

Consolidated Income Statement

For the year ended 30 April 2010

| | Note | Before exceptional items 2010 £m | Exceptional items (note 4) 2010 £m | After exceptional items 2010 £m | Before exceptional items 2009 £m | Exceptional items (note 4) 2009 £m | After exceptional items 2009 £m |
|---|------|--|--|---|--|--|---|
| Revenue | 2 | 2,070.6 | - | 2,070.6 | 2,106.6 | - | 2,106.6 |
| Cost of sales | | (1,558.4) | - | (1,558.4) | (1,604.4) | - | (1,604.4) |
| Gross profit | | 512.2 | - | 512.2 | 502.2 | - | 502.2 |
| Operating expenses | 3,4 | (418.2) | (13.3) | (431.5) | (408.2) | (50.6) | (458.8) |
| Operating profit | 2,3 | 94.0 | (13.3) | 80.7 | 94.0 | (50.6) | 43.4 |
| Finance income | 5 | 1.5 | - | 1.5 | 2.5 | - | 2.5 |
| Finance costs | 5 | (15.9) | - | (15.9) | (26.1) | - | (26.1) |
| Employment benefit net finance (expense)/income | 25 | (11.5) | - | (11.5) | 1.5 | - | 1.5 |
| Net financing costs | | (25.9) | - | (25.9) | (22.1) | - | (22.1) |
| Profit after financing costs | | 68.1 | (13.3) | 54.8 | 71.9 | (50.6) | 21.3 |
| Share of profit/(loss) of associates | 12 | 0.2 | - | 0.2 | 0.6 | (5.1) | (4.5) |
| Profit before income tax | | 68.3 | (13.3) | 55.0 | 72.5 | (55.7) | 16.8 |
| Income tax (expense)/credit | 7 | (17.8) | 0.9 | (16.9) | (22.6) | (5.4) | (28.0) |
| Profit/(loss) for the financial year | | 50.5 | (12.4) | 38.1 | 49.9 | (61.1) | (11.2) |

Profit/(loss) for the financial year attributable to:

| | | | | | | | |
|---|---|--------------|---------------|-------------|-------|---------|--------|
| Owners of the parent | | 50.3 | (12.4) | 37.9 | 49.3 | (61.1) | (11.8) |
| Non-controlling interests | | 0.2 | - | 0.2 | 0.6 | - | 0.6 |
| Basic earnings/(loss) per share (pence) | 8 | 12.9p | (3.2)p | 9.7p | 12.6p | (15.6)p | (3.0)p |
| Diluted earnings/(loss) per share (pence) | 8 | 12.6p | (3.1)p | 9.5p | 12.6p | (15.6)p | (3.0)p |
| Dividend per share | | | | | | | |
| - interim, paid (pence) | 9 | | | 1.5p | | | 2.6p |
| - final, proposed (pence) | 9 | | | 3.1p | | | 1.8p |

Consolidated Statement of Comprehensive Income

For the year ended 30 April 2010

| | Note | 2010 £m | 2009 £m |
|--|------|---------------|----------------|
| Actuarial losses on defined benefit pension schemes | 25 | (10.3) | (123.4) |
| Movements on deferred tax relating to actuarial losses | 7 | 3.3 | 34.9 |
| Currency translation gains, including tax of £(2.4)m (2009: tax of £14.5m) | | 5.5 | 0.7 |
| Movements in cash flow hedges including tax of £3.9m (2009: tax of £3.9m) | | (10.1) | (10.3) |
| Other comprehensive income for the year, net of tax | | (11.6) | (98.1) |
| Profit/(loss) for the year | | 38.1 | (11.2) |
| Total comprehensive income for the year | | 26.5 | (109.3) |
| Total comprehensive income attributable to: | | | |
| Owners of the parent | | 26.4 | (110.3) |
| Non-controlling interests | | 0.1 | 1.0 |

Consolidated Statement of Financial Position

As at 30 April 2010

| | Note | 2010 £m | 2009 £m |
|--|------|------------------|------------|
| Assets | | | |
| Non-current assets | | | |
| Intangible assets | 10 | 221.2 | 222.0 |
| Property, plant and equipment | 11 | 590.8 | 637.1 |
| Investments in associates | 12 | – | 0.3 |
| Other investments | 13 | 0.8 | 0.8 |
| Deferred tax assets | 22 | 81.4 | 73.2 |
| Other receivables | 15 | 0.8 | 0.9 |
| Derivative financial instruments | 21 | 11.9 | 13.7 |
| Total non-current assets | | 906.9 | 948.0 |
| Current assets | | | |
| Inventories | 14 | 174.8 | 170.2 |
| Other investments | 13 | 0.2 | 0.5 |
| Income tax receivable | | 2.3 | 1.3 |
| Trade and other receivables | 15 | 380.5 | 356.1 |
| Cash and cash equivalents | 19 | 55.1 | 62.9 |
| Derivative financial instruments | 21 | 6.3 | 11.7 |
| Assets classified as held for sale | 17 | 8.1 | – |
| Total current assets | | 627.3 | 602.7 |
| Total assets | | 1,534.2 | 1,550.7 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Interest-bearing loans and borrowings | 20 | (256.4) | (331.5) |
| Post-retirement benefits | 25 | (203.1) | (191.3) |
| Other payables | 16 | (3.9) | (3.8) |
| Provisions | 23 | (7.9) | (14.0) |
| Deferred tax liabilities | 22 | (60.5) | (70.5) |
| Derivative financial instruments | 21 | (26.0) | (23.7) |
| Total non-current liabilities | | (557.8) | (634.8) |
| Current liabilities | | | |
| Bank overdrafts | 19 | (22.3) | (8.8) |
| Interest-bearing loans and borrowings | 20 | (5.7) | (5.8) |
| Trade and other payables | 16 | (430.4) | (412.1) |
| Income tax liabilities | | (17.1) | (10.0) |
| Provisions | 23 | (12.9) | (22.1) |
| Derivative financial instruments | 21 | (8.7) | (0.7) |
| Liabilities classified as held for sale | 17 | (6.1) | – |
| Total current liabilities | | (503.2) | (459.5) |
| Total liabilities | | (1,061.0) | (1,094.3) |
| Net assets | | 473.2 | 456.4 |
| Equity | | | |
| Issued capital | | 39.3 | 39.3 |
| Share premium | | 263.1 | 263.1 |
| Reserves | | 172.4 | 155.6 |
| Total equity attributable to equity shareholders of the Company | | 474.8 | 458.0 |
| Non-controlling interests | | (1.6) | (1.6) |
| Total equity | | 473.2 | 456.4 |

Approved by the Board on 23 June 2010 and signed on its behalf by
M W Roberts, Director S W Dryden, Director

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 April 2010

| | Note | Share capital £m | Share premium £m | Hedging reserve £m | Translation reserve £m | Own shares £m | Retained earnings £m | Total reserves attributable to equity shareholders £m | Non-controlling interests £m | Total equity £m |
|--|------|---------------------|---------------------|-----------------------|---------------------------|------------------|-------------------------|--|---------------------------------|--------------------|
| Balance at 1 May 2008 | | 39.3 | 263.1 | 13.0 | 27.1 | (4.2) | 263.4 | 601.7 | 0.2 | 601.9 |
| Loss for the period | | - | - | - | - | - | (11.8) | (11.8) | 0.6 | (11.2) |
| Actuarial losses on defined benefit pension schemes | 25 | - | - | - | - | - | (123.4) | (123.4) | - | (123.4) |
| Movement on deferred tax relating to actuarial losses | 7 | - | - | - | - | - | 34.9 | 34.9 | - | 34.9 |
| Currency translation differences (including tax) | | - | - | - | 0.3 | - | - | 0.3 | 0.4 | 0.7 |
| Changes in the fair value of cash flow hedges (including tax) | 21 | - | - | (5.3) | - | - | - | (5.3) | - | (5.3) |
| Amounts recognised in profit or loss during the year (including tax) | 21 | - | - | (4.5) | - | - | - | (4.5) | - | (4.5) |
| Amounts recognised in property, plant and equipment during the year | 21 | - | - | (0.5) | - | - | - | (0.5) | - | (0.5) |
| Own shares acquired | | - | - | - | - | (0.2) | - | (0.2) | - | (0.2) |
| Share-based payment expense (including tax) | 26 | - | - | - | - | 0.2 | 0.1 | 0.3 | - | 0.3 |
| Dividends paid to Group shareholders | 9 | - | - | - | - | - | (34.4) | (34.4) | - | (34.4) |
| Dividends paid to non-controlling interests | | - | - | - | - | - | - | - | (1.9) | (1.9) |
| Transactions with non-controlling interests (Toscana Ondulati SpA) | 24 | - | - | - | - | - | 0.9 | 0.9 | (0.9) | - |
| Balance at 30 April 2009 | | 39.3 | 263.1 | 2.7 | 27.4 | (4.2) | 129.7 | 458.0 | (1.6) | 456.4 |
| Profit for the period | | - | - | - | - | - | 37.9 | 37.9 | 0.2 | 38.1 |
| Actuarial losses on defined benefit pension schemes | 25 | - | - | - | - | - | (10.3) | (10.3) | - | (10.3) |
| Movement on deferred tax relating to actuarial losses | 7 | - | - | - | - | - | 3.3 | 3.3 | - | 3.3 |
| Currency translation differences (including tax) | | - | - | - | 5.6 | - | - | 5.6 | (0.1) | 5.5 |
| Changes in the fair value of cash flow hedges (including tax) | 21 | - | - | (2.7) | - | - | - | (2.7) | - | (2.7) |
| Amounts recognised in profit or loss during the year (including tax) | 21 | - | - | (7.4) | - | - | - | (7.4) | - | (7.4) |
| Acquisitions | 31 | - | - | - | - | - | - | - | 0.3 | 0.3 |
| Share-based payment expense (including tax) | 26 | - | - | - | - | - | 2.9 | 2.9 | - | 2.9 |
| Dividends paid to Group shareholders | 9 | - | - | - | - | - | (12.9) | (12.9) | - | (12.9) |
| Transactions with non-controlling interests (Toscana Ondulati SpA) | 24 | - | - | - | - | - | 0.4 | 0.4 | (0.4) | - |
| Balance at 30 April 2010 | | 39.3 | 263.1 | (7.4) | 33.0 | (4.2) | 151.0 | 474.8 | (1.6) | 473.2 |

The above should be read in conjunction with note 24.

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Consolidated Statement of Cash Flows

For the year ended 30 April 2010

| | Note | 2010 £m | 2009 £m |
|--|------|---------------|------------|
| Operating activities | | | |
| Cash generated from operations | 27 | 135.5 | 166.4 |
| Interest received | | 0.8 | 1.1 |
| Interest paid | | (17.0) | (24.1) |
| Tax paid | | (21.3) | (21.0) |
| Cash flows from operating activities | | 98.0 | 122.4 |
| Investing activities | | | |
| Acquisition of subsidiary businesses and joint ventures, net of cash and cash equivalents acquired | 31 | (1.0) | (1.2) |
| Disposal of subsidiary business, net of cash and cash equivalents | 31 | 8.1 | – |
| Capital expenditure payments | | (52.6) | (87.4) |
| Proceeds from the sale of property, plant and equipment and intangible assets | | 4.8 | 7.7 |
| (Purchases)/proceeds from the sale of investments in associates and other investments, net of additions of £0.8m (2009: £0.4m) | 31 | 0.1 | (0.1) |
| Cash flows used in investing activities | | (40.6) | (81.0) |
| Financing activities | | | |
| Purchase of own shares | | – | (0.2) |
| Repayment of borrowings | | (65.9) | (12.8) |
| Repayment of finance lease obligations | | (0.4) | (1.0) |
| Dividends paid to Group shareholders | 9 | (12.9) | (34.4) |
| Dividends paid to non-controlling interests | | – | (1.9) |
| Cash flows used in financing activities | | (79.2) | (50.3) |
| Decrease in cash and cash equivalents | | (21.8) | (8.9) |
| Net cash and cash equivalents at 1 May | | 54.1 | 56.0 |
| Exchange gains on cash and cash equivalents | | 0.5 | 7.0 |
| Net cash and cash equivalents at 30 April | 19 | 32.8 | 54.1 |

Notes to the Consolidated Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

In the current year the Group adopted amendments to IAS 1, 'Presentation of Financial Statements'. The amendments require the presentation of an entity's transactions with owners in a separate primary statement, the Statement of Changes in Equity. Previously the Group had the choice of whether to present transactions with owners in a primary statement or in the notes to the consolidated financial statements. In addition, the amendments require the presentation of a Statement of Comprehensive Income. Previously the Group presented a Statement of Recognised Income and Expense, which is now no longer required. The Balance Sheet has been renamed and is now the Statement of Financial Position.

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('adopted IFRSs'). The Company has elected to prepare its parent Company financial statements in accordance with UK GAAP; these are presented on pages 106 to 111.

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

The consolidated financial statements have been prepared on a going concern basis as set out on page 45 of the Corporate Governance section.

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

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

(b) Basis of consolidation

(i) Subsidiaries

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

(ii) Associates

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

(iii) Joint ventures

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

(iv) Non-controlling interests

The share of profit attributable to non-controlling interests is shown as a component of profit for the period in the income statement. Non-controlling interests are shown as a component of equity in the statement of financial position net of the value of options over interests held by minorities in the Group's subsidiaries.

(c) Revenue

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

(d) Government grants

(i) Emission quotas

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

(ii) Other

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

(e) Dividends

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

(f) Foreign currency translation

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

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

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(g) Intangible assets

(i) Goodwill

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

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

(ii) Research and development

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

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

(iii) Computer software

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

(iv) Intellectual property

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

(v) Other intangible assets

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

(vi) Amortisation

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

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

Goodwill is systematically tested for impairment at each statement of financial position date, and when there is an indication for impairment.

(h) Property, plant and equipment and other investments

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

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

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

The estimated useful lives are as follows:

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

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

(i) Impairment

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

(i) Calculation of recoverable amount

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

(ii) Reversals of impairment

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

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(j) Derivative financial instruments

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

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

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

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

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

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

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

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

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

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

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

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

(k) Trade and other receivables

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

(l) Inventories

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

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

(m) Cash and cash equivalents

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

(n) Treasury shares

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

(o) Borrowings

Borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with borrowing costs being accounted for on an accruals basis in the income statement using the effective interest method.

At the reporting date, accrued interest is recorded separately from the associated borrowings within current liabilities.

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED**(p) Employee benefits****(i) Defined contribution schemes**

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

(ii) Defined benefit schemes

The Group's net obligation in respect of defined benefit pension schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to its present value amount and recognised in the income statement as personnel expense; a corresponding liability for all future benefits is established on the statement of financial position and the fair value of any schemes' assets is deducted.

The discount rate is the yield at the reporting date on AA credit rated bonds that have maturity dates approximating to the duration of the schemes' obligations. The calculation is performed by a qualified actuary using the projected unit method.

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

(iii) Long-term service benefits

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

(iv) Share-based payment transactions

The Group operates equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. 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 options remaining outstanding under the Executive Share Option Scheme (1999), which ceased to be operated from September 2008 (see note 26), non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised. It is probable that an outflow of economic benefits will be required to settle the obligation and are discounted to present value where the effect is material.

(q) Provisions

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

(r) Trade and other payables

Trade and other payables are stated at their cost.

(s) Leases

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

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

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

(t) Taxation

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

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

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

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

(u) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(v) Critical accounting policies

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

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

(i) Impairments

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

Value in use is calculated by discounting the cash flows expected to be generated by the asset/group of assets being tested for evidence of impairment. The use of different estimates, assumptions and judgements, in particular those involved in (a) determining a value based on our current expectations of future conditions and the associated cash flows from the Group's operations, (b) our determination of the level at which groups of assets can be reasonably tested for impairment separately from other parts of the business and (c) our treatment of centrally held assets, could each result in materially different carrying values of assets and assessments of impairment. See note 10 for additional information.

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

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued new standards and interpretations with an effective date after the date of these financial statements. Unless where stated, the Group does not anticipate that the adoption of those standards and interpretations that are effective for the financial year ending 30 April 2011 will have a material effect on its financial statements on initial adoption. The standards and interpretation to be adopted by the Group include:

| | | Effective date – financial years ending |
|---|--|---|
| International Financial Reporting Standards (IFRS/IAS) | | |
| IFRS 2 | Amendments to IFRS 2, 'Share-based Payment': cash-settled share-based payment transactions | 30 April 2011 |
| Revised IFRS 3 | 'Business Combinations': The revised standard still requires the purchase method of accounting to be applied to business combinations, however, this will introduce some changes to the existing accounting treatment. For example, contingent consideration is measured at fair value at the date of acquisition and subsequently remeasured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All transaction costs incurred in connection with a business combination do not form part of the business combination transaction and will be expensed. The Group will apply the revised IFRS 3 prospectively to all business combinations from 1 May 2010. | 30 April 2011 |
| Amended IAS 27 | Consolidated and Separate Financial Statements | 30 April 2011 |
| IAS 32 | Amendments to IAS 32 Classification of Rights Issues | 30 April 2011 |
| IAS 39 | Amendments to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items | 30 April 2011 |
| Improvements to IFRSs issued April 2009. | | 30 April 2011 |

(ii) Pensions and other post-retirement benefits

IAS 19, 'Employee Benefits', requires the Group to make assumptions including, but not limited to, future asset returns, rates of inflation, discount rates and life expectancies. The use of different assumptions, in any of the above calculations, could have a material effect on the accounting values of the relevant statement of financial position assets and liabilities which could also result in a change to the cost of such liabilities as recognised in the income statement over time. These assumptions are subject to periodic review. See note 25 for additional information.

(iii) Accounting for carbon dioxide (CO₂) emissions

There are currently no accounting standards that specifically address accounting for emission allowances. The Group, with the agreement of its auditors, has applied a 'net liability' approach. Under a 'net liability' approach, no assets or government grants are recognised when allowances are initially received. This is because they are ascribed a nominal value of nil. As allowances granted to the Group are used to offset the liability from CO₂ emissions, no accounting entries are required so long as the related emissions generated are within the allowance received from the government. If such emissions are in excess of the allowance received (known as a shortfall position) a provision is made at the current market price for carbon credits. In the case where emission quotas are acquired through an acquisition, any surplus emission quotas are fair valued in accordance with IFRS 3 'Business Combinations'.

2. SEGMENT REPORTING**Operating segments**

| | Packaging | | | | Office Products Wholesaling £m | Total Group £m |
|--|-------------------------------------|---|---------------|-----------------|---|----------------------|
| | UK Paper and Corrugated £m | Continental European Corrugated £m | Plastic £m | Sub-total £m | | |
| For the year ended 30 April 2010 | | | | | | |
| External revenue (sales of goods) | 750.2 | 355.4 | 231.3 | 1,336.9 | 733.7 | 2,070.6 |
| Adjusted operating profit¹ | 35.4 | 22.9 | 15.5 | 73.8 | 20.2 | 94.0 |
| Exceptional items (note 4) | (4.5) | (7.1) | 0.1 | (11.5) | (1.8) | (13.3) |
| Segment result | 30.9 | 15.8 | 15.6 | 62.3 | 18.4 | 80.7 |

Analysis of total assets and total liabilities

| | | | | | | |
|--|----------------|---------------|---------------|----------------|----------------|------------------|
| Segment assets | 703.1 | 268.9 | 158.8 | 1,130.8 | 244.4 | 1,375.2 |
| Unallocated items | | | | | | |
| Investments, associates and other assets | | | | | | 2.0 |
| Derivative financial instruments | | | | | | 18.2 |
| Cash and cash equivalents | | | | | | 55.1 |
| Tax balances | | | | | | 83.7 |
| Total assets | | | | | | 1,534.2 |
| Segment liabilities | (199.1) | (81.2) | (43.4) | (323.7) | (129.7) | (453.4) |
| Unallocated items | | | | | | |
| Borrowings and accrued interest | | | | | | (292.2) |
| Derivative financial instruments | | | | | | (34.7) |
| Tax balances | | | | | | (77.6) |
| Post-retirement benefits | | | | | | (203.1) |
| Total liabilities | | | | | | (1,061.0) |

Other segment items:

| | | | | | | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| Adjusted return on sales – % ¹ | 4.7% | 6.4% | 6.7% | 5.5% | 2.8% | 4.5% |
| Adjusted EBITDA – £m ¹ | 74.4 | 38.7 | 27.6 | 140.7 | 25.3 | 166.0 |
| Adjusted EBITDA margin – % ¹ | 9.9% | 10.9% | 11.9% | 10.5% | 3.4% | 8.0% |
| Year-end capital employed – £m ² | 504.0 | 187.7 | 115.4 | 807.1 | 114.7 | 921.8 |
| Average capital employed – £m ² | 538.6 | 192.4 | 123.2 | 854.2 | 119.4 | 973.6 |
| Adjusted return on average capital employed – % ^{1,2} | 6.6% | 11.9% | 12.6% | 8.6% | 16.9% | 9.7% |
| Capital expenditure – £m ³ | 20.0 | 12.7 | 5.4 | 38.1 | 3.1 | 41.2 |
| Depreciation and amortisation – £m | 38.9 | 15.8 | 12.1 | 66.8 | 5.2 | 72.0 |

1 before exceptional items

2 year-end and average capital employed is defined on page 72

3 capital expenditure represents additions to intangible assets and property, plant and equipment

2. SEGMENT REPORTING CONTINUED

Operating segments continued

| For the year ended 30 April 2009 | Packaging | | | | | Total Group £m |
|--|----------------------------------|---|---------------|-----------------|--------------------------------------|-------------------|
| | UK Paper and Corrugated £m | Continental European Corrugated £m | Plastic £m | Sub-total £m | Office Products Wholesaling £m | |
| External revenue (sales of goods) | 785.8 | 363.4 | 236.9 | 1,386.1 | 720.5 | 2,106.6 |
| Adjusted operating profit¹ | 36.5 | 30.4 | 7.0 | 73.9 | 20.1 | 94.0 |
| Exceptional items (note 4) | (18.2) | (24.7) | (4.0) | (46.9) | (3.7) | (50.6) |
| Segment result | 18.3 | 5.7 | 3.0 | 27.0 | 16.4 | 43.4 |

Analysis of total assets and total liabilities

| | | | | | | |
|--|---------|--------|--------|---------|---------|------------------|
| Segment assets | 687.7 | 265.4 | 172.4 | 1,125.5 | 259.8 | 1,385.3 |
| Unallocated items | | | | | | |
| Investments, associates and other assets | | | | | | 2.6 |
| Derivative financial instruments | | | | | | 25.4 |
| Cash and cash equivalents | | | | | | 62.9 |
| Tax balances | | | | | | 74.5 |
| Total assets | | | | | | 1,550.7 |
| Segment liabilities | (183.5) | (71.7) | (49.4) | (304.6) | (138.2) | (442.8) |
| Unallocated items | | | | | | |
| Borrowings and accrued interest | | | | | | (355.3) |
| Derivative financial instruments | | | | | | (24.4) |
| Tax balances | | | | | | (80.5) |
| Post-retirement benefits | | | | | | (191.3) |
| Total liabilities | | | | | | (1,094.3) |

Other segment items:

| | | | | | | |
|--|-------|-------|-------|-------|-------|---------|
| Adjusted return on sales – % ¹ | 4.6% | 8.4% | 3.0% | 5.3% | 2.8% | 4.5% |
| Adjusted EBITDA – £m ¹ | 73.2 | 45.8 | 19.2 | 138.2 | 25.7 | 163.9 |
| Adjusted EBITDA margin – % ¹ | 9.3% | 12.6% | 8.1% | 10.0% | 3.6% | 7.8% |
| Year-end capital employed – £m ² | 504.2 | 193.7 | 123.0 | 820.9 | 121.6 | 942.5 |
| Average capital employed – £m ² | 545.2 | 199.6 | 132.8 | 877.6 | 131.9 | 1,009.5 |
| Adjusted return on average capital employed – % ^{1,2} | 6.7% | 15.2% | 5.3% | 8.4% | 15.2% | 9.3% |
| Capital expenditure – £m ³ | 55.2 | 18.9 | 7.1 | 81.2 | 2.0 | 83.2 |
| Depreciation and amortisation – £m | 36.7 | 15.4 | 12.2 | 64.3 | 5.6 | 69.9 |

¹ before exceptional items

² year-end and average capital employed is defined on page 72

³ capital expenditure represents additions to intangible assets and property, plant and equipment

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements continued

2. SEGMENT REPORTING CONTINUED

The Group has adopted IFRS 8 'Operating Segments' during the year. IFRS 8 requires operating segments to be identified on the same basis as is used internally for the review of performance and allocation of resources by the Group Chief Executive. The Directors have reviewed the business segments identified under the previous standard (IAS 14 'Segmental Reporting'), and consider that these reported segments remain appropriate under IFRS 8. Further details of these business segments are given in the Business Review on pages 1 to 39. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Central administration costs are allocated to the individual segments on a consistent basis year-on-year. Assets and liabilities have been analysed by segment at a capital employed level. Capital employed excludes items of a financing nature, taxation balances, post-retirement benefit liabilities and non-current asset investments; segmental capital employed comprises identifiable segment assets less segmental liabilities. Average capital employed is the average monthly capital employed. The adjusted return on average capital employed is defined as operating profit before exceptional items divided by average capital employed.

In presenting information by geographical area, external revenue is based on geographical location of customers. Non-current assets exclude investments and derivative financial instruments and are based on the geographical location of the assets.

Geographical areas

| | External revenue | | Non-current assets | | Capital expenditure | |
|------------------------------------|------------------|------------|--------------------|------------|---------------------|------------|
| | 2010 £m | 2009 £m | 2010 £m | 2009 £m | 2010 £m | 2009 £m |
| Year ended 30 April | | | | | | |
| UK | 1,106.3 | 1,147.6 | 614.3 | 639.4 | 23.5 | 57.2 |
| France | 449.3 | 447.3 | 111.8 | 119.2 | 5.0 | 12.2 |
| Rest of Western Continental Europe | 335.8 | 331.9 | 83.1 | 91.9 | 4.1 | 5.6 |
| Eastern Continental Europe | 108.6 | 113.0 | 46.1 | 44.7 | 6.7 | 5.5 |
| Rest of the World | 70.6 | 66.8 | 38.9 | 38.0 | 1.9 | 2.7 |
| | 2,070.6 | 2,106.6 | 894.2 | 933.2 | 41.2 | 83.2 |

3. OPERATING PROFIT

| | 2010 £m | 2009 £m |
|---------------------------|--------------|------------|
| Operating expenses | | |
| Distribution expenses | 223.5 | 220.0 |
| Administrative expenses | 208.0 | 238.8 |
| | 431.5 | 458.8 |

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

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

| | 2010 £m | 2009 £m |
|---|--------------|------------|
| Depreciation – owned assets | 67.1 | 65.5 |
| – leased assets | 0.8 | 0.9 |
| Amortisation of intangible assets | 4.1 | 3.5 |
| Hire of plant and machinery | 12.6 | 12.3 |
| Other operating lease rentals | 13.3 | 11.9 |
| Research and development | 1.8 | 1.2 |
| Gains on the sale of land and buildings | (2.4) | (1.2) |
| Amounts paid to Deloitte LLP | 1.4 | 1.3 |

3. OPERATING PROFIT CONTINUED

| | 2010 | | | 2009 | | |
|---|------------|----------------|-------------|----------|----------------|-------------|
| | UK £m | Overseas £m | Total £m | UK £m | Overseas £m | Total £m |
| Auditors' remuneration | | | | | | |
| Fees payable to the Company's auditors for the audit of the Company's annual accounts | 0.2 | - | 0.2 | 0.2 | - | 0.2 |
| Fees payable to the Company's auditors and their associates for other services: | | | | | | |
| The audit of the Company's subsidiaries, pursuant to legislation | 0.4 | 0.5 | 0.9 | 0.4 | 0.6 | 1.0 |
| Tax and other services | 0.2 | 0.1 | 0.3 | 0.1 | - | 0.1 |
| | 0.8 | 0.6 | 1.4 | 0.7 | 0.6 | 1.3 |

Total non-audit fees relating to tax and other services are £0.3m (2008/09: £0.1m).

4. EXCEPTIONAL ITEMS

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

| | 2010 £m | 2009 £m |
|--|---------------|---------------|
| Restructuring costs | | |
| UK Paper and Corrugated Packaging | - | (18.2) |
| Continental European Corrugated Packaging | (1.2) | (1.6) |
| Plastic Packaging | 0.3 | (3.5) |
| Office Products Wholesaling | (1.8) | (3.7) |
| Total restructuring costs | (2.7) | (27.0) |
| Impairment of associate | - | (18.1) |
| Other impairments | (10.2) | (5.5) |
| Disposal costs | (0.4) | - |
| Total exceptional items recognised in operating profit/(loss) | (13.3) | (50.6) |
| Group's share of exceptional losses on associate | - | (5.1) |
| Total pre-tax exceptional items | (13.3) | (55.7) |
| Deferred tax charge following amendment to UK Industrial Building Allowance regime | - | (13.3) |
| Income tax credit on exceptional items | 0.9 | 7.9 |
| Total exceptional tax items | 0.9 | (5.4) |
| Total post-tax exceptional items | (12.4) | (61.1) |

2009/2010

The Continental European Corrugated Packaging restructuring of £(1.2)m relates to restructuring in France; the Plastic Packaging restructuring of £0.3m relates to a gain on reversal of under-utilised provisions; restructuring of £(1.8)m within Office Products Wholesaling relates to Spicers UK; other impairments are described in notes 10 and 17; disposal costs predominantly relate to the sale of Demes Logistics GmbH & Co KG (see note 31).

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements continued

4. EXCEPTIONAL ITEMS CONTINUED

2008/09

The UK Paper and Corrugated Packaging restructuring of £(18.2)m relates to the costs of restructuring the Group's paper-making and corrugated packaging facilities across the UK. This includes the cost of restructuring following the conversion of the New Thames Mill.

The Continental European Corrugated Packaging restructuring of £(1.6)m relates to restructuring of corrugated packaging facilities in France.

The Plastic Packaging restructuring of £(3.5)m relates to the closure of the Rugby office and related restructurings.

The Office Products Wholesaling restructuring of £(3.7)m relates to restructuring costs of Spicers UK, including the closure of the office furniture business.

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

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

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

The Group recognised a £(5.1)m exceptional loss in respect of the Group's share of losses incurred by Rubezhansk, the Group's associate in Ukraine (see note 12).

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

5. FINANCE INCOME AND COSTS

| | 2010 £m | 2009 £m |
|---------------------------------------|------------|------------|
| Interest on loans and overdrafts | 14.8 | 23.7 |
| Finance lease interest | 0.1 | 0.3 |
| Other | 1.0 | 2.1 |
| Finance costs | 15.9 | 26.1 |
| Interest income from financial assets | (0.7) | (1.7) |
| Other | (0.8) | (0.8) |
| Finance income | (1.5) | (2.5) |

Other finance costs largely relate to the increase in the fair value of the non-controlling shareholders' put options in Toscana Ondulati SpA (see note 24).

Included within other finance income is £0.6m (2008/09: £0.6m) of hedge ineffectiveness on net investment hedges and fair value hedges. Refer to note 21(c) for further details of cash flow, fair value and net investment hedges.

6. PERSONNEL EXPENSES

| | 2010 £m | 2009 £m |
|---|------------|------------|
| Wages and salaries | 316.6 | 318.6 |
| Social security costs | 52.7 | 49.9 |
| Contributions to defined contribution pension plans | 2.6 | 2.9 |
| Service costs for defined benefit schemes (see note 25) | 8.5 | 11.7 |
| Share-based payment expense (see note 26) | 1.4 | 0.3 |
| Personnel expenses | 381.8 | 383.4 |

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

| | 2010 Number | 2009 Number |
|------------------------------------|----------------|----------------|
| UK | 6,273 | 6,913 |
| France | 1,638 | 1,724 |
| Rest of Western Continental Europe | 1,337 | 1,449 |
| Eastern Continental Europe | 1,054 | 1,120 |
| Rest of the World | 474 | 504 |
| Average number of employees | 10,776 | 11,710 |

7. INCOME TAX EXPENSE

Income tax expense recognised in the income statement

| | 2010 £m | 2009 £m |
|---|---------------|------------|
| Current tax expense | | |
| Current year | (18.7) | (21.0) |
| Adjustment in respect of prior years | (8.7) | – |
| | (27.4) | (21.0) |
| Deferred tax (expense)/credit | | |
| Origination and reversal of temporary differences | (2.2) | 5.9 |
| Abolition of Industrial Buildings Allowances | – | (13.3) |
| Adjustment in respect of prior years | 12.7 | 0.4 |
| | 10.5 | (7.0) |
| Total income tax expense in the income statement | (16.9) | (28.0) |

During the year, the Group has undertaken a review of its current and deferred tax balances primarily as a result of significant adjustments to its UK tax depreciation claims in submitted tax computations in earlier years. This review has resulted in a net credit to the income statement of £4.0m and a significant movement between prior year current and deferred tax.

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

| | 2010 £m | 2009 £m |
|---|-------------|-------------|
| Profit before income tax | 55.0 | 16.8 |
| Less: share of (profit)/loss of associates | (0.2) | 4.5 |
| Profit before tax and share of profit/(loss) of associates | 54.8 | 21.3 |
| Income tax calculated using the domestic corporation tax rate of 28.0% (2008/09: 28.0%) | (15.3) | (6.0) |
| Effect of tax rates in overseas jurisdictions | (2.8) | (2.7) |
| Non-deductible expenses | (3.9) | (5.7) |
| Utilisation/(origination) of tax losses not recognised | 0.5 | (2.0) |
| Adjustment in respect of prior years | 4.0 | 0.4 |
| Abolition of Industrial Buildings Allowances | – | (13.3) |
| Other | 0.6 | 1.3 |
| Income tax expense | (16.9) | (28.0) |
| | 2010 | 2009 |
| | £m | £m |
| Deferred tax recognised directly in equity | | |
| Relating to post-retirement benefits | 3.3 | 34.9 |
| Other | 4.3 | 18.4 |
| | 7.6 | 53.3 |

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements continued

8. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 30 April 2010 is based on the profit/(loss) attributable to ordinary shareholders of £37.9m (2008/09: £(11.8m)) and the weighted average number of ordinary shares outstanding during the year ended 30 April 2010 of 391.0m (2008/09: 390.9m). The number of shares excludes the weighted average number of the Company's own shares held as treasury shares during the year of 2.4m (2008/09: 2.4m).

| | 2010 | 2009 |
|--|---------------|----------|
| Profit/(loss) attributable to ordinary shareholders (£m) | £37.9m | £(11.8)m |
| Weighted average number of ordinary shares at 30 April (million) | 391.0m | 390.9m |
| Basic earnings/(loss) per share | 9.7p | (3.0)p |

Diluted earnings per share

The calculation of diluted earnings per share at 30 April 2010 is based on profit/(loss) attributable to ordinary shareholders of £37.9m (2008/09: £(11.8m)) and the weighted average number of ordinary shares outstanding during the year ended 30 April 2010, as adjusted for potentially issuable ordinary shares, of 399.5m (2008/09: 392.5m), calculated as follows:

| | 2010 £m | 2009 £m |
|--|-------------|------------|
| Profit/(loss) attributable to ordinary shareholders (£m) | 37.9 | (11.8) |

In millions of shares

| | 2010 | 2009 |
|---|--------------|--------|
| Weighted average number of ordinary shares at 30 April | 391.0 | 390.9 |
| Potentially dilutive shares issuable under share-based payment arrangements | 8.5 | 1.6 |
| Weighted average number of ordinary shares (diluted) at 30 April | 399.5 | 392.5 |
| Diluted earnings/(loss) per share | 9.5p | (3.0)p |

Adjusted earnings per share

The Directors believe that the presentation of an adjusted earnings per share amount, being the basic earnings/(loss) per share adjusted for exceptional items, helps to explain the underlying performance of the Group. A reconciliation of basic to adjusted earnings per share is as follows:

| | 2010 | | | 2009 | | |
|---------------------------------------|-------------|-------------------------------|---------------------------------|--------|-------------------------------|---------------------------------|
| | £m | Basic – pence per share | Diluted – pence per share | £m | Basic – pence per share | Diluted – pence per share |
| Basic earnings/(loss) | 37.9 | 9.7p | 9.5p | (11.8) | (3.0)p | (3.0)p |
| Add back exceptional items, after tax | 12.4 | 3.2p | 3.1p | 61.1 | 15.6p | 15.6p |
| Adjusted earnings | 50.3 | 12.9p | 12.6p | 49.3 | 12.6p | 12.6p |

9. DIVIDENDS

Dividends proposed and paid by the Group are as follows:

| | 2010 | | 2009 | |
|---------------------------|--------------------|-------------|--------------------|------|
| | Pence per share | £m | Pence per share | £m |
| Interim dividend – paid | 1.5p | 5.9 | 2.6p | 10.2 |
| Final dividend – proposed | 3.1p | 12.1 | 1.8p | 7.0 |
| | 4.6p | 18.0 | 4.4p | 17.2 |

| | 2010 £m | 2009 £m |
|----------------------|-------------|------------|
| Paid during the year | 12.9 | 34.4 |

A final dividend in respect of 2009/10 of 3.1 pence per share (£12.1m) has been proposed by the Directors after the statement of financial position date and has not been included as a liability in these financial statements.

10. INTANGIBLE ASSETS

| | Goodwill £m | Software £m | Intellectual property £m | Other £m | Total £m |
|--|----------------|----------------|--------------------------------|-------------|--------------|
| Cost | | | | | |
| Balance at 1 May 2009 | 214.4 | 36.4 | 13.1 | 11.0 | 274.9 |
| Acquisitions through business combinations | 0.7 | – | – | – | 0.7 |
| Additions | – | 1.8 | 0.2 | 4.4 | 6.4 |
| Disposals | (0.3) | (2.3) | – | (0.4) | (3.0) |
| Effect of movements in foreign exchange | 1.3 | (0.3) | – | (0.2) | 0.8 |
| Balance at 30 April 2010 | 216.1 | 35.6 | 13.3 | 14.8 | 279.8 |

Amortisation and impairment losses

| | | | | | |
|---|---------------|---------------|--------------|--------------|---------------|
| Balance at 1 May 2009 | (15.1) | (31.9) | (5.0) | (0.9) | (52.9) |
| Amortisation for the year | – | (1.7) | (0.8) | (1.6) | (4.1) |
| Impairment loss | (4.3) | – | – | – | (4.3) |
| Disposals | 0.4 | 2.1 | – | – | 2.5 |
| Effect of movements in foreign exchange | – | 0.3 | – | (0.1) | 0.2 |
| Balance at 30 April 2010 | (19.0) | (31.2) | (5.8) | (2.6) | (58.6) |

Carrying amount

| | | | | | |
|------------------------------------|--------------|------------|------------|-------------|--------------|
| Balance as at 1 May 2009 | 199.3 | 4.5 | 8.1 | 10.1 | 222.0 |
| Balance as at 30 April 2010 | 197.1 | 4.4 | 7.5 | 12.2 | 221.2 |

| | Goodwill £m | Software £m | Intellectual property £m | Other £m | Total £m |
|--|----------------|----------------|--------------------------------|-------------|-------------|
| Cost | | | | | |
| Balance at 1 May 2008 | 207.0 | 34.7 | 12.9 | 9.1 | 263.7 |
| Acquisitions through business combinations | 0.2 | – | – | 1.7 | 1.9 |
| Additions | 0.1 | 1.6 | – | 1.5 | 3.2 |
| Disposals | – | (1.5) | – | (1.7) | (3.2) |
| Effect of movements in foreign exchange | 7.1 | 1.6 | 0.2 | 0.4 | 9.3 |
| Balance at 30 April 2009 | 214.4 | 36.4 | 13.1 | 11.0 | 274.9 |

Amortisation

| | | | | | |
|---|--------|--------|-------|-------|--------|
| Balance at 1 May 2008 | (14.1) | (29.8) | (4.3) | (0.3) | (48.5) |
| Amortisation for the year | – | (2.2) | (0.7) | (0.6) | (3.5) |
| Disposals | – | 1.4 | – | – | 1.4 |
| Effect of movements in foreign exchange | (1.0) | (1.3) | – | – | (2.3) |
| Balance at 30 April 2009 | (15.1) | (31.9) | (5.0) | (0.9) | (52.9) |

Carrying amount

| | | | | | |
|-----------------------------|-------|-----|-----|------|-------|
| Balance as at 1 May 2008 | 192.9 | 4.9 | 8.6 | 8.8 | 215.2 |
| Balance as at 30 April 2009 | 199.3 | 4.5 | 8.1 | 10.1 | 222.0 |

The amortisation charge for the year of £4.1m (2008/09: £3.5m) is included within administrative expenses. The impairment loss for the year of £4.3m (2008/09: £nil) is included within exceptional items. The other items above include acquired emissions quotas which are capitalised as an asset when granted to the Group and treated as a disposal when used to satisfy the Group's obligations or sold, as explained in note 1.

10. INTANGIBLE ASSETS CONTINUED**Impairment loss**

Due to the downturn in the non-food retail sector, resulting from the UK recession, the Multigraphics business, a UK business which provides printing services and display material for the retail sector, which was acquired in 2008, has not met the Group's expectations as at 30 April 2010. The Group has implemented a new business plan which resulted in an impairment loss being recognised on the goodwill identified at the time of acquisition.

The recoverable amount of the Multigraphics cash-generating unit ('CGU') was estimated based on its value in use. Based on the assessment performed, the carrying amount of the CGU was determined to be £3.9m higher than its recoverable amount, resulting in an impairment loss being recognised.

The estimate of value in use was determined using a pre-tax discount rate of 11.8% (2008/09: 11.8%).

The impairment loss is recognised in exceptional items within the UK Paper and Corrugated Packaging segment. An additional goodwill impairment loss of £0.4m has also been recognised due to the carrying amount of another CGU within the UK Paper and Corrugated Packaging segment exceeding its recoverable amount estimated based on its value in use.

Impairment tests for cash-generating units containing goodwill

The following segments have CGUs containing significant carrying amounts of goodwill after the impairment losses recognised:

| | 2010 £m | 2009 £m |
|--|--------------|------------|
| UK Paper and Corrugated Packaging | 140.2 | 144.3 |
| Plastic Packaging | 40.8 | 39.1 |
| | 181.0 | 183.4 |
| Segments with no CGUs containing individually significant goodwill | 16.1 | 15.9 |
| Total goodwill | 197.1 | 199.3 |

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value in use calculations.

The key assumptions in the value in use calculation were:

- cash forecasts derived from the latest budgets and forecasts for the two years ending 30 April 2012 as approved by the Directors. Cash flows for the following three years were extrapolated assuming a progressive recovery in margins to historical levels;
- the pre-tax weighted average cost of capital ('WACC') for the Group is 11.8% (2008/09: 11.8%). The Group believes that the risk profile across the significant markets in which it operates are not significantly different, hence the same WACC is universally applied across all CGUs; and
- long-term growth rates are either equal to or less than the inflation assumption.

The outcome of the impairment tests for the CGUs containing significant carrying amounts of goodwill (after the impairment losses recognised) is summarised as follows:

| Headroom | 2010 £m | 2009 £m |
|-----------------------------------|------------|------------|
| UK Paper and Corrugated Packaging | 114.5 | 47.6 |
| Plastic Packaging | 68.9 | 55.3 |

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

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

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

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

A half percentage point increase in the WACC to 12.3% would result in a reduction in the headroom for the CGUs containing significant carrying amounts of goodwill within UK Paper and Corrugated Packaging, reducing to circa £86m. The headroom for the CGUs containing significant carrying amounts of goodwill within Plastic Packaging would similarly reduce to circa £61m.

In order for there to be no further impairments within UK Paper and Corrugated Packaging, adjusted operating profits will need to achieve circa £69m in 2015/16; this compares to £36.5m in 2008/09 and £35.4m in 2009/10. The assumptions underpinning UK Paper and Corrugated Packaging adjusted operating profits reflect managements' expectations of a return to historic levels of margins and profitability by 2015/16.

11. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings £m | Plant and equipment £m | Fixtures and fittings £m | Under construction £m | Total £m |
|--|--------------------------|---------------------------|-----------------------------|--------------------------|----------------|
| Cost | | | | | |
| Balance at 1 May 2009 | 334.6 | 1,148.8 | 66.4 | 20.9 | 1,570.7 |
| Acquisitions through business combinations | 0.7 | 1.8 | 0.2 | – | 2.7 |
| Additions | 1.6 | 19.9 | 1.2 | 12.3 | 35.0 |
| Disposals | (2.3) | (38.0) | (7.3) | – | (47.6) |
| Transfers | 4.4 | 16.4 | (2.9) | (17.9) | – |
| Reclassification to held for sale | (9.3) | (29.5) | (0.2) | – | (39.0) |
| Other reclassification | 0.4 | 3.3 | 0.1 | 0.1 | 3.9 |
| Effect of movements in foreign exchange | (1.9) | (6.5) | 0.8 | – | (7.6) |
| Balance at 30 April 2010 | 328.2 | 1,116.2 | 58.3 | 15.4 | 1,518.1 |
| Depreciation | | | | | |
| Balance at 1 May 2009 | (90.2) | (787.6) | (55.8) | – | (933.6) |
| Acquisitions through business combinations | (0.1) | (1.2) | (0.1) | – | (1.4) |
| Depreciation charge for the year | (7.2) | (58.1) | (2.6) | – | (67.9) |
| Disposals | 1.1 | 30.8 | 7.1 | – | 39.0 |
| Reclassification to held for sale | 5.2 | 28.9 | 0.2 | – | 34.3 |
| Other reclassification | (1.3) | (2.9) | 0.3 | – | (3.9) |
| Effect of movements in foreign exchange | 3.4 | (0.8) | 3.6 | – | 6.2 |
| Balance at 30 April 2010 | (89.1) | (790.9) | (47.3) | – | (927.3) |
| Carrying amount | | | | | |
| Balance as at 1 May 2009 | 244.4 | 361.2 | 10.6 | 20.9 | 637.1 |
| Balance as at 30 April 2010 | 239.1 | 325.3 | 11.0 | 15.4 | 590.8 |

Leased property, plant and equipment

The amounts above include land and buildings held under finance lease agreements. At 30 April 2010, the carrying amount of land and buildings held under finance leases was £6.3m (2009: £6.9m).

Property, plant and equipment under construction

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

11. PROPERTY, PLANT AND EQUIPMENT CONTINUED

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

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

12. INVESTMENT IN ASSOCIATES

| | 2010 £m | 2009 £m |
|---|------------|------------|
| Balance at 1 May | 0.3 | 30.0 |
| Share of profit of associates after interest and tax, including exceptional loss of £nil (2008/09: £5.1m) | 0.2 | (4.5) |
| Intra-group profit elimination | - | (0.4) |
| Impairment | - | (18.1) |
| Transfer to a subsidiary | (0.5) | - |
| Exchange differences | - | (6.7) |
| Balance at 30 April | - | 0.3 |

The share of profit from associates is in respect of Winfried Wirth GmbH, which became a subsidiary during 2009/10 and is therefore no longer accounted for using the equity method.

| | Nature of business | Principal country of operation | Financial year end | Ownership interest | |
|---|-------------------------------------|--------------------------------|--------------------|--------------------|-------|
| | | | | 2010 | 2009 |
| OJSC Rubezhansk Paper and Packaging Mill (Rubezhansk) | Manufacturer of paper and packaging | Ukraine | 31 December | 49.6% | 49.6% |

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

In 2008/09, the Group fully impaired the carrying value of its investment in Rubezhansk and recognised an exceptional loss of £5.1m, being the Group's share of the after-tax net loss at Rubezhansk incurred in the second half of 2008/09. This was as a result of foreign exchange losses on the US\$87m loan, following the significant decline in the Ukrainian Hryvnia against the US dollar. Exchange rate movements resulted in Rubezhansk breaching its banking covenants.

In 2009/10, negotiations continue with Rubezhansk's bankers following the breaching of the banking covenants. Whilst the uncertainty of the financial position continues at Rubezhansk, the Group has not recognised any profits in respect of its investment in the associate.

Summary of financial information in associate

| | 2010 £m | 2009 £m |
|-------------------------|------------|------------|
| Rubezhansk | | |
| Assets | 120.6 | 116.1 |
| Liabilities | (62.9) | (71.8) |
| Revenues | 57.4 | 82.8 |
| Profit/(loss) after tax | 1.7 | (9.5) |

13. OTHER INVESTMENTS

| | 2010 £m | 2009 £m |
|-------------------------|------------|------------|
| Non-current investments | 0.8 | 0.8 |
| Current investments | 0.2 | 0.5 |

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

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14. INVENTORIES

| | 2010 £m | 2009 £m |
|-------------------------------|--------------|------------|
| Raw materials and consumables | 62.2 | 54.0 |
| Work in progress | 4.4 | 3.2 |
| Finished goods | 108.2 | 113.0 |
| | 174.8 | 170.2 |

The Group consumed £1,558.4m (2008/09: £1,604.4m) of inventories recognised as cost of sales during the year. Provisions against inventories totalled £20.1m (30 April 2009: £20.2m).

15. TRADE AND OTHER RECEIVABLES

| | 2010 | | 2009 | |
|---|-------------------|---------------|-------------------|---------------|
| | Non-current £m | Current £m | Non-current £m | Current £m |
| Trade receivables | – | 366.5 | – | 346.4 |
| Provisions for bad and doubtful receivables | – | (17.7) | – | (21.7) |
| Prepayments and other receivables | 0.8 | 31.7 | 0.9 | 31.4 |
| | 0.8 | 380.5 | 0.9 | 356.1 |

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of trade receivables from the date credit was initially granted up to the reporting date. The fair value of trade and other receivables is not materially different from their carrying amounts above. Refer to note 21 (d)(iii) for further quantitative and qualitative analysis of credit risk.

16. TRADE AND OTHER PAYABLES

| | 2010 | | 2009 | |
|---|-------------------|---------------|-------------------|---------------|
| | Non-current £m | Current £m | Non-current £m | Current £m |
| Trade payables | – | 307.3 | – | 288.8 |
| Non-trade payables and accrued expenses | 3.9 | 123.1 | 3.8 | 123.3 |
| | 3.9 | 430.4 | 3.8 | 412.1 |

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

17. ASSETS AND LIABILITIES HELD FOR SALE

The Copikas business, a corrugated packaging business in Turkey, within the Continental European Corrugated Packaging segment, is presented as a disposal group held for sale following the commitment of the Board, on 27 April 2010, to a plan to sell the business to focus on growing core businesses of scale within its portfolio. The sale of Copikas for a cash consideration of £4.7m (payable on completion), which was agreed on 28 May 2010 with Olmuksa International Paper-Sabancı Ambalaj Sanayi Ve Ticaret A.S., is subject to the Turkish Competition Board's approval that is anticipated will take around six weeks. At 30 April 2010, the disposal group comprised assets of £7.4m, less liabilities of £5.7m.

An exceptional impairment loss of £5.9m on the remeasurement of the disposal group to the lower of its carrying amount and its fair value less costs to sell has been recognised in exceptional items, of which £4.7m has been allocated against property, plant and equipment and the remainder against inventories (see note 4).

Additionally, assets of £0.7m less liabilities of £0.4m of a small packaging business within the UK Paper and Corrugated Packaging business have been presented as assets and liabilities held for sale following the commitment of the Board, on 27 April 2010, to dispose of the business.

| | 2010 £m |
|---|------------|
| Assets classified as held for sale | |
| Property, plant and equipment | – |
| Inventories | 0.8 |
| Trade and other receivables | 7.3 |
| | 8.1 |

17. ASSETS AND LIABILITIES HELD FOR SALE CONTINUED

| | 2010 £m |
|--|--------------|
| Liabilities classified as held for sale | |
| Trade and other payables | (5.3) |
| Provisions | (0.2) |
| Post-retirement benefits | (0.6) |
| | (6.1) |

18. NET DEBT

| | 2010 £m | 2009 £m |
|--|--------------|--------------|
| Non-current liabilities | 256.4 | 331.5 |
| Current liabilities | 5.7 | 5.8 |
| Derivative financial instruments | 10.2 | 8.3 |
| Net cash and cash equivalents | (32.8) | (54.1) |
| Net debt | 239.5 | 291.5 |
| Net debt divided by EBITDA (before exceptional items) | 1.4x | 1.8x |
| Gearing (net debt expressed as a percentage of net assets) | 50.6% | 63.9% |

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

| | At 1 May 2009 £m | Cash flow £m | Acquisitions and disposals £m | Foreign exchange and fair value movements £m | At 30 April 2010 £m |
|---|---------------------------|-----------------|--|---|------------------------------|
| Cash and cash equivalents | 62.9 | (7.3) | – | (0.5) | 55.1 |
| Overdrafts | (8.8) | (14.5) | – | 1.0 | (22.3) |
| Net cash and cash equivalents | 54.1 | (21.8) | – | 0.5 | 32.8 |
| Interest-bearing loans and borrowings due after one year | (326.2) | 65.7 | (0.5) | 9.6 | (251.4) |
| Interest-bearing loans and borrowings due within one year | (4.9) | 0.2 | – | (0.3) | (5.0) |
| Finance leases | (6.2) | 0.4 | (0.4) | 0.5 | (5.7) |
| Derivative financial instruments | | | | | |
| – assets | 11.0 | – | – | 0.3 | 11.3 |
| – liabilities | (19.3) | – | – | (2.2) | (21.5) |
| | (345.6) | 66.3 | (0.9) | 7.9 | (272.3) |
| Total net debt | (291.5) | 44.5 | (0.9) | 8.4 | (239.5) |

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19. CASH AND CASH EQUIVALENTS

| | 2010 £m | 2009 £m |
|--|-------------|------------|
| Bank balances | 51.4 | 55.4 |
| Short-term deposits | 3.7 | 7.5 |
| Cash and cash equivalents (per statement of financial position) | 55.1 | 62.9 |
| Bank overdrafts | (22.3) | (8.8) |
| Net cash and cash equivalents (per statement of cash flows) | 32.8 | 54.1 |

20. INTEREST-BEARING LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, refer to note 21.

| | 2010 | | 2009 | |
|--|---------------|-------------------|---------------|-------------------|
| | Current £m | Non-current £m | Current £m | Non-current £m |
| Borrowings measured at amortised cost | | | | |
| Bank and other loans | 5.0 | 13.5 | 4.9 | 80.2 |
| Note purchase agreements | – | 49.0 | – | 50.6 |
| Finance lease liabilities | 0.7 | 5.0 | 0.9 | 5.3 |
| | 5.7 | 67.5 | 5.8 | 136.1 |
| Borrowings in a fair value hedge relationship | | | | |
| Note purchase agreements | – | 188.9 | – | 195.4 |
| | 5.7 | 256.4 | 5.8 | 331.5 |

Bank loans, other loans and overdrafts of certain subsidiaries totalling £2.6m (2009: £3.4m) are secured over the properties and machinery of these companies. The holder of the security does not have the right to sell or re-pledge the assets as security.

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

| | 2010 | | | | |
|---|-------------------------|--------------------|--------------------|----------------------------|--------------|
| | 1 year or less £m | 1–2 years £m | 2–5 years £m | More than 5 years £m | Total £m |
| Interest-bearing loans and borrowings | | | | | |
| Fixed-rate | 0.3 | 0.1 | 65.2 | 49.2 | 114.8 |
| Floating-rate | 5.4 | 2.2 | 122.7 | 17.0 | 147.3 |
| Total interest-bearing loans and borrowings | 5.7 | 2.3 | 187.9 | 66.2 | 262.1 |
| | 2009 | | | | |
| | 1 year or less £m | 1–2 years £m | 2–5 years £m | More than 5 years £m | Total £m |
| Interest-bearing loans and borrowings | | | | | |
| Fixed-rate | 0.4 | 0.2 | 67.1 | 50.8 | 118.5 |
| Floating-rate | 5.4 | 1.6 | 115.8 | 96.0 | 218.8 |
| Total interest-bearing loans and borrowings | 5.8 | 1.8 | 182.9 | 146.8 | 337.3 |

20. INTEREST-BEARING LOANS AND BORROWINGS CONTINUED

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

| | Sterling £m | Euro £m | US dollar £m | Other £m | Total £m |
|---|----------------|---------------|-----------------|--------------|---------------|
| At 30 April 2010 | | | | | |
| Interest-bearing loans and borrowings | | | | | |
| Fixed-rate | 49.3 | 65.5 | - | - | 114.8 |
| Floating-rate | 26.8 | 99.1 | 17.6 | 3.8 | 147.3 |
| | 76.1 | 164.6 | 17.6 | 3.8 | 262.1 |
| Net cash and cash equivalents (including bank overdrafts) | | | | | |
| Fixed-rate | - | (2.4) | (4.1) | (2.2) | (8.7) |
| Floating-rate | (11.4) | (10.3) | 0.7 | (3.1) | (24.1) |
| | (11.4) | (12.7) | (3.4) | (5.3) | (32.8) |
| Net borrowings/(cash) at 30 April 2010 | 64.7 | 151.9 | 14.2 | (1.5) | 229.3 |

| | Sterling £m | Euro £m | US dollar £m | Other £m | Total £m |
|--|----------------|--------------|-----------------|--------------|--------------|
| At 30 April 2009 | | | | | |
| Interest-bearing loans and borrowings | | | | | |
| Fixed-rate | 51.1 | 67.4 | - | - | 118.5 |
| Floating-rate | 26.8 | 153.1 | 35.1 | 3.8 | 218.8 |
| | 77.9 | 220.5 | 35.1 | 3.8 | 337.3 |
| Net cash and cash equivalents (including overdrafts) | | | | | |
| Fixed-rate | - | (9.9) | (2.9) | (4.3) | (17.1) |
| Floating-rate | (10.7) | (15.7) | (2.4) | (8.2) | (37.0) |
| | (10.7) | (25.6) | (5.3) | (12.5) | (54.1) |
| Net borrowings/(cash) at 30 April 2009 | 67.2 | 194.9 | 29.8 | (8.7) | 283.2 |

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

| | 2010 £m | 2009 £m |
|-------------------------------------|--------------|--------------|
| Expiring within one year | 19.1 | 78.8 |
| Expiring between one and two years | 17.4 | 8.9 |
| Expiring between two and five years | 274.5 | 208.0 |
| | 311.0 | 295.7 |

At 30 April 2010, 66% (30 April 2009: 69%) of the Group's net borrowings, after taking into account the effect of cross-currency swaps, were denominated in euros in order to hedge the underlying assets of the Group's relevant continental European operations. Interest rates on floating-rate borrowings are based on London Interbank Offered Rate (LIBOR), Euro Interbank Offered Rate (EURIBOR) or base rates.

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

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

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20. INTEREST-BEARING LOANS AND BORROWINGS CONTINUED

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

Finance lease liabilities

| | 2010 | | | 2009 | | |
|----------------------------|-------------------------------------|----------------|---|-------------------------------------|----------------|---|
| | Future minimum lease payments £m | Interest £m | Present value of minimum lease payments £m | Future minimum lease payments £m | Interest £m | Present value of minimum lease payments £m |
| Less than one year | 0.8 | (0.1) | 0.7 | 1.0 | (0.1) | 0.9 |
| Between one and five years | 3.3 | (0.9) | 2.4 | 2.8 | (0.7) | 2.1 |
| More than five years | 2.7 | (0.1) | 2.6 | 3.5 | (0.3) | 3.2 |
| Finance lease liabilities | 6.8 | (1.1) | 5.7 | 7.3 | (1.1) | 6.2 |

21. FINANCIAL INSTRUMENTS

The Group's activities expose the Group to a number of key risks which have the potential to affect its ability to achieve its business objectives. A summary of the Group's key financial risks and the policies and objectives in place to manage these risks is set out in the Financial Review and Risk Management sections of the Business Review on pages 28 to 33.

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

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

(a) Carrying amounts and fair values of financial assets and liabilities

Set out below is the accounting classification of the carrying amounts and fair values of all of the Group's financial assets and liabilities.

| | 2010 | | 2009 | |
|---|-----------------------|------------------|-----------------------|------------------|
| | Carrying amount £m | Fair value £m | Carrying amount £m | Fair value £m |
| Financial assets | | | | |
| Cash and cash equivalents | 55.1 | 55.1 | 62.9 | 62.9 |
| Available-for-sale: | | | | |
| Other investments | 1.0 | 1.0 | 1.3 | 1.3 |
| Loans and receivables: | | | | |
| Trade and other receivables | 381.3 | 381.3 | 357.0 | 357.0 |
| Derivative financial instruments: | | | | |
| Other financial assets in designated hedge accounting relationships | 18.2 | 18.2 | 25.4 | 25.4 |
| Total financial assets | 455.6 | 455.6 | 446.6 | 446.6 |

21. FINANCIAL INSTRUMENTS CONTINUED

(a) Carrying amounts and fair values of financial assets and liabilities continued

| | 2010 | | 2009 | |
|--|-----------------------|------------------|-----------------------|------------------|
| | Carrying amount £m | Fair value £m | Carrying amount £m | Fair value £m |
| Financial liabilities | | | | |
| Financial liabilities at amortised cost: | | | | |
| Trade and other payables | (434.3) | (434.3) | (415.9) | (415.9) |
| Bank and other loans | (18.5) | (18.5) | (85.1) | (85.1) |
| Note purchase agreements | (237.9) | (246.3) | (246.0) | (255.9) |
| Finance lease liabilities | (5.7) | (5.7) | (6.2) | (6.2) |
| Bank overdrafts | (22.3) | (22.3) | (8.8) | (8.8) |
| Derivative financial instruments: | | | | |
| Other financial liabilities in designated hedge accounting relationships | (34.7) | (34.7) | (24.4) | (24.4) |
| Total financial liabilities | (753.4) | (761.8) | (786.4) | (796.3) |

The fair value is the amount for which an asset or liability could be exchanged or settled on an arm's-length basis. For financial instruments carried at fair value, market prices or rates are used to determine fair value where an active market exists. The Group uses forward prices for valuing forward foreign exchange and commodity contracts and uses valuation models with present value calculations based on market yield curves to value note purchase agreements, cross-currency swaps and interest rate swaps. All derivative financial assets and liabilities are shown at fair value on the statement of financial position. Under IAS 39 'Financial Instruments: Recognition and Measurement', hedge accounting rules, only portions of the note purchase agreements which form part of an effective fair value hedge are carried at fair value in the statement of financial position. The fair value of financial assets and liabilities which bear floating rates of interest is estimated to be equivalent to book value.

IFRS 7 'Financial Instruments: Disclosures' requires the classification of fair value measurements using the following fair value hierarchy that reflects the significance of the inputs used in making the assessments:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All of the Group's financial instruments are Level 2 financial instruments. The Group does not hold any Level 1 or Level 3 financial instruments.

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements continued

21. FINANCIAL INSTRUMENTS CONTINUED

(b) Derivative financial instruments

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

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

| | Assets | | Liabilities | | Net | |
|---|-------------|-------------|---------------|---------------|---------------|------------|
| | 2010 £m | 2009 £m | 2010 £m | 2009 £m | 2010 £m | 2009 £m |
| Derivatives held to | | | | | | |
| Manage the interest rate and currency exposures on borrowings and net investments | 11.3 | 11.0 | (21.5) | (19.3) | (10.2) | (8.3) |
| Derivative financial instruments included in net debt | 11.3 | 11.0 | (21.5) | (19.3) | (10.2) | (8.3) |
| Derivatives held to | | | | | | |
| Hedge future transactions – energy costs | 5.3 | 11.2 | (13.1) | (4.5) | (7.8) | 6.7 |
| Hedge future transactions – foreign exchange on purchases and sales of goods and services | 1.6 | 3.2 | (0.1) | (0.6) | 1.5 | 2.6 |
| Total derivative financial instruments | 18.2 | 25.4 | (34.7) | (24.4) | (16.5) | 1.0 |
| Current | 6.3 | 11.7 | (8.7) | (0.7) | (2.4) | 11.0 |
| Non-current | 11.9 | 13.7 | (26.0) | (23.7) | (14.1) | (10.0) |
| | 18.2 | 25.4 | (34.7) | (24.4) | (16.5) | 1.0 |

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

(i) Cash flow hedging reserve movements

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

| | 2010 £m | 2009 £m |
|---|--------------|------------|
| Balance at 1 May | 2.7 | 13.0 |
| Unrealised fair value gain/(loss) on designated cash flow hedges | | |
| Forward exchange contracts | 1.7 | 1.6 |
| Cross-currency and interest rate swaps | - | (4.6) |
| Commodity contracts | (4.4) | (2.3) |
| Losses/(gains) in equity recycled to the income statement* | | |
| Forward exchange contracts | (1.4) | 0.6 |
| Commodity contracts | (6.0) | (5.1) |
| (Gains) in equity recycled to the statement of financial position** | | |
| Forward exchange contracts | - | (0.5) |
| Balance at 30 April | (7.4) | 2.7 |

* (Gains)/losses in equity transferred to profit or loss during the period are included in the line items on the face of the income statement shown in the table below.

** (Gains)/losses in equity transferred to the statement of financial position during the period are included in the line items on the face of the statement of financial position shown in the table below.

21. FINANCIAL INSTRUMENTS CONTINUED

(c) Cash flow, fair value and net investment hedges continued

(i) Cash flow hedging reserve movements continued

| | 2010 £m | 2009 £m |
|---------------|------------|------------|
| Revenue | 0.8 | 1.2 |
| Cost of sales | (11.2) | (7.5) |
| Income tax | 3.0 | 1.8 |
| | (7.4) | (4.5) |

| | 2010 £m | 2009 £m |
|-------------------------------|------------|------------|
| Property, plant and equipment | - | (0.5) |

(ii) Fair value hedges

At 30 April 2010, the Group held interest rate and currency swap contracts as fair value hedges of the interest rate and currency risk on fixed rate debt payable by the Group. The receive leg of the swap contracts is largely identical for all critical aspects to the terms of the underlying debt and thus the hedging is highly effective. The pre-tax loss on the hedging derivative instruments taken to the income statement in the year was £6.2m (2008/09: gain of £48.4m) offset by a pre-tax gain on the fair value of the debt of £6.1m (2008/09: loss of £47.2m).

(iii) Hedges of net investments in foreign operations

The Group holds currency swap contracts as hedges of long-term investments in foreign subsidiaries. The pre-tax gain on the hedges recognised in equity in the year was £5.7m (2008/09: loss of £19.4m). The gain or loss is matched by a similar gain or loss in equity on the retranslation of the hedged foreign subsidiary's net assets. During the year, hedge ineffectiveness arising from hedges of net investments resulted in a gain of £0.7m (2008/09: loss of £0.6m).

(d) Risk identification and risk management

(i) Capital risk

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

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

(ii) Market risk

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

Interest rate risk

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

At 30 April 2010, 44% (2009: 35%) of the Group's interest-bearing loans and borrowings were fixed for a period of at least one year. The sensitivity analysis below shows the impact on profit and total equity of a 100 basis points rise in market interest rates (representing management's assessment of the reasonably possible change in interest rates) in all currencies in which the Group had variable rate borrowings at 30 April.

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

21. FINANCIAL INSTRUMENTS CONTINUED**(d) Risk identification and risk management** continued**(ii) Market risk** continued

The results are presented before non-controlling interests and tax.

| | 2010 | | 2009 | |
|---|------------------------|------------------------------|------------------------|------------------------------|
| | Impact on profit £m | Impact on total equity £m | Impact on profit £m | Impact on total equity £m |
| Increase in market interest rates by 100 basis points | (1.2) | - | (1.8) | - |

Under interest rate swap contracts the Group agrees to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal amounts. At 30 April 2010, losses of £3.5m (2009: losses of £3.5m) (net of tax) are deferred in equity in respect of cash flow hedges of interest rate risk. This will be recycled to the income statement in the period in which the hedged item also affects the income statement, which will occur over time to 2016.

*Foreign exchange risk**Foreign exchange risk on investments*

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

Foreign exchange risk on borrowings

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

Foreign exchange risk on transactions

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

At 30 April 2010, gains of £1.8m (2009: gains of £1.4m) (net of tax) is deferred in equity in respect of cash flow hedges. This will be recycled to the income statement in the period in which the hedged item also affects the income statement, which occurs within two years. During the year, £1.4m of gains deferred in equity were transferred to the income statement (2008/09: losses of £0.6m).

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

The results are presented before non-controlling interests and tax.

| | 2010 | | 2009 | |
|-------------------------------|------------------------|------------------------------|------------------------|------------------------------|
| | Impact on profit £m | Impact on total equity £m | Impact on profit £m | Impact on total equity £m |
| 10% strengthening of sterling | (0.8) | (0.6) | (0.8) | 0.9 |
| 10% weakening of sterling | 0.9 | 0.7 | 1.0 | (1.1) |

Commodity risk

The Group's main commodity exposures are to changes in UK gas and UK electricity prices. Part of this commodity price risk is managed by a combination of physical supply agreements and derivative instruments. At 30 April 2010, losses of £5.7m (2009: gains of £4.8m) (net of tax) is deferred in equity in respect of cash flow hedges in accordance with IAS 39. This will be recycled to the income statement in the period in which the hedged item also affects the income statement, which occurs within two years. During the year, gains of £6.0m deferred in equity were transferred to the income statement (2008/09: gains of £5.1m).

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

21. FINANCIAL INSTRUMENTS CONTINUED

(d) Risk identification and risk management continued

(ii) Market risk continued

The results are presented before non-controlling interests and tax.

| | 2010 | | 2009 | |
|---------------------------------------|------------------------|------------------------------|------------------------|------------------------------|
| | Impact on profit £m | Impact on total equity £m | Impact on profit £m | Impact on total equity £m |
| 10% increase in UK electricity prices | - | 0.4 | - | - |
| 10% increase in UK gas prices | - | 1.8 | - | 2.1 |

(iii) Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will fail to perform or fail to pay amounts due, causing financial loss to the Group. In the current economic environment, the Group has placed increased emphasis on the management of credit risk. The carrying amount of financial assets at 30 April 2010 was £455.6m (2009: £446.6m) and is analysed in note 21(a). This represents the maximum credit exposure.

The majority of the Group's trade receivables are due for maturity within 90 days. Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and diverse. Management believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful debts (see note 15).

| | Net carrying amount (see note 15) £m | Of which neither impaired nor past due £m | Of which past due but not impaired | | | | |
|--|--|--|------------------------------------|------------------|------------------|-------------------|---------------------------|
| | | | 1 month or less £m | 1-3 months £m | 3-6 months £m | 6-12 months £m | More than 12 months £m |
| The ageing of trade receivables | | | | | | | |
| As at 30 April 2010 | 348.8 | 280.4 | 63.7 | 3.0 | 1.0 | 0.3 | 0.4 |
| As at 30 April 2009 | 324.7 | 300.7 | 16.6 | 5.4 | 1.0 | 0.6 | 0.4 |

Movement in the allowance for bad and doubtful receivables

| | 2010 £m | 2009 £m |
|---|---------------|---------------|
| Balance as at 1 May | (21.7) | (13.7) |
| Uncollectible amounts written off, net of receivables | 6.3 | 0.3 |
| Increase in allowance recognised in profit or loss | (3.3) | (7.1) |
| Reclassification to assets held for sale | 0.7 | - |
| Effect of movements in foreign exchange | 0.3 | (1.2) |
| Balance as at 30 April (see note 15) | (17.7) | (21.7) |

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

21. FINANCIAL INSTRUMENTS CONTINUED**(d) Risk identification and risk management** continued**(iv) Liquidity risk**

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

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

The following table is an analysis of the undiscounted contractual maturities of financial liabilities (including the effect of cross-currency and interest rate swaps).

| As at 30 April 2010 | Carrying amount £m | Contractual repayments | | | |
|---|-----------------------|------------------------|-------------------------|-----------------|-------------|
| | | Total £m | 1 year or less £m | 1-5 years £m | |
| Non-derivative financial liabilities | | | | | |
| Trade and other payables | 434.3 | 434.3 | 430.4 | 3.9 | - |
| Bank and other loans | 18.5 | 18.5 | 5.0 | 13.5 | - |
| Note purchase agreements | 237.9 | 224.2 | - | 162.2 | 62.0 |
| Finance lease liabilities | 5.7 | 5.7 | 0.7 | 2.4 | 2.6 |
| Bank overdrafts | 22.3 | 22.3 | 22.3 | - | - |
| Total non-derivative financial liabilities | 718.7 | 705.0 | 458.4 | 182.0 | 64.6 |

| As at 30 April 2009 | Carrying amount £m | Contractual repayments | | | |
|---|-----------------------|------------------------|-------------------------|-----------------|--------------|
| | | Total £m | 1 year or less £m | 1-5 years £m | |
| Non-derivative financial liabilities | | | | | |
| Trade and other payables | 415.9 | 415.9 | 412.1 | 3.8 | - |
| Bank and other loans | 85.1 | 85.1 | 4.9 | 80.2 | - |
| Note purchase agreements | 246.0 | 230.9 | - | 95.9 | 135.0 |
| Finance lease liabilities | 6.2 | 6.2 | 0.9 | 2.1 | 3.2 |
| Bank overdrafts | 8.8 | 8.8 | 8.8 | - | - |
| Total non-derivative financial liabilities | 762.0 | 746.9 | 426.7 | 182.0 | 138.2 |

The tables above exclude interest expense estimated to be £11.2m in 2010/11, £9.8m in 2011/12, £8.7m in 2012/13, £4.7m in 2013/14, £3.5m in 2014/15 and £4.4m in 2015/16 and thereafter (assuming interest rates with respect to variable rate debt remain constant and there is no change in the aggregate principal amount of debt other than as a result of repayment at scheduled maturity).

The above table does not include forecast data for liabilities which may be incurred in the future which are not contracted as at 30 April 2010.

Refer to note 29 for an analysis of the Group's future operating lease payments and to note 30 for a summary of the Group's commitments.

The following table is an analysis of the undiscounted contractual maturities of derivative financial liabilities. Where the payable and receivable legs of these derivatives are denominated in foreign currencies, the contractual payments/receipts have been calculated based on exchange rates as at the respective year ends.

Where applicable, interest and foreign exchange rates prevailing at the reporting date are assumed to remain constant over the future contractual maturities.

21. FINANCIAL INSTRUMENTS CONTINUED

(d) Risk identification and risk management continued

| As at 30 April 2010 | Carrying amount £m | Contractual payments/(receipts) | | | |
|--|-----------------------|---------------------------------|-------------------------|-----------------|----------------------------|
| | | Total £m | 1 year or less £m | 1-5 years £m | More than 5 years £m |
| Derivative financial liabilities | | | | | |
| Energy derivatives | 7.8 | 7.8 | 4.2 | 3.6 | - |
| Interest rate and currency swaps: | | | | | |
| Outflow | 21.5 | 282.8 | 10.1 | 213.4 | 59.3 |
| Inflow | (11.3) | (284.6) | (14.1) | (203.1) | (67.4) |
| Foreign exchange: | | | | | |
| Outflow | 0.1 | 52.8 | 50.8 | 2.0 | - |
| Inflow | (1.6) | (54.3) | (52.3) | (2.0) | - |
| Total net derivative financial liabilities/(assets) | (16.5) | 4.5 | (1.3) | 13.9 | (8.1) |

| As at 30 April 2009 | Carrying amount £m | Contractual payments/(receipts) | | | |
|--|-----------------------|---------------------------------|-------------------------|-----------------|----------------------------|
| | | Total £m | 1 year or less £m | 1-5 years £m | More than 5 years £m |
| Derivative financial liabilities | | | | | |
| Energy derivatives | (6.7) | (6.4) | (8.3) | 1.9 | - |
| Interest rate and currency swaps: | | | | | |
| Outflow | 19.3 | 315.7 | 13.8 | 160.2 | 141.7 |
| Inflow | (11.0) | (315.7) | (16.8) | (152.6) | (146.3) |
| Foreign exchange: | | | | | |
| Outflow | 0.6 | 53.3 | 50.5 | 2.8 | - |
| Inflow | (3.2) | (55.9) | (53.1) | (2.8) | - |
| Total net derivative financial liabilities/(assets) | (1.0) | (9.0) | (13.9) | 9.5 | (4.6) |

22. DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

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

| | Assets | | Liabilities | | Net | |
|---|-------------|-------------|---------------|---------------|-------------|------------|
| | 2010 £m | 2009 £m | 2010 £m | 2009 £m | 2010 £m | 2009 £m |
| Property, plant and equipment and intangible assets | - | - | (60.5) | (70.5) | (60.5) | (70.5) |
| Employee benefits including pensions | 61.1 | 55.7 | - | - | 61.1 | 55.7 |
| Other items | 20.3 | 17.5 | - | - | 20.3 | 17.5 |
| Tax assets/(liabilities) | 81.4 | 73.2 | (60.5) | (70.5) | 20.9 | 2.7 |

22. DEFERRED TAX ASSETS AND LIABILITIES CONTINUED**Unrecognised deferred tax assets and liabilities**

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

| | Assets | | Liabilities | |
|--|------------|------------|-------------|--------------|
| | 2010 £m | 2009 £m | 2010 £m | 2009 £m |
| Tax losses | 9.9 | 3.7 | - | - |
| Unremitted earnings of overseas operations | - | - | - | (5.2) |
| Total | 9.9 | 3.7 | - | (5.2) |

The tax losses above include £8.7m which do not expire and £1.2m which expire between 2013 and 2015, under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom. Following a change in UK tax legislation during the period which resulted in dividends from overseas subsidiaries not being subject to corporation tax, the Group no longer has unrecognised deferred tax liabilities (2009: £5.2m) in respect of temporary differences associated with the unremitted earnings of the subsidiaries. Prior to this change in legislation no liabilities had been recognised in respect of these differences because the Group was in a position to control the timing of their reversal.

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

| | Property, plant and equipment and intangible assets | | Employee benefits including pensions | | Other items | | Total | |
|-------------------------------|---|------------|--------------------------------------|------------|-------------|------------|------------|------------|
| | 2010 £m | 2009 £m | 2010 £m | 2009 £m | 2010 £m | 2009 £m | 2010 £m | 2009 £m |
| Balance at 1 May | (70.5) | (66.2) | 55.7 | 23.1 | 17.5 | 3.3 | 2.7 | (39.8) |
| Credit/(charge) for the year | 9.9 | (0.6) | 0.6 | (2.3) | - | (4.2) | 10.5 | (7.1) |
| Recognised directly in equity | - | - | 4.8 | 34.9 | 2.8 | 18.4 | 7.6 | 53.3 |
| Exchange adjustments | 0.1 | (3.7) | - | - | - | - | 0.1 | (3.7) |
| Balance at 30 April | (60.5) | (70.5) | 61.1 | 55.7 | 20.3 | 17.5 | 20.9 | 2.7 |

At 30 April 2010, deferred tax assets and liabilities were recognised for all taxable temporary differences:

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

23. PROVISIONS

| | Employee benefits £m | Restructuring £m | Other £m | Total £m |
|---|-------------------------|---------------------|-------------|-------------|
| Balance at 1 May 2009 | 5.8 | 22.3 | 8.0 | 36.1 |
| Provisions made during the year | 0.1 | 4.4 | 3.2 | 7.7 |
| Provisions used during the year | (0.2) | (16.3) | (5.2) | (21.7) |
| Provisions reversed during the year | (0.1) | (0.7) | (0.4) | (1.2) |
| Reclassification | (0.9) | 0.4 | 0.5 | - |
| Effect of movements in foreign exchange | (0.2) | 0.1 | - | (0.1) |
| Balance at 30 April 2010 | 4.5 | 10.2 | 6.1 | 20.8 |
| Non-current | 4.1 | 2.2 | 1.6 | 7.9 |
| Current | 0.4 | 8.0 | 4.5 | 12.9 |
| | 4.5 | 10.2 | 6.1 | 20.8 |

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

24. CAPITAL AND RESERVES

Share capital

| | Number of shares | | 2010 £m | 2009 £m |
|--|------------------|------------------|-------------|------------|
| | 2010 Millions | 2009 Millions | | |
| Ordinary equity shares of 10 pence each: | | | | |
| Authorised | 410.0 | 410.0 | 41.0 | 41.0 |
| Issued, allotted, called up and fully paid | 393.4 | 393.4 | 39.3 | 39.3 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In respect of the Company's shares that are held by the Group (see below), all rights are suspended until those shares are reissued.

Translation reserve

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

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Share premium

The share premium account represents the difference between the issue price and the nominal value of shares issued.

Own shares

The reserve for the Company's own shares comprises the cost of the Company's shares held by the Group. The Group operates a General Employee Benefit Trust, which acquires shares in the Company that can be used to satisfy the requirements of the Executive Share Option Scheme, the Restricted Share Plan (discontinued in 2004) and the Long-Term Incentive Plan (discontinued in 2007), Performance Share Plan (PSP), Deferred Share Bonus Plan (DSBP), Replacement Deferred Share Bonus Plan (RDSBP). At 30 April 2010, the Trust held 2.4m shares (2009: 2.4m shares). The market value of the shares at 30 April 2010 was £3.2m (2009: £1.9m). Dividends receivable on the shares owned by the Trust have been waived.

Non-controlling interests

At the beginning of the year, the Group had a liability of £3.5m and a corresponding entry against non-controlling interests in respect of the non-controlling shareholders' put option in Toscana Ondulati SpA. This amount was calculated with reference to the recent profitability of the company using a multiple based formula. The fair value of the put options increased during the year by £0.4m (2009: £0.9m). This charge was recorded within finance costs through the income statement and then transferred out of retained earnings into non-controlling interests.

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

The Group operates a funded, defined benefit scheme in the UK, the DS Smith Group Pension scheme ('the Group scheme'). The Group made agreed annual contributions of £15.6m to the Group scheme in 2009/10 (2008/09: £15.6m). The Group operates various local pension arrangements for overseas operations and unfunded arrangements for senior executives: these are, in aggregate, not significant to the Group. The following financial information includes amounts related to these other arrangements, where appropriate. A charge over certain assets of the Group has been made as security for certain of the unfunded arrangements. The most recent full actuarial valuation of the Group scheme was as at 30 April 2007, which will be updated to 30 April 2010 by a qualified independent actuary. All UK valuations used the projected unit method. The Group scheme is closed to new entrants. Because of this, the average age of the active members is likely to increase at future valuations and this may lead to an increasing current service contribution rate; this may be offset by a falling total pensionable salary resulting from leavers and retirements.

Liability for defined benefit obligations

Principal actuarial assumptions are as follows:

| | 2010 % | 2009 % | 2008 % | 2007 % | 2006 % |
|---|-------------|-----------|-----------|-----------|-----------|
| Discount rate for scheme liabilities | 5.6% | 6.4% | 5.9% | 5.4% | 5.1% |
| Inflation | 3.5% | 3.3% | 3.5% | 2.9% | 2.7% |
| Future salary increases | 4.5% | 4.3% | 4.5% | 3.9% | 3.7% |
| Future pension increases for pre 30 April 2005 service | 3.5% | 3.3% | 3.5% | 2.9% | 2.7% |
| Future pension increases for post 30 April 2005 service | 2.4% | 2.3% | 2.3% | 2.3% | 2.3% |
| Expected return on plan assets | 6.5% | 6.7% | 6.7% | 6.6% | 6.6% |

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

| | Increase in pension liability £m | Increase in service costs £m |
|------------------------------------|--|------------------------------------|
| 0.5% decrease in discount rate | (80.0) | (1.6) |
| 0.5% increase in inflation | (70.0) | (1.0) |
| 1 year increase in life expectancy | (20.0) | (0.2) |

Future mortality is the most significant demographic assumption. The basic mortality table used by the Group at 30 April 2010 is PMA92/PFA92 (30 April 2009: PMA92/PFA92) with medium cohort mortality improvement. This means the mortality rates assumed for members of a particular age differ from those for members who will reach that age in the future. Studies have illustrated that the amount of pension, the location of employees and the nature of their work are significant factors affecting mortality. As a result, the basic mortality table rates are based on ages two years older than the members' actual age for non-pensioners and three years older for pensioners.

The current life expectancies (in years) are:

| | 2010 | | 2009 | |
|----------------------------------|-------------|-------------|------|--------|
| | Male | Female | Male | Female |
| Life expectancy at age 65 | | | | |
| Pensioner currently aged 65 | 19.5 | 22.4 | 19.5 | 22.3 |
| Member currently aged 45 | 21.3 | 24.1 | 21.3 | 24.1 |

25. POST-RETIREMENT BENEFITS CONTINUED

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

| | 2010 | | 2009 | | 2008 | | 2007 | | 2006 | |
|--|---------------------------|-----------------|---------------------------|-----------------|---------------------------|-----------------|---------------------------|-----------------|---------------------------|-----------------|
| | Expected rate of return % | Market value £m | Expected rate of return % | Market value £m | Expected rate of return % | Market value £m | Expected rate of return % | Market value £m | Expected rate of return % | Market value £m |
| Equities | 7.9% | 420.1 | 7.4% | 349.8 | 7.6% | 490.8 | 7.4% | 527.1 | 7.5% | 524.5 |
| Bonds, gilts and cash (weighted average) | 4.9% | 269.0 | 5.1% | 205.5 | 4.4% | 231.0 | 4.1% | 210.8 | 4.3% | 181.6 |
| Total market value of assets | | 689.1 | | 555.3 | | 721.8 | | 737.9 | | 706.1 |
| Present value of schemes' liabilities | | (892.2) | | (746.6) | | (797.7) | | (756.5) | | (756.4) |
| Deficit in the schemes | | (203.1) | | (191.3) | | (75.9) | | (18.6) | | (50.3) |
| Related deferred tax asset | | 57.0 | | 53.3 | | 21.4 | | 5.6 | | 15.0 |
| Net pension liability | | (146.1) | | (138.0) | | (54.5) | | (13.0) | | (35.3) |

Movements in the liability for defined benefit schemes' obligations recognised in the statement of financial position

| | 2010 £m | 2009 £m | 2008 £m | 2007 £m | 2006 £m |
|---|----------------|----------------|----------------|----------------|----------------|
| Schemes' liabilities at 1 May | (746.6) | (797.7) | (756.5) | (756.4) | (674.1) |
| Interest cost | (46.7) | (46.4) | (40.1) | (38.1) | (35.2) |
| Service cost recognised in the income statement | (8.5) | (11.7) | (9.8) | (10.9) | (11.4) |
| Member contributions | (5.6) | (6.2) | (6.4) | (6.9) | (6.8) |
| Curtailments | - | - | - | - | 3.3 |
| Pension payments | 47.4 | 31.6 | 28.0 | 31.3 | 24.2 |
| Payments to the Pension Protection Fund | - | 1.5 | - | 0.1 | - |
| Actuarial (losses)/gains recognised in the consolidated statement of comprehensive income | (132.3) | 84.0 | (10.8) | 24.2 | (56.4) |
| Effect of movements in foreign exchange | (0.5) | (1.7) | (2.1) | 0.2 | - |
| Reclassification to held for sale | 0.6 | - | - | - | - |
| Schemes' liabilities at 30 April | (892.2) | (746.6) | (797.7) | (756.5) | (756.4) |

Movements in the fair value of defined benefit schemes' assets recognised in the statement of financial position

| | 2010 £m | 2009 £m | 2008 £m | 2007 £m | 2006 £m |
|---|--------------|--------------|--------------|--------------|--------------|
| Schemes' assets at 1 May | 555.3 | 721.8 | 737.9 | 706.1 | 559.3 |
| Employer contributions | 17.1 | 16.9 | 16.8 | 17.3 | 16.8 |
| Member contributions | 5.6 | 6.2 | 6.4 | 6.9 | 6.8 |
| Other contributions | - | - | 0.7 | - | - |
| Expected return on schemes' assets | 35.2 | 47.9 | 48.9 | 46.1 | 36.4 |
| Actuarial gains/(losses) recognised in the consolidated statement of comprehensive income | 122.0 | (207.4) | (62.2) | (7.2) | 110.8 |
| Pension payments | (45.7) | (31.4) | (27.8) | (31.2) | (24.0) |
| Effect of movements in foreign exchange | (0.4) | 1.3 | 1.1 | (0.1) | - |
| Schemes' assets at 30 April | 689.1 | 555.3 | 721.8 | 737.9 | 706.1 |

25. POST-RETIREMENT BENEFITS CONTINUED**Expense recognised in the income statement**

| | 2010 £m | 2009 £m | 2008 £m | 2007 £m | 2006 £m |
|--|---------------|---------------|--------------|---------------|---------------|
| Current service cost | (6.7) | (9.7) | (8.3) | (9.3) | (11.1) |
| Past service cost | (0.6) | (0.8) | (1.1) | (1.5) | (0.3) |
| Pension Protection Fund levy | (1.2) | (1.2) | (0.4) | (0.1) | – |
| Total service cost | (8.5) | (11.7) | (9.8) | (10.9) | (11.4) |
| Interest cost on schemes' liabilities | (46.7) | (46.4) | (40.1) | (38.1) | (35.2) |
| Expected return on schemes' assets | 35.2 | 47.9 | 48.9 | 46.1 | 36.4 |
| Employment benefit net finance (expense)/income | (11.5) | 1.5 | 8.8 | 8.0 | 1.2 |

Analysis of amounts recognised in the statement of comprehensive income

| | 2010 £m | 2009 £m | 2008 £m | 2007 £m | 2006 £m |
|---|---------------|----------------|---------------|-------------|-------------|
| Actual return less expected return on pension schemes' assets | 122.0 | (207.4) | (62.2) | (7.2) | 110.8 |
| Experience gains/(losses) arising on schemes' liabilities | – | – | 16.1 | 10.3 | (17.9) |
| Changes in assumptions underlying present value of schemes' liabilities | (132.3) | 84.0 | (26.9) | 13.9 | (38.5) |
| Actuarial (losses)/gains recognised in the statement of comprehensive income | (10.3) | (123.4) | (73.0) | 17.0 | 54.4 |

The cumulative amount of actuarial losses recognised in other comprehensive income since the date of transition to IFRS is £166.5m (2009: £156.2m).

History of experience gains and losses

| | 2010 £m | 2009 £m | 2008 £m | 2007 £m | 2006 £m |
|---|------------|------------|------------|------------|------------|
| Difference between expected and actual returns on schemes' assets | 122.0 | (207.4) | (62.2) | (7.2) | 110.8 |
| Above as a percentage of schemes' assets | 18% | (37%) | (9%) | (1%) | 16% |
| Experience gains/(losses) arising on schemes' liabilities | – | – | 16.1 | 10.3 | (17.9) |
| Above as a percentage of the present value of schemes' liabilities | – | – | 2% | 1% | 2% |
| Total amount recognised in the consolidated statement of comprehensive income | (10.3) | (123.4) | (73.0) | 17.0 | 54.4 |
| Above as a percentage of the present value of schemes' liabilities | (1%) | (17%) | (9%) | 2% | 7% |

26. SHARE-BASED PAYMENT EXPENSE

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

- An Executive Share Option Scheme (ESOS). This scheme ceased to be operated from September 2008. In normal circumstances, the vesting of any options granted under the ESOS is subject to remaining in service and that the growth in the Company's normalised earnings per share equals or exceeds the growth in the UK Retail Prices Index plus an average of 3% per annum over the three financial years commencing with the year of grant.
- A Restricted Share Plan (RSP). This scheme ceased to be operated from September 2004. Under the RSP, participants received an award of shares in the Company equal in value to the participant's annual cash bonus. In normal circumstances the shares vested on the third anniversary of award subject to remaining in service.
- A Long-Term Incentive Plan (LTIP). This scheme ceased to be operated from September 2008. In normal circumstances LTIP awards vest on the third anniversary of grant subject to satisfaction of performance conditions and remaining in service. Performance is measured over a single period of three financial years (commencing with the year in which the award is made) and is based on the Company's total shareholder return performance relative to the constituents of the FTSE Mid 250 Index (excluding investment trusts). Full vesting occurs for a ranking of upper quartile or higher reducing on a straight-line basis to 30% of the award vesting for median performance. None of the award vests for below median performance. No awards will vest, irrespective of total shareholder return performance, unless the Company's earnings per share growth matches or exceeds the growth in the Retail Prices Index over the three-year period.

26. SHARE-BASED PAYMENT EXPENSE CONTINUED

- (iv) A Deferred Share Bonus Plan (DSBP) is operated for Executive Directors. Shares awarded to Directors under the Plan will vest automatically if the Director is still employed by the Company three years after the grant of the award.
- (v) A Replacement Deferred Share Bonus Plan (RDSP) was introduced during 2007/08 for Mr S W Dryden. The shares awarded under the Plan replace similar deferred share awards granted to Mr Dryden by his previous employer.
- (vi) A Performance Share Plan (PSP). Awards under the PSP normally vest after three years subject to remaining in service and the satisfaction of performance conditions measured over the three financial years commencing with the year of grant. Awards have been made under the PSP in 2008 and 2009. The performance conditions are as detailed below (see the Remuneration Report on pages 47 and 48 for a summary of threshold and upper targets for the 2008 and 2009 PSP awards):
- The 2008 award is subject to three equally-weighted performance measures:
 - (i) the Company's total shareholder return (TSR) compared to the constituents of the Industrial Goods and Services Supersector within the FTSE 250;
 - (ii) average adjusted earnings per share (EPS); and
 - (iii) average adjusted return on average capital employed (ROACE).

For those senior executives working in one of the four Business Segments, the three measures (equally weighted) are TSR (as above), average adjusted operating profit and average adjusted ROACE for the relevant segment.
 - The 2009 award is subject to two performance measures:
 - (i) 80% of each award based on a TSR component as per above; and
 - (ii) 20% of each award based on average adjusted ROACE.

For those senior executives working in one of the four Business Segments, the two measures are TSR and ROACE for the relevant segment.

The total number of options outstanding and exercisable under share arrangements as at 30 April 2010 was as follows:

| | Options outstanding | | | Options exercisable | | |
|---------------------------------------|---------------------|------------------------|--|-------------------------------------|--------------------|-------------------------------------|
| | Number of shares | Option price range (p) | Weighted average remaining contract life (years) | Weighted average exercise price (p) | Number exercisable | Weighted average exercise price (p) |
| Executive Share Option Scheme (1992) | Nil | Nil | Nil | Nil | Nil | Nil |
| Executive Share Option Scheme (1999) | 5,187,594 | 135.2–243.8 | 4.6 | 161.6 | 4,477,594 | 148.5 |
| Restricted Share Plan | Nil | Nil | Nil | Nil | Nil | Nil |
| Long-Term Incentive Plan | 690,800 | Nil | 0.2 | Nil | Nil | Nil |
| Deferred Share Bonus Plan | 222,595 | Nil | 0.9 | Nil | Nil | Nil |
| Replacement Deferred Share Bonus Plan | 74,674 | Nil | 0.8 | Nil | Nil | Nil |
| Performance Share Plan | 9,939,030 | Nil | 1.9 | Nil | Nil | Nil |

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

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

| | Executive Share Option Scheme (1992) | | Executive Share Option Scheme (1999) | | Restricted Share Plan | Long-Term Incentive Plan | |
|------------------------------|--------------------------------------|-----------------|--------------------------------------|-----------------|-------------------------------------|--------------------------|-----------------|
| | Weighted average exercise price (p) | Options ('000s) | Weighted average exercise price (p) | Options ('000s) | Weighted average exercise price (p) | Options ('000s) | Options ('000s) |
| 2010 | | | | | | | |
| Balance at 1 May 2009 | 166.6 | 53 | 162.4 | 5,541 | Nil | 29 | 1,943 |
| Granted | Nil | – | Nil | – | Nil | – | – |
| Exercised | Nil | – | Nil | – | Nil | (29) | – |
| Lapsed | 166.6 | (53) | 175.1 | (353) | Nil | – | (1,252) |
| Balance at 30 April 2010 | Nil | Nil | 161.6 | 5,188 | Nil | Nil | 691 |
| Exercisable at 30 April 2010 | Nil | Nil | 148.5 | 4,478 | Nil | Nil | Nil |

26. SHARE-BASED PAYMENT EXPENSE CONTINUED

| | Deferred Share Bonus Plan | | Replacement Deferred Share Bonus Plan | | Performance Share Plan | |
|------------------------------|-------------------------------------|-----------------|---------------------------------------|-----------------|-------------------------------------|-----------------|
| | Weighted average exercise price (p) | Options ('000s) | Weighted average exercise price (p) | Options ('000s) | Weighted average exercise price (p) | Options ('000s) |
| 2010 continued | | | | | | |
| Balance at 1 May 2009 | Nil | 222 | Nil | 113 | Nil | 4,090 |
| Granted | Nil | – | Nil | – | Nil | 6,247 |
| Exercised | Nil | – | Nil | (38) | Nil | – |
| Lapsed | Nil | – | Nil | – | Nil | (398) |
| Balance at 30 April 2010 | Nil | 222 | Nil | 75 | Nil | 9,939 |
| Exercisable at 30 April 2010 | Nil | Nil | Nil | Nil | Nil | Nil |

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

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

The average share price of the Company during the financial year was 104.8 pence (2008/09: 93.7 pence).

The total expense recognised as employee costs is as follows:

| | 2010 | 2009 |
|---|-------------|-------|
| | £m | £m |
| Share-based incentive awards granted in 2004/05 | – | (0.1) |
| Share-based incentive awards granted in 2005/06 | – | 0.2 |
| Share-based incentive awards granted in 2006/07 | – | (0.4) |
| Share-based incentive awards granted in 2007/08 | 0.1 | 0.2 |
| Share-based incentive awards granted in 2008/09 | 0.5 | 0.4 |
| Share-based incentive awards granted in 2009/10 | 0.8 | – |
| Total expense recognised as employee costs | 1.4 | 0.3 |

The fair value of awards granted in the period relates to the PSP schemes.

26. SHARE-BASED PAYMENT EXPENSE CONTINUED

The fair value of the PSP award granted during the period determined using the stochastic valuation model, was £2.9m. The significant inputs into the model were: a share price of £0.7 for the PSP at the grant date; the exercise prices shown above; an expected volatility of the share price of 54.1%; the scheme life disclosed above; an annual risk-free interest rate of 2.4% and an expected dividend yield of nil%. The volatility of share price returns measured as the standard deviation of expected share price returns is based on statistical analysis of average weekly share prices over a period of three years.

The fair value of the PSP award granted in 2008 using the stochastic valuation model was £2.2m. The significant inputs into the model were: a share price of £1.24 for the PSP at the grant date; the exercise price shown above, an expected volatility of the share price of 37.5%; the scheme life disclosed above; an annual risk-free interest rate of 4.2%; and an expected dividend yield of nil%. The volatility of share price returns measured as the standard deviation of expected share price returns is based on a statistical analysis of average weekly share prices over a period of three years.

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

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

27. CASH GENERATED FROM OPERATIONS

| | 2010 £m | 2010 £m | 2009 £m | 2009 £m |
|---|------------|---------------|------------|------------|
| Profit/(loss) for the financial year | | 38.1 | | (11.2) |
| Adjustments for: | | | | |
| Exceptional items charged to income statement | | 13.3 | | 55.7 |
| Cash outflow for exceptional items | | (18.4) | | (17.2) |
| Depreciation and amortisation | | 72.0 | | 69.9 |
| Profit on sale of non-current assets | | (1.0) | | (1.7) |
| Share of profit of associates before exceptional loss of £nil (2008/09: loss £5.1m) | | (0.2) | | (0.6) |
| Employment benefit net finance expense/(income) | | 11.5 | | (1.5) |
| Share-based payment expense | | 1.4 | | 0.3 |
| Finance income | | (1.5) | | (2.5) |
| Finance costs | | 15.9 | | 26.1 |
| Other non-cash items | | 0.6 | | - |
| Income tax expense | | 16.9 | | 28.0 |
| | | 110.5 | | 156.5 |
| Changes in | | | | |
| Inventories | | (8.0) | | 25.5 |
| Trade and other receivables | | (36.3) | | 70.8 |
| Trade and other payables | | 41.9 | | (65.5) |
| Provisions and employee benefits | | (10.7) | | (9.7) |
| | | (13.1) | | 21.1 |
| Cash generated from operations | | 135.5 | | 166.4 |

28. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

| | 2010 £m | 2009 £m |
|---|----------------|------------|
| Operating profit before exceptional items | 94.0 | 94.0 |
| Depreciation and amortisation | 72.0 | 69.9 |
| Adjusted EBITDA | 166.0 | 163.9 |
| Working capital movement | (2.4) | 30.8 |
| Other | (9.7) | (11.1) |
| Cash generated from operations before exceptional cash items | 153.9 | 183.6 |
| Capital expenditure payments | (52.6) | (87.4) |
| Proceeds from sales of assets and investments | 13.0 | 7.7 |
| Tax paid | (21.3) | (21.0) |
| Net interest paid | (16.2) | (23.0) |
| Free cash flow | 76.8 | 59.9 |
| Exceptional cash costs | (18.4) | (17.2) |
| Dividends paid to Group shareholders | (12.9) | (34.4) |
| Dividends paid to non-controlling interests | - | (1.9) |
| Net acquisitions of equity in subsidiaries | (1.0) | (1.2) |
| Net cash flow | 44.5 | 5.2 |
| Purchase of own shares | - | (0.2) |
| Net debt acquired | (0.9) | (0.2) |
| Foreign exchange and fair value movements (note 18) | 8.4 | (44.5) |
| Net debt movement | 52.0 | (39.7) |
| Opening net debt | (291.5) | (251.8) |
| Closing net debt | (239.5) | (291.5) |

Free cash flow excludes net acquisitions/(disposals) of equity in subsidiaries, exceptional cash costs and dividends.

29. OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

| | 2010 £m | 2009 £m |
|----------------------------|--------------|------------|
| Less than one year | 24.3 | 21.0 |
| Between one and five years | 55.5 | 58.9 |
| More than five years | 31.3 | 35.7 |
| | 111.1 | 115.6 |

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

As at 30 April 2010, the Group's future minimum sub-lease receipts totalled £1.1m (2009: £1.1m), of which: £0.2m (2009: £0.2m) falls within one year; £0.9m (2009: £0.9m) between one and five years; and £nil (2009: £nil) after five years.

30. CAPITAL COMMITMENTS

As at 30 April 2010, the Group had committed to incur capital expenditure of £5.3m (2009: £2.9m).

31. ACQUISITIONS AND DISPOSALS

2009/10

Wirth

On 17 February 2010, the Group obtained control of Winfried Wirth GmbH, a corrugated packaging business in Germany. As a result, the Group's equity interest in Wirth increased from 25% to 55%.

Demes Logistics

On 6 January 2010, the assets of Demes Logistics GmbH & Co KG, a plastic packaging business in Germany, were sold.

Vale Paper Limited

Deferred consideration of £0.2m was paid in 2010 to Vale Paper Limited in full settlement of the further consideration due.

2008/09

Vale Paper Limited

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

32. RELATED PARTIES

Identity of related parties

In the normal course of business the Group undertakes a wide variety of transactions with certain of its subsidiaries (see note 33) and associates (see note 12). The key management personnel of the Company comprise the Chairman, Executive Directors and non-Executive Directors. The compensation of key management personnel can be found in the Remuneration Report set out on pages 46 to 55 of the Annual Report. Certain key management also participate in the Group's share option programme (refer to note 26). Included within the share-based payment expense is a charge of £0.4m (2009: £0.2m) relating to key management.

Other related party transactions

| | 2010 £m | 2009 £m |
|--|------------|------------|
| Purchases from associates and joint ventures | 0.4 | 0.4 |

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

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

List of key consolidated companies

| | Country of incorporation or registration | Ownership interest 2010 |
|--|---|------------------------------------|
| UK Paper and Corrugated Packaging | | |
| St Regis Paper Company Limited | England | 100%* |
| A. A. Griggs and Company Limited | England | 100%* |
| DS Smith Packaging Limited | England | 100%* |
| Continental European Corrugated Packaging | | |
| DS Smith Kaysersberg S.A.S. | France | 100%* |
| DS Smith Polska S.A. | Poland | 100%* |
| Toscana Ondulati SpA | Italy | 92%* |
| DS Smith Çopikas AS | Turkey | 100%* |
| Plastic Packaging | | |
| DS Smith Plastics Limited | England | 100%* |
| Cartón Plástico s.a. | Spain | 100%* |
| DW Plastics NV | Belgium | 100%* |
| Ducaplast S.A.S. | France | 100%* |
| David S. Smith America Inc. | USA | 100%* |
| DSS Rapak Inc. | USA | 100%* |
| StePac L.A. Limited | Israel | 90%* |
| Rapak GmbH & Co KG Systemverpackungen | Germany | 100%* |
| Rapak Asia Pacific Limited | New Zealand | 100%* |
| Office Products Wholesaling | | |
| Spicers Limited | England | 100%* |
| Spicers (Ireland) Limited | Ireland | 100%* |
| Spicers France SAS | France | 100%* |
| Spicers NV | Belgium | 100%* |

* indirectly held by DS Smith Plc

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

34. SUBSEQUENT EVENTS

Copikas disposal

The sale of DS Smith Copikas AS, a corrugated packaging business in Turkey within the Continental European Corrugated Packaging segment, was agreed on 28 May 2010 with Olmuksa International Paper-Sabancı Ambalaj Sanayi Ve Ticaret A.S.. The sale is for a cash consideration of £4.7m (payable on completion) and is subject to the Turkish Competition Board approval that is anticipated will take around six weeks.

35. INVESTMENT IN JOINT VENTURES

Rapak AD is proportionately consolidated within these financial statements. The Group share of the summarised financial information is presented as follows:

| | 2010 £m | 2009 £m |
|---|------------|------------|
| Total non-current assets | 0.6 | 0.7 |
| Total current assets | 0.8 | 0.4 |
| Total non-current liabilities | (0.6) | (0.6) |
| Total current liabilities | (0.2) | (0.2) |
| Share of Rapak AD's net assets, proportionately consolidated | 0.6 | 0.3 |
| Revenue | 1.3 | 0.9 |
| Cost of sales | (0.8) | (0.6) |
| Operating expenses | (0.3) | (0.2) |
| Share of Rapak AD's profit for the financial year | 0.2 | 0.1 |

| | Nature of business | Principal country of operation | Financial year end | Ownership 2010 |
|----------|--------------------|-----------------------------------|--------------------|----------------|
| Rapak AD | Plastic packaging | Bulgaria | 31 December | 50.0% |