Chairman's Statement

"The Group delivered a robust performance in 2009/10 and under the leadership of its new Group Chief Executive is well placed to resume growth."

In last year's annual report I stated that the work done to refocus the business over recent years would make it more resilient. Our results for the year are testament to that. The fast-moving consumer goods sector, which is our major market for retail-ready packaging, weathered the downturn better than other sectors. The focus on innovation in both products and services, and our expertise in recycling and solving customers' packaging problems allowed us to make significant progress.

Adjusted operating profit of £94.0 million matched the previous year and adjusted earnings per share advanced 2.4% to 12.9 pence (2008/09: 12.6 pence).

The Board has decided to recommend a final dividend for 2009/10 of 3.1 pence per share (2008/09: 1.8 pence) which, together with the interim dividend of 1.5 pence, gives a total dividend for the year of 4.6 pence (2008/09: 4.4 pence). The Board recognises the importance of dividends to shareholders and remains committed to the payment of dividends that reflect the sustainable earnings and cash generation of the Group over the cycle. Future dividend policy is under review as part of the Group Chief Executive's review of strategy.

The financial and operational performance of the Group during the year is set out fully in the following reports, together with an assessment of the risks facing the Group, its performance on environmental and other matters of corporate responsibility and reports on the Audit and Remuneration Committees. The Board has continued to maintain a strong focus on identifying and managing risks, ensuring the Group's financial position remains strong and on making sure that it is well placed, financially and operationally, to benefit from recovery in our markets. An increased focus has been placed on the business strategy and the Group's financial strength. The composition of the Group is being considered by the Group Chief Executive as part of his review.

Parts of our business operate in attractive markets with long-term growth and attractive margin potential. The challenge for the Group is to take full advantage of the opportunities open to it and to deliver strong growth in shareholder value. The Board will support the Group Chief Executive as he develops his plans for this in the coming months.

As we announced in November 2009, Tony Thorne retired from the Board on 4 May 2010 and Miles Roberts took over the role of Group Chief Executive.

On behalf of the Board and his colleagues, I would like to thank Tony for his strong leadership of the Group over the last nine years. The Group that he leaves behind is far better placed and balanced than the one he joined, with strengthened potential. The growth in the packaging and recycling businesses and the development of leading positions in retail-ready and high quality design packaging have created a formidable position in UK packaging.

Miles Roberts joins us from McBride plc where he led a programme to deliver significant growth and improved profitability. In addition to this record, he brings considerable international experience as well as a thorough understanding of manufacturing and DS Smith's packaging markets.

I am also pleased to confirm that Gareth Davis joined our Board as a non-Executive Director on 1 June 2010. Gareth has recently stepped down from the role of Chief Executive of Imperial Tobacco PLC, a Group which he led to great success following the demerger of the company from Hanson Plc in 1996. He has served as a non-Executive Director since 2003 and Senior Independent Director since 2004 of Wolseley plc. He brings enormous relevant experience to our affairs. He will take over as Chairman of the Remuneration Committee from July 2010.

Jonathan Nicholls joined the Board in December 2009 and his experience as Finance Director of two FTSE 100 companies, Hanson Plc and Old Mutual Plc, has been of great value. He will take over as Chairman of the Audit Committee from July 2010.

Bob Beeston, who has served as a non-Executive Director with great distinction since December 2000, will step down from the Board at the end of 2010, once the new Directors have their feet firmly under the table. Bob has been an outstanding contributor to our affairs and I would like to thank him for his ceaseless challenge and support. Chris Bunker has already succeeded Bob as Senior Independent Director.

On behalf of the Board, I thank all our colleagues across the world for their ongoing efforts and commitment, particularly through these tough times. Economic activity has improved, but the pace of recovery remains uncertain. Actions taken by management to date have positioned us well to take advantage of improving economic conditions and I am confident that further progress will be made in the coming year.

PETER JOHNSON
Chairman

BUSINESS REVIEW

Chief Executive's Review

"The Group is well positioned to take full advantage of the improving economy."

I am pleased to announce that in 2009/10 adjusted operating profit at £94.0 million matched that of the previous year. All our business segments felt the impact of lower demand for their products and services as a result of the general contraction in economic activity, but all were able to mitigate this by improving efficiency. The Group remained highly cash generative, reflecting our ongoing focus on cash management. Year-end net debt fell to £239.5 million (30 April 2009: £291.5 million) providing a robust financial base for the Group.

Profit before exceptional items and tax was £68.3 million (2008/09: £72.5 million). As previously advised, the Group incurred exceptional charges in the year of £13.3 million (2008/09: £55.7 million), of which £10.2 million were non-cash impairment charges, principally related to our paper and packaging operation in Turkey, the sale of which was announced after the year end.

Capital expenditure in the year of £52.6 million (2008/09: £87.4 million) reflected the re-phasing of the capital programme to match the change in the economic environment and the completion of capital expenditure on the conversion of a paper machine in 2008/09. The Group continued to invest for its future development: around two-thirds of our expenditure was targeted at growth and maintaining and strengthening our market positions, focusing on those areas that provide the most attractive returns.

The Group's adjusted return on average capital employed increased in 2009/10 to 9.7% (2008/09: 9.3%), due to a lower capital base. This compares to the Group's estimated pre-tax weighted average cost of capital of 11.8%.

Looking ahead, we are undertaking a review of our business portfolio to identify how long-term value can best be delivered to shareholders. Our objective is to create a growing business that is more focused, producing higher margins and returns, with less cyclicality. This work is now under way and is centred on five major themes:

- Achieving higher margins through improving the mix of business towards products with a higher value-added component and less commoditisation;
- Differentiating our offering through product innovation and customer service;
- Raising efficiency through process design, organisation structure and scale of our operations;
- Building on people, with focus on personal performance and development supported by an enabling culture; and
- Managing carefully any implementation risks.

The results of this work will be completed later in 2010.

OPERATING REVIEW

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

PACKAGING

Across Europe, demand for corrugated packaging fell progressively through most of calendar 2009, but began to recover modestly late in the year. This recovery continued in the first quarter of 2010. In the fourth quarter of 2009, demand was up 2.9% compared with the same period in 2008, but was still 5.7% below the comparable period for 2007. Throughout 2009, packaging demand in the fast-moving consumer goods (FMCG) sector held up better than in the industrial sectors. DS Smith has benefited from actions taken in recent years to focus on the FMCG area of the market, which now accounts for around two-thirds of our Packaging revenue.

In the first half of the financial year, lower demand for corrugated packaging caused box prices to soften, and resulted in reduced demand and falling prices for corrugated case material (CCM) – the paper that is used to manufacture boxes. In the second half of the year, the cost of waste paper – our key raw material – rose strongly, causing CCM prices and, in turn, box prices to increase.

Profits in our UK Paper and Corrugated Packaging operations almost matched those of the previous year, helped by the cost reductions achieved through the action programme announced in December 2008 and better productivity.

Results in our Continental European Corrugated Packaging segment were down; gains in FMCG packaging were more than offset by the continuing low activity levels in the industrial packaging sector and the impact of higher CCM prices.

Profits in Plastic Packaging improved markedly as a result of restructuring undertaken during 2008/09, implementation of the action programme to cut costs and growth in sales of higher margin products.

UK Paper and Corrugated Packaging

In 2009/10, the UK Paper and Corrugated Packaging segment, which accounted for 36% of Group revenue and 55% of Group average capital employed, reported a 4.5% decrease in revenue to £750.2 million (2008/09: £785.8 million). This reduction in revenue was due to lower CCM and box prices, the effects of which were partly offset by revenue from a full year's sales of lightweight CCM produced on the converted paper machine at Kemsley. Operating profit was slightly down at £35.4 million (2008/09: £36.5 million), primarily due to reduced box sales mitigated by the restructured, lower cost base.

Our UK business is vertically integrated, from collection of waste paper to supply the recycled paper mills, through to the design and supply of corrugated packaging.

Severnside Recycling, which recovers waste paper as the raw material for use in our paper mills, continued to make progress, collecting an increased quantity of paper and offering more added-value services to a number of new retail customers.

Our UK paper business was significantly affected by the impacts of lower demand and pricing for CCM during 2009/10. Margins were further put under pressure by the rising cost of raw materials, especially in the second half of the year. The high-quality, lightweight CCM which we have been producing at Kemsley since early 2009 continues to be favourably received by customers.

Our UK corrugated packaging business produced a good result and grew its market share on a platform of service and innovation. Our emphasis on the FMCG sector and higher value-added products assisted our performance significantly, when compared to the UK corrugated industry as a whole. Key investments have been made to increase our capability to support the growth in demand for shelf-ready packaging, improve print quality innovation and continue the roll out of high-performance, lighter-weight boxes.

As we enter 2010/11, we are experiencing modest improvements in demand offset by increasing waste paper input costs and CCM prices. We will build on the strong market positions achieved to date and are well positioned for growth.

Continental European Corrugated Packaging

Despite an increase in sales volumes, driven by the encouraging performance in the final quarter of the year, revenue was down 2.2% to £355.4 million (2008/09: £363.4 million) due to lower selling prices. Operating profit decreased to £22.9 million (2008/09: £30.4 million), as a result of increasing CCM costs, the effect of which was partially offset by a significant reduction in conversion costs.

In France, our corrugated box business showed a 2% increase in sales volume, despite a flat market, as a result of its focus on the resilient and growing FMCG market. Despite difficult market conditions, our Italian business performed well primarily as a result of its strong position in the FMCG sector. Our Polish operation continued to focus on higher added-value products, gaining share in a broadly static market. Market conditions in Turkey remained difficult and after the year end, we announced the sale of the business for £4.7 million.

Rubezhansk, our Ukrainian associate business continues to trade profitably and to generate cash. This is a substantial, vertically-integrated packaging business with a market-leading position, supplying the FMCG customers principally in Ukraine and Russia. The business has excellent long-term potential. As noted in the Financial Review, we are continuing to work with our partner and the lending banks to resolve the position in relation to the external financing of this business.

In 2010/11, we expect margins to come under increased pressure from higher input costs, but we expect to benefit from higher sales volumes. Our priorities are to maintain good levels of profitability through increased selling prices, volume growth and control of costs.

Plastic Packaging

Revenue in Plastic Packaging decreased by 2.4% over the year to £231.3 million (2008/09: £236.9 million) due to lower selling prices, following reduction in polymer costs, and our exit from a lower margin packaging management contract in continental Europe. Adjusted operating profit more than doubled to £15.5 million (2008/09: £7.0 million) as a result of lower costs following the prior year's restructuring actions and increased sales into new market segments.

Results in liquid packaging and dispensing benefited from higher sales, particularly into new markets in the USA. Results in Europe increased substantially, reflecting the restructuring and cost cutting previously mentioned, as well as higher sales of existing products into new markets and our focus on improving the business mix.

Demand in the returnable transit packaging sector continued to be weak. Sales to the construction and automotive sectors, which fell sharply during 2008/09, have seen no real recovery. Our beverage crate business, which was significantly affected by the deferral of crate replacement programmes, has seen a modest increase in demand as customers have begun to purchase some replacements. This business increased its profits in the year as a result of active management of conversion costs, low raw material prices in the first half of the year and development of products in all of the constituent businesses.

In January 2010, we completed the sale of Demes Logistics, a small plastics logistics business based mainly in Germany. The business had gross assets of €11.2 million.

In 2010/11, we expect to build further on the strong recovery in liquid packaging and dispensing and to see growth in demand for RTP's products.

OFFICE PRODUCTS WHOLESALING

Overall revenue increased by 1.8% to £733.7 million (2008/09: £720.5 million), reflecting lower volumes which were more than offset by the effect of the depreciation of sterling against the euro. The trading environment was better than expected given the substantial economic slow-down in the major markets we serve. An increase in sales of electronic office supplies (EOS), was partly offset by lower sales in traditional office products.

In Spicers UK, revenue fell marginally. Non-EOS sales declined for the first three quarters of the year then began to recover in the final quarter. EOS sales grew modestly. Operating profit was higher than last year, benefiting from actions to cut costs and improve the sales mix.

In the continental European businesses, which account for just over half of Spicers' total revenue, profit was flat. Operating results in France, Germany and the Benelux region matched or exceeded last year and Italy put in a strong performance. Trading was difficult in Ireland and Spain where, in both countries, the economic downturn has had a significant effect.

In 2010/11, we will focus on improving our overall sales, primarily in traditional office products, and on tight cost control. We believe that Spicers is well placed to take advantage of improving economic conditions, due to its strong market positions.

OUR PEOPLE

I have been hugely impressed by the dedication and commitment of the employees of DS Smith during my early visits to the businesses. It is clear that we have skilful, enthusiastic and creative people who have worked hard to support the Company through recent difficult times. I thank them for all they have done to date and look forward to working with them in the future.

OUTLOOK

Trading in the current financial year has started well and is in line with our expectations. We are experiencing increasing sales volumes due to the continuing recovery in market conditions. We are also benefiting from the success of our service and product offering.

MILES ROBERTS
Group Chief Executive