DAVID S. SMITH (HOLDINGS) PLC
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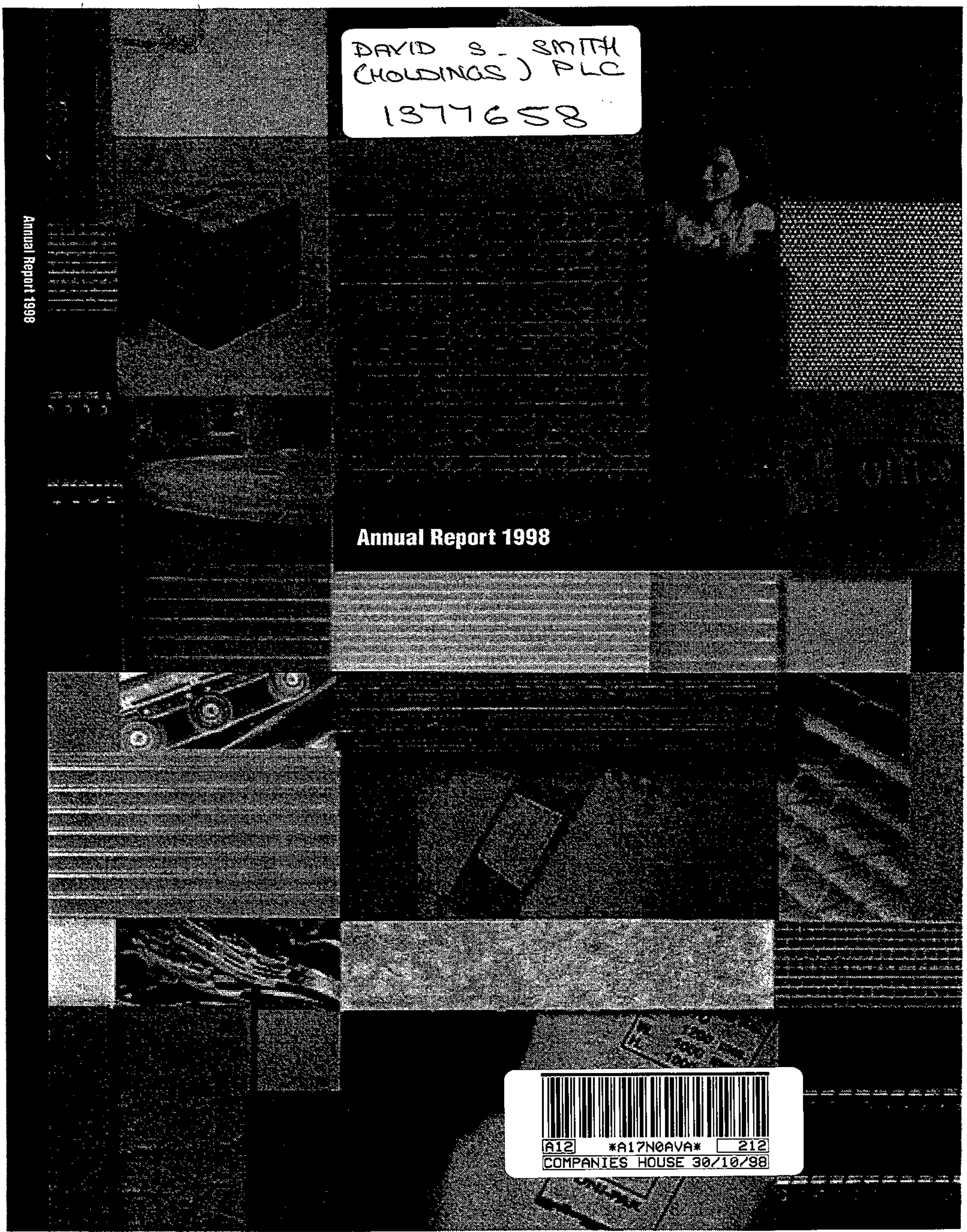

Annual Report 1998

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David S. Smith is an international group focused on packaging, paper and office products. The Group's packaging operations are fibre or polymer based and its paper operations use waste paper for the majority of their raw material. The Group holds strong positions in many of the markets and market segments in which it operates, including recycled papermaking and corrugated packaging in the UK and France, heavy duty corrugated, bag-in-box and corrugated plastic packaging in Europe, office products wholesaling in the UK, France and Ireland, and manufacturing of envelopes, books and pads in the UK.

Five Year Financial Highlights

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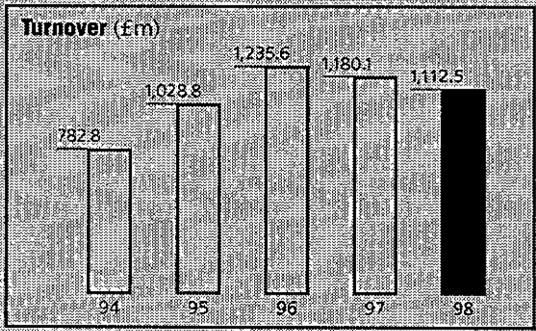
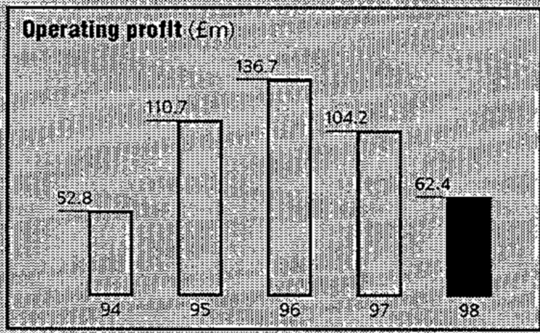
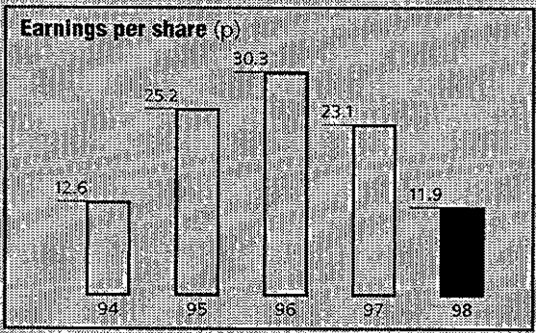


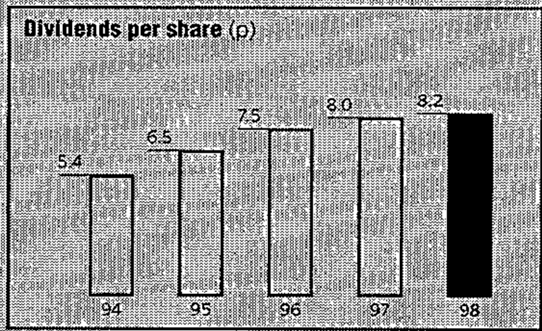
Turnover (£m)



Operating profit (£m)



Earnings per share (p)



Dividends per share (p)

	1994 £m	1995 £m	1996 £m	1997** £m	1998 £m
Turnover	782.8	1,028.8	1,235.6	1,180.1	1,112.5
Operating profit	52.8	110.7	136.7	104.2	62.4
Associated undertakings	–	–	–	(0.2)	(3.0)
Interest	(10.6)	(11.0)	(12.1)	(8.0)	(8.3)
Profit on ordinary activities before taxation	42.2	99.7	124.6	96.0	51.1
Shareholders' funds	322.4	393.5	460.0	500.6	509.1
Gearing	37.3%	32.0%	26.7%	22.2%	28.7%
Earnings per share*	12.6p	25.2p	30.3p	23.1p	11.9p
Dividends per share*	5.4p	6.5p	7.5p	8.0p	8.2p
Net assets per share*	103.6p	126.1p	146.4p	158.1p	158.8p

*Restated to reflect the sub-division of each ordinary share of 20p into two ordinary shares of 10p each on 3 November 1995.

**Each financial year is for 52 weeks except 1997 which is for 53 weeks.

Chairman's and Chief Executive's Statement

Alan Clements Chairman (right)
Peter Williams Group Chief Executive (left)

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The difficult and challenging period that we foresaw in last year's annual report has lasted right through the 1997/98 year. Trading results were well short of the previous year's results but were much in line with expectations.

For a third consecutive year our cautious stance has been borne out and we remain cautious particularly for the immediate future. Sterling's exchange rate against the continental European currencies has stayed at a high level, and constitutes the major challenge faced by our UK businesses.

The Group's packaging and paper businesses performed below last year with a ROCE of 7% compared with 15% in the previous year.

Demand for corrugated board in continental Europe has been growing at well over 5% per annum as manufacturing industry emerges from recession. Despite this strong growth corrugated board producers in several European countries have experienced intense competitive pressure with margins often falling to unsustainable levels. By contrast, continental corrugated case material (CCM) papermakers generally enjoyed more buoyant trading conditions as a result of this increased demand.

In the UK, corrugated demand growth has slowed, principally due to the impact of sterling's strength on manufacturing industry. The steady erosion of corrugated box prices over the past two years may have been arrested by the price increases for corrugated board which were announced around the financial year end and are currently being implemented. Prices and margins for UK CCM papermakers continued to erode for most of last year although the downward trends may now have been halted by recently announced CCM price increases.

St Regis Paper's performance was satisfactory in the circumstances in large part due to cost reduction efforts. The UK government's new regulatory scheme for packaging recycling, which came into effect on 1 January 1998, has had a positive start and is achieving its objectives of increasing the quantity of packaging waste which is recycled. It has improved the economic attractiveness of waste paper collection in the UK and for the first

The Group's strategy continues to be to develop its core activities through organic growth and acquisitions.

time in several years has given UK papermakers a waste paper cost base which is broadly competitive with the rest of Europe.

David S. Smith Packaging had a disappointing year. Disruption caused by the division's investment programme and the high start-up costs of the new factory at Fordham depressed results that were already under pressure from exceptionally competitive market conditions.

Kaysersberg's results were down on the previous year, but in intensely competitive markets the outcome was creditable, especially for the board mills. The plastics businesses produced good results, partly offsetting the much weaker performance of the corrugated packaging operations.

Our office products business, produced another good result, with an overall ROCE of 19%. The Spicers wholesaling businesses in the UK, France and Ireland performed exceptionally well and the prospects for the new business due to start up in Germany this autumn are positive. The John Dickinson Stationery manufacturing business had a poor year, mainly due to competition from imports and to difficulties encountered in restructuring. Further rationalisation of this business is planned.

The Group is taking every possible measure to live and ultimately prosper with strong sterling. Cost reduction featured at all divisions and, in the UK, a concentrated effort was made to achieve purchasing savings made possible by sterling's strength. This programme, which produced significant benefits during the year, will continue to be a top priority in the year ahead.

Strategy

The Group's strategy continues to be to develop its core activities through organic growth and acquisitions. The core activities are: fibre and plastic based packaging, recycled papermaking and the manufacture and distribution of office products. These activities of the Group are judged to offer, over the long term, above average growth potential and/or above average profit margins and to provide a mix of capital intensive and cash generative activities delivering a quality earnings stream relative to the sector.

The global packaging and paper industry has been gradually consolidating for many years, but in the past year the pace of consolidation has accelerated. The very large groups resulting from mergers are now becoming genuinely global competitors with significant world market shares. Consolidation is being driven by cost synergies and the need to achieve a better balance between the interests of buyers and sellers. In time this should lead to more stable markets and consequently higher quality earnings. The Group will benefit from this reduced cyclicality. It will also mean an increased emphasis on geographic expansion for the Group if we are to remain one of the European leaders in our industry.

Many shareholders may be aware from the press that the Group was one of the contenders to acquire Kappa Packaging. Kappa is a good quality company, which would have given the combined group excellent coverage of the corrugated board market in northern Europe and put it among the industry leaders. It was disappointing that the acquisition was not achieved. The Group investigated a number of other acquisition opportunities but only acquired a few small, specialised businesses. The Group continues to seek opportunities to increase shareholder value through acquisition, with the primary emphasis being on expanding our geographical coverage throughout Europe.

contd.

We are grateful to the employees at all levels in the Group for their hard work and enthusiasm. Their continued support for flexible working practices and for continuous improvement is vital to the success of the Group.

Group Trading
Turnover for the 52 week year ended 2 May 1998 fell by 5.7% to £1,112.5 million from £1,180.1 million in 1996/97 which was a 53 week year. This decline was due in large part to the continued slide in selling prices and the translation of overseas sales and occurred despite volume growth across most businesses. All parts of the Group were affected but the packaging and paper business suffered most.

Operating profit fell by 40% to £62.4 million from £104.2 million in 1996/97. Group operating margins fell to 5.6% from 8.8%. The loss of £3.0 million from associated undertakings related to the poor operating result at Tri-Wall KK (Japan) and the decision to provide in full for the remaining carrying value of this investment. Profit before taxation was £51.1 million, down from £96.0 million in the previous year. The effective tax rate increased to 25% from 23%.

Earnings per share fell by 48% to 11.9p from 23.1p.

Borrowings rose by £34.7 million to £145.9 million at the financial year end, up from £111.2 million a year before. Gearing increased to 28.7% from 22.2% and interest cover fell to 7.2 times from 13 times.

Capital investment at £76.5 million compares with £92.4 million the previous year. Just over half of the expenditure went into the modernisation programme of David S. Smith Packaging's operations. In this current financial year we expect to invest a similar amount across all divisions, with capital expenditure expected to reduce gradually in subsequent years to depreciation levels.

Dividends
Your Board is recommending a final dividend of 5.5p net per ordinary share which, together with the interim dividend of 2.7p net per ordinary share, will make a total dividend for the year of 8.2p net per ordinary share. This represents an increase of 2.5% on the total dividend of 8.0p paid last year. Dividend cover is 1.5 times.

Following the decision taken at the time of the last interim results no scrip dividend alternative is being offered. The final dividend will be paid on 1 October 1998 to those shareholders on the register on 21 August 1998.

Corporate Governance
The Group complies with all aspects of the Cadbury Report and with the broad principles of the Combined Code recently issued by the London Stock Exchange on which we will be reporting in the next Annual Report. A report by the Directors on internal financial control can be found on page 29. A separate report from the Remuneration Committee of the Board is on pages 30 to 33.

People
The Group employs around 10,700 people, about 30% of whom live outside the UK. Training and investment in new technologies remain key priorities for the Group. We were therefore very pleased that our commitment to training was recognised by David S. Smith Packaging winning a National Training Award, the first time this has been achieved by a packaging company. Emphasis is also placed on the development of health and safety measures throughout the Group.

The European Works Council, established last year, to consult with employees at a European level, is proving to be a useful forum for the exchange of transnational information.

We are grateful to the employees at all levels in the Group for their hard work and enthusiasm. Their continued support for flexible working practices and for continuous improvement is vital to the success of the Group.

Millennium
The Group continues to address the problems posed by the millennium date changes to computer systems, process control and other equipment. In all businesses thorough assessments are being conducted and actions are underway to ensure a smooth passage into the next millennium.

Outlook
The second half of 1997/98 was disappointing and the immediate outlook is not much better. The strength of sterling continues to damage our UK based manufacturing businesses as does the recent slowdown in the UK manufacturing sector. Further actions are underway to build on the cost reduction and purchasing savings efforts of the past year to ensure the Group will remain competitive in this new environment. The recovery in Europe is resulting in good volume growth in our continental business although strong competition is keeping pressure on margins.

The trading performance of the Group is currently at a low ebb but a gradual improvement is expected from the benefits of the capital expenditure programme, from our cost reduction efforts and from an improvement in our markets, initially on the continent and subsequently in the UK. The Group has the qualities to negotiate this difficult and challenging period, to emerge stronger and better able to serve our customers, and to earn a good return for our shareholders.

Alan Clements
Chairman

Peter Williams
Group Chief Executive

Packaging and Paper

Paper is produced mostly from recycled fibre, supplied by the Group's waste paper business. Packaging produced by the Group includes standard, heavy duty and decorative corrugated and specialist plastic products.

Waste Paper

Severnside Waste Paper is the UK's largest collector and merchant of waste paper. It operates from depots throughout the country which collect waste paper from commercial and industrial sources, from paper banks and from households as part of local authority collection schemes. It is then sorted into different grades and baled at the waste processing depots. This is then sold to mills for recycling.

The Group also has interests in waste collection depots in France and Germany.

Key facts

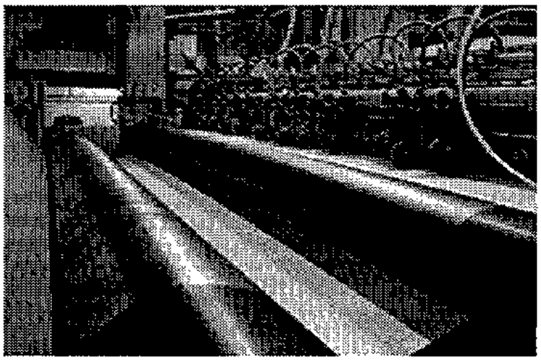
- 1.3 million tonnes collected and merchanted annually
- 15 waste collection and processing depots in the UK
- 2,300 bins and compactors
- Over 100 collection vehicles

Below: Paper sorting at Severnside.
Right: 'Caselite', a new lightweight grade of fluting and liner paper.

Papermaking

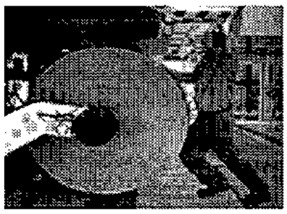
Most of the paper produced by the Group is made from recycled fibre. Output from the mills in the UK and France is predominantly corrugated case materials and specialist board grades.

At the mills waste paper is pulped to recover the fibre content and de-inking takes place in those operations where white paper is produced. Fibres are cleaned and then sorted by fractionation for optimum use in papermaking. Finished paper reels are cut to individual customer specifications.



Key facts

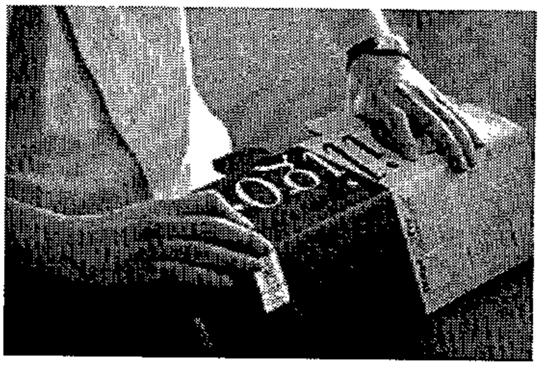
- 10 paper/board mills in the UK and 2 mills in France
- Over 1.1 million tonnes produced annually
- 90% of raw material used is waste paper



Fibreboard Packaging

Paper is converted into various grades of corrugated board determined by the design and use of the packaging. Sheet feeder operations produce corrugated sheet board only and sell to box making operations. Some factories in the Group are integrated and produce the sheet board on a corrugator and then print, die cut, fold and glue to produce finished packaging.

Boxes are designed for optimum strength, product protection, minimisation of waste and superior presentation in terms of print and display. Corrugated packaging is used for 80% of transit packaging in Europe.



Key facts

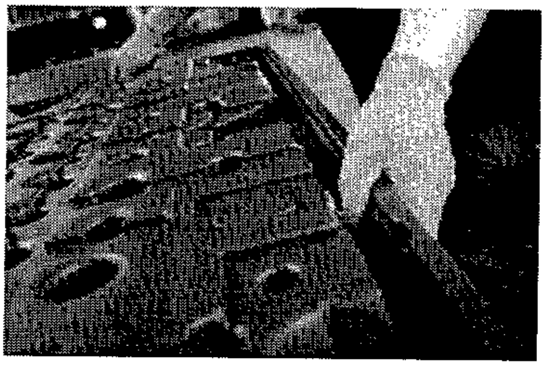
- **600,000 tonnes or approximately 900,000 million square metres produced annually**
- **Over 30 production and sales sites across Europe, and a network of sales offices throughout the Far East**

Above left: National Training Award for David S. Smith Packaging.
Left: IDV Point-of-Sale corrugated display cases.
Above: Award-winning pre-print packaging.

Plastic Packaging

Plastic packaging is produced in several forms within the Group:
- Bag-in-box liquid packaging systems
- Extruded solid and corrugated plastic sheets
- Thermoformed heavy duty pallet and container systems
- Injection moulded beverage crates, valves and closures
- Laminated, flexible material for packaging and other uses.

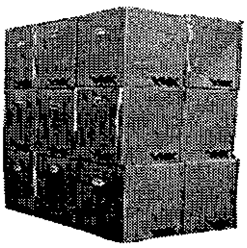
Plastic packaging is used for a wide variety of specialist and ever increasing number of other purposes including closed-loop distribution systems.



Key facts

- **13 production sites across Europe**
- **European market leader in bag-in-box and corrugated extruded plastic**
- **Injection moulded plastic crates now produced in Poland**

Below: Plastic packaging for shipment of YKK products across Europe.
Below right: Crates manufactured in Poland.

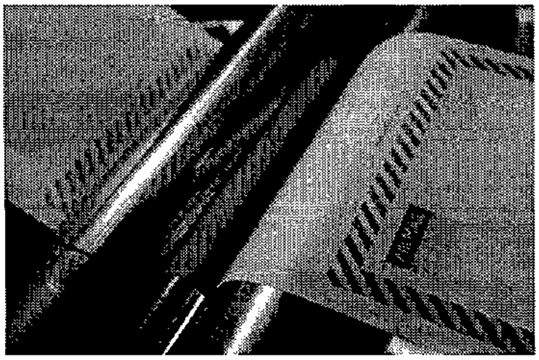


Office Products

Distributed through a network of distribution centres in the UK, Ireland and France. Envelopes, notebooks and personal stationery are produced by the Group's manufacturing operations.

Manufacturing

John Dickinson Stationery
The John Dickinson Stationery operation produces envelopes, books, pads and personal stationery. The range of products features many market leading brands, including Basildon Bond, Challenge, Plus Fabric and Black n' Red. Branded stock items, own label designs and bespoke stationery are produced for the commercial and retail markets. The Spicers wholesaling channel is an important distribution route for the commercial stationery lines. Photographic presentation products, such as albums, are produced for the professional photography market.

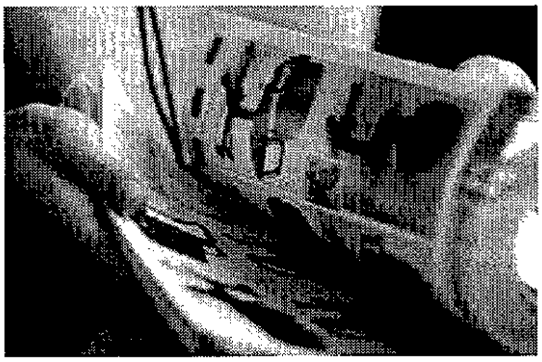


Key facts

- 7 production sites in the UK and Ireland
- Converts over 40,000 tonnes of paper and board per annum into stationery products
- More than 1 in 6 envelopes used in the UK produced by the Group

Wholesaling

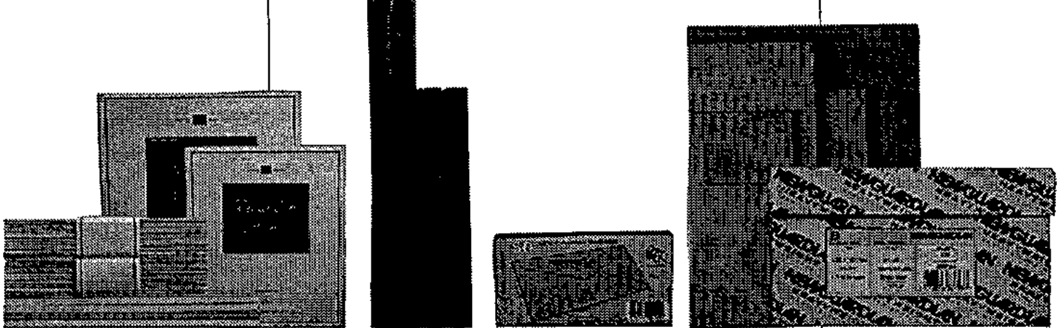
Spicers/Central Distribution Centre (CDC)
Spicers produce conventional and electronic catalogues that feature a huge range of office products. These catalogues are used by stationery dealers to sell supplies to consumers. The product lines are stocked at the CDC, which receives deliveries from manufacturers throughout the day. During the evening products are shipped to RDC's across the UK and Ireland.



Key facts

- Nearly 1 million catalogues and over 2 million product mailers produced each year
- 310,000 square feet CDC warehouse, stocks over 13,000 product lines
- 140,000 extra products available through specials department

Spicers is investing £7.5 million over five years in hardware and software for a new computer system in the UK, Ireland, France and Germany. The system will allow the company to handle multiple languages and currencies, including transactions in euros.

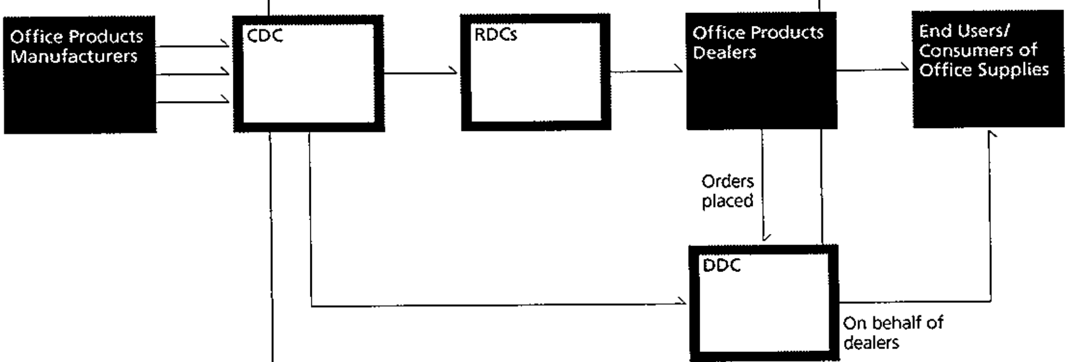


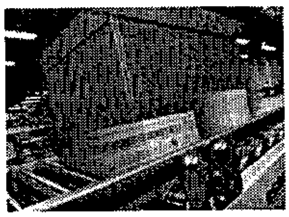
Spicers Regional Distribution Centres (RDC)
RDCs deliver to office products dealers in their geographic area. Products are available on a 24 hour or shorter delivery basis. In France the RDC distribution system is similar. Many French dealers operate under the 'Calipage' name which is a branded trading identity. In France, the UK and Ireland orders are now mostly placed on RDCs by dealers using electronic ordering systems.

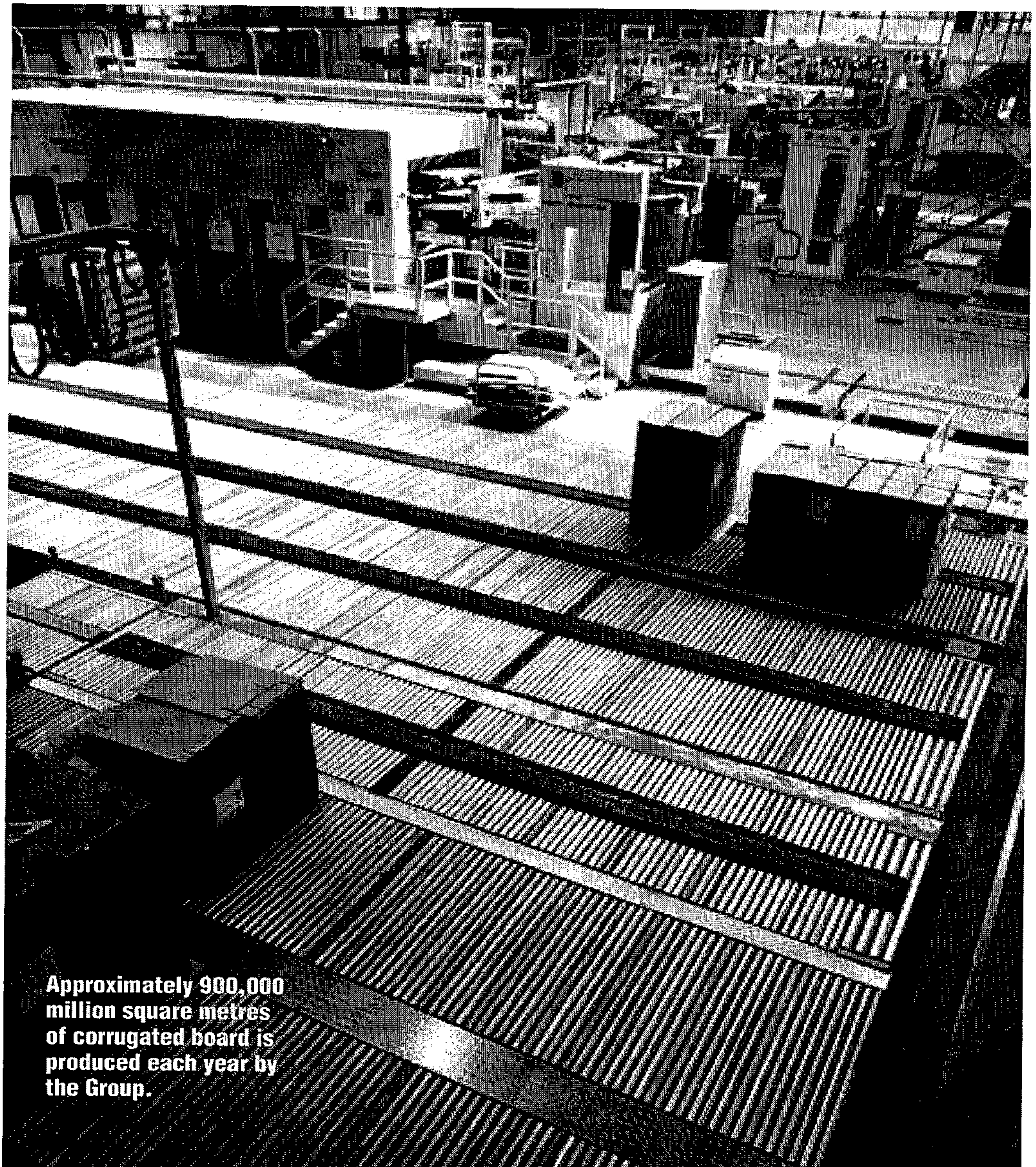
Key facts
- 12 RDCs give national coverage in the UK and Ireland
- 6 RDCs give national coverage in France – 1 new RDC to start autumn 1998 in Germany
- Over 70,000 order lines processed per day

Spicers Dealer Distribution Centre (DDC)
In the UK a DDC provides a service whereby products can be picked, wrapped and dispatched on behalf of a dealer and sent directly to their customers via an independent delivery service. This service has allowed stockless or 'modular' dealers to reduce storage and distribution costs. A similar service is provided to dealers in France through the RDCs.

Key facts
- 113,000 square feet purpose built DDC
- Automated picking system driven by use of bar codes
- Stockless/modular dealers now account for 19% of Spicers' UK wholesaling sales







Approximately 900,000 million square metres of corrugated board is produced each year by the Group.

Packaging and Paper

The David S. Smith Group operates in the packaging and paper and the office products sectors. The Group's operations are located principally in Europe with a small corporate head office located in London. The Group is highly decentralised with profit responsibility delegated to divisions and operating units.

The packaging and paper business is managed through three operating divisions by: Michael Green – David S. Smith Packaging; Jean-Paul Loison – Kaysersberg Packaging; and Sandy Stratton – St Regis Paper.

Total sales were £697.7 million, a decrease of 10% on 1996/97. Operating profit fell by 51% to £37.8 million from £77.5 million. Margins decreased to 5.4% from 10% and the return on year end capital employed fell to 6.8% compared to 14.7% the previous year. The key factors affecting the Group's profitability were the continued pressure on paper selling prices, caused largely by the high value of sterling, and the erosion of corrugated packaging margins felt most acutely in the second half of the year.

David S. Smith Packaging

David S. Smith Packaging comprises twenty five operations in the UK and eight operations in continental Europe. The division's principal activity is the manufacture of fibre and plastic based packaging.

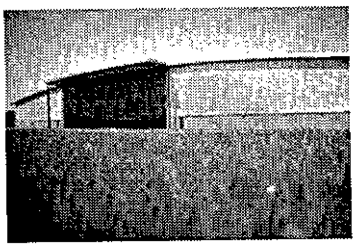
The division had a difficult year primarily because of exceptionally tough trading conditions in the UK corrugated market. Volume growth for the market at 3% for the financial year was down on last year. Severe competition caused a continual slide in selling prices which may now have been halted by recently announced price increases. The division's profitability was also hurt by the costs associated with the disruption from the modernisation programme and in particular the start-up costs of the new Fordham factory. As a consequence of these factors turnover fell slightly and operating profit declined sharply.

The mainstream corrugated plants were the worst affected by the adverse market conditions. Quality and service improvements, which are critical to maintaining customer relationships, were achieved from the investment programme and from more flexible working by our employees. The new corrugated plant at Fordham was commissioned allowing the closure of the Burwell factory and the downsizing of the Ely factory.

Abbey Corrugated benefited from the investment of recent years and produced a commendable performance in very competitive markets. The speciality corrugated businesses had a much better year benefiting from the modernisation and expansion programme at Belper and the investment at Carlisle/Lockerbie.

The heavy duty corrugated business produced a lower result than the previous year. The strength of sterling reduced domestic and export demand, and the business had to cope with large raw material price increases. The heavy duty business was concentrated at Monmouth during the year with Ely exiting this business area.

The new Fordham corrugated box plant became fully operational at the beginning of May 1998 and was officially opened by HRH The Duke of Edinburgh in June.



Fordham produces single and double wall corrugated board and regular and die cut cases.

The Fordham factory is the only corrugated box factory with primary food hygiene accreditation from ADAS, an important requirement for supply to customers in the food and drink industries.

The performance of the division's plastics businesses varied widely but the overall result was lower than last year. DW Plastics, Ducaplast and Waddington and Duval performed well, the latter winning a major contract for the US market, while DW's new operation in Poland had a very successful year. However, BSk and the Liquid Packaging operations struggled with the strength of sterling and, in the latter case, with very competitive markets.

David S. Smith Packaging Poland had a much poorer result than last year. This was due to increased competition in the Polish market and the revenue costs of the modernisation programme and the related redundancies to reduce the number of employees from 1,100 at acquisition to 650.

The capital investment programme continued in David S. Smith Packaging. The major project was Fordham which was completed within budget. Other significant capital projects were completed at Lockerbie, a speciality corrugated business and at Ducaplast where a new heavy duty polythene extrusion line has been installed.

The division did not complete any significant acquisitions during the year. However, an agreement was reached to acquire Werner Kenkel, a corrugating operation located in Western Poland, subject to Polish Government approval. A number of other investments have been made by the division. Tri-Wall KK has fared poorly because of difficult trading conditions throughout the Far East and the Group has provided in full for the remaining carrying value of this investment. During the year the division acquired an interest in StePac L.A. which produces advanced plastic films and bags. The life of fresh produce can be significantly extended when packed in bags made from this film. StePac has made good progress and its prospects look very promising. Since year end US$5 million was invested in convertible bonds in Dae Young Packaging, a Korean corrugator that has developed a new form of corrugated board that appears to have considerable potential and for which exclusive licences to produce in a number of European countries were acquired.

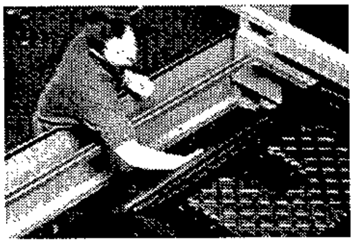
Trading conditions in the UK market for our corrugated businesses deteriorated beyond the division's expectation to levels not seen in a very long time. There are indications that the bottom has been reached but it will take a considerable time to rebuild margins to acceptable levels. The plastics businesses should make progress helped by positive market developments and the recent capital investment.

Kaysersberg Packaging

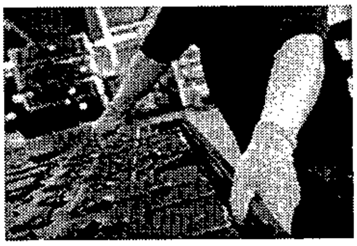
Kaysersberg Packaging operates from nine locations in France, one in the UK and two in northern Italy. The division is one of France's leading packaging and paper companies with its principal activities being the manufacture of fibre and plastic based packaging, and a number of specialist grades of paperboard.

The turnover of the division increased slightly. Profitability finished below last year as cost reduction efforts and purchasing savings only partly offset a slight fall in selling prices and increased raw material prices.

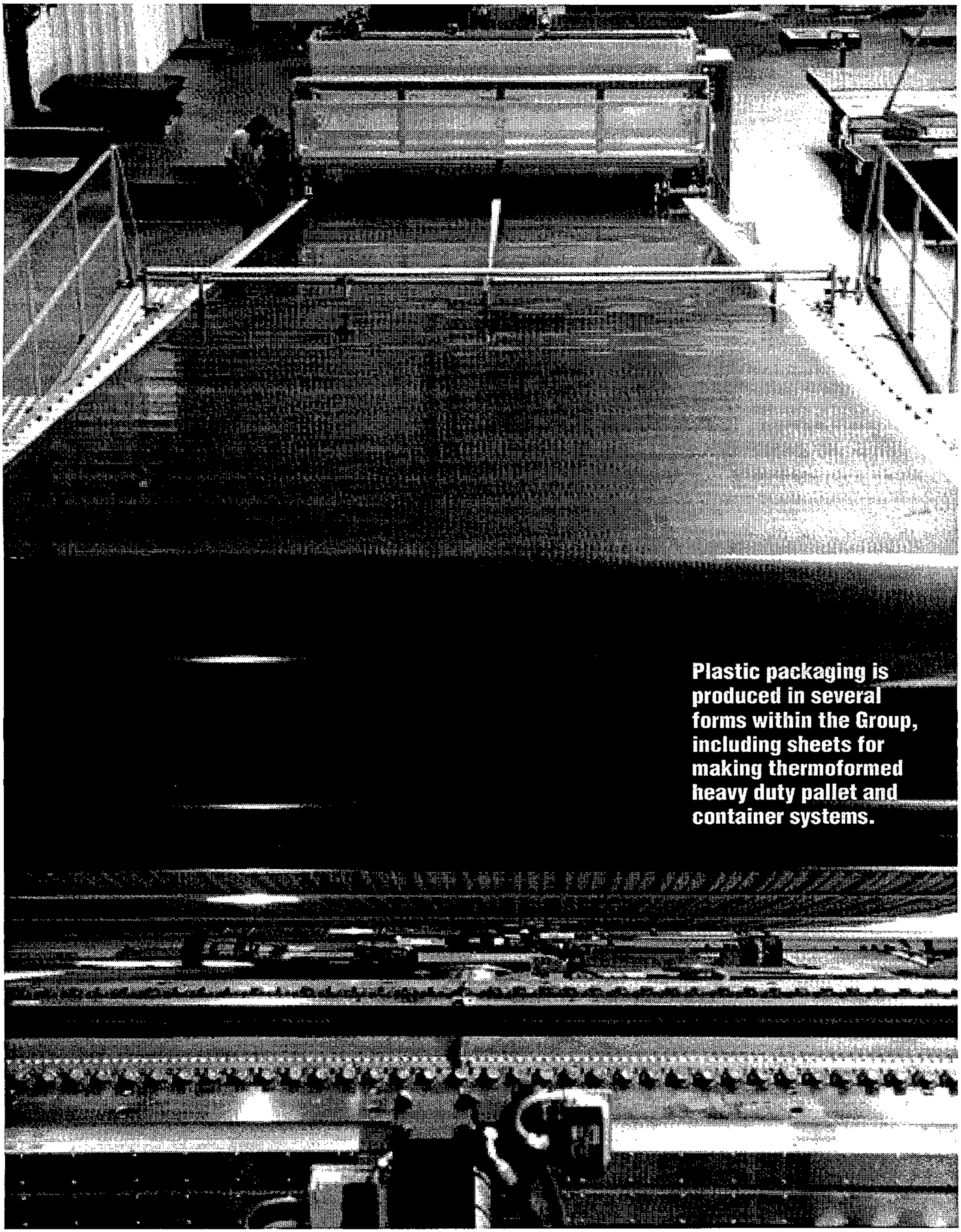
During the year a new extrusion line at Ducaplast was installed for the production of heavy gauge solid plastic sheets.



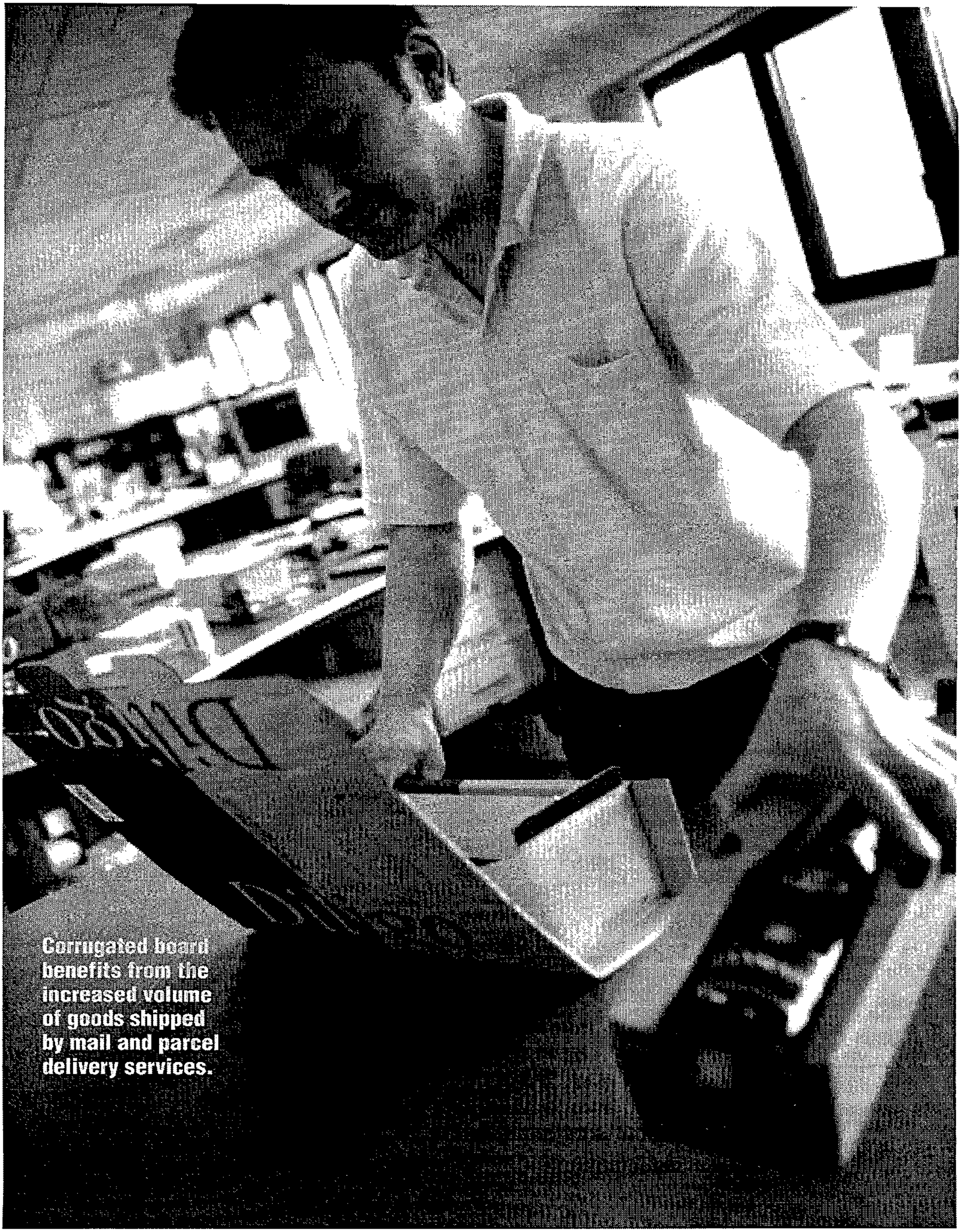
The extruded sheets are subsequently thermoformed to produce highly durable twin wall pallet bases and lids.



These pallets and lids, used in conjunction with corrugated sleeves, form reusable heavy duty container systems used, for example, for transit packaging in the automotive and computer industries.



Plastic packaging is produced in several forms within the Group, including sheets for making thermoformed heavy duty pallet and container systems.



Corrugated board benefits from the increased volume of goods shipped by mail and parcel delivery services.

The recovery of the French economy has had a positive effect on the French corrugated market, which grew by 7%. Kaysersberg grew by less than the market with the majority of its growth coming at St Just whilst Kunheim's volume was unchanged. Selling prices fell slightly as a result of competitors adopting a volume growth strategy and aggressive buying by large packaging users. This, together with paper price increases, meant margins suffered.

Kaysersberg's sheet plants made excellent progress during the year. To enhance its geographic coverage, particularly in the heavy duty corrugated market, Kaysersberg acquired C.E.R.A., a small sheet plant near Lyon, at the financial year end.

Toscana Ondulati's profitability fell despite a good second half. The modernisation programme has been successfully completed which has increased output and productivity, enhanced quality and extended the product range to triple wall corrugated. During the year Toscana acquired Kartotex, a large sheet plant with a turnover of £6 million located near Toscana and specialising in lightweight corrugated. Its integration has been successfully completed and Toscana now supplies 100% of Kartotex's sheet requirements.

The board mills had another excellent year. Output is capacity constrained so improvement in profitability came from sales mix and cost reduction. During the year a new product, Ecokraft, a very high quality testliner incorporating selected kraft fibres, was introduced to the market as a kraftliner substitute.

The plastics operations continued to grow with a volume increase of 5% mainly due to increased polycarbonate sales following the start up of a new extrusion line. Profitability remained flat as a result of an unfavourable sales mix. In order to meet the demand for Akylux, the twin wall extruded plastic sheet, a new polypropylene extrusion line will come on stream this autumn.

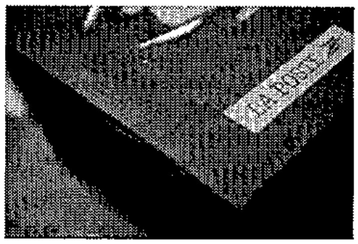
The capital expenditure programme has been restricted to a number of small projects which are expected to deliver a quick payback. During the year a major review of all aspects of the business was carried out by consultants to identify areas for cost savings, productivity gains and improvement in customer service. This review has highlighted promising opportunities for creating value which are now being implemented.

Kaysersberg has continued to distinguish itself for print quality, design and innovation and won eight industry awards during the year. Kaysersberg introduced a new range of corrugated pallets and extended its heavy duty capabilities to quadruple wall corrugated, branded Quadriwall.

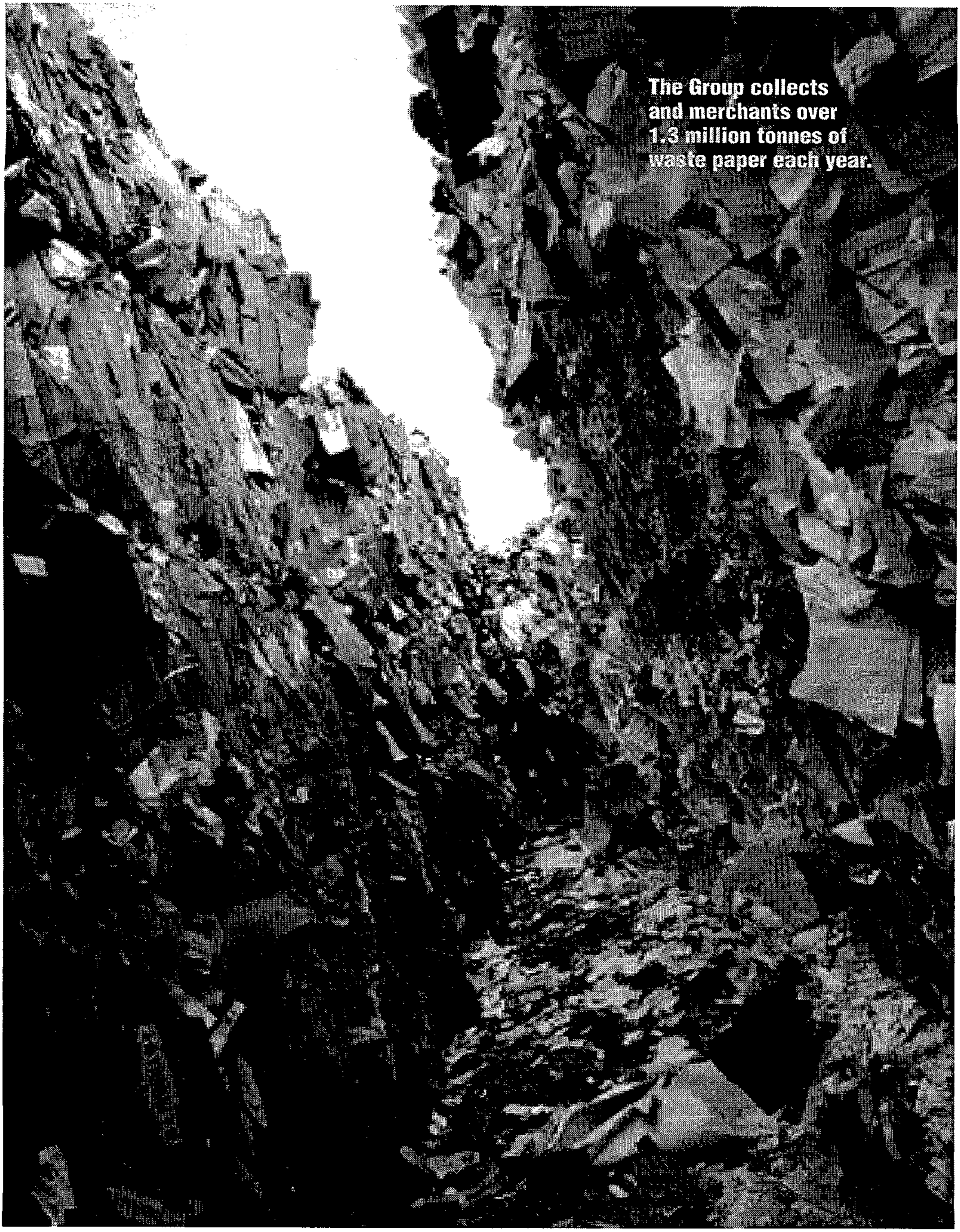
The recovery of the French and German economies that occurred over the year resulted in relatively buoyant demand for Kaysersberg's products. Kaysersberg's performance improved during the year and further progress is expected, although selling price increases must be achieved before any substantial advance in profitability can occur.

The St Just corrugated box factory has two corrugators producing single, double and heavy duty triple wall corrugated board.

Development on the heavy duty corrugator has resulted in the production of quadruple wall corrugated board branded Quadriwall.



Recent product development by Kaysersberg Packaging includes the manufacture of innovative postal packs.


The Group collects
and merchants over
1.3 million tonnes of
waste paper each year.

St Regis Paper

With ten paper and board mills and the capacity to produce around 950,000 tonnes per annum, St Regis Paper is the leading UK paper manufacturer and recycler. Around 70% of sales are of corrugated case materials ('CCM'), the balance being a broad range of paper and board grades. The division's main raw material is waste paper of which it consumes over 1,000,000 tonnes per annum, sourced through its own waste paper recovery business, Severnside Waste Paper.

Considering how difficult market conditions in the UK have been, St Regis Paper performed satisfactorily, although the results were significantly down on the previous year. Demand for CCM in the UK grew by around 3% over last year, but growth slowed towards the end of the year as UK manufacturing went into recession. The benefits of volume growth were more than offset by the steady erosion of UK CCM prices throughout the year. The downward pressure came mainly from the strength of sterling, which forced UK prices down in order to remain competitive with continental European prices. By the year end improving market conditions in continental Europe enabled St Regis Paper to implement a price increase for CCM in the UK, recovering some of the ground lost in the preceding months. The strong growth in continental Europe also enabled St Regis Paper to increase exports to customers there, though at lower returns.

St Regis Paper has reacted to the loss of competitiveness caused by the appreciation of sterling by redoubling its efforts to reduce costs through increased operating efficiencies and lower purchasing costs. These initiatives are producing good results and have further to go.

The UK Government's packaging waste regulations came into effect on 1 January 1998. The new regime has quickly improved the economics of waste paper recovery, increasing the volumes going to recycling, and at the same time giving recycled paper manufacturers a waste paper cost which is more competitive with continental Europe than it has been for several years.

Kemsley paper mill sold record volumes in the year. Production efficiencies, however, were still below potential and management is putting considerable effort into improving operating performance. The other CCM producing mills, Sudbrook, Wansbrough, Taplow and Hollins, performed well, largely as the result of successful cost and efficiency initiatives. They all also achieved output records.

Of the specialist mills, Silverton and the two wallpaper producing mills had another difficult year, with continuing price pressure resulting not only from sterling's strength but from reduced demand and overcapacity. The other specialist mills, Higher Kings and Western Board Mills, withstood the market pressures well, producing very satisfactory results in the circumstances.

Severnside, St Regis Paper's waste paper recovery business, returned to profit in the last quarter of the financial year after two years of significant losses. Much of the recovery was due to operational

Waste paper is collected mainly from commercial and industrial sources.

At Severnside depots waste paper is sorted and baled for delivery to mills for recycling.

Investment is taking place at Severnside in storage yards, new collection vehicles, compactors, sorting lines and balers.

improvements. In addition, the new packaging waste regulations have made previously uneconomic collections viable. As a result Severnside should be able to earn a reasonable return for the foreseeable future.

A A Griggs, St Regis Paper's logistics operation, performed well and continues to provide a high quality and competitive service both to St Regis Paper and David S. Smith Packaging, as well as to third party customers.

The division carried out considerable work in training and developing staff at all levels. A programme is under way to achieve new standards of health and safety, working closely with the Health and Safety Executive, trade unions and the Paper Federation.

St Regis Paper's portfolio of CCM brands, which includes Trident, Primaflute and Optima, was augmented by 'Caselite', a new lightweight grade. This is an important development which significantly extends the range of papers available to corrugators, allowing customers to enter new markets already supplied by carton board and to reduce board weight below those levels previously achievable.

Capital expenditure was less than in recent years. The main project was the development of the paper machine at Higher Kings, expanding its capacity and product range and improving product quality. At Kemsley, there were a number of improvements to the stock preparation plant and to the paper machines. In addition, there were various projects to increase the division's recycling of packaging waste, including increases in Severnside's collection capabilities, and the installation of a new stock preparation plant for Wansbrough's PM5, which has expanded the mill's ability to use post consumer packaging waste. The only acquisition was Pavidda, a small but profitable business which converts paper and board into a range of industrial products.

In the medium term, the outlook for the European CCM market is improving, with continuing growth in the continental European economies and limited capacity additions, producing an improved supply/demand balance. However, despite the recent CCM price increases, near term prospects for the UK are less encouraging. UK manufacturing is in recession, and it is impossible to be confident that the main cause of this, sterling's strength, will abate in the near future.

The division's competitiveness is improving as a result of the continuing focus on efficiency improvement and cost reduction. In addition, its performance is underpinned by the full year benefits of the new packaging waste regime for Severnside. These factors are offset by the low level of UK CCM prices, though on balance the immediate prospects for St Regis Paper are for a slight improvement over last year. ■

Office Products

The Spicers office products distribution business and the John Dickinson Stationery manufacturing business are managed by Eric Smith.

Sales were £414.8 million, an increase of 2.7% on the previous year. Operating profit amounted to £24.6 million, a decrease of 7.9%, giving operating margins of 5.9% compared with 6.6% the previous year. Return on year end capital employed fell to 19.3% from 21.2% the previous year.

Spicers

Spicers is the leading wholesaler of office products in the UK, Ireland and France, operating through 18 distribution centres, a central warehouse and specialised dealer distribution centre. During the year Spicers commenced the development of a greenfield wholesaling operation in Germany which will start trading in the autumn of 1998.

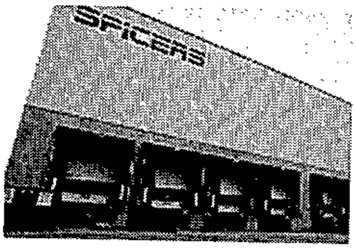
The UK office products market grew by 3% over the year. The wholesale sector share of the market remained unchanged despite increased pressure from other distribution channels. In France the wholesale sector appears to have slightly increased market share.

Sales increased by 5% at Spicers' UK and Irish wholesaling operations. This performance was achieved in the face of strong competition from other channels of distribution and overall price deflation in the market. The consolidation of independent dealers, an important customer base for Spicers, continued during the year though at a reduced pace. This has been partly offset by an encouraging flow of new independent dealers.

Margins improved, due to continued efforts to control costs and purchasing savings, despite the increasing proportion of Spicers' sales represented by electronic office supplies which generally command lower margins. The growth of Spicers' own brand product range, Five Star, continued strongly. Space Age, the specialist furniture operation, performed well.

In the UK wholesaling sector one of Spicers' two competitors, John Heath, was acquired by ISA, an electronic office supplies wholesaler and direct seller, accelerating the trend of offering electronic office supplies and office products from the same source. On a wider scale consolidation across distribution channels continued, with Staples' acquisition of mail order company Quill, Office Depot's purchase of Viking, and the acquisition of Guilbert by Pinault Printemps – La Redoute.

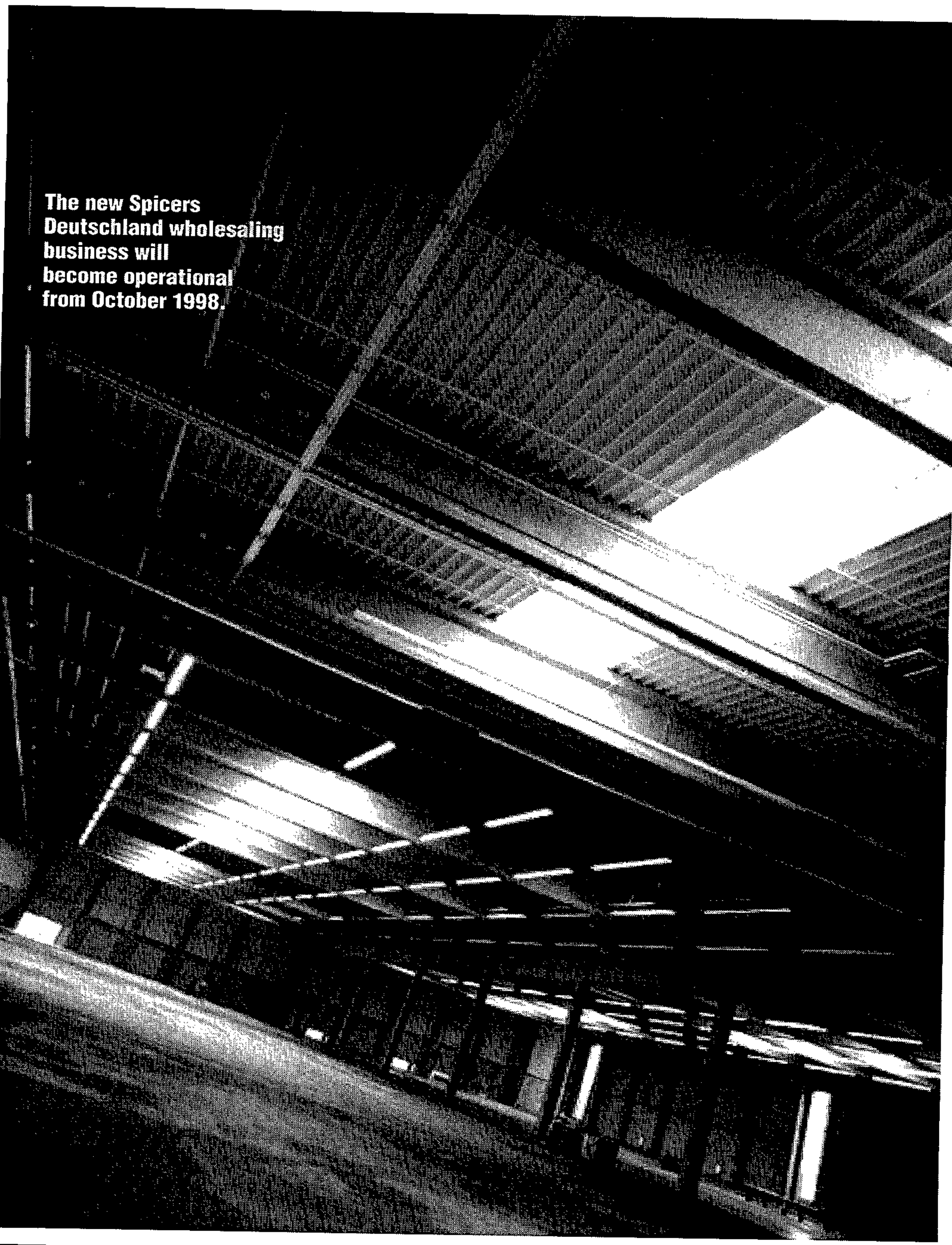
The Dealer Distribution Centre (DDC) performed well. Further improvements in service levels and productivity were instrumental in successfully expanding the number of stockless dealers using this operation. These stockless, or modular, dealers are able to reduce their stock and distribution costs by using DDC picking and delivery services. Sales from stockless dealers now account for 19% of Spicers' UK wholesaling sales. The DDC is being utilised as the logistics platform for the development of the



Construction of the Spicers Deutschland distribution centre will be completed by autumn 1998.

The new management team has worked through the year to source products, produce a catalogue and prepare for the launch of the business.

Based in Hanover, Spicers will be the first national office products wholesaler in Germany.



The new Spicers Deutschland wholesaling business will become operational from October 1998.

electronic office supplies (EOS) range. This product area is the fastest growing sector of the market and Spicers will increase its EOS product offering by 50% to strengthen its position in a market sector hitherto served by specialists.

Investment in the new computer system continues, with the first implementation in Newcastle in April 1998 and a full roll-out programme planned for the other RDCs in the UK, Ireland, France and Germany over eighteen months.

Spicers France turned in a record performance. Sales rose by 12% over last year and margins increased despite strong price competition. Sales growth arose from increased volume from the new Paris depot in its first full year of operation and from increased sales from the Calipage dealer network. During the year the Lyon RDC relocated to a new 6,500m^2 warehouse at Valence. This new depot is equipped with computerised conveyor and packaging systems, which have led to greater productivity and improved service to customers.

The greenfield wholesaling operation in Germany, announced last August, is progressing to plan. The new warehouse at Hanover is nearing completion, the management team is in place, and the business is due to commence trading in October.

Spicers has produced another good performance and the outlook is encouraging. However, the recent superstore/mail order mergers will intensify competition in the office products sector. Spicers will continue to develop new services to meet the challenge of a more competitive market place.

John Dickinson Stationery

The envelope and stationery manufacturing business, which now operates under the John Dickinson Stationery name, had a very disappointing year. Sales fell by 10% and profitability also reduced as prices eroded due to intense competition from imports fuelled by the high value of sterling. The operation at Apsley in particular suffered badly. In addition, difficulties were encountered with integrating businesses and further restructuring is now planned.

John Dickinson Ledbury turned in a record performance and Spicer Hallfield also performed well.

For John Dickinson Stationery the immediate outlook is likely to remain difficult, particularly while sterling remains at its current level. The business will need to take further actions to fully integrate the stationery manufacturing businesses, improve productivity, reduce costs and produce an acceptable level of profitability. ■

Environmental Statement

The Group plays an important environmental role through its packaging and paper operations:

as a major collector and merchant of waste paper;

as a leading producer of recycled paper and board;

as a converter of corrugated board, a highly flexible, low cost and easily recyclable packaging material.

The role that the Group performs has taken on greater significance with the introduction of the UK Producer Responsibility Obligations (Packaging Waste) Regulations 1997 from 1 January 1998. These Regulations place obligations on businesses that produce or use packaging to undertake to recover and recycle packaging materials. Businesses can fulfil their obligations by joining one of several compliance schemes or by pursuing an individual compliance route. The Group has joined Valpak which is the largest compliance scheme. The level of packaging waste recovery in the UK required by the Regulations rises over the next three years to the 50% target set by the EU.

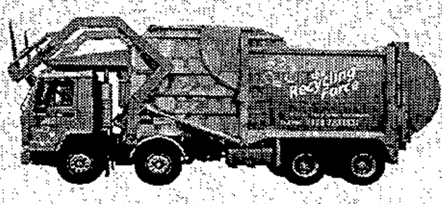
The initial impact of the legislation has been to make some improvements to the economic viability of packaging waste collection in the UK. Waste paper collectors and their clients, the recycled paper mills, are now on a more level playing field with continental Europe which will enable them to plan more confidently to increase the recycling rate of waste paper.

As the UK's largest collector and reprocessor of paper packaging waste, the Group has a vital part to play to help the country reach the required target level for recycling. Paper packaging waste collection and reprocessing will need to increase rapidly from current levels and St Regis Paper is active in projects that will help achieve this.

Amongst the actions already underway are:

- investment in new mobile compaction vehicles to allow collection from smaller, previously uneconomic sites;
- investment in new waste storage yards at waste processing depots to better accommodate demand fluctuations;
- trials with new 'bring' systems for paper packaging at retail outlets;
- investment in a new pulper and thick stock screens to be able to recycle poorer quality packaging waste at Wansbrough paper mill.

Additional investments in waste paper collection and recycling will be required in the near future.



Severnside mobile compaction vehicles.

The Group has been active in assessing and managing the environmental impacts of its main business activities, particularly in the packaging and paper divisions.

Responsibility for management of environmental issues is devolved to each of the main businesses within the Group, working within the framework of the Group Environmental Policy. Progress is reviewed and activities co-ordinated at an overall level by the Group Environment Committee which meets under the chairmanship of the Chief Executive.

Packaging and Paper

A senior manager within each of the operating divisions has specific responsibility for environmental affairs. The key issues identified, which vary from unit to unit, are water use, energy use, emissions to water, emissions to air, emissions of solid waste and local factors relevant to each plant.

Management programmes are in place in each operating division to address these issues. In many cases the process of accreditation to ISO14001 which is taking place means that detailed procedures for measurement and control of identified environmental issues relating to each site have already been documented. To date, ISO14001 accreditation has been achieved at the Kunheim corrugated factory in Kaysersberg Packaging. Within St Regis Paper a number of mills are working towards accreditation.

David S. Smith Packaging has implemented an environmental audit and reporting project in conjunction with external consultants and the University of Wales to develop a common reporting system for all units within the division and the indexing of performance for simplified reporting. This is planned to form the basis of future ISO14001 accreditation.

St Regis Paper, through its divisional environmental manager and two technical assistants, carries out environmental audits at all St Regis Paper sites in a planned three year cycle, supported by quarterly environmental meetings with representatives from all locations. St Regis Paper is active in benchmarking water and air emissions and pursuing best practice programmes through the Paper Federation.

Notable areas of recent capital expenditure on environmental projects in the packaging and paper businesses include a new effluent treatment plant at Taplow mill, back water treatment at Kemsley and major water treatment plants for the Kunheim and St Just corrugated factories.

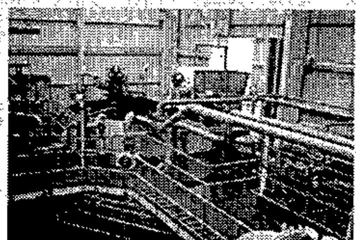
Office Products

Environmental impacts in the office products division are generally lower than in the packaging and paper division.

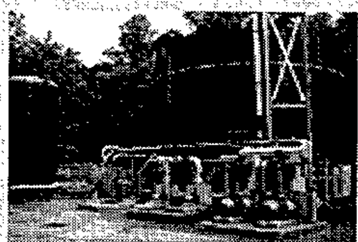
Spicers has been awarded the British Office Systems and Supplies Federation (BOSSF) Industry Standards Environmental Certificate for a number of actions taken. Included in these actions are energy conservation through computerised heating systems and energy efficient lighting, better route planning for the distribution vehicle fleet to save fuel and reduce traffic movements and the specification of 'Euro2' engines in all new trunking vehicles.

John Dickinson Stationery has also implemented several projects as part of its environmental management programme. The utilisation of energy and raw materials is subject to audit to reduce consumption. Solvent emissions to air have been greatly reduced by the adoption of water-based inks for flexographic printing, the main form of printing in the production of envelopes.

John Dickinson Stationery is a member of the WWF'95 Plus Group which endorses the principles of sustainable forest management set out by the Forest Stewardship Council (FSC). Wherever possible John Dickinson Stationery will source paper from FSC accredited sources.



New pulper at Wansbrough paper mill.

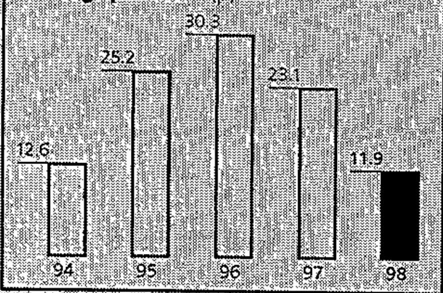


Waste treatment plant at Taplow.

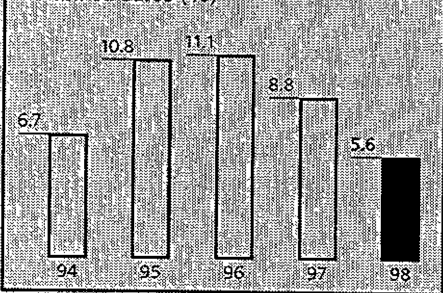
Financial Review

David Buttfield
Group Finance Director

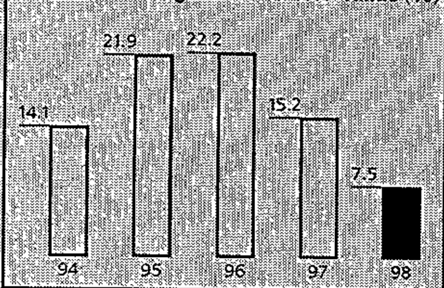
Earnings per share (p)



Return on sales (%)



Return on average shareholders' funds (%)



Trading Results

Turnover for the financial year ended 2 May 1998 declined from £1,180.1 million to £1,112.5 million, a decrease of 5.7%; operating profit reduced by 40% to £62.4 million.

The majority of the Group's turnover originated in the United Kingdom and Ireland but 27% of turnover, and 25% of operating profit, originated in continental Europe.

The translation of the Group's overseas results has been adversely affected by the strength of sterling. If the 1997/98 results had been translated at the 1996/97 exchange rates, turnover would have been £51.4 million more and operating profit £2.6 million higher.

The exchange rates used for translating the French, Polish and Italian results are shown below:

	1998 Average	1998 Year End	1997 Average	1997 Year End
French Franc	9.85	9.93	8.47	9.43
Polish Zloty	5.65	5.66	4.55	5.13
Italian Lira	2,878	2,925	2,505	2,772

The net interest expense for the year increased slightly from £8.0 million to £8.3 million due to higher average borrowings, offset in part by slightly lower interest rates. The decline in operating profits resulted in a reduction in interest cover from 13 times to 7 times.

The trading results are described more fully in the Chairman's and Chief Executive's Statement and the Operating Review.

Taxation

The Group's effective tax rate has increased from 23% to 25% due mainly to reducing capital allowances. However, this rate remains well below the UK and the higher French and other overseas corporate tax rates due to the high level of capital investment in recent years and the benefit arising from the funding structure of the French subsidiaries.

The Group's tax rate is likely to increase again in 1998/99 due to the reducing level of capital expenditure.

Earnings, Net Assets and Dividends Per Share

Earnings per share reduced to 11.9p compared with 23.1p last year and the return on average shareholders' funds decreased to 7.5% from 15.2% last year. Net assets per share increased to 158.8p, or 206.5p if goodwill written off to reserves is added back.

The total proposed dividend for the year is 8.2p net per ordinary share, an increase of 2.5%. Dividend cover has reduced from 2.9 times to 1.5 times.

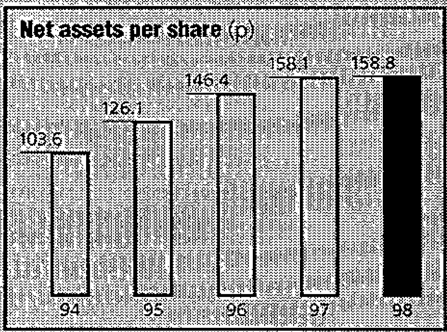
Cash Flow

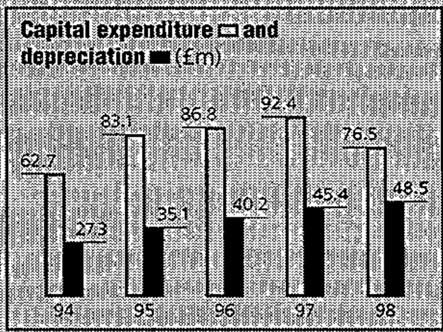
Free cash flow, which is defined as the net cash flow before financing, acquisitions and divestments, is summarised below:

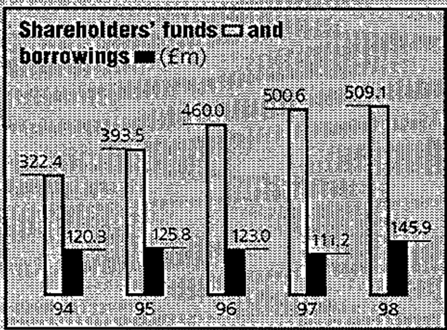
	1998 £m	1997 £m
Cash flow from operating activities	95.9	166.3
Net capital expenditure	(73.2)	(94.3)
Taxation, interest and dividends	(41.5)	(61.5)
Free cash flow	(18.8)	10.5

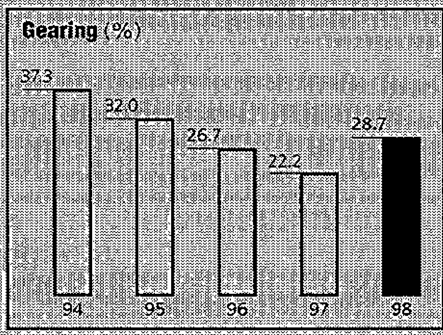
Cash flow from operating activities decreased by £70.4 million to £95.9 million. The decrease mainly reflects the reduction in the operating profit in the year of £41.8 million and the virtually unchanged level of working capital following the significant reduction in 1996/97.

Capital expenditure amounted to £76.5 million, 1.6 times depreciation. However, the net impact on cash flow was £73.2 million as a result of a reduction in capital expenditure creditors.









of £0.3 million and disposal proceeds of £3.6 million.

The cash outflow on taxation, interest and dividends decreased by £20.0 million, mainly due to a £17.4 million reduction in taxation payments.

The other movements in net borrowings, before the impact of exchange differences, are summarised below:

	1998 £m	1997 £m
Free cash flow	(18.8)	10.5
Acquisitions	(10.2)	(9.2)
Investments	(13.7)	(2.6)
Share issues	2.3	3.5
	(40.4)	2.2
Acquired borrowings	–	(14.6)
Total cash outflow	(40.4)	(12.4)

The expenditure on acquisitions of £10.2 million includes the deferred element of the consideration for the 1996/97 acquisition of 20% of Tri-Wall KK. The cash outflow on investments relates to a number of trade investments.

Proceeds from shares issued during the year as a result of the exercise of executive and savings-related options amounted to £2.3 million.

Borrowings and Gearing

The Group's closing net borrowings were £145.9 million, an increase of £34.7 million, as shown below:

	1998 £m	1997 £m
Opening borrowings	(111.2)	(123.0)
Total cash outflow	(40.4)	(12.4)
Exchange differences	5.7	24.2
Closing borrowings	(145.9)	(111.2)

Gearing increased from 22.2% to 28.7%, well below the range of 40% to 60% which we consider to be the preferred level for the Group.

Treasury

The Group treasury strategy is controlled through a Treasury Committee which meets regularly and comprises the Chairman, the Group Chief Executive, the Finance Director and the Group Treasurer. The Group Treasury function operates in accordance with documented 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 and foreign exchange exposure management.

The major treasury risks to which the Group is exposed relate to movements in interest rates and currencies. The overall objective of the Treasury function is to control these exposures whilst striking an appropriate balance between minimising risks and costs. Financial instruments and derivatives may be used in implementing hedging strategies, but no speculative use of derivatives or other instruments is permitted.

The Treasury Committee regularly reviews the Group's interest rate exposure. The view for some years now has been that floating rates provide a better balance of value and risk. At the end of the financial year, substantially all borrowings were at floating rates.

The Group's average cost of funding was 5.5% for the year ended 2 May 1998, mainly representing 4.5% for French franc borrowings and 7.6% for sterling borrowings.

Group policy is to hedge the net assets of overseas subsidiaries by means of borrowings in the same currency to a level determined by the Treasury Committee. The borrowings in currency give rise to exchange differences on translation into sterling which are taken to reserves. The Group's net borrowings are denominated mainly in French francs, which are held to hedge the underlying assets of our French operations. At the year end, French franc borrowings represented just over 80% of those assets.

The Group has committed banking facilities well in excess of anticipated requirements. At the year end, the Group had total committed borrowing facilities of £420 million and uncommitted facilities of £128 million, including overdrafts. Borrowings drawn down under these facilities totalled £196 million at the year end.

Millennium Issue

The Group continues to address the problems presented by the millennium date changes. Each division has established a steering committee with senior management representation to implement their millennium compliance programme. Inventories and initial assessments of the scale of the problem are largely complete and actions to address the identified risks to business critical systems are under way. Divisions' programmes include assessing the impact of Year 2000 related failures by significant suppliers and customers.

The Group has established a detailed monitoring system at business unit level, which provides data for regular progress reports to divisional management and the Group. These reports are periodically subject to an independent review by the Group's operational audit function, assisted by our auditor, KPMG Audit Plc.

We do not believe that the capital and revenue costs of achieving Year 2000 compliance can be separated from our ongoing expenditure. However, a significant proportion of the time of our IT people and some of that of our engineers is currently being spent on millennium issues.

In many instances, compliance is being achieved as a by-product of other projects. All divisions have undertaken major capital investments in upgrading business computer systems over the last three years. The Group has incurred approximately £15 million of capital expenditure on these projects and it is estimated that a further £6 million will be spent over the next two years to complete them. Aside from these projects, we have identified to date approximately £3 million of genuinely incremental capital expenditure required for compliance.

EMU

In 1997, the Group established steering committees both centrally and at each division to assess the impact of EMU on all aspects of its businesses. Plans are being put in place both to address the risks and to take advantage of the commercial opportunities presented by the proposed introduction of the euro. Where relevant, IT systems have been or are planned to be replaced or upgraded to enable them to deal with the euro. Incremental costs incurred on EMU in 1997/98 were not material and are not expected to be so in the foreseeable future.

David Buttfield
Group Finance Director
14 July 1998

Directors' Report and Accounts

The Board

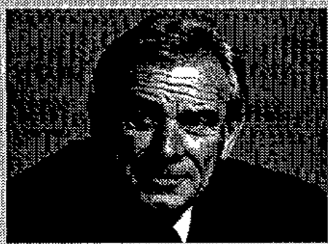












Alan Clements ★■△◆○
Chairman
Appointed a non-Executive Director on 18 January 1991 and became Chairman of the Company on 28 February 1991. Alan had a long and successful career at ICI, where he was Group Finance Director from 1979 until his retirement on 31 December 1990. He is also a non-Executive Director of Mirror Group Newspapers PLC. Age 69.

Peter Williams ◆○
Canadian
Group Chief Executive
Appointed to the Board on 16 April 1991 and became Group Chief Executive on 1 May 1991. Immediately prior to joining the Group, he was Chief Executive of Reedpack Limited having led the management buy-out of Reedpack from Reed International PLC in 1988. Peter Williams had joined Reed International in 1966. He is also a non-Executive Director of RPC Group plc and Electra Investment Trust plc. Age 56.

David Buttfield ◆
Finance Director
Appointed to the Board on 12 January 1994 as Finance Director. He joined the Group as Financial Controller on 16 September 1991 from Reedpack Limited, where he held a similar position. Prior to that he spent 12 years with Reed International PLC. Age 51.

Michael Green ◆
Joined the Group when Corrugated Products was acquired in 1987. He was appointed to the Board on 7 February 1990 and is Managing Director of David S. Smith Packaging Ltd. Age 53.

Neil Greig ★■△○
Was a co-founder of Abbey Corrugated and joined the Company and the Board when Abbey was acquired in 1985. He became a non-Executive Director in 1988. Age 60.

Daniel Piette ★△○
French
Appointed to the Board on 1 October 1993 as a non-Executive Director. He is Group Executive Vice-President of LVMH, Managing Director of the Louis Vuitton Group and Director of Duty Free Shoppers (DFS). Age 53.

Michael Pragnell ★
Appointed to the Board on 1 January 1996 as a non-Executive Director. He is an Executive Director of Zeneca Group PLC where he is Chief Executive of Zeneca Agrochemicals. Age 51.

Stuart Russell ◆
Appointed to the Board on 1 August 1991 as Corporate Services Director, having joined the Group in 1988 as Group Company Secretary and continues in that role. He was previously with Guinness PLC and, prior to that, a Director of Martin the Newsagent PLC. Age 50.

Eric Smith ◆
Appointed to the Board on 28 July 1993 following the acquisition of Spicers from SCA. He joined Spicers in 1975 and became its Chief Executive in 1982. Age 56.

John Stancliffe ★■○
Appointed to the Board on 23 March 1990 as a non-Executive Director. He was formerly a director of SG Warburg Group PLC and of Mercury Asset Management Group PLC. Age 66.

Sandy Stratton ◆
Appointed to the Board in 1986 when the Company acquired St Regis. He is Executive Chairman of St Regis Paper Company Ltd. Age 62.

★ non-Executive Director
■ member of Audit Committee
△ member of Remuneration Committee
◆ member of General Purposes Committee
○ member of Nomination Committee

Corporate Governance

The Company is committed to the principle and application of sound corporate governance. The Group has complied throughout the year with all of the provisions of the Cadbury Committee's Code of Best Practice published in December 1992 ('the Code of Best Practice'). The auditors' report on corporate governance matters is set out on page 37.

The Board believes that the Company complies with the broad principles of the Combined Code, recently issued by the London Stock Exchange and to become effective on 31 December 1998, and will report on its compliance in next year's Annual Report.

Internal financial control

The Directors are responsible for the Group's system of internal financial control. The Directors' responsibilities in respect of the accounting records, the safeguarding of assets and the prevention and detection of fraud and other irregularities are set out in the Statement of Directors' Responsibilities for Preparation of Financial Statements on page 36. Any system of internal financial control can, however, only provide reasonable and not absolute assurance against material misstatement or loss.
The following areas are the key elements of the Group's internal financial control procedures:

- The Directors have established a divisionalised organisation structure for monitoring the conduct and operations of individual business units within the Group. An Executive Director has responsibility for each division.
- The Board has reserved certain matters for the collective decision of the Board and the authority levels for other matters have been determined by the Group Chief Executive.
- The corporate strategy is reviewed annually and approved by the Board.
- Annual divisional budgets are reviewed by the Executive Directors and the annual Group budget is reviewed and approved by the Board.
- Results of business units are reported monthly and reviewed against budget by the Executive Directors. The Board reviews quarterly financial statements and reports covering the Group's profit and loss account, balance sheet and cash flow performance compared with budget and the previous year. Revised forecasts for the year are reviewed by the Board each quarter.
- There are clearly defined and formalised requirements for the approval and control of capital expenditure. Investment decisions are subject to formal detailed appraisal and review according to levels set by the Board.
- Procedure manuals lay down common control procedures and accounting policies which apply throughout the Group. The Chief Executive and Finance Director of each division are annually required to confirm to the Directors that the business units within their division have complied in all material respects with these procedures.
- The operational audit function undertakes regular reviews of the Group's operations and their systems of internal control. The work of the operational audit function is overseen by the Audit Committee.
- A Treasury Committee, comprising the Chairman, Chief Executive, Finance Director and Group Treasurer meets regularly. The Group's treasury policies and procedures are documented, and are controlled by the Group Treasurer.
- The Audit Committee meets at least three times a year and its responsibilities are set out in written terms of reference covering the points recommended by the Code. The Committee monitors accounting and financial procedures including statutory and regulatory compliance and receives reports on the review of the procedures and related internal financial controls. The Committee is also responsible for the review of the annual accounts and interim statements and monitoring the relationship with the external auditors.

The system of internal financial control is reviewed by the Group's operational audit function and through a process of structured self-assessment. This process includes each division and the corporate centre identifying the risks within their area of responsibility and then assessing the significance of those risks. Existing controls are then reviewed against those risks and tested through the operational audit function.

The Directors, through the Audit Committee, have reviewed the effectiveness of the Group's system of internal financial control.

Going concern

The Directors, having made appropriate enquiries, have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the Accounts on pages 38 to 60.

Board and Board Committees

The Board determines the objectives and broad policies of the Group and meets regularly throughout the year. The offices of Chairman and Group Chief Executive are held separately.

The Board has delegated certain powers, mainly of a routine nature, to the General Purposes Committee, which primarily comprises Executive Directors under the chairmanship of the Group Chief Executive. The Committee also considers and determines the remuneration of the non-Executive Directors on the advice of independent consultants.

Other Committees of the Board comprise non-Executive Directors, as shown on page 28, under the chairmanship of the Chairman of the Board except the Audit Committee which is chaired by Mr W N Greig. The responsibilities of the Audit Committee are set out above. The Nomination Committee considers the appointment of Directors and makes recommendations to the full Board. The report of the Remuneration Committee is given on pages 30 to 33.

Report of the Remuneration Committee

I am pleased to present the report of the Remuneration Committee ('the Committee') to shareholders. It is designed to satisfy the current disclosure requirements (including Directors' pension entitlements) of the London Stock Exchange Listing Rules. The Committee also intends that the Report should assist shareholders to understand the way the Committee determines the remuneration policy for Executive Directors of the Company.

a | Composition of the Committee

The Committee consists entirely of non-Executive Directors and consults with the Group Chief Executive who attends its meetings.

The members of the Committee have no personal financial interest, other than as shareholders of the Company, in the matters to be decided by the Committee, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in running the business. Members of the Committee are shown on page 28.

b | Compliance

The constitution and operation of the Committee is in compliance with Section A of the best practice provisions annexed to the London Stock Exchange Listing Rules. The Committee also confirms that in framing its remuneration policy it gave full consideration to the matters set out in Section B of those provisions. The Auditors' Report on the financial statements set out on page 37 confirms that the scope of this Report of the Committee covers the disclosures that are required by the London Stock Exchange to be reviewed.

c | Scope and Policy on Remuneration

The Committee, which operates under written terms of reference agreed by the Board, is responsible for determining the overall remuneration packages of the Executive Directors in order to attract, motivate and retain high calibre executives.

The Committee receives regular advice from external independent consultants to ensure that the remuneration packages are in line with the market.

The Executive Directors' overall remuneration packages are reviewed annually on 1 August. The basic salary for each Executive Director is targeted at the rates of salary for similar jobs in a selected group of comparable companies. The Committee, when determining the level of salary, also takes into account the relative performance of the Group and of the individual Director together with his experience in the particular job.

The Committee, in conjunction with external independent consultants, chooses the comparator group of companies on the basis that they are of a size and standing similar to the Group and trade on a similar geographical basis. The Committee also receives relevant information appertaining to remuneration of other senior executives and pay of employees elsewhere in the Group and, where appropriate, communicates its views on the levels of such remuneration to the Group Chief Executive.

The table of remuneration of the Directors is given on page 33.

d | Annual Bonus

The Executive Directors and other senior executives participate in annual bonus schemes which have been approved by the Committee. The scheme applicable to the Executive Directors of the Company is the same as in the previous year with the maximum permitted value of a bonus of 30 per cent of actual basic salary for the twelve months to 31 July 1998 ('Qualifying Salary') in respect of the financial year 1997/98 ('Annual Bonus'). The Executive Director receives an Annual Bonus if the earnings per share targets determined by the Committee are met. The earnings per share target for 1997/98 has not been met, consequently there is no Annual Bonus for Executive Directors in respect of the financial year ended 2 May 1998 (1997 – Nil).

The Annual Bonus is not contractual and awards under the scheme are not subject to deduction of pension contributions nor are they eligible for inclusion in the calculation of the participating Executive Director's pension scheme benefits.

e | Long Term Incentive Plan 1995 (the 'Plan')

A Long Term Incentive Plan (the 'Plan') was approved by shareholders at the Annual General Meeting in 1995. Its participants are the Executive Directors and other selected senior executives. The Plan was reviewed by the Committee during 1996/97 and modified as shown in last year's Annual Report. Following the review, no further Invested Bonus Awards or Performance Related Awards will be granted under the Plan.

Under the Plan, as modified, a participating executive is eligible only to receive an award of shares in the Company, equal in value to the participant's Annual Bonus, which normally vest after three years ('Bonus Award Option'). As far as practicable, the programme comprising an Annual Bonus and the modified Plan has been extended to divisional executives, however their bonus schemes are based on differing criteria consistent with the operating performance targets of the division in which they are employed. Awards made under the Plan will normally lapse on termination of employment.

The shares to be used for the purposes of the Plan will be existing ordinary shares of the Company purchased on the open market and held by the trustee of The David S. Smith Group General Employee Benefit Trust (the 'Trust'). The trustee of the Trust is a wholly-owned subsidiary of the Company incorporated in Jersey, the Directors of which are independent of the Group.

f | Long Term Incentive Plan 1995 – Allocation on 1 August 1996 Only

Prior to the modifications introduced last year, the only allocation of awards under the Plan was made during August 1996 to a total of 10 participating executives made up of Executive Directors and selected senior executives of the Group.

The Committee determined that the performance target under the Plan for the 3 year period from the date on which the awards were made would be based on the total shareholder return of the Company's shares (share price movements plus reinvested dividends) in relation to a comparator group made up of the constituents of the FTSE 350 Index. Provided the Company performs above the fiftieth percentile of the comparator group, vesting of the awards would range from a minimum of 30% of the shares subject to the Performance Related Award (and 30% of the shares subject to the Invested Bonus Award if the executive has invested the whole or part of their post-tax Annual Bonus in shares) up to a maximum of 100% of the shares subject to such awards if attaining the thirtieth percentile or higher. The awards are increased on a proportionate basis between the fiftieth and thirtieth percentiles.

The Executive Directors received in aggregate a Bonus Award Option under the Plan of £306,000, which is held by the Trust in shares of the Company and which normally vests in the relevant executives on the third anniversary of the grant. To the extent that the longer term performance targets are met, the Performance Related Award will also normally vest on the third anniversary of grant and be equal to a further award in shares of up to the same value as the Bonus Award Option at the date of vesting. In addition, each of the Executive Directors invested the whole of their post-tax Annual Bonus in ordinary shares of the Company and they are therefore eligible for the Invested Bonus Award. The allocation to each of the Executive Directors on 1 August 1996 of the Bonus Award Option and the Invested Shares, together with the maximum number of additional ordinary shares which may be awarded subject to the performance target, are shown in the table below. There have been no subsequent allocations under the Plan to Executive Directors.

	Allocation		Maximum additional shares	
	Bonus Award Option	Invested Shares	Performance Related Award Option	Invested Bonus Option
J P Williams	29,315	17,643	29,315	29,315
D F Buttfield	14,364	8,646	14,364	14,364
M G Green	13,680	8,233	13,680	13,680
J S Russell	12,996	7,822	12,996	12,996
E C Smith	14,169	8,527	14,169	14,169
O A Stratton	15,146	9,115	15,146	15,146

The Invested Shares are also included in the Directors' Share Interests on page 35.

The Options will normally vest in the Executive Directors on 1 August 1999 and, to the extent that the performance targets are satisfied, the additional shares or a proportion thereof will also vest at that date. At the date of this Report the total shareholder return of the Company's shares in relation to the comparator group would not result in an award of additional shares under the performance target.

g | Share Option Schemes

The Company has a UK and International Executive Share Option Scheme which, as from 31 July 1997, is only available to Executive Directors and other senior executives participating in the Plan. The Committee grants options to executives on a phased basis and an individual will not normally receive a grant worth more than one times their salary a year.

The exercise of any options granted under the above Scheme after 27 April 1996 is subject to the achievement of a performance target. The chosen target is that earnings per share of the Company increase over a period of three consecutive financial years, which may include the financial year in which the option is granted, by a total of at least 7.5% above the increase in the UK retail price index for that period. Normally, no part of the option may be exercised unless the performance target has been achieved.

As a result of changes in the Finance Act 1996, which limited the value of shares under option under an approved scheme, the Committee grants unapproved options under the international section of the Executive Share Option Scheme to UK residents, as well as to non-UK residents.

The interests of the Directors in the share capital of the Company and details of options granted under the terms of the Executive Share Option Scheme, but not yet exercised, are shown on page 35.

The Company has a UK Savings-Related Share Option Scheme for employees in general and all outstanding options, if not exercised by 31 July 1998, lapse. The Committee will be considering during the current financial year a further invitation to eligible employees.

h | Pensions

The Executive Directors participate in a funded contributory defined benefit pension scheme with death in service cover. Subject to the variations mentioned below, the Group provides pension benefits for Executive Directors on retirement at their normal pension age of 60 based on an accrual rate of one thirtieth with reference to basic salary less a deduction equal to the basic state pension. This is subject to a maximum pension of two-thirds of their final pensionable pay.

As far as possible, the benefit is provided through the Inland Revenue Approved Group Pension Scheme, in which other employees of the Group participate, but for those Executive Directors who joined after 31 May 1989 and whose benefits are therefore subject to the Inland Revenue 'earnings cap', the Company has given a promise to provide the balance through a non tax approved unfunded arrangement. The accumulated unfunded provision at 2 May 1998 is £1.3m (1997 – £1.1m).

Life cover of four times basic salary is provided under the Approved Scheme on death in service in addition to spouses' pensions of one half of the members' prospective pensions plus dependants' benefits. For those Executive Directors whose benefits are restricted by the 'earnings cap', optional additional life cover is available. Spouses' pensions on death after retirement are one half of the members' pensions, before any reduction for commutation of pension for cash.

Pensions in payment are increased annually in line with the increase in the UK retail price index, subject to a maximum guaranteed increase of 5% each year with the possibility of further discretionary increases. There is no allowance in the transfer value calculation basis for such discretionary increases or other discretionary benefits.

All members, including Executive Directors, contribute to the Approved Scheme at the rate of 6% of their pensionable pay, subject to a maximum, for those affected, of 15% of the 'earnings cap'.

Variations from the above are as follows:

Mr O A Stratton reached normal pension age on 29 October 1995. He ceased contributing to the Scheme on 31 May 1997 commuting part of his pension for a maximum tax free cash sum of £326,000 but deferring receipt of his residual pension which was £109,000 pa on 31 May 1997. Payment of the residual pension, which will be actuarially increased for its later payment, has not yet commenced. The figures in the table below relate only to the period up to 31 May 1997.

Mr M G Green has a potential maximum pension of two-thirds of his final pensionable pay, plus a paid up pension arising from his membership of an old scheme within the Group.

Mr J S Russell has a potential maximum pension of two-thirds of his final pensionable pay, plus a pension arising from a transfer into the Scheme.

Mr E C Smith is entitled to a different scale of pension benefits. His pension is payable from age 60 and is equal to two-thirds of his final pensionable pay which is calculated by reference to his basic salary. The pension is accrued uniformly over the period of pensionable service. His spouse's pension is based upon a fraction of two-thirds, rather than one half of his prospective pension. Pension increases are guaranteed at 5% pa, subject to Inland Revenue limits. Mr Smith's employee contributions to the Scheme are calculated by reference to his basic pay less the basic state pension.

Set out below and in accordance with the disclosure requirements of the London Stock Exchange are the total accrued pension entitlements as at the financial year end prospectively payable from normal pension age in respect of the Approved Scheme, and for Mr Williams and Mr Buttfield the non tax approved unfunded arrangement, for each of the Executive Directors of the Company.

	Age	Employee contributions paid during the year £'000	Complete years of service	Accrued entitlement 3 May 1997 £'000 pa	Accrued entitlement 2 May 1998 £'000 pa	Additional pension earned (excluding inflation) during the year £'000 pa
J P Williams	56	13	7	70	84	12
D F Buttfield	51	10	6	32	39	6
M G Green	52	9	25	54	62	6
J S Russell	50	9	9	49	57	6
E C Smith	56	10	27	89	99	7
O A Stratton*	62	1	46	141	143	1

*Figures for Mr Stratton relate to the period up to 31 May 1997.

i | Service Contracts

The Executive Directors, other than Mr O A Stratton, have service contracts which can be terminated by the Company or a subsidiary company giving two years' written notice. The service contract for Mr Stratton may be terminated by not less than one year's written notice from St Regis Paper Co. Ltd expiring at any time after 29 October 1998.

The Committee considers that notice periods of two years are reasonable and proper having regard to prevailing market conditions in order to retain and recruit Executive Directors of an appropriate calibre.

j | Policy on External Appointments

Executive Directors are allowed to accept appointment as a non-Executive Director of up to two other companies provided that these are not with competing companies and are not likely to lead to conflicts of interest. Executive Directors are normally allowed to retain the fees paid.

k | Fees for non-Executive Directors

The remuneration for non-Executive Directors consists of annual fees for their services as members of the Board and for their work on selected committees. They do not have contracts of service but have letters of appointment. Their remuneration is determined by the General Purposes Committee on the advice of external independent consultants and is subject to a maximum aggregate level agreed by shareholders. Non-Executive Directors do not participate in or vote on any discussion relating to their own remuneration.

Non-Executive Directors are not eligible for pension scheme membership and do not participate in any of the Group's bonus, share option or other incentive arrangements.

l | Remuneration of the Directors

The Annual Bonus is calculated on the Qualifying Salary defined in paragraph d on page 30 for which there has been no allocation in 1997 or 1998. The term 'Benefits' includes the provision of a car, fuel and private medical insurance.

	Salary/Fee £'000	Benefits £'000	1998 Total £'000	1997 Total £'000
Chairman				
A W Clements	95	8	**103**	84
Chief Executive				
J P Williams	350	40	**390**	460
Executive Directors				
D F Buttfield	169	15	**184**	173
M G Green	159	8	**167**	162
J S Russell	154	16	**170**	236
E C Smith	168	7	**175**	163
O A Stratton	170	1	**171**	196
Non-Executive Directors				
W N Greig	35	1	**36**	33
D R Piette	28	–	**28**	26
M P Pragnell	28	–	**28**	25
J C G Stancliffe	28	–	**28**	25
Total	1,384	96	**1,480**	1,583

On behalf of the Board

A W Clements
Chairman
Remuneration Committee
14 July 1998

Directors' Report

The Directors submit their Annual Report and the audited Accounts for the financial year ended 2 May 1998.

Principal activities and business review

The Company acts as the holding company of a group, which, during 1997/98, was engaged in the production of packaging and paper, primarily from waste paper, and the distribution of office products.

A full review of the activities during the financial year ended 2 May 1998 and future developments is given in the Chairman's and Chief Executive's Statement and in the Operating and Financial Reviews on pages 2-5, 10-21 and 24-26 respectively.

Results for the year

Group turnover for the financial year ended 2 May 1998 was £1,112.5 million (1997 – £1,180.1 million) and profit before tax was £51.1 million (1997 – £96.0 million). The detailed results of the Group are set out on page 38. A geographical segmentation of turnover, operating profit and capital employed by origin is shown in note 1 to the Accounts. Earnings per share were 11.9p, compared with 23.1p for the previous year.

Dividends and reserves

An interim dividend of 2.7p net per ordinary share was paid on 16 March 1998 and the Directors recommend a final dividend of 5.5p net per ordinary share, making an increased total dividend for the year of 8.2p net per ordinary share. Subject to approval of shareholders at the Annual General Meeting to be held on 9 September 1998, the final dividend will be paid on 1 October 1998 to shareholders on the register at the close of business on 21 August 1998. Shareholders may wish to note that, following the proposed abolition of ACT announced by the Government this year, any interim dividend for 1998/99 will be paid a few weeks later than corresponding dividends in recent years.

Scrip dividend

The Company again proposes not to offer qualifying shareholders the alternative (called a scrip dividend) of receiving shares in the Company in place of a cash dividend. The Board recognises that the share alternative to cash dividends was popular with some shareholders but believes that following changes to the tax rules in June 1997 it is no longer in the interests of shareholders as a whole to continue with the scrip dividend.

Share capital

Pursuant to the Company's employee share option schemes, 1,744,029 ordinary shares of 10p each were issued during the year and a further 87,104 shares were issued between 3 May and 14 July 1998 inclusive. An additional 2,318,423 ordinary shares of 10p each were issued during the year to shareholders who elected to take the scrip alternative in respect of the 1996/97 final dividend.

Substantial shareholders

As at 14 July 1998, the Company has been notified of the following material interests of 3% or more in its issued ordinary share capital:

	Ordinary shares held	%
Schroder Investment Management Ltd.	60,025,542	18.7
Prudential Portfolio Managers Ltd.	35,149,189	11.0
Fidelity Investments	19,842,803	6.2
Threadneedle Investment Managers Ltd.	16,723,166	5.2

Apart from the above interests, the Company has not been notified and is not aware, as at 14 July 1998, of any other person materially interested in 3% or more, or having a non-material interest in 10% or more, of the issued share capital of the Company.

Fixed assets

In the opinion of the Directors, there is no material difference between the book value and the market value of land and buildings.

Research and development

The Group recognises the importance of continuing to invest in research and development. It is Group policy to develop new product specifications commensurate with environmental needs and packaging solutions required by customers. Research is also conducted into ways to improve product quality and to find more cost efficient methods of production and distribution. Research and development is conducted within divisional operations.

Directors

The biographies of the present Directors are on page 28.
All the present Directors served throughout the year. The Directors retiring by rotation are Mr J P Williams, Mr M G Green, Mr W N Greig and Mr O A Stratton, who, being eligible, offer themselves for re-election at the Annual General Meeting.
With the exception of Mr Greig, who is a non-Executive Director, all the said Directors have service contracts with the Company which can be terminated by the Company on giving one year's written notice expiring at any time after 29 October 1998 for Mr Stratton or two years' written notice for each of Mr Williams and Mr Green.

Other than as previously disclosed in this Report and in respect of existing service agreements, no Director, either during or at the end of the financial year, has been materially interested in any significant contract or arrangement in relation to the Group's business.

All Directors may, in the furtherance of their duties, take independent advice where appropriate, at the expense of the Company.

Directors' interests

The interests of the Directors and their immediate families in the ordinary shares of 10p each of the Company, including options granted but not yet exercised under the Executive Share Option Schemes, were as shown in the table below.

The table of share interests includes a non-beneficial shareholding in respect of Mr W N Greig of 41,333 (1997 – 41,333) ordinary shares.

There were no changes in the interests of the Directors or of their immediate families in the issued ordinary share capital of the Company between 3 May and 14 July 1998 inclusive.

Employee involvement and communications

The Group is committed to effective employee communications to promote the understanding and involvement of all its employees in the Group's business objectives and performance. Communications and personnel policies have been developed to reflect the philosophy of operating management.

The Group has established a European Works Council, with representatives drawn from across the entire workforce in the EU countries in which the Group operates. Meetings are held to provide an exchange of transnational information and consultation with employees.

Business decisions concerning capital investment, employment and training take into account the Group's public and local responsibilities. The Group is a member of Business in the Community.

	Ordinary shares	Ordinary shares	Number of options					Exercise price	Market price at date of exercise	Date at which exercisable	Expiry date
Directors	At 4 May 1997	At 2 May 1998	At 4 May 1997	Granted	During the year Exercised	Lapsed	At 2 May 1998	pence	pence		
A W Clements	30,000	30,000	–				–				
J P Williams	497,643	497,643	–	198,100	–	–	198,100	176.67	–	30.7.00	29.7.07
D F Buttfield	16,646	25,768	8,532	–	8,532	–	–	121.50	187		
			160,000	–	–	–	160,000	272.09	–	4.8.97	3.8.04
			–	93,350	–	–	93,350	176.67	–	30.7.00	29.7.07
M G Green	68,085	100,000	–	87,700	–	–	87,700	176.67	–	30.7.00	29.7.07
W N Greig	160,000	160,000	–				–				
D R Piette	–	–	–				–				
M P Pragnell	–	–	–				–				
J S Russell	58,431	71,181	37,768	–	–	–	37,768	171.50	–	1.11.94	31.10.01
			5,250	–	5,250	–	–	121.50	187		
			–	84,900	–	–	84,900	176.67	–	30.7.00	29.7.07
E C Smith	48,527	58,527	260,000	–	–	–	260,000	173.25	–	21.10.96	20.10.03
			–	90,550	–	–	90,550	176.67	–	30.7.00	29.7.07
J C G Stancliffe	60,000	60,000	–				–				
O A Stratton	809,115	817,647	8,532	–	8,532	–	–	121.50	187		
			–	96,200	–	–	96,200	176.67	–	30.7.00	29.7.07
Total			480,082	650,800	22,314		1,108,568				

The market price of the shares at 2 May 1998 was 227.5p (3 May 1997 – 224.5p) and the range during the year ended 2 May 1998 was 166.5p to 244.5p (year ended 3 May 1997 – 223p to 344p).

All Executive Directors were deemed by virtue of the Companies Act 1985 to be interested in all of the ordinary shares held by David S. Smith Employee Benefit Trust ('the Trust'), which at 2 May 1998 amounted to 371,042 ordinary shares, because they are potential beneficiaries under the Trust together with the employees of the Group.

Equal opportunities

The Group supports the principle and achievement of equal opportunities in employment and its policies are designed to provide such equality irrespective of sex, religion, race or marital status. Every possible step will be taken to ensure that individuals are treated equally and fairly. Depending upon their skills and abilities, the Group applies the same criteria to disabled persons as it does to other employees and, if necessary, retraining is offered to any of its employees who develop a disability during such employment.

Pension fund

The investment of the Group's pension fund assets is managed on a discretionary basis by Morgan Grenfell Asset Management Limited and Schroder Investment Management Limited, such assets being held independently from the Group. The professional advisers to the fund are independent of the Group. The Trustees of the pension scheme send an annual report to members of the scheme.

Health and safety

The Group recognises its responsibilities and continues to promote all aspects of health and safety in the interests of its employees and members of the public. A Health and Safety Policy Statement has been approved by the Board. The Group provides financial support to the British Occupational Health Research Foundation.

Payment to suppliers

In the United Kingdom, the Company places each order with a supplier on certain terms and conditions, which include terms of payment. The Company pays each supplier accordingly, subject to all the terms and conditions of the order being satisfied by such supplier. The aggregate amount owed by the Company to trade creditors at 2 May 1998 was equivalent to 24 days of purchases invoiced by suppliers during the year.

Charitable and political donations

The Group contributed £52,000 (1997 – £88,000) to charities in the UK. No payments were made to political parties.

Annual General Meeting

The Notice of the Annual General Meeting of the Company appears on page 67. In addition to the routine business to be transacted at the Meeting, the following Resolutions will be proposed: a Resolutions 9 and 10 will be proposed to renew the authority for the allotment of relevant securities by the Directors and for the partial disapplication of pre-emption rights and b Resolution 11 will be proposed so as to renew the authority of the Company to make market purchases of its own shares. The figures given in Resolutions 9 and 10 represented 28% and 5% respectively of the issued share capital of the Company as at 2 May 1998. The figures as at 14 July 1998 were unchanged.

The Directors have no present intention of using any authority given to the Company under Resolution 11 to purchase the Company's shares, or of issuing the whole or any part of the unissued ordinary share capital, other than in connection with any exercise of options under the Group's employee share option schemes. The authority in Resolution 11 represented 10% of the issued share capital of the Company as at 2 May 1998.

Auditors

A resolution to re-appoint KPMG Audit Plc as auditor of the Company and to authorise the Directors to fix their remuneration will be put to the Annual General Meeting.

By Order of the Board

J S Russell
Secretary
14 July 1998

Directors' Responsibilities for Preparation of Financial Statements

As required by company law, the Directors are responsible for the preparation of financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors have responsibility for ensuring that the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for taking reasonable steps for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Auditors to the Members of David S. Smith (Holdings) PLC

We have audited the financial statements on pages 38 to 60. We have also examined the amounts disclosed relating to emoluments, share options, pension entitlements and long term incentive scheme interests of the Directors which form part of the remuneration committee report on pages 30 to 33 and the Directors' Report on pages 34 to 36.

Respective responsibilities of Directors and Auditors
As described on page 36, the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 2 May 1998 and of the profit of the Group for the financial year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
14 July 1998

Review Report by KPMG Audit Plc to David S. Smith (Holdings) PLC on Corporate Governance Matters

In addition to our audit of the financial statements, we have reviewed the Directors' statement on page 29 on the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with the disclosure requirements of the Listing Rules 12.43 j and 12.43 v.

Basis of opinion
We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform any additional work necessary to express a separate opinion on the effectiveness of either the Group's system of internal financial control or corporate governance procedures, or on the ability of the Group to continue in operational existence.

Opinion
With respect to the Directors' statements on internal financial control and going concern on page 29, in our opinion the Directors have provided the disclosures required by the Listing Rules and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain Directors and officers of the Company, and examination of relevant documents, in our opinion the Directors' statements on page 29 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review by the Listing Rules.

KPMG Audit Plc
Chartered Accountants
London
14 July 1998

Group Profit and Loss Account

For the financial year ended 2 May 1998

	Note	1998 £m	1997 £m
Turnover	1	1,112.5	1,180.1
Cost of sales		(812.5)	(845.5)
Gross profit		300.0	334.6
Operating expenses	2	(237.6)	(230.4)
Operating profit	1, 3	62.4	104.2
Share of losses of associated undertakings	13	(3.0)	(0.2)
Profit on ordinary activities before interest		59.4	104.0
Interest	7	(8.3)	(8.0)
Profit on ordinary activities before taxation		51.1	96.0
Tax on profit on ordinary activities	8	(12.8)	(22.1)
Profit on ordinary activities after taxation		38.3	73.9
Minority interests – equity		(0.3)	(0.9)
Profit for the financial year		38.0	73.0
Dividends paid and proposed	9	(26.2)	(25.3)
Retained profit for the financial year	24	11.8	47.7
Earnings per share	10	11.9p	23.1p

The Group's results shown above are derived from continuing operations. There were no material acquisitions or discontinued operations in either year.

The notes on pages 43 to 56 form part of these accounts.

Statement of Total Recognised Gains and Losses
For the financial year ended 2 May 1998

	1998 £m	1997 £m
Profit for the financial year	38.0	73.0
Exchange differences on foreign currency net investments	(3.8)	(11.4)
Total recognised gains and losses	34.2	61.6

Reconciliation of Movements in Shareholders' Funds
For the financial year ended 2 May 1998

	1998 £m	1997 £m
Profit for the financial year	38.0	73.0
Dividends	(26.2)	(25.3)
Retained profit for the financial year	11.8	47.7
Exchange differences on foreign currency net investments	(3.8)	(11.4)
New share capital issued	2.3	3.5
Scrip dividend issue	4.6	0.8
Goodwill written off	(6.4)	–
Net addition to shareholders' funds	8.5	40.6
Opening shareholders' funds	500.6	460.0
Closing shareholders' funds	509.1	500.6

The difference between the reported and historical cost profits for each of the financial years reported above is not material.

Group Balance Sheet

	Note	2 May 1998 £m	3 May 1997 £m
Fixed assets			
Tangible assets	11	566.5	548.8
Investments	13	16.3	6.0
		582.8	554.8
Current assets			
Stocks	14	131.7	125.8
Debtors	15	247.0	249.9
Short term investments	17	27.5	24.6
Cash at bank and in hand	17	22.3	22.3
		428.5	422.6
Creditors: amounts falling due within one year			
Trade and other creditors	16	(282.5)	(289.7)
Borrowings	16, 17	(19.2)	(8.7)
Net current assets		126.8	124.2
Total assets less current liabilities		709.6	679.0
Creditors: amounts falling due after more than one year			
Borrowings	16, 17	(176.5)	(149.4)
Other		(2.1)	(1.4)
Provisions for liabilities and charges	21	(17.7)	(21.3)
		513.3	506.9
Minority interests – equity		(4.2)	(6.3)
Net assets		509.1	500.6
Capital and reserves			
Called up share capital	22	32.0	31.6
Share premium account	24	187.7	185.0
Revaluation reserve	24	10.6	10.8
Acquisition reserve	24	138.1	138.1
Goodwill reserve	24	(153.1)	(146.7)
Profit and loss account	24	293.8	281.8
Shareholders' funds – equity		509.1	500.6

Approved by the Board on 14 July 1998 and signed on its behalf by
JP Williams Director
DF Buttfield Director

The notes on pages 43 to 56 form part of these accounts.

Group Cash Flow Statement

For the financial year ended 2 May 1998

	Note	1998 £m	1997 £m
Net cash inflow from operating activities	25a	95.9	166.3
Returns on investments and servicing of finance	25b	(8.6)	(9.0)
Taxation		(11.8)	(29.2)
Capital expenditure and financial investment	25c	(86.9)	(96.9)
Acquisitions and disposals	25d	(10.2)	(21.6)
Equity dividends paid		(21.1)	(23.3)
Net cash outflow before use of liquid resources and financing		(42.7)	(13.7)
Management of liquid resources		(4.0)	(12.8)
Financing			
Issue of ordinary shares		2.3	3.5
New borrowings		35.5	97.2
Borrowings repaid		(1.5)	(84.5)
Net cash inflow from financing		36.3	16.2
Decrease in cash in the financial year		(10.4)	(10.3)

Reconciliation of net cash flow to movement in net debt			
Decrease in cash in the financial year		(10.4)	(10.3)
Increase in debt and lease financing		(34.0)	(12.7)
Increase in liquid resources		4.0	12.8
Increase in net debt resulting from cash flow		(40.4)	(10.2)
Liquid resources acquired with subsidiary undertakings		–	0.3
Loans and finance leases acquired with subsidiary undertakings		–	(2.5)
Exchange differences		5.7	24.2
Movement in net debt in the financial year		(34.7)	11.8
Opening net debt		(111.2)	(123.0)
Closing net debt	17a, 26	(145.9)	(111.2)

The notes on pages 43 to 56 form part of these accounts.

Accounting Policies

A summary of the principal accounting policies is set out below. The financial year reported in these accounts is for the 52 weeks ended 2 May 1998. Comparatives are given for the 53 weeks ended 3 May 1997.

a | Accounting basis

The accounts are prepared in accordance with applicable accounting standards, and under the historical cost convention except that certain freehold and long leasehold land and buildings are included at valuation.

b | Basis of consolidation

The Group accounts consolidate the accounts of the Company and its subsidiary undertakings made up to 2 May 1998. Subsidiaries acquired during the year are consolidated from the effective date of acquisition. All companies purchased during the year have been accounted for as acquisitions.

Goodwill (representing the excess of the fair value of the consideration given over the fair value of the net assets acquired) is written off directly to reserves.

c | Turnover

Turnover represents the amount receivable for goods and services supplied to third parties net of value added tax and trade discounts.

d | Investments in associated undertakings

The Group profit and loss account includes the appropriate share of the profits or losses of associated undertakings. Investments in associates are included in the Group balance sheet at the Group's share of the associates' underlying net assets less provisions for permanent diminution in value.

e | Fixed asset investments

Fixed asset investments are valued at cost less provisions for permanent diminution in value.

f | Depreciation

Depreciation is calculated to write off the cost or valuation of all tangible fixed assets in equal annual instalments over their estimated useful lives at the following rates:

Plant, machinery, fixtures and fittings	5 – 33⅓% pa
Motor vehicles	20 – 33⅓% pa
Freehold and long leasehold properties	2 – 10% pa

Freehold land, investment properties and assets in the course of construction are not depreciated.

g | Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value.

h | Deferred taxation

Deferred taxation is provided, using the liability method, in respect of material timing differences which are expected to reverse in the foreseeable future. Advance corporation tax which is expected to be recoverable in the future is deducted from the deferred taxation balance or, where there is an insufficient deferred taxation balance, is shown as a debtor recoverable after more than one year.

i | Research and development

Research and development expenditure is written off as incurred.

j | Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the financial year end.

Profits and losses of subsidiary and associated undertakings are expressed in sterling at average exchange rates for the year. The balance sheets of overseas subsidiary undertakings, including the Group's share of associates' net assets, are expressed in sterling at year end exchange rates. Exchange differences arising on the translation of opening shareholders' funds, together with those arising on borrowings used to finance or hedge investments in foreign enterprises, are recorded as movements in reserves.

All other exchange differences, both realised and unrealised, are taken to the profit and loss account.

k | Leasing transactions

Fixed assets acquired under a lease that transfers substantially all the risks and rewards of ownership to the Group are capitalised as tangible fixed assets. Outstanding obligations due under the leases, net of finance charges, are included as a liability. The finance element of the rental payments is charged to the profit and loss account over the term of the lease in proportion to the balance outstanding. All other leases are operating leases and the annual rentals are charged to the profit and loss account on a straight line basis.

l | Pension contributions

The Group operates a defined benefit pension scheme for its UK employees. Contributions to this scheme are determined on the basis of independent actuarial advice and the amounts charged against profit reflect the full actuarial cost attributable to the financial year. Differences arising between the amounts charged in the profit and loss account and monies paid to the scheme trustees are treated as assets or liabilities in the balance sheet. The pension cost of overseas pension schemes is established by independent actuaries in accordance with local practice.

Provision is made in the accounts for the benefits accruing to members of unfunded pension schemes in accordance with the advice of independent actuaries.

Notes to the Accounts

1 Analysis of Group turnover, operating profit and capital employed

The segmental analysis of turnover, operating profit and capital employed by activity is shown below. There is no material trading between business or between geographical sectors.

	Turnover		Operating profit		Capital employed	
	1998 £m	1997 £m	1998 £m	1997 £m	1998 £m	1997 £m
Packaging and paper	**697.7**	776.1	**37.8**	77.5	**558.0**	526.9
Office products	**414.8**	404.0	**24.6**	26.7	**127.2**	126.0
	1,112.5	1,180.1	**62.4**	104.2	**685.2**	652.9

The geographical analysis of turnover, operating profit and capital employed by origin is:

	Turnover		Operating profit		Capital employed	
	1998 £m	1997 £m	1998 £m	1997 £m	1998 £m	1997 £m
United Kingdom and Ireland	**807.6**	839.3	**46.6**	77.7	**516.4**	483.1
Continental Europe	**304.9**	340.8	**15.8**	26.5	**168.8**	169.8
	1,112.5	1,180.1	**62.4**	104.2	**685.2**	652.9

Capital employed as shown above excludes items of a financing nature, corporation tax balances and fixed asset investments. Capital employed is reconciled to Group shareholders' funds as follows:

	1998 £m	1997 £m
Shareholders' funds	**509.1**	500.6
Net borrowings	**145.9**	111.2
Dividends payable	**17.6**	17.1
Minority interests	**4.2**	6.3
Corporation tax creditor (net)	**14.3**	15.5
Deferred tax provision	**10.4**	8.2
Fixed asset investments	**(16.3)**	(6.0)
Capital employed	**685.2**	652.9

The geographical analysis of turnover by destination is:

	1998 £m	1997 £m
United Kingdom and Ireland	**753.8**	782.0
France	**197.9**	227.0
Germany	**33.1**	34.5
Poland	**27.6**	34.6
Italy	**24.4**	26.2
Belgium	**22.9**	19.9
Other Europe	**40.9**	43.4
Rest of world	**11.9**	12.5
	1,112.5	1,180.1

2 Operating expenses

	1998 £m	1997 £m
Distribution costs	123.0	119.9
Administrative expenses	114.6	110.5
	237.6	230.4

3 Operating profit

Operating profit is stated after charging the following:

	1998 £m	1997 £m
Depreciation – owned assets	47.3	43.7
– leased assets	1.2	1.7
Hire of plant and machinery	14.5	14.2
Other operating lease rentals	4.9	4.3
Research and development	0.5	0.8
Fees paid to Auditors and their associates:		
Group audit	0.6	0.6
Non-audit services:		
UK	0.6	0.3
Overseas	0.2	0.1
	1.4	1.0

4 Directors' emoluments

Aggregate emoluments of the Directors of the Company were as follows:

	1998 £m	1997 £m
Fees	0.2	0.2
Salaries and benefits	1.3	1.2
Other	–	0.2
	1.5	1.6

Gains on the exercise of Directors' share options in the year amounted to £14,616 (1997 – £0.8m).

More detailed information concerning Directors' emoluments, shareholdings and share options is shown in the Report of the Remuneration Committee on pages 30 to 33 and the Directors' Report on pages 34 to 36. There were no pension contributions paid by the Group during the year.

5 Particulars of employees

The average number of persons employed by the Group during the year was:

	1998 Number	1997 Number
Production	7,132	7,138
Selling and administration	3,773	3,629
	10,905	10,767

Their total remuneration was:

	1998 £m	1997 £m
Wages and salaries	193.5	198.3
Social security costs	28.5	31.8
Other pension costs	0.6	0.8
	222.6	230.9

6 Pensions

The Group operates a single funded defined benefit scheme in the UK, the David S. Smith Group Pension Scheme. The latest formal actuarial valuation of the scheme was carried out by independent actuaries as at 5 April 1996, using the projected unit method. The main assumptions were that the annual rate of return on investments would be 9%, annual increases in earnings would be 7% and annual increases in dividends would be 5%. Future pension increases were assumed to be 4.5% per annum.

At the valuation date, the market value of the assets of the scheme was £299.7m and the actuarial value of the assets was 144% of the value of accrued benefits after allowing for expected future increases in earnings. The surplus of assets over past service liabilities is being used to suspend contributions until the results of the next triennial actuarial valuation are known.

The Group has also made provision for unfunded pensions for those Executive Directors whose benefits under the funded scheme are restricted by the Inland Revenue 'earnings cap'. Using actuarial assumptions consistent with the assumptions adopted for the funded scheme, the pension cost for the year has been assessed as £0.2m (1997 – £0.1m) and the balance sheet liability at 2 May 1998 as £1.3m (1997 – £1.1m).

In France, the Group operates a defined benefit scheme which is fully funded through a segregated fund.

An amount of £2.8m (1997 – £2.9m) in respect of the UK defined benefit scheme is included in debtors falling due after more than one year.

7 Interest

	1998 £m	1997 £m
Interest receivable and similar income	2.4	1.7
Interest payable on bank loans and overdrafts	(10.1)	(8.9)
Interest payable on other loans	(0.4)	(0.4)
Interest payable on finance leases	(0.2)	(0.4)
	(8.3)	(8.0)

8 Taxation

	1998 £m	1997 £m
United Kingdom taxation:		
Corporation tax on the profit for the year at 31% (1997 – 33%)	5.7	15.8
Adjustment in respect of prior years	–	(0.4)
Deferred taxation	3.3	2.9
	9.0	18.3
Overseas taxation:		
Overseas taxes on profits for the year	3.2	2.9
Adjustment in respect of prior years	0.3	–
Deferred taxation	0.3	0.9
	3.8	3.8
Tax charge	12.8	22.1

The tax charge for the year reflects the benefits of capital allowances from the Group's high level of capital expenditure.

9 Dividends paid and proposed

	1998 Per share	1997 Per share	1998 £m	1997 £m
Interim paid	2.7p	2.6p	8.6	8.2
Final proposed	5.5p	5.4p	17.6	17.1
	8.2p	8.0p	26.2	25.3

10 Earnings per share

Earnings per share are calculated on profit for the financial year of £38.0m (1997 – £73.0m) and on 318.3m (1997 – 315.4m) ordinary shares, being the weighted average in issue and fully paid during the year.

The fully diluted earnings per share is not materially different.

11 Tangible fixed assets

	Land and buildings Freehold £m	Land and buildings Leasehold £m	Plant and machinery £m	Payments on account and assets in course of construction £m	Total £m
Cost or valuation:					
At 4 May 1997	161.2	16.4	604.1	37.3	819.0
Acquisitions	–	–	0.6	–	0.6
Capital expenditure	2.1	0.2	30.0	44.2	76.5
Disposals	(0.7)	–	(8.6)	–	(9.3)
Transfers	9.9	0.1	46.3	(56.3)	–
Exchange differences	(2.3)	–	(8.5)	(0.2)	(11.0)
At 2 May 1998	170.2	16.7	663.9	25.0	875.8
Accumulated depreciation:					
At 4 May 1997	5.7	1.1	263.4	–	270.2
Acquisitions	–	–	0.1	–	0.1
Charge for the financial year	3.8	0.4	44.3	–	48.5
Disposals	–	–	(6.2)	–	(6.2)
Exchange differences	–	–	(3.3)	–	(3.3)
At 2 May 1998	9.5	1.5	298.3	–	309.3
Net book value					
At 2 May 1998	**160.7**	**15.2**	**365.6**	**25.0**	**566.5**
At 3 May 1997	155.5	15.3	340.7	37.3	548.8

Freehold land and investment properties amounting to £57.2m (1997 – £59.5m) have not been depreciated. Substantially all the Group's leasehold land and buildings are long leasehold.

Tangible fixed assets are stated at cost to the Group with the exception of certain freehold and leasehold land and buildings which are included at valuation as follows:

	Freehold 1998 £m	Freehold 1997 £m	Leasehold 1998 £m	Leasehold 1997 £m
Net book value:				
Professionally valued in 1995	**102.0**	106.7	**13.2**	13.5
At cost	**58.7**	48.8	**2.0**	1.8
	160.7	155.5	**15.2**	15.3

Included in plant and machinery are leased assets with a cost of £21.0m (1997 – £23.1m) and a net book value of £8.6m (1997 – £10.0m).

12 Capital commitments

	1998 £m	1997 £m
Future capital expenditure for which contracts have been placed	12.9	32.4

13 Fixed asset investments

	1998 £m	1997 £m
Associated undertakings – at share of net assets less provisions	–	3.4
Other	16.3	2.6
	16.3	6.0

Investments in associated undertakings are stated net of a provision of £1.8m charged in the year to reduce the value of the Group's investment in Tri-Wall KK to zero.

The principal associated undertakings are:

	Nature of business	Principal country of operation	Issued capital	Group share %
Grovehurst Energy Ltd	Provision of energy and other services	Great Britain	100 shares of £1 each	50*
Foresco Golfkarton NV	Fabricator of corrugated cases	Belgium	39,000 shares of BFr 1,000 each	35*
Tri-Wall KK	Supplier of industrial packaging and heavy duty corrugated cases	Japan	7,515 shares of Yen 5,000 each	20*
StePac L.A., Ltd	Manufacturer of advanced plastic films	Israel	747,460 shares of NIS 1 each	38*

*Indirectly held.

Other fixed asset investments include £1.1m (1997 – £1.1m) of David S. Smith (Holdings) PLC shares. The Group operates a general employee benefit trust which acquires shares in the Company to satisfy the requirements of the David S. Smith (Holdings) PLC Long Term Incentive Plan. The shares held by the trust at 2 May 1998 were acquired using funds provided by David S. Smith (Holdings) PLC. The market value of the shares at 2 May 1998 was £0.8m. For further details of the Plan see the report of the Remuneration Committee on pages 30 to 33.

14 Stocks

	1998 £m	1997 £m
Raw materials and consumables	50.0	48.5
Work in progress	5.7	5.3
Finished goods	76.0	72.0
	131.7	125.8

15 Debtors

a | Amounts falling due within one year:

	1998 £m	1997 £m
Trade debtors	226.2	221.5
Amounts owed by associated undertakings	0.3	0.5
Corporation tax	0.4	2.6
Other tax and social security	1.1	1.1
Other debtors	5.3	9.2
Prepayments and accrued income	7.1	7.0
	240.4	241.9
b | Amounts falling due after more than one year:		
Advance corporation tax	–	1.1
Amounts owed by associated undertakings	2.5	2.5
Pensions	2.8	2.9
Other debtors	1.3	1.5
	6.6	8.0
	247.0	249.9

16 Creditors

a | Trade and other creditors falling due within one year:

	1998 £m	1997 £m
Trade creditors	180.5	171.3
Bills of exchange	12.9	20.3
Amounts owed to associated undertakings	1.8	3.3
Corporation tax	14.7	19.2
Other taxes and social security	12.8	11.4
Accruals and deferred income	42.2	47.1
Proposed dividend	17.6	17.1
	282.5	289.7

b | Borrowings falling due within one year:

	1998 £m	1997 £m
Bank loans and overdrafts	17.4	7.0
Other loans	1.1	1.1
Finance leases	0.7	0.6
	19.2	8.7

c | Borrowings falling due after more than one year:

	1998 £m	1997 £m
Bank loans	167.4	138.6
Other loans	5.7	6.6
Finance leases	3.4	4.2
	176.5	149.4

17 Financial assets and liabilities (see also note 18)

a | The Group's net borrowings are:

	1998 Book value £m	1998 Fair value £m	1997 Book value £m	1997 Fair value £m
Bank loans and overdrafts and other loans	191.6	192.3	153.3	153.2
Finance lease liabilities	4.1	4.1	4.8	4.8
Short term investments	(27.5)	(27.5)	(24.6)	(24.6)
Cash at bank and in hand	(22.3)	(22.3)	(22.3)	(22.3)
	145.9	146.6	111.2	111.1
Gearing (net borrowings expressed as a percentage of shareholders' funds)	28.7%	N/A	22.2%	N/A

b | Bank loans and overdrafts and other loans are repayable as follows:

	1998 £m	1997 £m
Due within one year	18.5	8.1
Due between one and two years	2.0	1.3
Due between two and five years	62.1	65.7
Due after five years	109.0	78.2
	191.6	153.3

c | Analysis of finance lease liabilities:

Due within one year	0.7	0.6
Due after one year	3.4	4.2
	4.1	4.8
Lease payments:		
Due within one year	1.0	0.9
Due after one year	4.3	5.5
	5.3	6.4
Finance charges	(1.2)	(1.6)
	4.1	4.8

Obligations under finance leases are secured on the assets to which they relate.

d | The Group's exposure to derivative financial instruments may be summarised as follows:

	1998 Book value £m	1998 Fair value £m	1997 Book value £m	1997 Fair value £m
Derivatives held to:				
Manage the interest rate and currency exposure of borrowings	(0.6)	(1.6)	(1.2)	(6.1)
Hedge future transactions	–	(0.1)	–	(0.4)
	(0.6)	(1.7)	(1.2)	(6.5)

Forward foreign exchange contracts have been taken to hedge contractual commitments for the purchase of capital equipment and raw materials. All of these contracts will have matured by 31 October 1998.

18 Interest and currency profile of net borrowings

After taking into account swaps entered into by the Group to hedge the note purchase agreement (see below) the currency and interest rate exposure of the Group's net borrowings is:

	Sterling £m	French franc £m	Other £m	Total £m
At 2 May 1998				
Borrowings:				
Floating rate	**46.8**	**128.8**	**19.2**	**194.8**
Fixed rate	**0.3**	**0.3**	**0.3**	**0.9**
	47.1	**129.1**	**19.5**	**195.7**
Cash and short term investments:				
Floating rate	**(11.4)**	**(28.3)**	**(8.3)**	**(48.0)**
Fixed rate	**(1.8)**	**–**	**–**	**(1.8)**
	(13.2)	**(28.3)**	**(8.3)**	**(49.8)**
Net borrowings at 2 May 1998	**33.9**	**100.8**	**11.2**	**145.9**
At 3 May 1997				
Borrowings:				
Floating rate	22.3	122.9	11.4	156.6
Fixed rate	0.4	0.6	0.5	1.5
	22.7	123.5	11.9	158.1
Cash and short term investments:				
Floating rate	(19.1)	(20.2)	(6.3)	(45.6)
Fixed rate	(1.3)	–	–	(1.3)
	(20.4)	(20.2)	(6.3)	(46.9)
Net borrowings at 3 May 1997	2.3	103.3	5.6	111.2

The Group's borrowings are denominated substantially in French francs in order to hedge the underlying assets of the Group's French operations.

Interest rates on floating rate borrowings are based on LIBOR or base rate. Fixed rate borrowings comprise mortgages and finance leases.

The Company has entered into a series of bilateral revolving credit facilities totalling £325m with 13 banks, which expire in December 2003. Advances drawn down under these facilities bear interest at margins over LIBOR. Borrowings shown above include bank loans of £107.9m repayable after five years drawn down under these committed facilities.

The Group has entered into a note purchase agreement with a number of US investors who have purchased US$100m of 6.81% senior notes issued in 1993. The notes will mature on 12 May 2000. The Group has entered into swap transactions with bank counterparties under which it made payments in an aggregate amount of US$100m in return for an equivalent amount denominated in pounds sterling and French francs. The swap counterparties also agreed to pay fixed rate dollar interest of 6.81% per annum in exchange for the payment of sterling and French franc floating rate interest at rates linked to LIBOR and PIBOR respectively. The proceeds of the swaps, FF390.8m and £20.1m, or £59.5m at rates ruling on 2 May 1998, are shown as bank loans due between two and five years.

Bank loans, other loans and overdrafts of certain subsidiaries of £1.8m are secured over the assets of these companies.

19 Currency analysis of net assets

After taking into account the swaps entered into to hedge the note purchase agreement (see note 18), the currency analysis of the net assets of the Group is:

	1998 Net assets excluding gross borrowings £m	1998 Gross borrowings £m	1998 Net assets £m	1997 Net assets excluding gross borrowings £m	1997 Gross borrowings £m	1997 Net assets £m
Sterling	505.0	47.1	457.9	465.0	22.7	442.3
French francs	155.0	129.1	25.9	159.6	123.5	36.1
Other	44.8	19.5	25.3	34.1	11.9	22.2
	704.8	195.7	509.1	658.7	158.1	500.6

20 Other financial commitments

Annual commitments under non-cancellable operating leases are as follows:

	Land and buildings 1998 £m	Land and buildings 1997 £m	Plant and machinery 1998 £m	Plant and machinery 1997 £m
Expiring within one year	0.3	0.5	3.1	2.0
Expiring between one and five years	1.6	1.2	8.2	8.8
Expiring after five years	3.1	3.6	0.2	0.2
	5.0	5.3	11.5	11.0

21 Provisions for liabilities and charges

	Deferred taxation £m	Arising on acquisition £m	Pensions £m	Other £m	Total £m
At 4 May 1997	8.2	3.4	4.1	5.6	21.3
Acquisitions	–	–	–	(0.2)	(0.2)
Provided	3.6	–	–	0.8	4.4
Utilised	–	(1.0)	(0.8)	(4.4)	(6.2)
Advance corporation tax	(1.2)	–	–	–	(1.2)
Reclassification	–	(1.3)	0.7	0.6	–
Exchange differences	(0.2)	(0.1)	(0.1)	–	(0.4)
At 2 May 1998	10.4	1.0	3.9	2.4	17.7

Other provisions relate to reorganisation costs and share of losses of associated undertakings.

21 Provisions for liabilities and charges continued

Deferred taxation is analysed as follows:

	Full potential liability 1998 £m	1997 £m	Provision 1998 £m	1997 £m
Accelerated capital allowances	**72.0**	67.1	**8.6**	8.6
Other timing differences	**(9.5)**	(12.2)	**6.2**	2.8
	62.5	54.9	**14.8**	11.4
Advance corporation tax recoverable	**(4.4)**	(4.3)	**(4.4)**	(3.2)
	58.1	50.6	**10.4**	8.2

The analysis of deferred taxation excludes additional taxation payable:
i | on capital gains which may arise if land and buildings were sold for the amounts at which they are carried in the Group's balance sheet as, in the opinion of the Directors, such properties will be retained for use in the business or if sold would be replaced by similar assets; and
ii | in the event of the profits of overseas subsidiary undertakings being distributed where there is no intention to make such distributions.

22 Share capital

	Number of shares 1998 '000	1997 '000	1998 £m	1997 £m
Ordinary equity shares of 10 pence each:				
Authorised	**410,000**	410,000	**41.0**	41.0
Issued, allotted, called up and fully paid	**320,605**	316,543	**32.0**	31.6

Shares issued during the year to 2 May 1998 and the consideration received were:

	'000	Allotted, called up and fully paid Nominal Value £m	Share premium £m	Total consideration £m
Reason for issue:				
Executive options (note 23)	536	0.1	0.7	0.8
Savings-related options (note 23)	1,208	0.1	2.2	2.3
Scrip dividends	2,318	0.2	(0.2)	–
	4,062	0.4	2.7	3.1

23 Share options

During the year to 2 May 1998, the following options were granted:

	Number of shares	Option price (range)	Date exercisable
Executive Share Option Scheme (1992)	2,444,206	176.7p – 181.3p	Oct 2000 – Oct 2007

At 2 May 1998, the following options were outstanding:

	Number of shares	Option price (range)	Date exercisable
Executive Share Option Scheme	117,432	152.8p – 343.0p	Dec 1990 – Oct 2001
Executive Share Option Scheme (1992)	7,318,522	136.0p – 327.5p	Oct 1995 – Oct 2007
Savings-Related Share Option Scheme (1992)	152,654	121.5p	Feb 1998 – July 1998

24 Reserves

	Share premium account £m	Revaluation reserve £m	Acquisition reserve £m	Goodwill reserve £m	Profit and loss account £m
At 4 May 1997	185.0	10.8	138.1	(146.7)	281.8
Premium arising on shares issued	2.1	–	–	–	–
Scrip dividend alternative	(0.2)	–	–	–	4.6
Transfer	0.8	(0.2)	–	–	(0.6)
Goodwill arising on acquisitions	–	–	–	(6.4)	–
Retained profit for the financial year	–	–	–	–	11.8
Exchange differences	–	–	–	–	(3.8)
At 2 May 1998	**187.7**	**10.6**	**138.1**	**(153.1)**	**293.8**

The acquisition reserve arose as a result of the issues of shares at a premium in each of the three years to 30 April 1987, totalling £88.1m, as well as a transfer from the share premium account after Court approval in the year ended 1 May 1993, of £50m.

Exchange differences include an exchange gain of £6.0m (1997 – £24.3m) on foreign currency borrowings, offset by losses arising on the Group's equity investment in foreign subsidiary and associated undertakings.

25 Group cash flow statement

a | Reconciliation of operating profit to net cash inflow from operating activities:

	1998 £m	1997 £m
Operating profit	62.4	104.2
Depreciation	48.5	45.4
Profit on sale of tangible fixed assets	(0.5)	(0.4)
Increase in stocks	(7.4)	(1.0)
(Increase)/decrease in debtors	(6.1)	37.5
Increase/(decrease) in creditors	5.2	(13.5)
Decrease in provisions	(5.4)	(4.4)
Other non cash operating items	(0.8)	(1.5)
Net cash inflow from operating activities	95.9	166.3

b | Returns on investments and servicing of finance:

Interest received	2.0	1.6
Interest paid	(10.4)	(10.2)
Interest element of finance lease rental payments	(0.2)	(0.4)
	(8.6)	(9.0)

c | Capital expenditure and financial investment:

Purchase of tangible fixed assets	(76.8)	(98.9)
Sale of tangible fixed assets	3.6	4.6
Purchase of David S. Smith (Holdings) PLC shares	–	(1.1)
Purchase of fixed asset investments	(13.7)	(1.5)
	(86.9)	(96.9)

d | Acquisitions and disposals:

Purchase of subsidiary undertakings	(3.2)	(2.5)
Net overdrafts acquired with subsidiaries	–	(12.4)
Purchase of associated undertakings	(7.0)	(6.7)
	(10.2)	(21.6)

26 Analysis of changes in net debt

	At 4 May 1997 £m	Cash flow £m	Reclassification £m	Exchange movements £m	At 2 May 1998 £m
Cash at bank and in hand	22.3	0.4	–	(0.4)	22.3
Overdrafts	(6.3)	(10.8)	–	0.4	**(16.7)**
	16.0	(10.4)	–	–	**5.6**
Debt due after one year	(145.2)	(34.9)	0.4	6.6	**(173.1)**
Debt due within one year	(1.8)	0.4	(0.4)	–	**(1.8)**
Finance leases	(4.8)	0.5	–	0.2	**(4.1)**
	(151.8)	(34.0)	–	6.8	**(179.0)**
Short term investments	24.6	4.0	–	(1.1)	**27.5**
Total	(111.2)	(40.4)	–	5.7	**(145.9)**

27 Related party transactions

	1998 £m	1997 £m
Sales to associated undertakings on normal trading terms	**3.0**	8.4
Purchases from associated undertakings on normal trading terms	**16.5**	19.8
Amounts due from associated undertakings	**2.8**	3.0
Amounts due to associated undertakings	**1.8**	3.3

28 Contingent liabilities

Guarantees to third parties amount to £1.2m (1997 – £1.2m). The Group has also guaranteed certain future operating commitments of its associated undertaking, Grovehurst Energy Ltd (see note 13).

Company Balance Sheet

	Note	2 May 1998 £m	3 May 1997 £m
Fixed assets			
Tangible assets	1	0.5	0.4
Investments	2	643.6	525.8
		644.1	526.2
Current assets			
Debtors: amounts falling due within one year	3	20.2	16.5
Debtors: amounts falling due after more than one year	3	88.2	120.9
		108.4	137.4
Cash at bank and in hand		35.0	84.6
		143.4	222.0
Current liabilities			
Creditors: amounts falling due within one year	4	(44.9)	(37.5)
Net current assets		98.5	184.5
Total assets less current liabilities		742.6	710.7
Creditors: amounts falling due after more than one year	4	(314.1)	(283.7)
Provisions for liabilities and charges	5	(1.3)	(1.1)
Net assets		427.2	425.9
Capital and reserves			
Called up share capital (see note 22 to the Group accounts)		32.0	31.6
Share premium account	7	187.7	185.0
Acquisition reserve	7	88.1	88.1
Capital reserve	7	50.0	50.0
Profit and loss account	7	69.4	71.2
Shareholders' funds		427.2	425.9

Approved by the Board on 14 July 1998 and signed on its behalf by
JP Williams Director
DF Buttfield Director

The notes on pages 58 to 60 form part of these accounts.

Notes to the Company Balance Sheet

1 Tangible fixed assets

	Plant and machinery £m
Cost:	
At 4 May 1997	1.3
Capital expenditure	0.3
Disposals	(0.2)
At 2 May 1998	1.4
Accumulated depreciation:	
At 4 May 1997	0.9
Charge for the financial year	0.2
Disposals	(0.2)
At 2 May 1998	0.9
Net book value:	
At 2 May 1998	0.5
At 3 May 1997	0.4

2 Fixed asset investments

	Shares in Group undertakings £m	Other £m	Total £m
Shares at cost:			
At 4 May 1997	523.9	1.9	525.8
Additions	123.0	0.7	123.7
Disposals	–	(0.2)	(0.2)
Exchange differences	(5.7)	–	(5.7)
At 2 May 1998	641.2	2.4	643.6

For a list of principal trading subsidiary undertakings see note 10. Further details of other investments at 2 May 1998 are given in note 13 to the Group accounts. Other fixed asset investments include £1.1m (1997 – £1.1m) of David S. Smith (Holdings) PLC shares.

3 Debtors

a | Amounts falling due within one year:	1998 £m	1997 £m
Amounts owed by subsidiary undertakings	19.4	14.6
Corporation tax	–	1.4
Other debtors and prepayments	0.8	0.5
	20.2	16.5

b | Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings	83.7	116.4
Advance corporation tax	4.4	4.3
Deferred tax asset (see note 5)	0.1	0.2
	88.2	120.9

4 Creditors

a | Amounts falling due within one year:	1998 £m	1997 £m
Amounts owed to subsidiary undertakings	14.2	1.9
Corporation tax	7.4	4.3
Other creditors and accruals	5.7	14.2
Proposed dividend	17.6	17.1
	44.9	37.5

b | Amounts falling due after more than one year:		
Bank loans – repayable after five years	107.9	76.8
Loans from subsidiary undertakings	206.2	206.9
	314.1	283.7

Further details of the Company's borrowings are given in note 18 to the Group accounts.

5 Provisions for liabilities and charges

	1998 £m	1997 £m
Pension provision	1.3	1.1

The deferred taxation asset is as follows:

	Full Potential		Actual	
	1998 £m	1997 £m	1998 £m	1997 £m
Timing differences	(0.2)	(0.2)	(0.1)	(0.2)

6 Profit for the financial year

No separate profit and loss account is presented for the Company as permitted by Section 230 of the Companies Act 1985.

The Company made a profit for the financial year of £20.8m (1997 – £40.2m).

7 Reserves

	Share premium account £m	Acquisition reserve £m	Capital reserve £m	Profit and loss account £m
At 4 May 1997	185.0	88.1	50.0	71.2
Premium arising on shares issued, net of costs (see note 22 to the Group accounts)	2.9	–	–	–
Scrip dividend alternative	(0.2)	–	–	4.6
Exchange differences	–	–	–	(1.0)
Retained loss for the financial year	–	–	–	(5.4)
At 2 May 1998	187.7	88.1	50.0	69.4

8 Reconciliation of movements in shareholders' funds

	1998 £m	1997 £m
Profit for the financial year	20.8	40.2
Dividends	(26.2)	(25.3)
Retained (loss)/profit for the financial year	**(5.4)**	14.9
New share capital issued	**3.1**	3.5
Scrip dividend issue	**4.6**	0.8
Exchange differences	**(1.0)**	(3.4)
Net addition to shareholders' funds	**1.3**	15.8
Opening shareholders' funds	**425.9**	410.1
Closing shareholders' funds	**427.2**	425.9

9 Contingent liabilities

The Company has guaranteed the gross overdrafts and loans of certain subsidiary undertakings which at 2 May 1998 amounted to £230.3m (1997 – £208.2m). Other guarantees to third parties amount to £1.2m (1997 – £1.2m). The Company has also guaranteed certain future operating commitments of its associated undertaking, Grovehurst Energy Ltd.

10 Subsidiary undertakings

The Company's principal trading subsidiary undertakings are:	Percentage of issued ordinary share capital held by David S. Smith (Holdings) PLC	Country of incorporation or registration
Manufacture of Packaging and Paper		
St Regis Paper Company Ltd	100%	Great Britain
David S. Smith Packaging Ltd	100%	Great Britain
Kaysersberg Packaging SA	100%*	France
David S. Smith Packaging Poland SA	92%*	Poland
Toscana Ondulati SpA	65%*	Italy
DW Plastics NV	100%*	Belgium
Ducaplast SA	100%*	France
A A Griggs & Co. Ltd	100%*	Great Britain
Office Products		
Spicers Ltd	100%	Great Britain
Spicers France SA	100%*	France
John Dickinson Stationery Ltd	100%*	Great Britain

*Indirectly held by David S. Smith (Holdings) PLC.

Each company's principal country of operation is that of its country of incorporation or registration.

A full list of subsidiary undertakings will be included with the Company's Annual Return.

Principal Locations

Group office				
David S. Smith (Holdings) PLC			16 Great Peter Street London SW1P 2BX United Kingdom	Tel 0171 222 8855
Divisional offices				
David S. Smith Packaging Ltd			Brownsover Road Rugby Warwickshire CV21 1HL	Tel 01788 535329
St Regis Paper Company Ltd			Mill Lane, Taplow Maidenhead Berkshire SL6 0AF	Tel 01628 798111
Kaysersberg Packaging SA			BP no 1 68320 Kunheim Alsace France	Tel 00 33 389 72 24 00
Spicers Ltd			Sawston Cambridgeshire CB2 4JG	Tel 01223 834555
David S. Smith Packaging Ltd				
Abbey Corrugated	Supplier of corrugated sheet board for the sheet plant market.		South Mills Blunham Bedfordshire MK44 3PH	Tel 01234 790790
David S. Smith Corrugated	Supplier of corrugated cases specialising in high quality printed packaging.	Fordham	Fordham Road Newmarket Suffolk CB8 7TX	Tel 01638 722100
		Launceston	Hurdon Road Launceston Cornwall PL15 9HN	Tel 01566 777700
		Livingston	Muir Road Houstoun Industrial Estate Livingston West Lothian EH54 5DP	Tel 01506 432841
	Supplier of die cut packaging.	Ely	Queen Adelaide Ely Cambridgeshire CB7 4TZ	Tel 01353 663355
	Convertor of corrugated board and supplier of high quality printed packaging.	Houghton le Spring	Unit 10, Mercantile Road Rainton Bridge Industrial Estate Houghton le Spring, County Durham DH4 5PH	Tel 0191 512 0666
Tri-Wall	Supplier of triple wall heavy duty corrugated sheet and cases.	Tri-Wall Europe	Wonastow Road Monmouth Gwent NP5 4YB	Tel 01600 772222
		Tri-Wall Europe	PO Box 159 2280 AD Rijswijk Netherlands	Tel 00 31 703 993 110
		Tri-Wall KK	6th Floor Diamond Plaza 25 Ichibanco Chiyoda-Ku Tokyo, 102 Japan	Tel 00 81 33239 6121
Corrugated Products	Suppliers of pre-printed and litho-laminated corrugated die cut boxes and trays, specialist glued packs and point of sale packaging.	Belper	Derby Road Belper Derbyshire DE56 1WL	Tel 01773 822811
		Bracknell	Western Road Bracknell Berkshire RG12 1QY	Tel 01344 459911
		Lockerbie	King Edward Park Lockerbie Dumfriesshire DG11 2BL	Tel 01576 203111
	Supplier of printed board for corrugated packaging.	Carlisle	Units 5, 6 & 7 Grearshill Road Kingstown Industrial Estate Carlisle Cumbria CA3 0ET	Tel 01228 537551

David S. Smith Packaging continued

CP Display	Convertor of corrugated sheet board and producer of silkscreen printed board and point-of-sale display packaging.	Biggleswade	London Road Biggleswade Bedfordshire SG18 8PS	Tel 01767 316446
		Ely	Unwins Industrial Estate Prickwillow Road, Ely Cambridgeshire CB7 4QU	Tel 01353 663961
Ashton Corrugated	Supplier of corrugated cases specialising in high quality printed packaging.	Southern	First Avenue Portbury Way, Portbury Bristol BS20 7XR	Tel 01275 375311
		Midlands	Pilsley Road, Danesmoor Clay Cross, Chesterfield Derbyshire S45 9BX	Tel 01246 250112
		Scotland	Block 13 Vale of Leven Industrial Estate Dumbarton Scotland G82 3PW	Tel 01389 721102
David S. Smith Packaging Poland SA	Suppliers of litho-laminated corrugated, corrugated boxes and sheet, cartons and business forms.		ul. Malików 150 25-639 Kielce Poland	Tel 00 48 41 36 73 900
		David S. Smith International	ul. Foksal 16, 00-372 Warsaw Poland	Tel 00 48 22 82 78 800
		David S. Smith Packaging SA Packaging supplies merchants	Pak-Centrum ul. Marywilska 44 03-042 Poland	Tel 00 48 22 811 3258
David S. Smith Cartons	Printer and convertor of folding cartons by sheet-fed lithographic, rotogravure and flexographic processes.		PO Box 14 D C Griffiths Way Neath West Glamorgan SA11 1PT	Tel 01639 643601
BSk	Supplier of a wide range of extruded and co-extruded coatings, and laminates of flexible materials for the paper converting, packaging and construction industries.		Commissioners Road Strood, Rochester Kent ME2 4ED	Tel 01634 292700
DW Plastics	Supplier of injection-moulded crates to the beverage industry.	DW Plastics	Nijverheidsstraat 26 3740 Bilzen, Belgium	Tel 00 32 89 41 22 91
		DW Plastics (Division of David S. Smith Kielce)	ul Malikow 150 25-639 Kielce Poland	Tel 00 48 413 673 580
Ducaplast	Suppliers of heavy duty reusable plastic packaging for a wide range of materials handling applications.	Ducaplast S.A	Zone d'Entreprises de la Kruysstraete 59470, Wormhout France	Tel 00 33 328 65 98 90
		Ducaplast UK	Unit 2 Chancel Close Eastern Avenue Gloucester GL4 3SN	Tel 01452 413574
David S. Smith Liquid Packaging	Suppliers of 'bag-in-box' packaging systems for liquids and particulates. Also suppliers of 'Intasept' patented aseptic bag-in-box packaging systems.	David S. Smith Liquid Packaging	Butlers Leap Clifton Road Rugby Warwickshire CV21 3RQ	Tel 01788 570612
		David S. Smith Liquid Packaging	European Technical Centre 14 Liberty Industrial Park South Liberty Lane Ashton Vale Bristol BS3 2SU	Tel 0117 953 1506

David S. Smith Packaging continued

		Coloreed France Conditionnement des Liquides	BP681 28 Avenue de Fontcouverte 84033 Avignon Cedex 3 France	Tel 00 33 4 90 89 85 71
		David S. Smith Liquid Packaging France	BP11, 60130 St Just-en-Chausée France	Tel 00 33 3 44 77 59 75
		David S. Smith Liquid Packaging GmbH	Gewerbegebiet Im Grossen Tal Willi-Bleicher Strasse 9, 52353 Düren	Tel 00 49 24 21 98780
Waddington and Duval	Supplier of injection-moulded dispensers and closures.		Lee Road Merton Park Estate Merton London SW19 3WD	Tel 0181 545 7500
		Waddington & Duval Ltd	Hedwin Corporation 1600 Roland Heights Avenue Baltimore, Maryland 21211 USA	Tel 001 800 638 1012
		Waddington & Duval European Office	Treubstraat 17 2288 EH Rijswijk Netherlands	Tel 00 31 703 030 080
David S. Smith Packaging Systems	Advisory centre on packaging systems.		Bath Brewery Toll Bridge Road Bath, BA1 7DE	Tel 01255 852554
David S. Smith Logistics	Supply, service and maintenance of returnable packaging products.		Pilsley Road, Danesmoor Clay Cross Chesterfield S45 9BX	Tel 01246 860644
Kaysersberg Packaging SA				
Kaysersberg Board Division	Manufacturer of a wide range of speciality board, testliners and laminated board.	Usine de Kaysersberg	BP-22 Route de Lapoutroie 68240 Kaysersberg Alsace, France	Tel 00 33 03 89 78 30 00
	Manufacturer of a wide range of coreboards for paper tubes and graphic board.	Cartonnerie Chouanard	Usine de la Fosse BP-8, 45720 Coullons France	Tel 00 33 02 38 29 52 70
Kaysersberg Plastics Division	Manufacturer and convertor of polypropylene and polycarbonate extruded sheet.	Usine de Kaysersberg	BP-27 Route de Lapoutroie 68240 Kaysersberg Alsace, France	Tel 00 33 03 89 78 32 00
	Manufacturer and convertor of 'Correx' polypropylene profile extruded sheet.	Correx Plastics (a division of David S. Smith Packaging)	Madleaze Industrial Estate Bristol Road Gloucester GL1 5SG	Tel 01452 316500
Kaysersberg Corrugated Packaging Division	Manufacturers of corrugated cases specialising in heavy duty and post print.	Usine de Kunheim	BP 27 68320 Kunheim France	Tel 00 33 03 89 72 24 00
		Usine de St Just	BP 110 60131 St Just-en-Chaussée France	Tel 00 33 03 44 77 59 00
		Toscana Ondulati Spa	Via del Fanuccio 126 55014 Marlia, (LU) Italia	Tel 00 39 583 44 09 11
Sheet plants	Convertors of corrugated cases specialising in heavy duty and merchants of packaging products.	Larousse Emballage SA	BP 7 45510 Tigy France	Tel 00 33 02 38 58 00 04
		Kaypac SAS	Z1 Voiveselles-Croisette BP 37 88800 Vittel France	Tel 00 33 03 29 05 20 02
		C.E.R.A. SA	6-8, boulevard Monge 69330 Meyzieu France	Tel 00 33 04 78 31 76 54

St Regis Paper Company Ltd				
St Regis Paper Company	Manufacturer of corrugated case making paper.	New Taplow Mill	Mill Lane, Taplow Maidenhead Berkshire SL6 0AF	Tel 01628 798111
	Manufacturer of corrugated case making paper, coreboard for paper tubes, machine glazed paper for wrappings and for envelopes.	Wansbrough Mill	Watchet Somerset TA23 0AY	Tel 01984 631456
	Manufacturer of scholastic and educational papers, coreboard for paper tubes and manilla filing paper.	Higher Kings Mill	Cullompton Devon EX15 2QJ	Tel 01884 38844
	Manufacturer of white and mottled top corrugated case materials, wallpaper base, simplex and duplex papers.	Hollins Mill	PO Box 15 Hollins Road Darwen Lancashire BB3 0BE	Tel 01254 702728
	Manufacturer of corrugated case making paper, plasterboard liners and industrial towelling.	Kemsley Paper Mill	Sittingbourne Kent ME10 2TD	Tel 01795 424391
	Manufacturer of ingrain (woodchip) wallpaper.	Retford Paper Mill	Albert Road, Retford Nottinghamshire DN22 6JA	Tel 01777 707272
	Manufacturer of high grade printing and publishing paper.	Silverton Mill	Hele, Exeter Devon EX5 4PX	Tel 01392 881601
	Manufacturer of semi-chemical fluting for corrugated case making.	Sudbrook Mill	Sudbrook, Newport Gwent NP6 4XT	Tel 01291 420751
Western Board	Manufacturer and convertor of intermittent boards for shoe, furniture, automotive, stationery and industrial container markets.		Treforest Industrial Est Pontypridd Mid-Glamorgan CF37 5TA	Tel 01443 842091
		Daniels Division	Middle Mill Cam, Dursley Gloucestershire GL11 5LQ	Tel 01453 542286
Severnside Waste Paper	Recovered paper processors and merchants with 16 depots.		The Pines, Heol-y-Forlan Whitchurch, Cardiff South Glamorgan CF4 1AX	Tel 01222 615871
A A Griggs & Co. Ltd	Distribution contractor with 14 locations.		Travellers Rest Soham, Ely Cambridgeshire CB7 5DP	Tel 01353 720571

Spicers Limited				
UK and Ireland Wholesaling	Central Distribution Centre for wholesaling of office products.	Spicers Limited	Sawston Cambridgeshire CB2 4JG	Tel 01223 834555
		Space Age Warehouse and Showroom	Sawston Cambridge CB2 4JG	Tel 01223 832626
		Space Age Office	28 Maryland Road Milton Keynes Bucks MK15 8HF	Tel 01908 618122
	Distribution Centre for 'pick and wrap' and direct delivery service.	Dealer Distribution Centre	Dartmouth Road Smethwick West Midlands B66 1BL	Tel 0121 558 2233
	Regional Distribution Centres for wholesaling of office products at:	Belfast	Edgwater Road Belfast Harbour Industrial Estate Belfast BT3 9JQ	Tel 01232 370440
		Birmingham	Unit 7, The Fort Industrial Park Chester Road, Castle Vale Birmingham B35 7RB	Tel 0121 730 1121
		Bristol	St Phillips Road Kingsland Trading Estate Bristol BS2 0JZ	Tel 01179 540444

Spicers Limited continued

		Glasgow	Unit 11, Boundary Road Rutherglen Glasgow G73 1UT	Tel 0141 643 2121
		Leeds	4 Brown Lane West Leeds LS12 6BH	Tel 01132 384442
		London – Bermondsey	Stockholm Road London SE16 3LG	Tel 0171 237 7341
		London – Chessington	Oakcroft Road Chessington Surrey KT9 1RH	Tel 0181 974 2155
		London – Park Royal	Lansdown House 28 Commercial Way London NW10 7XF	Tel 0181 965 0313
		Manchester	319 Ordsall Lane Salford M5 3FT	Tel 0161 872 0694
		Newcastle upon Tyne	351 Shields Road, Heaton Newcastle upon Tyne NE6 2UD	Tel 0191 224 0466
		Nottingham	Dabell Avenue Blenheim Industrial Estate Bulwell Nottingham NG56 8WA	Tel 01159 771234
Spicers (Ireland) Ltd		Dublin	Spicers (Ireland) Ltd Broomhill Business Park Broomhill Road, Tallaght Dublin 24	Tel 00 353 1459 8755
John Dickinson Stationery Ltd	Manufacturer of envelopes, books, pads and personal stationery.		Apsley, Hemel Hempstead Herts HP3 9SS	Tel 01442 242124
			Sawston Cambridgeshire CB2 4JG	Tel 01223 242124
			Crowther Industrial Estate District 3, Washington Tyne & Wear NE38 OAQ	Tel 0191 416 1341
John Dickinson Ledbury	Manufacturer of speciality envelopes.		New Mills, Ledbury Herefordshire HR8 2SR	Tel 01531 632411
Spicer Hallfield	Manufacturer of photographic products.		Banks Road, Haddenham Aylesbury Bucks HP17 8EG	Tel 01844 291247
			Rees Way, Otley Road Bradford BD3 ODX	Tel 01274 735786
Capital Spicers Ltd	Manufacturers of envelopes and exercise books.		Greenhills Industrial Estate Walkinstown Dublin 12	Tel 00 3531 4506711
Spicers France SA		Head office	Paris Nord 2 47 Allée des Impressionistes BP 50402, 95943 ROISSY CDG Cedex, France	Tel 00 33 49 38 83 00
	Regional Distribution Centres for wholesaling of office products at:	Paris	Lac du Parc de Compans Rue Louis Blériot, Compans 77295 Mitry-Mory Cedex France	Tel 00 33 1 60 26 94 26
		Bordeaux	Rue Francis Garnier Z.I. Alfred Daney – BP2 33028 Bordeaux Cedex France	Tel 00 33 557 81 04 04
		Toulouse	Parc Industriel Euronord 3 rue Gutenberg 31150 Bruguieres France	Tel 00 33 561 37 54 00

Spicers Limited continued

	Tours	11 Rue du Général Mocquery BP 153 St Avertin 37171 Chambray-les-Tours Cedex France	Tel 00 33 247 80 35 29
	Valence	Z.1. de la Motte Rue du Commandant Cousteau BP21 26801 Porte-les-Valence Cedex France	Tel 00 33 476 57 85 22
	Pau	Z.I. du Pont Long Route de Bordeaux 64140 Lons Cedex France	Tel 00 33 559 92 55 33
Spicers Deutschland		Ahrensburger Strasse 3 30659 Hanover Germany	Tel 0049 511 61 66 90

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of David S. Smith (Holdings) PLC will be held at One, Great George Street, London SW1 on Wednesday 9 September 1998 at 11.00 am to consider and, if thought fit, pass the following resolutions, of which numbers 1 to 9 will be proposed as ordinary resolutions and numbers 10 and 11 will be proposed as special resolutions:

1 To receive and adopt the Directors' Report and the Accounts for the year ended 2 May 1998.

2 To re-elect Mr J P Williams as a Director of the Company.

3 To re-elect Mr M G Green as a Director of the Company.

4 To re-elect Mr W N Greig as a Director of the Company.

5 To re-elect Mr O A Stratton as a Director of the Company.

6 To re-appoint KPMG Audit Plc as auditor of the Company.

7 To authorise the Directors to fix the remuneration of the Auditor.

8 To declare a final dividend on the ordinary shares.

9 That:
a | in accordance with Article 6 of the Company's Articles of Association, the Directors be authorised to allot relevant securities up to a maximum nominal amount of £8,939,501;
b | this authority shall expire on 9 September 2003; and
c | all previous authorities under Section 80 of the Companies Act 1985 be revoked.

10 That:
a | in accordance with Article 7 of the Company's Articles of Association, the Directors be given power to allot equity securities for cash;
b | for the purposes of paragraph 1b of Article 7 of the Company's Articles of Association, the nominal amount to which this power is limited (other than in connection with a rights issue) is £1,603,025; and
c | this power shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution.

11 That subject to and in accordance with Article 11 of the Company's Articles of Association, the Company is hereby authorised to make market purchases (within the meaning of the Companies Act 1985) of ordinary shares of 10p each in the capital of the Company in such manner and on such terms as the Directors may from time to time determine provided that:
a | the maximum number of ordinary shares hereby authorised to be purchased is 32,060,499 ordinary shares;
b | the minimum price which may be paid for each ordinary share is 10p;
c | the maximum price which may be paid for each ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the ten business days immediately preceding the date of any such purchase;
d | the authority hereby conferred shall, unless previously varied, revoked or renewed, expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company shall be entitled under such authority to make at any time before the expiry thereof any contract to purchase its ordinary shares which will or might be concluded wholly or partly after the expiry of such authority; and
e | the authority hereby conferred shall only be exercised at a time when it would result in an improvement in earnings per share for remaining shareholders and when it would be in the best interests of shareholders generally.

By Order of the Board

J S Russell
Secretary
16 Great Peter Street
London SW1P 2BX
3 August 1998

Notes

i | Only those members registered in the Register of Members of the Company as at 6 pm on 7 September 1998 shall be entitled to attend or vote at the Meeting in respect of the number of shares registered in their names at that time.

ii | A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company.

iii | A form of proxy is enclosed. To be effective, forms of proxy must reach the Registrars at the address shown on the form not later than 48 hours before the time of the Meeting. Completion and return of the form will not, however, prevent a member from attending and voting at the Meeting.

iv | Copies of the undernoted documents will be available for inspection at the registered office of the Company during normal business hours on any weekday (Saturdays and Public Holidays excepted) from the date of this Notice until the conclusion of the Meeting and on 9 September 1998 at One, Great George Street, London SW1 from 10.45 am until the conclusion of the Meeting:
a | the Directors' service contracts with the Company or any of its subsidiaries other than contracts expiring, or terminable by the employing company without compensation, within one year; and
b | the Memorandum and Articles of Association.

v | Mr W N Greig is a member of the Remuneration Committee of the Board.

Corporate Information

Financial diary 1998/99

16 July	Preliminary announcement of results for the year ended 2 May 1998
21 August	Record date for final dividend
9 September	Annual General Meeting
1 October	Payment of final dividend
10 December	Announcement of interim results for the six months ended 31 October 1998
23 February*	Record date for interim dividend
6 April*	Payment of interim dividend
1 May	Financial year end
15 July*	Preliminary announcement of results for the year ended 1 May 1999

*Subject to confirmation

Secretary and Registered Office
Stuart Russell
16 Great Peter Street
London SW1P 2BX

Auditors
KPMG Audit Plc
8 Salisbury Square
London EC4Y 8BB

Solicitors
Allen & Overy
One New Change
London EC4M 9QQ

Merchant Bank
SBC Warburg
2 Finsbury Avenue
London EC2M 2PP

Principal Clearing Bank
National Westminster Bank PLC
Aldwych Branch
PO Box 221
Connaught House
65 Aldwych
London WC2B 4EJ

Stockbrokers
Cazenove & Co
12 Tokenhouse Yard
London EC2R 7AN

and

Credit Lyonnais Securities
Broadwalk House
5 Appold Street
London EC2A 2DA

Registrars
Lloyds Bank Registrars
The Causeway
Worthing
West Sussex BN99 6DA