7.0	196.8
Investments in associates	18.5		6.8				(3.3)				22.0
Other investments	10.3										10.3
Deferred tax assets	-				0.2	0.4				23.6	24.2
Other receivables	16.4										16.4
Total non-current assets	795.4	4.5	8.6	-	0.2	0.4	0.5	-	-	23.6	833.2
Current assets											
Inventories	156.0						0.1				156.1
Other investments	21.3										21.3
Income tax receivable	1.0										1.0
Trade and other receivables	346.5						2.4				348.9
Cash and cash equivalents	42.3										42.3
Total current assets	567.1	-	-	-	-	-	2.5	-	-	-	569.6
Total assets	1,362.5	4.5	8.6	-	0.2	0.4	3.0	-	-	23.6	1,402.8
LIABILITIES											
Non-current liabilities											
Interest-bearing loans and borrowings	(320.2)										(320.2)
Employee benefits	(59.6)									(23.6)	(83.2)
Other creditors	(1.9)										(1.9)
Provisions	-					(0.3)	(0.3)				(0.6)
Deferred tax liabilities	(66.6)			(7.3)							(73.9)
Total non-current liabilities	(448.3)	-	-	(7.3)	-	(0.3)	(0.3)	-	-	(23.6)	(479.8)
Current liabilities											
Bank overdrafts	(19.1)						(0.4)				(19.5)
Interest-bearing loans and borrowings	(11.7)										(11.7)
Trade and other payables	(332.0)					(1.3)	(2.6)	9.9			(326.0)
Income tax liabilities	(25.3)										(25.3)
Provisions	(10.6)										(10.6)
Total current liabilities	(398.7)	-	-	-	-	(1.3)	(3.0)	9.9	-	-	(393.1)
Total liabilities	(847.0)	-	-	(7.3)	-	(1.6)	(3.3)	9.9	-	(23.6)	(872.9)
NET ASSETS	515.5	4.5	8.6	(7.3)	0.2	(1.2)	(0.3)	9.9	-	-	529.9
EQUITY											
Issued capital	38.7										38.7
Share premium	254.7										254.7
Reserves	12.0										12.0
Retained earnings	203.7	4.5	8.6	(7.3)	0.2	(1.2)	(0.3)	9.9	(1.5)		216.6
Total equity attributable to equity holders of the parent	509.1	4.5	8.6	(7.3)	0.2	(1.2)	(0.3)	9.9	(1.5)	-	522.0
Minority interests	6.4								1.5		7.9
Total equity	515.5	4.5	8.6	(7.3)	0.2	(1.2)	(0.3)	9.9	-	-	529.9

5.2
DS Smith Plc
Group Reconciliation of Equity
As at 30 April 2005

	Previously reported under UK GAAP	IFRS 3 Goodwill amortised (a)	IFRS 3 Negative Goodwill (b)	IAS 12 Deferred taxation (c)	IFRS 2 Share-based Payments (d)	IAS 19 Holiday Pay (e)	IAS 31 Joint Venture (f)	IAS 10 Proposed Dividends (h)	IAS 27 Minority Interests (i)	Reclassifications (j)	Restated under IFRS
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
ASSETS											
Non-current assets											
Property, plant and equipment	560.4						4.0			(5.1)	559.3
Intangible assets	173.7	9.3	1.9						(1.4)	7.4	190.9
Investments in associates	18.8		6.6				(3.3)				22.1
Other investments	10.1										10.1
Deferred tax assets	-				0.4	0.7					35.6
Other receivables	1.0										1.0
Total non-current assets	764.0	9.3	8.5	-	0.4	0.7	0.7	-	(1.4)	36.8	819.0
Current assets											
Inventories	164.0									(2.3)	161.7
Other investments	28.4										28.4
Income tax receivable	1.0										1.0
Trade and other receivables	355.8						2.6				358.4
Cash and cash equivalents	30.4										30.4
Total current assets	579.6	-	-	-	-	-	2.6	-	-	(2.3)	579.9
Total assets	1,343.6	9.3	8.5	-	0.4	0.7	3.3	-	(1.4)	34.5	1,398.9
LIABILITIES											
Non-current liabilities											
Interest-bearing loans and borrowings	(294.1)										(294.1)
Employee benefits	(80.3)									(34.5)	(114.8)
Other creditors	(2.4)										(2.4)
Provisions	(6.8)					(0.3)	(0.1)				(7.2)
Deferred tax liabilities	(71.6)			(7.1)							(78.7)
Total non-current liabilities	(455.2)	-	-	(7.1)	-	(0.3)	(0.1)	-	-	(34.5)	(497.2)
Current liabilities											
Bank overdrafts	(17.3)						(0.3)				(17.6)
Interest-bearing loans and borrowings	(7.8)										(7.8)
Trade and other payables	(352.2)					(2.5)	(3.2)	22.4			(335.5)
Income tax liabilities	(18.7)										(18.7)
Provisions	(2.3)										(2.3)
Total current liabilities	(398.3)	-	-	-	-	(2.5)	(3.5)	22.4	-	-	(381.9)
Total liabilities	(853.5)	-	-	(7.1)	-	(2.8)	(3.6)	22.4	-	(34.5)	(879.1)
NET ASSETS	490.1	9.3	8.5	(7.1)	0.4	(2.1)	(0.3)	22.4	(1.4)	-	519.8
EQUITY											
Issued capital	38.9										38.9
Share premium	257.0										257.0
Reserves	7.7										7.7
Retained earnings	178.7	9.3	8.5	(7.1)	0.4	(2.1)	(0.3)	22.4	(1.9)		207.9
Total equity attributable to equity holders of the parent	482.3	9.3	8.5	(7.1)	0.4	(2.1)	(0.3)	22.4	(1.9)	-	511.5
Minority interests	7.8								0.5		8.3
Total equity	490.1	9.3	8.5	(7.1)	0.4	(2.1)	(0.3)	22.4	(1.4)	-	519.8

6. Explanation of IFRS adjustments

The notes below identify the adjustments made from UK GAAP to IFRS, shown in sections 5.1 and 5.2 which accompany this statement.

(a) Goodwill amortisation

IFRS3, 'Business Combinations', requires that goodwill be capitalised at cost. It is not amortised. Goodwill is tested for impairment at least annually, with any impairment losses being recognised immediately in the income statement. Goodwill amortised during the year ended 30 April 2005 under UK GAAP was £8.8m, which has been written back under IFRS. Goodwill amortised for the six months to 31 October 2004 was £4.3m. The UK GAAP amortisation charge of intellectual property intangible assets of £0.6m (£0.4m for the six months to 31 October 2004) remains under IFRS.

(b) Negative goodwill

In accordance with IFRS 3, negative goodwill is recognised immediately in the income statement. Accordingly, £0.2m of negative goodwill arising on the acquisition of BPB Recycling, within the UK Paper and Corrugated segment, in August 2004 has been credited to the 2004/05 income statement.

As at 30 April 2005, under UK GAAP the Group had a carrying amount of £8.5m of negative goodwill (£8.6m as at 31 October 2004) which has been credited to retained earnings under IFRS. On 1 May 2004 the Group had a carrying amount of £8.8m of negative goodwill which had been credited to retained earnings.

(c) Deferred tax

Under IFRS, specifically IAS 12 'Income Taxes', deferred taxation is provided in full on all taxable temporary differences between the book carrying amount of an asset or liability in the balance sheet and its tax base. IFRS is generally more comprehensive in the requirement to recognise deferred tax than UK GAAP. The Group has acquired land and buildings in past business combinations that have a depreciable tax base cost that is lower than their book amount. A temporary difference arises in this case under IFRS and a deferred tax liability is established in purchase accounting, whereas under UK GAAP this is not the case.

As noted in section 2 'Basis of preparation', the Group has chosen not to restate business combinations prior to the IFRS transition date (1 May 2004). As a result of this, under the transitional requirements of IFRS 1, the deferred taxation liability on the land and buildings assets above is required to be recognised and adjusted through retained earnings rather than as an adjustment to capitalised goodwill. The effect is to reduce equity at 30 April 2005 by £7.1m, £7.3m at 31 October 2004 and £7.4m at 1 May 2004. Any deferred tax raised will reverse through the consolidated income statement as the underlying book to tax temporary difference is amortised. The net impact from the recognition of additional temporary differences on acquisitions is to increase profit after tax by £0.1m for the six months ended 31 October 2004 and £0.3m for the year ended 30 April 2005.

(d) Share-based payments

The Group operates a number of equity-settled, share-based compensation plans. IFRS 2, 'Share-based Payment', requires that an expense for share options granted be recognised in the financial statements based on their fair value at the date of grant. This expense is recognised over the vesting period of the options. The Group has measured this expense for options granted after 7 November 2002, in accordance with the exemption permitted under IFRS 1.

The charge to the income statement for the year ended 30 April 2005 was £1.1m (£0.5m for the six months to 31 October 2004). The 2004/05 charge was lower than a typical full year's charge because it reflected options granted only from 7 November 2002, and not all those options for which 2004/05 was a vesting period. Hence, future charges may be somewhat higher. As these compensation plans are settled in equity, there is a nil effect on the balance sheet, other than £0.4m (31 October 2004: £0.2m, 1 May 2004: £0.1m) deferred tax asset relating to these charges as at 30 April 2005.

(e) Holiday pay and long-service awards

In the past the Group policy has been not to accrue for untaken holiday pay. Under IAS 19, 'Employee Benefits', an accrual is recognised to take into account all short-term employee benefits including paid absences for holiday and sickness. In addition, the Group previously did not accrue for long-service awards which were expensed only when incurred.

As at 30 April 2005, an additional £2.5m (31 October 2004: £1.3m, 1 May 2004: £2.7m) has been accrued for holiday pay and £0.3m (31 October and 1 May 2004: £0.3m) for long-service awards. The related deferred tax asset is £0.7m (31 October 2004: £0.4m, 1 May 2004: £0.8m). Operating costs for the year ended 30 April 2005 have been reduced by £0.1m (£1.0m for the six months to 31 October 2004), net of tax, for the reduction in this accrual.

(f) Joint venture

Under UK GAAP the Group has used the equity method to account for its investment in Grovehurst Energy Limited, which provides energy and other services at one of the Group's UK paper mills. The Group will account for joint ventures by proportionate consolidation under IAS 31, 'Interests in Joint Ventures'. The Group's 50% share of Grovehurst Energy Limited's assets and liabilities as at the following dates were:-

	30.4.05	31.10.04	1.5.04
	£m	£m	£m
Property, plant and equipment	4.0	3.8	3.8
Current assets	2.6	2.5	3.2
Current liabilities	(3.2)	(2.6)	(3.0)
Bank overdraft	(0.3)	(0.4)	(0.7)
Provisions	(0.1)	(0.3)	(0.3)
Loans	<u>(3.3)</u>	<u>(3.3)</u>	<u>(3.3)</u>
Retained loss	<u>(0.3)</u>	<u>(0.3)</u>	<u>(0.3)</u>

(g) Associates

Under IAS 1, 'Presentation of Financial Statements', the share of the associates' results included in the Group's profit before tax is stated after interest and tax. The share of operating profit shown under UK GAAP excluded the associates' interest and tax, with these items being shown within the Group's interest and tax charges. This change has the effect of reducing profit before tax by £0.9m (£0.4m for the six months to 31 October 2004), being the amount of the tax charges of the associates; this has no effect on the profit attributable to shareholders.

(h) Proposed dividends

Under IAS 10, 'Events after the Balance Sheet Date', dividends declared after the balance sheet date are not recognised as a liability at the balance sheet date. There were £22.4m of proposed dividends provided for at 30 April 2005 (31 October 2004: £9.9m, 1 May 2004: £21.7m), which under IFRS have been written back to retained earnings.

(i) Minority interests

Under UK GAAP, losses in excess of the minority's interest in the subsidiary's equity are attributed to the minority. However, under IAS 27, 'Consolidated and Separate Financial Statements', losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the majority, except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Accordingly, accumulated losses at 1 May 2004 of £0.5m attributable to the minority interest were reallocated to equity holders of DS Smith Plc. Subsequent losses of £0.4m attributable to the minority under UK GAAP during 2004/05 (six months to 31 October 2004: £nil), have also been reallocated to equity holders of DS Smith Plc.

In addition, further to the above and the Group's decision to take advantage of the exemption under IFRS 1 not to apply IFRS 3 to acquisitions before the transition balance sheet date, goodwill arising on acquisition of further shares of a subsidiary with a minority interest has been reduced by £1.4m at 30 April 2005 (1 May 2004 and 31 October 2004: £nil).

The combined effect of the above is to reduce retained earnings to equity holders of DS Smith Plc by £1.9m, to reduce goodwill by £1.4m and to increase minority interest by £0.5m at 30 April 2005.

(j) Reclassifications

Computer software

Under UK GAAP, all capitalised computer software has been included within tangible fixed assets. Under IAS 38, 'Intangible Assets', only computer software that is integral to a related item of hardware is included as property, plant and equipment with other software being classified as an intangible asset. Accordingly, a reclassification has been made of £7.4m (31 October 2004: £7.0m, 1 May 2004: £7.2m) between property, plant and equipment and intangible assets at 30 April 2005.

Spare parts

IAS 16, 'Property, Plant and Equipment', requires that parts which can be used only in connection with an item of property, plant and equipment, should be accounted for as property, plant and equipment. On 30 April 2005, £2.3m of spare parts has been treated as inventory under UK GAAP. This was reclassified as property, plant and equipment. There was no reclassification made at 31 October and 1 May 2004.

Employee benefits

Under UK GAAP, the Group's pension obligations were disclosed net of the related deferred tax asset. Under IFRS, pension liabilities are required to be shown gross of the related deferred tax asset. Accordingly, £34.5m of deferred tax assets has been reclassified between employee benefits and deferred tax assets at 30 April 2005 (31 October 2004: £23.6m, 1 May 2004: £23.4m).

(k) Exceptional items

Amounts presented as exceptional items in the income statement relate to:

	Year to 30.4.05
	£m
Exceptional restructuring costs incurred in the UK Paper and Corrugated Packaging segment on integrating the operations of Linpac Containers.	(4.9)
Impairment of goodwill relating to a subsidiary in the Plastic Packaging segment.	<u>(5.8)</u>
	<u>(10.7)</u>
Reversal of previous impairment of associate.	<u>1.1</u>
Total exceptional items	<u>(9.6)</u>

(See section 7.(c) for relevant accounting policy.)

7. Accounting Policies

The following section provides a summary of the Group's new accounting policies under IFRS.

(a) Basis of preparation

This restatement has been prepared taking into account all International Financial Reporting Standards ('IFRSs'), including International Accounting Standards ('IASs') and interpretations issued by the International Accounting Standards Board ('IASB') and its committees. These are subject to ongoing amendment by the IASB and subsequent endorsement by the European Commission and are therefore subject to possible change. Further changes may therefore, be required to this information before it is published as comparative information in the 2006 Annual Report and Accounts.

(b) Basis of consolidation

The consolidated financial statements include the results of DS Smith Plc and all its subsidiaries, together with the Group's share of the results of its associates and joint ventures. The financial statements of subsidiaries, associates and joint ventures are prepared using consistent accounting policies. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Subsidiaries are those entities where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Investments in associates are accounted for using the equity method. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

Joint ventures are those enterprises over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's proportionate share of the entities' assets, liabilities, revenue and expenses on a line-by-line basis, from the date that joint control commences until the date that joint control ceases. At 30 April 2005, only one company is defined as a joint venture and is proportionately consolidated as such.

(c) 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 underlying trading and financial results achieved by the Group.

(d) Foreign currency

Transactions in foreign currencies are translated to sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. On consolidation, the income statements of overseas subsidiaries are translated at the average rate for the year and the balance sheets at the closing rate. Exchange differences arising on the retranslation of opening balance sheets, together with the difference between income statements translated at average rates and closing rates, are dealt with through reserves.

(e) Financial instruments

The Group uses financial instruments, primarily interest rate, currency and commodity swaps, only to manage interest, currency and commodity risks associated with the Group's underlying business activities and the financing of those activities. The Group's policy is to use financial instruments solely for the purpose of hedging.

These instruments are accounted for as hedges when designated as hedges at the inception of the contracts and where the financial instrument provides an effective hedge of the underlying risk. As a result, any gains or losses on foreign exchange contracts are offset against any foreign exchange gains or losses on the related financial assets and liabilities. Interest rate swaps are not shown in the restated Group balance sheet. The Group has taken the exemption in IFRS 1 not to apply IAS 32 and 39 for the comparative period. As a result, the relevant comparative information for the year ended 30 April 2005 and the six months ended 31 October 2004 does not reflect the effect of these standards and is accounted for in accordance with UK GAAP.

(f) Property, plant and equipment

Depreciation

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. Land is not depreciated. The estimated useful lives are as follows:

Freehold and long leasehold properties	10 - 50 years
Plant, machinery, fixtures and fittings	3 - 20 years
Motor vehicles	3 - 5 years

(g) Intangible assets

(i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill (positive and negative) represents amounts arising on acquisition of subsidiaries, associates and joint ventures. In respect of acquisitions that have occurred since 1 May 2004, goodwill (positive or negative) represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

With respect to acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under UK GAAP. The classification and accounting

treatment of business combinations that occurred prior to 1 May 2004 have not been reconsidered in preparing the Group's opening IFRS balance sheet at 1 May 2004. Goodwill arising on acquisitions prior to 2 May 1998 which had already been written off to reserves under UK GAAP has not been reinstated on the balance sheet.

Goodwill is stated at cost less accumulated impairment losses (see accounting policy 1). Goodwill is allocated to cash generating units and is no longer amortised but is tested annually for impairment. With respect to associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate. Negative goodwill arising on an acquisition is recognised directly in profit or loss.

(ii) Computer software

Computer software that is integral to a related item of hardware is included within tangible fixed assets, stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy 1). All other computer software is treated as an intangible asset.

(iii) Other intangible assets (including intellectual property)

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy 1). Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

(iv) 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 – 10 years

Goodwill is tested for impairment at least annually.

(h) Other investments

Other investments held by the Group are held-to-maturity investments. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the income statement. Investments that are held to maturity are recognised/derecognised on the day they are transferred to/by the Group.

(i) Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses (see accounting policy 1).

(j) 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.

(k) 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.

(l) Impairment

The carrying amounts of the Group's assets, other than inventories (see accounting policy j) and deferred tax assets (see accounting policy q), 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. Recoverable amount is the higher of the asset's net selling price and value in use. In assessing value-in-use, the estimated future cash flows are discounted to their present value by using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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.

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.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then, to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

An impairment loss in respect of goodwill is 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.

(m) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(n) Employee benefits

(i) Retirement benefit obligations

The Group operates defined benefit and defined contribution pension schemes.

Defined benefit schemes

The Group operates two defined benefit schemes for its UK employees. For these schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of personnel costs. Past service costs are recognised immediately in the income statement if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of employment benefit finance income or expense adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of recognised income and expense.

The Group's net obligation in respect of defined benefit pension schemes is calculated separately for each pension 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 determine the present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on high quality corporate bonds that are of equivalent currency and terms to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The calculation is performed by a qualified actuary using the projected unit credit method.

Defined contribution schemes

Obligations for contributions to defined contribution pension schemes are recognised as an expense in the income statement as incurred

(ii) 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 (for example, profitability and sales growth targets). 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. The entity recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment is made to equity over the remaining vesting period.

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.

(o) 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. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(p) Trade and other payables

Trade and other payables are stated at their cost.

(q) Income tax

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 of the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided 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 not deductible for tax purposes; the initial recognition of assets or liabilities (other than a business combination) 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. 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.

8. Financial Instruments: Adoption of IAS 32 and IAS 39 at 1 May 2005

As permitted under IFRS 1, the Group has elected to apply IAS 32, 'Financial Instruments: Disclosure and Presentation', and IAS 39, 'Financial Instruments: Recognition and Measurement' prospectively from 1 May 2005. A summary of the effect of the adoption of IAS 32 and IAS 39, as they apply to DS Smith Plc's balance sheet as at 1 May 2005, is set out below.

(i) Financial instruments accounting policy

The Group uses financial instruments, primarily interest rate, currency and commodity swaps, only to manage interest, currency and commodity risks associated with the Group's underlying business activities and the financing of those activities. The Group's policy is to use financial instruments solely for the purpose of hedging.

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. The Group designates derivative financial instruments as fair value, cash flow and net investment hedges.

Derivative financial instruments are stated at fair value in the balance sheet. The fair value of the instruments is the estimated amount that the Group would receive or pay to terminate the instrument with a third party, taking into account the credit worthiness of the counter-parties to the instruments and is calculated by reference to quoted market forward prices.

Gains or losses on fair value hedges are recorded in the income statement to match the gain or loss on the hedged item. Gains or losses on cash flow hedges are recognised in equity and are reclassified to profit or loss to match the recording of the forecasted transaction or commitment. Gains or losses on the retranslation of currency borrowings or the effective portion of derivative financial instrument hedges designated as net investment hedges of foreign operations are recognised in equity. The ineffective portion of any hedge item is recognised in the income statement.

Cash flow hedges

A cash flow hedge is the hedge of the income or cost of a highly probable forecasted transaction. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Fair value hedges

A fair value hedge is the hedge of the fair value of an asset or a liability. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Hedges of net investment in foreign operation

The Group is exposed to changes in value of the net assets of its foreign operations arising from the translation of the net assets into sterling. Such exposures are hedged through borrowings denominated in the foreign operation's currency or derivative currency contracts. Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is sold.

Derivatives that do not qualify for hedge accounting

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

(ii) Principal differences and adjustments

Forward foreign exchange contracts and energy swaps

Under UK GAAP, forward foreign exchange contracts and energy swaps were generally recognised on settlement. Under IAS 39, the fair value of all forward foreign exchange contracts and energy swaps is recognised.

Interest rate and cross currency swaps

Under UK GAAP, interest rate swaps and cross currency swaps were not recognised separately on the balance sheet, although the effect of cross currency swaps was taken into account when recording and measuring debt swapped into a different currency to that in which it was issued. Under IAS 39, the fair value of interest rate and cross currency swaps is recognised as a separate amount in the financial statements.

The effect of adjusting the Group's balance sheet for the principal differences above is an after-tax decrease in Net Assets of £(1.5)m, as shown in the table below.

Adoption of IAS 32 and 39
DS Smith Plc
Group Balance Sheet
As at 1 May 2005

	Under IFRS at 30 April 2005 £m	IAS 39 adjustments £m	Under IFRS at 1 May 2005 £m
ASSETS			
Non-current assets			
Property, plant and equipment	559.3		559.3
Intangible assets	190.9		190.9
Investments in associates	22.1		22.1
Other investments	10.1		10.1
Deferred tax assets	35.6	6.1	41.7
Other receivables	1.0		1.0
Derivative financial instruments	-	1.5	1.5
Total non-current assets	819.0	7.6	826.6
Current assets			
Inventories	161.7		161.7
Other investments	28.4		28.4
Income tax receivable	1.0		1.0
Trade and other receivables	358.4		358.4
Cash and cash equivalents	30.4		30.4
Derivative financial instruments	-	0.6	0.6
Total current assets	579.9	0.6	580.5
Total assets	1,398.9	8.2	1,407.1
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	(294.1)	16.2	(277.9)
Employee benefits	(114.8)		(114.8)
Other creditors	(2.4)		(2.4)
Provisions	(7.2)		(7.2)
Deferred tax liabilities	(78.7)	(5.5)	(84.2)
Derivative financial instruments	-	(19.8)	(19.8)
Total non-current liabilities	(497.2)	(9.1)	(506.3)
Current liabilities			
Bank overdrafts	(17.6)		(17.6)
Interest-bearing loans and borrowings	(7.8)		(7.8)
Trade and other payables	(335.5)		(335.5)
Income tax liabilities	(18.7)		(18.7)
Provisions	(2.3)		(2.3)
Derivative financial instruments	-	(0.6)	(0.6)
Total current liabilities	(381.9)	(0.6)	(382.5)
Total liabilities	(879.1)	(9.7)	(888.8)
NET ASSETS	519.8	(1.5)	518.3
EQUITY			
Issued capital	38.9		38.9
Share premium	257.0		257.0
Reserves	7.7	(2.8)	4.9
Retained earnings	207.9	1.3	209.2
Total equity attributable to equity holders of the parent	511.5	(1.5)	510.0
Minority interests	8.3		8.3
Total equity	519.8	(1.5)	518.3