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DS Smith Plc

Annual Report 2004

Our strategy is to improve and develop our two principal activities, Packaging and Office Products Wholesaling.

We are improving operational performance across the Group through better products, a more competitive cost base, increased efficiency and raised service levels for our customers.

We are developing the Group's strong market positions through organic development and acquisitions, focusing particularly on opportunities in our existing markets.

Contents

Front cover:
Efficiency and flexibility Automated transfer systems optimise the handling of large and small batch sizes of corrugated board to meet customers' needs.

HIGHLIGHTS

FINANCIAL

- Profit before tax[1] up 2% at £81.4m
- Cash inflow after dividends but before net acquisitions up 3% at £33.1m
- Earnings per share[2] up 1% at 16.9p
- Return on average capital employed[1] 11.1% (2002/03: 11.3%)
- Gearing 48.9% (42.8%)
- Full year dividend maintained at 8.2p[3]
- Results after exceptional items and amortisation of intangibles: profit before tax £77.8m (£69.0m); earnings per share[4] 15.9p (13.7p)

OPERATIONS

- Robust performance, given the weak paper market
- Strong improvement in Corrugated Packaging
- Continued recovery in Office Products Wholesaling
- Strategic development through the £167m acquisition of LINPAC Containers

[1] *before exceptional items and amortisation of intangibles*
[2] before exceptional items and amortisation of intangibles and restated for the bonus element of the rights issue
[3] interim and prior year dividends restated for the bonus element of the rights issue
[4] restated for the bonus element of the rights issue

GROUP OVERVIEW

Packaging

DS Smith Plc is an international group focused on two major activities – Packaging and Office Products.

Paper and Corrugated Packaging

The Group is developing its strong European regional positions which are managed through four divisions: DS Smith Packaging (UK corrugated packaging); LINPAC Containers; Kaysersberg Packaging (continental European paper and corrugated packaging); St Regis Paper Company (UK paper).

Plastic Packaging

DS Smith Plastics is growing in its two focused markets of liquid packaging and dispensing and industrial returnable transit packaging.

Office Products

Office Products Wholesaling

Spicers is building its position in continental Europe based on its strong established businesses in the UK and France.

Office Products Manufacturing

John Dickinson is maximising returns from its brands and leading UK market positions in envelopes, books and pads.

More information on our divisions can be found at:

www.dssmith-packaging.com
www.kaysersberg-packaging.com
www.stregis.co.uk
www.dssmith-plastics.com

www.spicers.net
www.johndickinson.eu.com

Key figures – 2003/04	Operations	Market positions
£748.9m turnover 50% of Group turnover £50.5m operating profit* 9.6% return on capital	Produces 1.6 billion square metres per annum of corrugated packaging at 37 factories in the UK and 13 factories in continental Europe, located in France, Italy, Poland, the Czech Republic, Turkey and the Ukraine. Manufactures 1.2 million tonnes of paper per annum at 6 mills in the UK, 2 mills in France and 1 in Turkey; 75% is corrugated case materials (CCM) used for manufacturing corrugated board; 90% is made from recycled recovered paper.	• Number 1 UK collector and merchant of recovered paper • Number 1 UK producer of corrugated case materials • A leading European supplier of corrugated packaging – Number 1 UK supplier – Major position in France – Growing in Italy and Eastern Europe
£208.7m turnover 14% of Group turnover £15.2m operating profit* 10.7% return on capital	Liquid packaging and dispensing incorporates bag-in-box systems and injection moulded taps and dispensers; products are produced at 8 locations in the UK, Germany, USA and New Zealand. Industrial returnable transit packaging includes reusable container and pallet systems, extruded solid and multi-wall (corrugated plastic) sheets and injection moulded bottle crates; operations are at 13 locations in the UK, France, Belgium, Spain, Poland and Dominican Republic.	• Number 2 globally in liquid packaging and dispensing • A leading European supplier of industrial returnable transit packaging

Key figures – 2003/04	Operations	Market positions
£498.8m turnover 33% of Group turnover £21.7m operating profit* 18.2% return on capital	Wholesaling of office products is carried out through a network of distribution centres: 10 in the UK; 1 in Ireland; 6 in France; 2 in Germany; 1 in Spain; 1 in Italy (opening November 2004). Its product range includes traditional stationery lines, electronic office supplies, office furniture, janitorial supplies and office catering and vending provisions; this is communicated to its customer base of office product dealers through printed catalogues and electronic systems.	• Number 1 European office products wholesaler: – Number 1 in UK – Number 1 in France – Developing in Germany and Spain
£48.0m turnover 3% of Group turnover £1.4m operating profit* 9.8% return on capital	Its product range features leading brands: Basildon Bond, Black n' Red, Cambridge, Challenge, Lion Brand, New Guardian and Plus Fabric. It also supplies own label products and bespoke stationery. Manufacturing operations are at 3 UK locations.	• Leading UK positions: – Number 1 in envelopes – Number 1 in social stationery – Number 1 in hard cover notebooks

* before exceptional items and amortisation of intangibles

In 2003/04, we produced a creditable result and made important strategic progress.

Antony Hichens Chairman

In 2003/04, DS Smith produced a creditable result and made important strategic progress. Conditions remained challenging in most of our markets and the cyclical downturn in the paper market reduced margins significantly in our waste-based Paper business. The Group benefited from our continued focus on raising operational performance with further profit advances in Corrugated Packaging and Office Products Wholesaling.

The acquisition of LINPAC Containers, completed in March 2004, enlarged our position in UK Corrugated Packaging. The £167 million acquisition was partly financed by a one-for-five rights issue, which raised £70.4 million, net of expenses. It is disappointing that the acquisition has been referred to the Competition Commission as we believe that it will not lessen the vigorous competition which marks our industry. We are working closely with the Competition Commission to seek to satisfy them and their report is due towards the end of the calendar year. In the meantime, the business is performing well, but we are not able to proceed with the planned integration until the inquiry has been completed.

The Group's earnings per share before exceptional items and amortisation of intangibles was, at 16.9p, slightly better than last year (2002/03: 16.8p restated for the bonus element of the rights issue). Free cash flow, post dividends but before acquisitions, of £33.1 million was marginally ahead of last year (£32.0 million). In spite of the acquisition of LINPAC Containers, gearing only increased from 42.8% to 48.9%.

Your Board is recommending a final dividend of 5.6p per ordinary share which, together with the restated interim dividend of 2.6p, maintains the total dividend for the year, as restated for the rights issue, at 8.2p.

The Group continues to pursue its strategy of operational improvement and the development of its two principal activities, Packaging and Office Products Wholesaling. We will maintain the drive to improve the Group's return on capital employed, which was 11.1% in 2003/04, while investing in capital projects and bolt-on acquisitions which strengthen the Group's position in its chosen markets.

In December 2003, two additional Directors were appointed. Jean-Paul Loison, Divisional Chief Executive of the Kaysersberg Packaging Division, responsible for all Paper and Corrugated Packaging operations in continental Europe, was appointed as an Executive Director. Christopher Bunker, who has been Finance Director on the boards of three PLCs, was appointed as a non-Executive Director. They both bring extensive and valuable experience to the Board.

This year's good performance was achieved through the skills and commitment of the Group's employees worldwide. I thank them all for their continued contribution to meeting the requirements of our customers and raising the standards of our operations.

In the coming year we expect to make further progress in Plastic Packaging and Office Products Wholesaling. However, our key paper and corrugated markets remain highly competitive and, in the face of rising input costs, the recent paper price rise will not be sufficient to restore paper margins. Also as previously indicated, for the first time for many years there will now be a significant charge to the profit and loss account in respect of the UK pension scheme. Our result will benefit from the contribution from the LINPAC Containers acquisition but, until the outcome of the Competition Commission inquiry is known, we cannot start to generate the anticipated synergies. This is likely to be another challenging year but the Group's resilience in recent times gives me confidence in our future.

Antony Hichens Chairman

We achieved major profit advances in both Corrugated Packaging and Office Products Wholesaling, which largely offset the margin squeeze in Paper.

Tony Thorne Group Chief Executive

Overview

From the outset, we expected 2003/04 to be a difficult year as margins in our important Paper business were under pressure from increasing competition in the paper market and there were no signs of improvement in the general trading environment. Our principal objectives were to minimise the impact of the downturn in Paper margins while continuing to raise the results of the rest of the Group, maintain the development of our key market positions and generate a healthy cash flow. I am pleased to report a year of considerable success against these objectives. We achieved major profit advances in both Corrugated Packaging, particularly in continental Europe, and Office Products Wholesaling, which largely offset the margin squeeze in Paper and produced a creditable overall financial result. We generated a strong cash surplus after dividends but before net acquisitions. The acquisition of LINPAC Containers enlarged our important UK Corrugated Packaging business. The decision by the Office of Fair Trading to refer the acquisition for review by the Competition Commission means we are unable to proceed with the planned integration into DS Smith until the inquiry is complete.

Group sales and operating profit before exceptional items and amortisation of intangibles were both 1% ahead of last year at £1,488.5 million and £88.8 million, respectively. Excluding the effect of acquisitions, disposals and foreign exchange differences, operating profit before exceptional items and amortisation of intangibles was 1% lower. In the six weeks of the financial year in which we owned LINPAC Containers, it contributed £18.1 million of sales and £1.2 million of operating profit to the Group result. Operating margin before exceptional items and amortisation of intangibles increased slightly to 6.0% (2002/03: 5.9%), while return on average capital employed was slightly lower at 11.1% (11.3%). Profit before tax, exceptional items and amortisation of intangibles increased slightly to £81.4 million (£79.7 million) while adjusted earnings per share was also a little ahead. Interest cover remained strong at 8.8 times.

Overall, this was a robust result, given the weak paper market, and reflects the success of our drive to improve and develop the returns of the Group's non-Paper operations.

The cash inflow after dividends but before net acquisitions, was £33.1 million (£32.0 million). After net expenditure on acquisitions of £181.6 million, principally LINPAC Containers, and including the proceeds from the rights issue, there was a net cash outflow of £72.4 million which resulted in net borrowings of £274.7 million (£202.3 million) after the effect of exchange rate movements. The balance sheet remains strong with gearing at 48.9%, post the acquisition.

Packaging

In our larger activity, Packaging, which accounted for 64% of Group sales and 74% of operating profit before amortisation of intangibles, demand in our principal markets continued to be flat or declining, and margins were under pressure, particularly in Paper. The overall Packaging operating profit before exceptional items and amortisation of intangibles was 3% down on last year.

This reflects a very significant shortfall in Paper, a good advance in Corrugated Packaging, particularly on the continent, and a small increase in Plastic Packaging.

In Paper and Corrugated Packaging, sales were flat while operating profit before exceptional items and amortisation of intangibles fell by 5%. Productivity in our paper operations improved, but operating profit was down sharply due to a particularly hostile combination of lower paper prices and higher costs of raw material and energy. The profit shortfall in Paper was substantially offset by continued improvement in the performance of our Corrugated Packaging operations, particularly in continental Europe, and the contribution from LINPAC Containers in the closing weeks of the year. Paper and box prices increased throughout Europe towards the end of our financial year; this provided little benefit in 2003/04. The start point for 2004/05 was improved by these increases but we have not been able fully to recover increases in input costs.

Although we made progress in Plastic Packaging, with a 7% advance in sales and a 3% increase in operating profit before exceptional items and amortisation of intangibles, the improvement was less than in recent years. In our core businesses of industrial returnable transit packaging (RTP) and liquid packaging and dispensing, profit improved. We grew strongly in RTP where our bottle crate business continued to perform well, helped by product innovation and strong market demand.

In liquid packaging and dispensing, the European bag-in-box business, including the German Zewathener business acquired in 2002, traded well but the tap business was affected by increased competitor activity in detergent taps. The division's overall result was held back by the results at two small operations: a specialist coating business, whose exports to Asia and the Middle East fell in the first half of the year, and a modified atmosphere produce packaging business, StePac, in which we have been investing. A programme of initiatives has been implemented across the division to move results forward again through driving sales growth and raising productivity.

Office Products

Total Office Products sales were 1% lower but operating profit before exceptional items and amortisation of intangibles increased by 14%. This advance in profits was despite the office products market across Europe continuing to suffer from poor sales volume and customers trading down to lower specification products.

In Office Products Wholesaling, which accounted for 94% of our Office Products sales, operating profit before amortisation of intangibles increased by 34% to £21.7 million. The combined profits of our developed businesses, being Spicers UK, France and Ireland, were well up on the previous year, reflecting our actions to cut costs, raise margins through better buying and improve the product mix while maintaining service levels. In our developing markets of Germany and Spain we had satisfactory sales growth. Although Spicers Germany remained in loss for the year as a whole, it generated a positive cash flow and traded at around break-even in the second half, while Spicers Spain made good progress against its plan. In Italy, preparations are well advanced for our entry into the market during 2004/05.

In Office Products Manufacturing, operating profit was £1.4 million (£4.0 million), this decline against last year reflecting both the difficult trading conditions and the sale of Spicer Hallfield towards the end of 2002/03. Action has been taken to reduce costs further and to stimulate sales.

LINPAC Containers

The acquisition of LINPAC Containers on 22 March 2004 made DS Smith the leading corrugated packaging company in the UK. The net cost of the acquisition was £167 million, including fees for the transaction. The acquisition improved our market position, by broadening the Group's customer base, and strengthened our position as a major buyer and seller of paper. The business is trading well and we are pleased to have its high quality people and operations within DS Smith. We remain confident that the synergies outlined in our circular are available but during the Competition Commission inquiry period LINPAC Containers and DS Smith Packaging will carry on business separately; they both have good market positions and will maintain a strong focus on serving their respective customers.

LINPAC Containers acquisition

The addition of LINPAC Containers to the Group improved our market position in corrugated packaging and strengthened our position as a major buyer and seller of paper. It has high quality staff, an experienced management team and well-invested facilities. The integrated box plant at Louth, Lincolnshire is one of the most advanced in the UK, operating on a 24-hour, seven-day production cycle and offering customers the combination of low-cost, responsive and technically advanced manufacturing.

Innovative manufacturing Paper reels are loaded onto an automated handling system which enables faster paper changes on the corrugator.

High productivity Technically advanced operating systems enable the corrugator to achieve superior output of board.

This was a robust result, given the weak paper market, and reflects the success of our drive to improve and develop the returns of the Group's non-Paper operations.

Service capability Maintaining high service levels was a key contributor to Spicers' progress.

Pension scheme

In accordance with SSAP 24, the 2003/04 results include a nil pension charge for the Group's UK defined benefit scheme as the amortisation of the 2001 surplus largely offsets the ongoing cost of the scheme. The triennial valuation of the scheme is currently taking place and the report is due in autumn 2004. Recognising that, in adverse markets, the funding position of the scheme had deteriorated since April 2001, the Company resumed payments into the scheme, at the rate of £10 million per annum, in the second half of 2002/03. As previously indicated, the Board expects there to be a charge to the Group's profit and loss account in respect of the scheme in 2004/05. This charge, under SSAP 24, will reflect the ongoing costs of the scheme of approximately £10 million and the amortisation of the prepayments and any deficit identified by the SSAP 24 valuation.

Under the FRS 17 accounting standard, which the Company has not adopted, the scheme had a post-tax net deficit, as at 30 April 2004, of £54.6 million compared with a post-tax net deficit of £93.8 million a year ago.

Strategy

We have pursued a strategy of Improve and Develop over the last three years and this remains in place; the objective being an aggressive programme of raising operational performance across the Group, while seeking areas to develop our strong market positions in Packaging and Office Products Wholesaling. Return on average capital employed is a key measure for us and our return of 11.1% in 2003/04 was slightly above our cost of capital. The commitment of capital to existing operations will remain relatively tight, investment being concentrated on new products, growth markets and major cost-down opportunities. We will continue to restructure or exit low performing businesses.

In Paper and Corrugated Packaging there is further potential to develop our European market positions. For our established corrugated businesses in the UK and France, where demand is at best flat and price pressure is intense, we have to look to innovate on product and service while lowering costs and increasing efficiency. We remain alert to bolt-on acquisitions and green field development, concentrating on the faster growing markets of southern and eastern Europe. In our UK Paper operations, where margins have been under greater pressure than in the past, we are developing options to address the growing demands of our customers for lighter weight papers and the need to remain internationally competitive over the longer-term.

In Plastic Packaging, our strategic segments continue to present profitable growth opportunities. In liquid packaging and dispensing, the highest priority is to deliver increased returns on the investment made in recent years. In industrial RTP, our strong European presence provides a base for further development both organically and through acquisitions.

Spicers is continuing to develop its position as the leading European office products wholesaler. Our well-established businesses in the UK and France are focused on re-invigorating sales growth to raise their profitability further. In our developing businesses, our objectives are to bring Spicers Germany through to good levels of profit, to move the Spanish business to break-even as rapidly as possible, and to launch successfully in Italy. We believe the value of Spicers is being substantially enhanced by its continental expansion and increasing profitability.

The Group's resilient performance in 2003/04 is confirmation of our strategic and operational progress in recent years. We intend to build on this in the coming year.

Tony Thorne Group Chief Executive

Paper and Corrugated Packaging

Lower profits in Paper were partly compensated for by higher profits in Corrugated Packaging.

FINANCIAL HIGHLIGHTS

	2004	2003
Turnover	£748.9m	£747.0m
Operating profit*	£50.5m	£53.1m
Operating margin*	6.7%	7.1%
Year end capital employed	£657.4m	£500.6m
Return on average capital employed	9.6%	10.6%

*before exceptional items and amortisation of intangibles

Turnover was slightly ahead at £748.9 million (2002/03: £747.0 million) with a fall in Paper being offset by higher Corrugated Packaging sales. Operating profit before exceptional items and amortisation of intangibles was £50.5 million (£53.1 million) with a significant reduction in profits from Paper being partly compensated for by higher profits in Corrugated Packaging, including a contribution of £1.2 million from LINPAC Containers in the six weeks from the date of acquisition. Operating margin before exceptional items and amortisation of intangibles was 6.7% (7.1%) while return on average capital employed was 9.6% (10.6%).

Market overview

Industry statistics for calendar year 2003 show that overall demand by weight for corrugated board in Europe grew by just 0.5%, reflecting the sluggish economic conditions. Demand in the UK was 0.9% lower, while France and

Focus on growth opportunities

The Group is developing its business in higher growth segments of the corrugated packaging market such as the home delivery of products, particularly from internet purchases.

Italy were slightly ahead by 0.7% and 1.5%, respectively and Poland and Turkey grew strongly by 8.3% and 11.5%, respectively*. In the first quarter of calendar year 2004, demand in the UK has shown a small amount of growth while our other major markets have performed at similar levels to 2003. Within the UK market for corrugated case materials (CCM), recycled paper continued to gain market share against virgin kraftliner and the imported share of the market was unchanged.

Against a background in the CCM market of low European demand growth and some existing excess capacity, approximately 600,000 tonnes of new capacity became available within the total market of approximately 20 million tonnes. Although this new capacity was partly offset by some older capacity being removed, it resulted in a destabilisation of selling prices throughout the European market. While no more capacity is expected to come on stream in 2004, further capacity additions are expected in 2005; the effect on prices will depend upon future market growth and the extent of any further rationalisation of uneconomic capacity.

As a result of the soft demand and the additional capacity, much of which is concentrated on lightweight papers, CCM prices fell during 2003. The resulting squeeze on paper producers' margins was exacerbated by fluctuations in the cost of recovered paper, the principal raw material for recycled CCM. The continuing high level of demand for recovered paper in Asia, some of which is being supplied from Europe, is contributing to a modest longer-term structural increase and short-term fluctuations in the price of recovered paper in Europe. In the UK, the net cost of our raw material was also adversely affected by lower demand for Packaging Recovery Notes (PRNs), which are issued as evidence that packaging has been reprocessed in compliance with the UK Packaging Waste Regulations. The government, which did not increase recycling targets for 2003, has now published rising targets for 2004 to 2008 in line with the revised requirements of the EU Packaging and Packaging Waste Directive. There has been some firming of PRN prices in calendar year 2004 to date, although they remain well below recent years' average prices.

* Source: European Federation of Corrugated Board Manufacturers.

Corrugated packaging – cost effective and fully recyclable

The Group's operations play a significant role in the corrugated packaging recycling process. Re-use of the fibres in paper packaging minimises waste disposal to landfill and reduces the need for virgin wood pulp.

1. CORRUGATED PACKAGING DISCARDED
Consumers, retailers and other businesses unpack products and increasingly recycle the used packaging. In the UK, over 60% of paper packaging is now recycled.

2. RECOVERED PAPER COLLECTED
Old corrugated cases and other paper are collected from retailers and other sources, sorted and baled ready for sale to paper mills. Severnside Recycling handles around 1.3m tonnes of all grades of recovered paper per annum through its network of 14 depots.

3. PAPER FIBRES RECYCLED INTO PAPER
Recovered paper is pulped and cleaned to produce a blend of fibres that is made into reels of packaging paper (corrugated case materials or CCM). These are cut to size and sold to corrugated packaging plants. St Regis Paper Company is the UK's largest recycled paper manufacturer.

4. PAPER CONVERTED INTO BOXES
CCM is converted into corrugated board by forming the internal fluting and gluing it between outer liners. The board is printed, cut, folded and glued to form boxes that are sold to processors/distributors. DS Smith produces approximately 2.5 billion corrugated boxes per annum.

5. BOXES FILLED AND DELIVERED
Corrugated packaging is used to store, protect and transport a wide range of products including fast-moving consumer goods, consumer durables and industrial products.

DS Smith Packaging continued its profit improvement despite weak demand, industry over-capacity and price pressure.

Bob McLellan Chief Executive, DS Smith Packaging

DS Smith Packaging

The Group's UK Corrugated Packaging division, DS Smith Packaging, continued its profit improvement despite weak demand, industry over-capacity and price pressure. The continuing focus on higher added value products supported the result, which was also assisted by the addition of the business from three plants acquired from Macfarlane Group in October 2003. One of these plants and a DS Smith sheet plant were subsequently sold in March 2004.

The four conventional plants, which are operated as an integrated group to optimise service to their customers, had mixed results. Of these, the Fordham plant made good progress and achieved record output levels, but the Livingston plant suffered from continued weak demand from Scottish manufacturing industry.

Margins were severely squeezed at our sheet feeding operations, which supply corrugated sheet board, due to intense competition and industry over-supply. We have taken action to lower costs and raise efficiencies. The sheet plants, which convert board into boxes, performed steadily.

The speciality operations advanced through combining better efficiency with providing their customers with product innovation and flexible service. The Lockerbie, Belper and Neath plants, which specialise in high quality printed product, made encouraging progress. The heavy duty business, Tri-Wall, performed reasonably well given the difficulties experienced by its industrial manufacturing customer base.

Results in April were affected by higher paper costs following the Europe-wide increase in CCM prices. Corrugated prices were increased in mid-April with a view to recovering increased input costs.

LINPAC Containers

LINPAC Containers, acquired on 22 March 2004, operated well during the final weeks of the financial year although profit in April was depressed by higher paper costs. It contributed £18.1 million of sales and £1.2 million of operating profit to the Group result for the year. In late April, it raised its box and corrugated sheet prices in an attempt to recover increased costs.

Speciality products Paper is printed before conversion into board to produce decorative boxes at DS Smith Packaging, Belper.

Adding value High quality printed packaging must meet the demanding requirements of leading brand customers.

Kaysersberg Packaging achieved an excellent result due to strong progress in the French, Polish, Italian and Turkish Corrugated Packaging businesses.

Jean-Paul Loison Chief Executive, Kaysersberg Packaging

Kaysersberg Packaging

The Group's continental European Paper and Corrugated Packaging division, Kaysersberg Packaging, achieved an excellent result due to strong progress in the French, Polish, Italian and Turkish Corrugated Packaging businesses.

The French paper mills increased their productivity and sales volume, but margins were squeezed, despite successful cost reduction initiatives, by the fall in selling prices and fluctuating recovered paper prices. The French Corrugated Packaging operations benefited from the lower paper prices, good cost management and their focus on higher added value products.

In Italy, Toscana Ondulati further increased its market share and profits with the help of its new Lari factory, which has strengthened its position in key market sectors.

Sales at the Polish business, DS Smith Polska, were held back by capacity constraints, but profits advanced well due to focusing more on selling converted boxes rather than corrugated sheet and developing sales of litho-laminated and other higher value products. A new green field factory is planned to open in late 2005 at Kutno, west of Warsaw, which will allow us to grow our activities in Poland further.

Action taken to raise operational performance and increase market share enabled the Turkish business, Copikas, to reduce its loss substantially, despite selling prices being under pressure.

Our associate operation in the Ukraine, OJSC Rubezhansk Paper and Packaging Mill, advanced strongly helped by a major programme of investment. In December 2003 the business secured a $14 million loan from the European Bank for Reconstruction and Development to help finance further growth.

Growth opportunities

Italy Toscana Ondulati has benefited from recent major investment. It supplies high quality boxes for the wine industry and other market sectors.

Poland Expansion of local industry and retail distribution is increasing the demand for higher value corrugated packaging at DS Smith Polska.

Profits were substantially below those of the previous year due to a combination of lower selling prices, the fluctuating cost of recovered paper, higher energy costs and lower PRN prices.

Don Coates Chief Executive, St Regis Paper

St Regis Paper Company

St Regis increased its production and sales volumes through continuing emphasis on higher efficiency and improved process control. Sales to the UK market increased slightly, while exports moved ahead more strongly, assisted in the early months of the year by the strengthening of the euro against sterling. Profits were substantially below those of the previous year due to a combination of lower selling prices, the fluctuating cost of recovered paper, higher energy costs and lower PRN prices.

The Kemsley paper mill, which accounts for over 50% of St Regis' paper production, achieved record output, with machine efficiencies well above the previous year due to continuing process optimisation. A new warehouse was commissioned in autumn 2003, which improved customer service and reduced costs by virtually eliminating the use of third party warehousing. The other paper mills also raised volumes, and record production was achieved at Sudbrook and Taplow.

The Severnside collection and recycling business continued to expand, although results were affected by fluctuations in the price of recovered paper. It invested further in its collection infrastructure, both in terms of equipment and collection depots. It added one new depot during the year and, since the year end, has acquired the five depots of BPB Recycling, subject to approval from the Office of Fair Trading.

Operational progress

Severnside Recycling continues to develop its collection of recovered paper from a wide range of businesses including major supermarket chains. It offers a one-stop-shop solution for managing companies' entire recycling and waste disposal needs.

In tough market conditions, St Regis raised its paper output and sales through increased machine efficiency. Nearly 30% of sales were exported, mainly to continental Europe.

Plastic Packaging

We made profit progress in our two principal business sectors but the division's overall performance was held back by the results of two small operations.

Sales and profits advanced well in returnable transit packaging.

Adrian Whitfield *Chief Executive,*
DS Smith Plastics

FINANCIAL HIGHLIGHTS

	2004	2003
Turnover	£208.7m	£195.0m
Operating profit*	£15.2m	£14.7m
Operating margin*	7.3%	7.5%
Year end capital employed	£136.5m	£136.0m
Return on average capital employed	10.7%	11.5%

*before amortisation of intangibles

DS Smith Plastics' turnover grew by 7% to £208.7 million. Operating profit before amortisation of intangibles was 3% ahead at £15.2 million and operating margin before amortisation of intangibles was 7.3% (7.5%). Return on average capital employed was 10.7% (11.5%). The division made profit progress in its two principal business sectors, liquid packaging and dispensing and returnable transit packaging (RTP), but its overall performance was held back by the results of two small operations. Polymer prices had no significant impact on results during the year as a whole.

Sales and profits advanced well in RTP principally due to a strong performance in injection moulded bottle crates. Increased crate demand from the brewing sector was stimulated by product innovation and new

A leader in dispensing

Worldwide Dispensers is one of the world's leading manufacturers of high quality injection moulded taps and dispensing fitments.

environmental regulations in Germany which *encourage the use of returnable bottles.* Demand for other RTP products was patchy, but action to control costs and improve efficiency benefited the results.

In liquid packaging and dispensing, the bag-in-box business in Europe performed well, assisted by the Zewathener business in Germany acquired in 2002. Margins were affected by the particularly strong growth in the relatively lower margin wine bag business. Tap sales and margins were affected by increased competitor activity in detergent taps. Action has been taken to increase the rate of profit growth by focusing on driving sales, cost reduction and productivity improvements.

Of the two smaller businesses that impacted the overall result, our specialist coating business suffered a reduction in exports to Asia and the Middle East due to SARS and the Iraq War; costs have been cut and sales are being rebuilt. The other is a developing business, StePac, which specialises in modified atmosphere packaging for preserving the quality of fresh fruit and vegetables in transit; we have invested to develop the business and are focused on growing sales.

Advanced crate technology

DW Plastics produces custom designed and engineered crates to suit each customer's needs and brand image. Products include innovations such as in-mould labelling and soft touch handles.

Bag-in-box packaging – meeting customers' needs worldwide

DS Smith supplies all elements of bag-in-box packaging and systems. Customers in Europe, the USA and Asia-Pacific select from our total offering to achieve the optimal liquid packaging solution for their product. Usage of bag-in-box packaging is growing for a wide range of liquids, including fruit juice, dairy products, wine, soft drinks and water.

HIGH QUALITY TAPS AND DISPENSING FITMENTS
Including taps, caps, bungs, valves and tube connectors to dispensing machines. All taps are leak tested.

MADE-TO-MEASURE PLASTIC BAGS
Produced from a range of plastic materials – single and multi-layer – with capacities from 1 litre to 1,000 litres. Each bag is fitted with a plastic gland for filling and to hold the tap or other dispensing fitment.

COMPREHENSIVE RANGE OF BOXES
Designed and manufactured to provide high shelf impact for consumer products or strong efficient solutions for industrial use.

BESPOKE FILLING SYSTEMS
Customised machines for aseptic or non-aseptic filling of bags.

Office Products Wholesaling

Spicers' substantial advance in profit was achieved against a background of continuing soft demand for traditional office products across Europe.

FINANCIAL HIGHLIGHTS

	2004	2003
Turnover	£498.8m	£495.6m
Operating profit*	£21.7m	£16.2m
Operating margin*	4.4%	3.3%
Year end capital employed	£123.7m	£122.3m
Return on average capital employed	18.2%	12.7%

*before amortisation of intangibles

Spicers' improvement in profitability was principally attributable to further strong progress in the UK.

Bill Armstrong Chief Executive, Spicers

Spicers' sales increased by 1% to £498.8 million with higher sales in Germany and Spain being partly offset by declines elsewhere in Europe. Operating profit before amortisation of intangibles increased by 34% to £21.7 million and operating margin before amortisation of intangibles increased from 3.3% to 4.4%. Return on average capital employed advanced from 12.7% to 18.2%.

Spicers' substantial advance in profit was achieved against a background of continuing soft demand for traditional office products across Europe, with consumers being more inclined to buy lower specification, or own-brand products. There is growing evidence, in most markets, of confidence recovering and consumption stabilising. Demand for electronic office supplies (EOS) continues to grow but the low margins on the highest volume EOS products have deteriorated further.

Spicers' improvement in profitability was principally attributable to further strong progress in the UK as a result of the programme of operational initiatives started in 2002. Service levels to customers were raised further and significant cost reductions

Products backed by service

Spicers' UK catalogue was developed after extensive consumer market research. Redesigned for clarity, it groups the 18,000 product lines in easy-to-use sections.

achieved. The regional distribution centre (RDC) network was restructured with the closure of the Nottingham RDC.

In France, market conditions proved particularly challenging but Spicers' business improved its profitability by cutting costs and managing its margins better. Spicers Germany grew steadily throughout the year and generated a positive cash flow. Results in the first half were substantially affected by a limited number of bad debts but it traded at around break-even in the second half.

The Spanish business, launched in 2002, achieved strong sales growth in the year and a highly successful sell-in of the 2004 catalogue augurs well for a further major advance in sales in the year ahead. Spicers' new Italian business will be launched in November 2004. The purpose-built head office and first RDC at Castel San Giovanni, just south of Milan, is now occupied and intense preparation is underway to ensure a successful start-up.

Leading brand Spicers' 5 Star range of over 1,400 essential office products is backed with an extensive marketing programme.

Spicers – service is key

Spicers' eight UK regional distribution centres provide fast, efficient delivery to their customer base of office products dealers. They offer same-day delivery or an overnight, next-day service. Orders received before 7.00 pm will be fulfilled to reach the dealer in time for them to deliver the goods to their customer the following morning. Over 95% of orders are delivered on time and in full.

GOODS IN
700 product lines are delivered per day from Spicers' central distribution centre.

CUSTOMER SERVICE EXCELLENCE
Orders are received from customers by telephone or on-line through SPICERlinkWeb. The customer services team responds promptly and flexibly to dealer enquiries and requests.

PRECISE ORDER FULFILMENT
Picking accuracy and quality of delivery are measured to ensure high service standards are maintained.

14,000+ PRODUCT LINES IN STOCK
Stock levels of Spicers' own 5 Star brand and other branded products are closely managed to maintain *high order fulfilment levels.*

FOCUS ON CUSTOMER SATISFACTION
Over 10,000 product lines are picked each day to satisfy customer orders. Peak time for processing orders is 6.00 pm – 11.00 pm.

GOODS OUT
Peak time for order despatch to dealer customers is 4.00 am to reach them before 9.00 am.

Powerful brands

John Dickinson's top stationery brands offer quality, style and innovation. Black n' Red's brand awareness and sales have increased in continental Europe and the USA.

Office Products Manufacturing

FINANCIAL HIGHLIGHTS

	2004	2003
Turnover	£48.0m	£59.7m
Operating profit	£1.4m	£4.0m
Operating margin	2.9%	6.7%
Year end capital employed	£13.7m	£13.8m
Return on average capital employed	9.8%	23.1%

Sales volumes were significantly lower, particularly for branded products.

Richard Evans Chief Executive, John Dickinson

John Dickinson's sales were £48.0 million (£59.7 million) and operating profit was £1.4 million (£4.0 million); the previous year's result included sales of £6.3 million and operating profit of £0.6 million from the Spicer Hallfield business which was sold in February 2003. Operating margin was 2.9% (6.7%) and return on average capital employed was 9.8% (23.1%).

Sales volumes were significantly lower, particularly for branded products, while imports continue to exert pressure on prices. Growth was achieved in envelopes for direct and transactional mail, while the Black n' Red brand advanced well, with encouraging signs for its development in the US market. Action has been taken to strengthen the division's marketing and sales activity. Costs have been further reduced in production and by management structure rationalisation.

Growth opportunity Latest technology is used to produce quality printed envelopes for direct mail and other uses where corporate image is important.

Smart products Black n' Red's Digital Notebook used with a digital pen enables text and sketches to be quickly downloaded to a PC.

We continue to focus on raising our return on capital employed while generating free cash flow to cover the dividend well and fund bolt-on acquisitions.

Gavin Morris Group Finance Director

Group trading results

The Group's trading results are summarised in table 1 opposite.

Turnover in the financial year ended 30 April 2004 increased by 0.6% over the previous year. Turnover was 0.5% ahead in the first half of 2003/04 versus the same period in 2002/03. In the second half the rate of growth increased slightly to 0.8%. Excluding the impact of acquisitions, disposals and foreign exchange differences, turnover was 1.8% down on the previous year; the first half of the year was down by 2.1% and the second half by 1.7%, mainly reflecting the pricing pressures within the UK markets. LINPAC Containers' contribution to Group turnover from the date of acquisition (22 March 2004) was £18.1 million.

Operating profit, before exceptional items and amortisation of intangibles, increased by 0.9% in 2003/04 from £88.0 million to £88.8 million. Excluding the impact of acquisitions, disposals and foreign exchange differences, operating profit before exceptional items and amortisation of intangibles fell by 1.0%. LINPAC Containers contributed £1.2 million from the date of acquisition. Group operating profit for the first half of the year was 10.5% below the same period last year, while that in the second half was up 15.0%. The second half increase was mainly due to Office Products Wholesaling, which, for the whole year, increased operating profit before amortisation of intangibles from £16.2 million to £21.7 million on flat sales. This increase reflects a combination of improved buying margins and the continued drive to reduce costs, particularly in the UK.

Return on sales for the year improved slightly from 5.9% in 2002/03 to 6.0%. The return on sales for the second half of the year was 6.1%, compared with 5.8% in the first half. The Group's return on capital employed (defined as the period's annualised adjusted operating profit divided by the average

TABLE 1

	Full year		Second half	
	2003/04 £m	2002/03 £m	2003/04 £m	2002/03 £m
Turnover	1,488.5	1,479.0	743.8	737.9
Operating profit*	88.8	88.0	45.3	39.4
Return on sales*	6.0%	5.9%	6.1%	5.3%
Return on capital employed*	11.1%	11.3%	11.2%	10.1%

*before exceptional items and amortisation of intangibles

TABLE 2

	2003/04		2002/03	
Principal currency exchange rates	Average	Year end	Average	Year end
Euro	1.44	1.48	1.54	1.43
United States Dollars	1.71	1.77	1.56	1.60
Polish Zloty	6.62	7.13	6.25	6.08

month end capital employed in the period) fell slightly from 11.3% to 11.1%, mainly reflecting the higher average capital employed. The measure for the second half of the year was 11.2% (2002/03: 10.1%).

Although the UK still accounts for the majority of the Group's turnover and operating profit, the proportion of turnover originating from the Group's overseas businesses rose from 41% in 2002/03 to 44% in 2003/04 while that of operating profit rose from 32% to 47%. The latter was mainly due to improvements in the continental European Corrugated businesses. In constant currency terms, the turnover of overseas subsidiaries grew by 2.6% and, after adjusting for the impact of acquisitions and disposals, by 3.1%. Sales in the UK fell by 4.2% and, after excluding acquisitions and disposals, by 5.3%.

The major exchange rates used to translate the Group's results are shown in table 2 above.

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

Group profit and loss account

The Group's 2003/04 results include £3.0 million as the Group's share of associated undertakings' operating profit, an increase of £0.4 million on last year. This relates to OJSC Rubezhansk, the Group's 39% owned paper and packaging company in the Ukraine, which saw increased sales.

The net interest expense for the year decreased from £10.9 million to £10.4 million, benefiting from slightly lower average borrowings and lower euro interest rates, partly offset by higher sterling interest rates. The additional borrowings resulting from the acquisition of LINPAC Containers on 22 March 2004, net of the rights issue proceeds, had only a small effect in the year. The interest charge was impacted by a £0.2m (2002/03: £1.6m) net monetary gain arising as a result of hyperinflationary accounting for the Group's Turkish business. Group interest cover remains strong at 8.8 times.

The Group's effective tax rate, excluding exceptional items and the amortisation of intangibles, was 27%, the same as last year. The rate continued to be below the UK and the higher overseas corporate tax rates due to the use of tax losses and the benefit arising from funding structures. This rate is expected to increase in the coming year as a result of changes in the mix of profits and as historic tax losses carried forward are fully utilised.

Earnings per share before exceptional items and amortisation of intangibles increased 0.1p to 16.9p. The prior year earnings per share figures have been restated to take into account the bonus element in the rights issue by multiplying by a factor of 0.933. On an FRS 3 basis, earnings per share were 15.9p. The proposed final dividend is 5.6p per ordinary share, which together with the restated interim dividend of 2.6p, maintains the total dividend for the year, as restated for the rights issue, at 8.2p. The total dividend to be paid for the year is 8.4p. Dividend cover before exceptional items and amortisation of intangibles fell from 2.0 times to 1.9 times. Free cash flow covered the dividend 2.2 times (2002/03: 2.1 times).

Cash flow

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

	2003/04 £m	2002/03 £m
Operating profit	88.8	88.0
Depreciation	64.5	62.2
Working capital	(7.0)	(1.0)
UK pension scheme contributions	(10.0)	(5.0)
Other	(4.5)	(2.2)
Cash flow from operating activities	131.8	142.0
Capital expenditure payments	(51.7)	(63.4)
Sale of fixed assets	9.1	4.2
Interest	(10.0)	(7.5)
Taxation	(17.9)	(15.1)
Free cash flow	61.3	60.2

Cash flow from operating activities was £131.8 million, £10.2 million below last year, primarily as a result of the increase in working capital and an additional £5.0 million cash contribution to the UK Group pension scheme.

During the year, the Group made a further £10.0 million contribution to its main UK defined benefit pension scheme making a total of £15.0 million paid into the scheme over the past two years.

Capital expenditure amounted to £49.8 million, £14.7 million below depreciation. The impact on cash flow was £51.7 million as a result of a slight decrease in capital expenditure creditors from last year's level.

Tax payments in the year were £17.9 million, lower than the tax charge for the year as a result of timing differences.

The cash inflow after dividends but before net acquisitions was up 3% at £33.1 million, and the net cash outflow for the year before financing was £147.8 million, as shown below:

	2003/04 £m	2002/03 £m
Free cash flow	61.3	60.2
Dividends	(28.2)	(28.2)
Free cash flow before net acquisitions	33.1	32.0
Net acquisitions	(181.6)	(16.1)
Investments	0.7	(0.3)
Net cash flow	(147.8)	15.6

The net cash outflow on acquisitions and disposals in the year was primarily the consideration and costs, net of acquired cash, for LINPAC Containers of £166.8 million.

UK Group pension scheme

The Group operates a defined benefit scheme in the UK which at the last financial valuation in 2001 was in surplus. The Group's SSAP 24 profit and loss charge for 2003/04 for this scheme was nil as the annual cost of providing benefits was offset by the amortisation of the 2001 surplus. The next triennial valuation of the scheme is underway as at 5 April 2004, and the results of this formal valuation should be known by the autumn. It is anticipated that the valuation will show the scheme to be in deficit. As a result, there will be a charge to the Group's profit and loss account in respect of the scheme in 2004/05. This charge, under SSAP 24, will reflect the ongoing costs of the scheme of approximately £10 million, the amortisation of the £15.0 million prepayments into the scheme amounting to circa £1.5 million per year, and the amortisation of any deficit identified by the valuation. Recognising that the funding of the scheme had deteriorated, the Group recommenced contributions into the scheme in the second half of 2002/03 at an annual rate of £10 million; these now total £15 million and are accounted for as prepayments on the balance sheet.

Financial position

Shareholders' funds totalled £562.0 million at the end of the year, up from £472.9 million at the end of 2002/03. The retained profit for the year was £24.6 million, while changes in exchange rates had the effect of reducing shareholders' funds by £7.7 million. A total of 64.5 million new ordinary shares were issued following the one-for-five rights issue in March 2004 in relation to the acquisition of LINPAC Containers. These shares were fully subscribed, resulting in total proceeds on issue of £70.4 million (net of expenses of £1.9 million). Net assets per share were 145p (137p) or 189p if goodwill written off to reserves is added back (185p).

The Group's closing net borrowings were £274.7 million, an increase of £72.4 million in the year, as shown below:

	2003/04 £m	2002/03 £m
Net cash flow	(147.8)	15.6
Shares issued	74.1	0.3
Rights issue costs	(1.9)	–
Net borrowings acquired	(0.5)	(2.0)
Exchange differences	3.7	(20.3)
Net borrowings movement	(72.4)	(6.4)
Opening net borrowings	(202.3)	(195.9)
Closing net borrowings	(274.7)	(202.3)

Gearing increased from 42.8% to 48.9% while interest cover remained strong at 8.8 times (8.3 times); the ratio of net debt to EBITDA was 1.8 times (1.3 times).

Treasury management

The Group treasury strategy is controlled through a Treasury Committee, which meets regularly and includes the Chairman, the Group Chief Executive and the Group Finance Director. 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.

At the year end the Group's committed facilities were £498 million. Uncommitted facilities including overdrafts totalled £120 million. The total gross borrowings drawn under all these facilities at the year end were £336.3 million. The current weighted average maturity of the Group's committed facilities is 4.7 years (5.7 years).

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 exposure to interest rates and considers whether to borrow on fixed or floating terms. For the last few years the Group has generally chosen to borrow on floating rates, which the Committee believes have provided better value. During the year, however, the Group took advantage of the historically low level of medium to long-term sterling interest rates and fixed the interest rate on £40 million of sterling denominated borrowings for a period of five years at an average rate (before margin) of just under 4%.

Group policy is to hedge the net assets of major 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. A portion of the Group's net borrowings are denominated in euros, which are held to hedge the underlying assets of our eurozone operations. At the year end, these borrowings represented 64% of our eurozone net assets.

International accounting standards

The Council of the European Union announced in June 2002 that listed companies in Europe will be required to adopt International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) in the preparation of Financial Statements for accounting periods beginning on or after 1 January 2005. The adoption of IFRS will be first reflected in the Group's financial statements for the half year ending 31 October 2005 and the year ending 30 April 2006.

Our project to manage the transition of financial reporting from UK GAAP to international accounting has completed initial assessments of the differences between UK GAAP and IFRS. The exercise indicates that the major areas of impact on our net profit and shareholders' funds will be the accounting for share-based payments, amortisation of intangible assets, deferred tax and pensions.

Gavin Morris Group Finance Director
23 June 2004

DIRECTORS AND COMPANY SECRETARY

Antony Hichens † +
Chairman
Appointed to the Board on 29 June 1999 as a non-Executive Director, became Chairman of the Board on 8 September 1999 and is Chairman of the Nomination Committee. He is a Member of the Takeover Panel, a Director of WaterRower (UK) Limited and is also a non-Executive Director of Candover Investments PLC and The JP Morgan Fleming Income and Capital Investment Trust plc. Previously, he held the positions of a Managing Director and Chief Financial Officer of Consolidated Gold Fields, Chairman of Caradon plc and Chairman of Lasmo plc. Age 67.

Tony Thorne § +
Group Chief Executive
Appointed to the Board on 1 January 2001 as Chief Operating Officer and became Group Chief Executive on 5 December 2001. He was previously President of SCA Packaging's Corrugated Business Division and prior to that held senior management positions in Shell. Age 53.

Gavin Morris §
Group Finance Director
Appointed to the Board on 5 November 2002 as Group Finance Director. He was previously Chief Financial Officer of Citex Group and prior to that held Chief Financial Officer positions at Philips Lighting Holding BV, Ionica Group plc, Alfred McAlpine Plc and Norcros Plc. Age 50.

Jean-Paul Loison
Appointed to the Board on 9 December 2003. He is Divisional Chief Executive of the Kaysersberg Packaging division of the Group, with responsibility for the Group's continental European Paper and Corrugated Packaging operations. He joined Kaysersberg Packaging S.A.S. in 1970 and held various senior management positions before becoming Divisional Chief Executive in 1993. Age 62.

Bob Beeston † + * #
Appointed to the Board on 5 December 2000 as a non-Executive Director. He is Chairman of the Remuneration Committee and is the Senior Independent Director. He is also Chairman of Cookson Group plc and was previously Chief Executive of FKI plc. Age 62.

Christopher Bunker † * #
Appointed to the Board on 9 December 2003 as a non-Executive Director. He recently retired as Finance Director of the Water Division of RWE AG and was previously Group Finance Director of Thames Water Plc. Prior to that he was Group Finance Director of Tarmac Plc, Commercial Director of GKN Aerospace and Defence and Finance Director of Westland Group Plc. He is a non-Executive Director of John Mowlem Plc and of Travis Perkins plc. Age 57.

Peter Johnson † * #
Appointed to the Board on 8 December 1999 as a non-Executive Director and is Chairman of the Audit Committee. He is Chief Executive of George Wimpey Plc and a Member of the Council for Industry and Higher Education and was previously Chief Executive of The Rugby Group PLC. Age 56.

Richard Marton † * #
Appointed to the Board on 13 March 2000 as a non-Executive Director. He was previously Chief Executive and then non-Executive Director of Britax International plc. Age 63.

Daniel Piette † *
Appointed to the Board on 1 October 1993 as a non-Executive Director. He is Group Executive Vice-President and a member of the Executive Committee of LVMH Corporation, Chairman and Chief Executive Officer of LV Capital and President of L Capital. Age 58.

Carolyn Cattermole
Appointed Company Secretary on 20 November 2000. She was previously Company Secretary of Courtaulds Textiles plc and prior to that was a senior legal adviser with Courtaulds plc having qualified as a solicitor with Norton Rose. Age 43.

† Non-Executive Director
§ Member of General Purposes Committee
\+ Member of Nomination Committee
* Member of Remuneration Committee
\# Member of Audit Committee

CORPORATE SOCIAL RESPONSIBILITY REVIEW

The Board recognises that if the Group is to have long-term success and produce good sustainable returns for its shareholders, it must maintain high standards of ethical and social behaviour in all its business dealings.

The Group's Key Corporate Values statement defines the conduct required of all employees at all times, being: to act ethically and with integrity; to treat their colleagues fairly, equitably and with respect; to work safely; and to protect the environment. These values are underpinned by more detailed policies on health and safety, the environment, workplace malpractice and other topics. The Group Chief Executive is the Director responsible for corporate social responsibility matters and reports to the Board on these.

Safety and the environment continue to be the highest priority areas of corporate social responsibility on which the Group is focused.

Health and safety

It is essential to the Group's successful performance that we provide a safe working environment for everyone on our premises and that all reasonable precautions are taken to ensure that work is always carried out safely. All the Group's businesses have adopted common definitions and reporting methods, and progress is monitored monthly. Information is reported to the Board quarterly and, as an indication of its importance, safety is a fixed agenda item at all divisional review meetings. In 2003/04 the Group's accident frequency rate increased by 2% but the severity rate was 3% lower, reflecting a lower incidence of serious accidents. There is scope to reduce both the frequency and severity of accidents and, in the coming year, the Group is undertaking further initiatives aimed at reducing specific types of accidents.

A number of steps were taken during 2003/04 to reinforce the drive to reduce accidents. A Group Health and Safety Committee was established to enable divisions to share best practice and experience more readily. A new accident investigation procedure ensures that accidents receive the appropriate level of management attention and systems have been improved to enable lessons learned from accidents to be quickly shared across the Group. In the UK, divisions continue to collaborate with the trade unions and the Health and Safety Executive (HSE) to raise standards and St Regis has participated in joint training courses for HSE inspectors. Over 80 DS Smith Packaging managers were trained and accredited to the Institute of Occupational Safety and Health standards during 2003/04. St Regis Taplow mill was awarded the UK paper industry's leading safety award in recognition of its sustained action programme on health and safety and its extended period without a lost time accident. Kaysersberg Packaging's St Just plant was accredited for the OHSAS 18801 international health and safety management system and other plants in France, Poland and Turkey are working towards obtaining accreditation.

Environment

In 2003/04, the Group made further substantial progress in strengthening its environmental management and reporting. Divisional management is responsible for minimising the impact of our operations on the environment, in accordance with the Group Environment Policy. Divisional performance and activities are reviewed at the Group Environment Committee, which meets three times per year and is chaired by the Group Chief Executive.

During the year we accelerated our programme to establish an appropriate environmental management system (EMS) at all sites. 33 Group sites have now been identified as having higher potential environmental impact due to their size or type of operations. 16 of these sites are certified for the internationally recognised ISO 14001 EMS; during 2003/04, Abbey Board, St Regis Kemsley mill and DW Plastics, Bilzen obtained certification. The 17 other higher potential impact sites are all progressing towards achieving ISO 14001 certification; 16 are on course to be certified during 2004/05. Of the Group's 73 other sites, 35 have a simplified EMS in place, appropriate to their lower level of potential environmental impact, and many more are on course for implementation of a simplified EMS during 2004/05.

The Group's paper mills and some other major sites have monitored key environmental performance data for some years. From early 2003 all Group businesses started monitoring and reporting on energy usage, carbon dioxide (CO_2) emissions, water usage, waste disposed of to landfill and waste recycled. As comparable data builds up in future years this will enable the Group to report more fully on its overall environmental performance. The EMSs and environmental reporting of

Environmental improvement

A flow of small and large initiatives within the Group's businesses contributes to minimising our impact on the environment.

Projects are often employee-driven and focus on reducing energy consumption, water and chemical usage and waste.

Recycling Glue drums that were previously disposed of to landfill are now collected and returned to the manufacturer for recycling.

Lower resource usage Investment in a new shrink-wrapper substantially reduced film usage while lowering energy consumption.

sites are audited through the Group's routine internal audit processes.

The Group had a number of minor environmental incidents during the year, following which corrective action was taken promptly and the appropriate agencies were informed, where necessary. At DS Smith Packaging Clay Cross, a discharge of ink waste into an adjacent stream, caused by the failure of a valve, resulted in prosecution and a £3,000 fine. As part of our continuing drive to reduce such incidents, investigation results and lessons learnt from environmental incidents are communicated throughout the Group.

A large proportion of the Group's businesses now have processes in place for assessing their suppliers' environmental policies and management systems.

Packaging and the environment

Packaging performs the valuable functions of limiting damage to products, reducing waste and lowering the total cost of goods. The Group's packaging operations contribute to minimising the use of resources by working with their customers to develop packaging of the optimum specification for the required use. The sales and design teams at a number of our UK and continental European packaging businesses are evaluating opportunities for making environmentally beneficial improvements to customers' products through switching to recycled paper, reducing packaging weight and minimising waste through creative design.

The Group makes a major contribution to reducing waste disposal in landfill through the recycling process of its Paper and Corrugated Packaging operations. Corrugated board is produced predominantly from recycled paper and is a cost-effective and fully recyclable packaging material. Severnside Recycling is the UK's largest collector of recovered paper; it works closely with a number of major supermarket chains to raise recycling levels and continues to invest in its collection infrastructure. St Regis is the UK's leading recycler of packaging waste and largest producer of recycled paper, while Kaysersberg is a significant recycler of recovered paper in France.

During the year, revisions were made to both the EU Packaging and Packaging Waste Directive and the UK Packaging Waste Regulations. The EU has set material specific targets for the recovery and recycling of packaging from 2004 to 2008. The UK government has consequently set similar material specific targets for the same period. Recycling of paper packaging under the UK Regulations is targeted to rise from 65% in 2004 to 70% in 2008. The Group's paper collection and recycling operations are expected to make a key contribution to the achievement of these targets.

The Group's plastic returnable transit packaging is designed to be re-used, often many times, where customers require multi-trip packaging. Several of our businesses recycle worn or damaged plastic packaging, such as bottle crates or layer pads, to produce new crates or plastic sheet.

Environmental management

Paper

Paper manufacturing has the largest potential environmental impact of all the Group's operations. Six of the Group's nine paper mills have ISO 14001 certification and the other three are progressing towards certification. The UK mills are regulated through Pollution Prevention and Control (PPC) permits under which they each have specific improvement programmes and targets. St Regis' overall compliance with its PPC emission targets fell slightly to 98.9% compared with 99.7% in the previous year, principally due to several small overflows of effluent at the pumping station on the Kemsley site; a project to eliminate these overflows is due for completion in August 2004.

St Regis is a key participant in the UK paper sector Climate Change Levy Agreement with the Department of Environment Food and Rural Affairs under which the industry has undertaken to achieve energy consumption reduction targets. St Regis is comfortably on course to meet its target for the year to September 2004. Our UK and French paper operations are discussing with the relevant authorities the details of emissions trading schemes to be introduced from January 2005 in response to the EU Emissions Trading Directive.

In 2003/04, our paper mills accounted for 82% of the Group's total CO_2 emissions and 98% of water usage. Despite increased paper output, they reduced their total volumes of CO_2 emissions and water usage. CO_2 emissions per tonne of paper produced were cut by 3%

Increased recycling

In addition to the Group's activities in collecting recovered paper for recycling in paper manufacturing, our businesses look to recycle their process waste and other resources whenever possible.

Offcuts of corrugated board from the box manufacturing process are fed, through tubes, straight from the cutting machines to be baled and then recycled to our paper mills.

Corrugated board recycling The fibre from corrugated board makes the best raw material for producing more corrugated case materials paper.

due to a range of initiatives including commissioning new boilers at the Chouanard mill in France and cessation of the use of coal at the Kaysersberg mill. Water usage per tonne of paper produced was reduced by 8%, principally due to increased recycling of water at a number of the UK mills.

The paper mills increased their recycling of reject material, such as plastic and polystyrene, which is produced during the paper production process, principally due to the full year's operation of Kemsley mill's waste-to-energy plant which burns reject material and generates electricity. Total recycling of reject material rose by 15% while waste disposed of to landfill was 34% lower, due to a combination of increased recycling and improved processes at several mills which reduced the volume of waste generated. Sudbrook mill continued its investigation and investment programme to reduce the impact of its effluent discharge.

Other operations

Although the environmental impact of the Group's other operations is substantially lower than that of paper manufacturing, our Corrugated and Plastic Packaging and Office Products businesses continue to implement a range of projects and benchmarking programmes to reduce energy consumption, water and chemicals usage and waste levels. In 2003/04, our UK Corrugated operations lowered their total CO_2 emissions per thousand square metres produced by 3%. Kaysersberg Packaging's St Just plant received recognition in the Trophée de l'Eau scheme, run by its local water regulator, for eliminating emissions to the local river through the installation of a closed loop water system.

Spicers continues to focus on reducing the environmental impact of its vehicle fleet, both through the increasing use of lower emission engines and the rationalisation of journeys. John Dickinson is a founder member of the WWF 95+ group, which is committed to promoting legal and sustainable development in connection with timber procurement.

In addition to the Group's primary focus on safety and the environment, the Group places considerable importance on its dealings with its employees and local communities.

Employees

The Group maintains its focus on creating an environment in which its people meet the Group's objectives while feeling that they are well managed, treated with respect and able to fulfil their own potential. Our divisions and businesses organise training and development programmes to meet their specific needs for raising operational performance and career development. Five St Regis employees successfully completed the open MBA section of its management development programme, accredited by the University of Derby, which has involved over 70 supervisory, operational and general business managers. Over 20 DS Smith Packaging junior, middle and senior managers also participated in this development programme during 2003/04. St Regis undertook a division-wide employee communications survey, which is providing the basis for developing plans for increased employee involvement. A number of UK sites have Investors in People accreditation and DS Smith Plastics, Gloucester is now working towards the recently introduced Leadership and Management module. Spicers has launched a new e-learning initiative, open to all its UK employees, to supplement existing training programmes.

The Group is committed to applying equal opportunities in all recruitment and employment practices. It is also committed, as a minimum, to meeting the labour rights and legislation requirements in each of the countries in which it operates.

Community involvement

The main focus of our community involvement is through our individual businesses and their various initiatives to foster good relations with local communities. The Group supports charitable fund-raising activities through cash contributions and in the form of product and services or staff time. The majority of the modest amount of money donated by the Group is given by individual operating units, principally to causes in their local communities. Donations by the Group headquarters are focused on a small number of educational, training and support causes that help young people become involved in business and working life. The Group is a member of Business in the Community and donates to The Prince's Trust. During 2004, John Dickinson is running a major cause-related marketing campaign for its Plus Fabric envelopes which is expected to result in a substantial contribution to the National Society for the Prevention of Cruelty to Children.

CORPORATE GOVERNANCE

The Company is committed to the principle and application of sound corporate governance.

The Company has complied throughout the financial year with all the provisions of the Code of Best Practice set out in Section 1 of the Combined Code on Corporate Governance except as stated below in respect of Remuneration Committee membership (Combined Code B.2.1). The Combined Code was substantially revised in 2003 following the publication of the Higgs and Smith reports, taking effect for financial years beginning on or after 1 November 2003. The Board has an ongoing review of its corporate governance policy and has implemented some changes to take account of the Combined Code and best practice.

Board and Board Committees

The role of the Board

The Board is collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. The Board's role is to provide leadership of the Company within a framework of prudent and effective controls which enable risk to be assessed and managed.

The Board sets the Company's strategic aims and ensures that the necessary financial and human resources are in place for the Company to meet its objectives and reviews management performance.

In addition, the Board sets the Company's values and standards and ensures that its obligations to its shareholders and others are understood and met.

The Board currently comprises three Executive and six non-Executive Directors. The offices of Chairman and Group Chief Executive are held separately. Mr R G Beeston is the Senior Independent Director. During the year each of the non-Executive Directors has at all times acted independently of management and has no relationships which would materially interfere with the exercise of their independent judgement and decision making. It is recognised that Mr D R Piette is not considered a fully independent non-Executive Director because of his length of service.

The Board meets a minimum of eight times per year. All Board members attend all Board and relevant Committee meetings unless exceptional circumstances prevent them from attending.

The Board and its Committees, as detailed below, receive timely information of a quality that enables them to carry out their roles effectively. All Directors have access to the advice and services of the Company Secretary. A procedure is in place for any Director to take independent professional advice in the furtherance of his duties at the Company's expense. The Directors are provided with opportunities for training to ensure that they are kept up to date on relevant new legislation and changing commercial risks. New Directors are given appropriate induction training, including site visits to major business units. During the year the Board carried out a comprehensive self-appraisal which was led by the Chairman and the Senior Independent Director. The appraisal included the performance of Board Committees. All Directors and the Company Secretary participated in the exercise. During the current financial year the Board intends to repeat the process. The non-Executive Directors meet separately at least once a year to appraise the Chairman's performance.

Board Committees

The principal committees of the Board are the Audit, Remuneration and Nomination Committees. The Audit Committee comprises independent non-Executive directors. In order to comply with the new Corporate Governance provisions, Mr A P Hichens, as Chairman of the Company, retired as a member of this Committee on 19 April 2004. The Remuneration Committee comprises independent non-Executive Directors with the exception of Mr Piette, who is no longer considered an independent non-Executive Director by reason of his length of service. The Nomination Committee comprises the Chairman, the Group Chief Executive and Mr Beeston, the Senior Independent Director. All Board committees have written terms of reference agreed by the Board. A copy of these is available on the Company's website. The Audit Committee is chaired by Mr P M Johnson, the Remuneration Committee is chaired by Mr Beeston and the Nomination Committee is chaired by Mr Hichens. The Board has used the criteria proposed by the National Association of Pension Funds for determining whether a non-Executive Director is independent.

Audit Committee

The responsibilities of the Audit Committee, which meets at least three times a year, cover all the points recommended by the Combined Code. The Committee monitors the Group's accounting and financial procedures, including the discussion of the accounting implications of major transactions, and receives regular reports on the review of internal controls. The Committee is responsible for the review of the annual accounts and interim statement and meetings with the external Auditor. The Audit Committee receives written confirmation from the external Auditor as to any relationships that might have a bearing on its independence. The external Auditor also confirms whether it considers itself independent within the meaning of the UK regulatory and professional requirements.

The Committee has adopted a policy on the supply of non-audit services by external auditors. The external Auditor is permitted to undertake some non-audit services, for example tax compliance and advisory services and due diligence activities associated with potential acquisitions and divestments. Non-audit services and fees are reported to the Audit Committee twice a year. For guidance, annual non-audit fees payable to the external Auditor should not exceed 75% of the annual Group audit fee without prior formal approval of the Committee. Approval for permitted non-audit services are sought as required by the relevant Group policy.

Nomination Committee

The Nomination Committee considers the appointment of Directors, reviews succession planning at Board level, and makes recommendations to the Board as a whole. A rigorous process is in place for the appointment of new Directors, involving the use of external recruitment consultants, where appropriate, followed by meetings both with the Committee and then with the Board.

Remuneration Committee

The Remuneration Committee is responsible for determining the remuneration of the Executive Directors, the Company Secretary and senior management. Mr Piette, a member of this Committee, is not considered fully independent in accordance with current corporate governance guidelines, by reason of his length of service. However he provides an international view on remuneration and continues to provide an objective opinion. The Report on Remuneration is set out on pages 28 to 34.

Other Board Committees

The Board has delegated certain powers, mainly of a routine nature, to the General Purposes Committee, which comprises the Group Chief Executive and the Group Finance Director under the chairmanship of the Group Chief Executive.

Relations with shareholders

The Company has a programme of regular meetings (which sometimes includes the Chairman and the Senior Independent Director), site visits and results briefings with its major institutional shareholders, which provides opportunities to discuss the progress of the business. The Board also receives feedback from major shareholders in the form of independently prepared reports. The Annual General Meeting is used as an opportunity to communicate with private shareholders, including a short presentation on the business and current trading position as well as an opportunity for questions from investors to the Chairman of the Board and the chairmen of the Audit and Remuneration Committees. Regular communication with shareholders also takes place through the annual and interim reports and via the Company's website www.dssmith.uk.com.

Internal control

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. Such a system, however, can only be designed to manage rather than eliminate risk and can therefore provide only reasonable and not absolute assurance against material misstatement or loss. In accordance with the Turnbull Committee guidance, the Company established the procedures necessary to ensure that there is an ongoing process for identifying, evaluating and managing the significant risks to the Group. These procedures have been in place for the whole of the financial year ended 30 April 2004 and up to the date of the approval of these financial statements.

The Board determines the objectives and broad policies of the Group. It meets regularly and there is a schedule of matters which are required to be brought to it for decision. The Board has delegated to management the responsibility for establishing a system of internal control appropriate to the business environments in which the Group operates. Key elements of this system include:

- a set of Key Corporate Values which have been communicated to all concerned;
- a clearly defined divisionalised organisation structure for monitoring the conduct and operations of individual business units;
- clear delegation of authority throughout the Group, starting with the matters reserved for the Board;
- a formal process for ensuring that key risks affecting all the Group's operations are identified and assessed on a regular basis, together with the controls in place to mitigate these risks. Risk consideration is embedded in decision-making processes. The most significant risks are periodically reported to the Board and considered by it;
- the preparation and review of comprehensive annual divisional and Group budgets and an annual review and approval by the Board of the corporate strategy;
- the monthly reporting of actual results and their review against budget, forecasts and the previous year, with explanations obtained for all significant variances;
- clearly defined policies for capital expenditure and investment, including appropriate authorisation levels, with larger capital projects, acquisitions and disposals requiring Board approval;
- procedure manuals laying down common control procedures and policies to apply throughout the Group;
- formal quarterly meetings between central and divisional management to discuss strategic, operational and financial issues.

The Group's operational audit function undertakes regular reviews of the Group's operations and their systems of internal control. The work of the function is overseen by the Audit Committee, which regularly reviews its plans and activities. The Directors can confirm that they have reviewed the effectiveness of the Group's system of internal control. This exercise included a process of self-certification by senior divisional management in which they confirmed that their divisions have complied with Group policies and procedures and reported any significant control weaknesses identified during the past year. It also involved reviewing the results of the work of the Group's operational audit function and the risk identification and management processes identified above.

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 62.

REPORT ON REMUNERATION

In accordance with the Directors' Remuneration Report Regulations 2002, shareholders' approval of the Remuneration Report will be sought at the forthcoming Annual General Meeting. The Remuneration Report has been approved by the Board of Directors.

(a) Composition and role of the Remuneration Committee ('the Committee')

The Committee consists entirely of non-Executive Directors. The members of the Committee are Mr R G Beeston (Chairman), Mr C J Bunker, Mr P M Johnson, Mr R E C Marton and Mr D R Piette. They are all independent, with the exception of Mr Piette, who is not considered a fully independent non-Executive Director due to his length of service. 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.

The Committee operates under written terms of reference agreed by the Board and is responsible for determining the remuneration of Executive Directors. It also considers the remuneration of senior executives reporting to the Group Chief Executive (taking into account recommendations from him), and the incentives of senior executives reporting to the other Executive Directors.

(b) Compliance

The Board, in conjunction with the Committee, has taken the necessary steps to ensure that the Company complies with the provisions of the Combined Code ('the Code'), which relate to Directors' remuneration. Certain disclosures in this Report fall within the scope of matters for review by the Auditor.

(c) Advisers to the Committee

New Bridge Street Consultants LLP have been appointed by the Committee to provide advice on the remuneration of Executive Directors and other managers. New Bridge Street Consultants LLP also provide advice to the Company in connection with the operation of the Company's employee share schemes. The Committee consults with the Chairman of the Company and with the Group Chief Executive, who may attend a meeting of the Committee on matters which do not directly affect them, although they are not involved in deciding their own remuneration. The Committee is assisted by the Company Secretary and the Human Resources Director, and receives advice from Mercer Human Resource Consulting, the Actuary to the Company's pension scheme, in relation to Executive Directors' pensions.

(d) General policy on remuneration

The Committee's overall policy is to ensure that the remuneration packages enable the Company to attract, retain and motivate Executive Directors and other senior managers of sufficient calibre to meet the Company's needs. In addition, the remuneration packages are designed to align the interests of executives and shareholders and to link a significant proportion of executives' remuneration to performance. To achieve this, the Company's normal approach is to set basic salaries at around median levels relative to analogous businesses, whilst operating cash and share incentive schemes which are linked to the achievement of short-term and long-term performance targets. The remuneration package is described more fully in the remainder of this report, but the main elements are as follows:

- basic salary
- pension provision
- annual bonus scheme
- long-term incentives, comprising:

  (i) share option grants under the Executive Share Option Scheme; and

  (ii) subject to shareholder approval at the Annual General Meeting, awards under the Long-Term Incentive Plan.

Basic salaries and pension provision are not linked to performance (except when basic salaries are reviewed), whilst payments under the annual bonus scheme, the Executive Share Option Scheme and the Long-Term Incentive Plan are wholly dependent upon performance against agreed targets.

(e) Basic salaries

The basic salaries of Executive Directors are reviewed annually on 1 August, in conjunction with other aspects of remuneration. The basic salary for each Executive Director is targeted at the rates of salary for similar jobs within a selected group of analogous UK businesses with substantial overseas operations, and relative to UK companies generally with similar market capitalisations. As noted above, the Company's normal policy is to set basic salaries at around median levels. When determining the level of salary, the Committee 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 also considers relevant information on the remuneration of other senior executives and the pay of employees elsewhere in the Group and, where appropriate, communicates its views on the levels of such remuneration to the Group Chief Executive. During its deliberations, the Committee has regard to salary levels in other countries where this is relevant for any non-UK senior executive.

The table of emoluments of the Directors is given on page 31.

(f) Annual bonus

The Executive Directors participate in an annual bonus scheme which has been approved by the Committee. For the financial year 2003/04, the maximum annual bonus for Executive Directors was set at 80% of basic salary, half of which was receivable in cash and half in shares under the Restricted Share Plan receivable on the third anniversary of the award. The outcome of the results for the financial year 2003/04 mean that an annual bonus of 35% of salary is payable in respect of the financial year ended 30 April 2004 (2002/03: 60%).

Following a review of incentives during the year, the Committee has determined that in the scheme applicable to the Executive Directors for the financial year 2004/05, the maximum value of the bonus will be reduced to 60% of basic salary at 31 July 2005, payable in cash. The Restricted Share Plan will cease to be operated. The amount of annual bonus payable to Mr A D Thorne and Mr G M Morris for the financial year 2004/05 will be dependent entirely upon the Company's earnings per share performance relative to targets determined by the Committee at the start of the year and for Mr J-P Loison will be based 50% on earnings per share performance and 50% on targets, as determined by the Committee, for the Kaysersberg Packaging Division.

The annual bonus scheme is not contractual and bonuses under the scheme are not eligible for inclusion in the calculation of the participating Executive Directors' pension scheme benefits.

As far as practicable, the scheme has been extended to divisional executives. However, their bonus schemes are based on differing criteria relating to the operating performance targets of the division in which they are employed.

(g) Long-term incentives

In the 2003/04 financial year, in addition to annual bonus schemes, the Company operated an Executive Share Option Scheme for executives. Having reviewed the current incentive plans, the Remuneration Committee has decided to restructure them so that there is a greater focus on long-term performance, partly measured on the basis of total shareholder return relative to other companies. Accordingly, as outlined above, the annual bonus potential has been reduced and the Restricted Share Plan will no longer be operated. Additionally, shareholder approval will be sought at the Annual General Meeting for the adoption of a new Long-Term Incentive Plan to complement the Executive Share Option Scheme.

In order to ensure that the aggregate award levels executives receive under the Long-Term Incentive Plan and the Executive Share Option Scheme are not excessive, in cases where executives are granted awards under both schemes in the same year, the maximum awards for the most senior executives under each scheme will not exceed 75% of salary worth of shares, unless there are exceptional circumstances such as a high level recruitment or promotion, in which case the annual limit will be 100% of salary worth of shares under each scheme.

In conjunction with the adoption of the Plan, senior executives will be expected to retain in shares half of the after-tax gains on the vesting of awards until they have built up a shareholding equal to 100% of salary in the case of Executive Directors and 50% in the case of other senior executives.

(i) Executive Share Option Scheme

An Executive Share Option Scheme is operated for Executive Directors and other senior executives. The Committee grants approved and unapproved options to UK and overseas executives on a phased basis.

The exercise of any options granted under this Scheme is subject to the achievement of long-term performance conditions. The target for future options granted will be that the growth in the Company's normalised earnings per share must match or exceed the growth in the UK Retail Prices Index plus an average of 3% per annum over the three year period following grant, with no retesting facility. The base financial year for the purposes of measuring earnings per share growth will be the financial year prior to the grant date. Normally, no part of the option may be exercised unless the performance target has been achieved.

(ii) Long-Term Incentive Plan

Shareholder approval will be sought at the Annual General Meeting for the adoption of this plan. Full details of the plan are contained in the Notice of Annual General Meeting on page 64. The key features of the plan are that:

- awards will be made to selected Executive Directors and other senior executives over shares in the Company;
- performance will be measured over a single period of three financial years;
- awards will vest based on the Company's total shareholder return (being the increase in share price and the value of reinvested dividends) compared to a comparator group of companies. The Committee has determined that the constituents of the FTSE Mid 250 Index (excluding investment trusts) should be the comparator group for initial awards;
- if the Company's total shareholder return is ranked at the upper quartile of the group or higher, the full award will vest reducing on a straight-line basis to 30% of the award vesting for median performance. None of the award vests for below median performance;
- additionally, no awards will vest, irrespective of total shareholder return performance, unless the Company's earnings per share growth matches or exceeds the growth in the Retail Prices Index over the three year period.

The executives' long-term incentives, therefore, take into account the Company's absolute share price performance (via the grant of market value share options), its relative performance (via awards under the Long-Term Incentive Plan, based on total shareholder return) and its underlying financial performance (via the earnings per share performance condition that applies to share options and awards under the Long-Term Incentive Plan). The Committee considers that this will provide for the most robust assessment of the Company's long-term performance.

The earnings per share figures are derived from the audited accounts and the verification of the calculation of earnings per share growth as well as the total shareholder return calculation will be performed by New Bridge Street Consultants LLP, in their capacity as advisers to the Committee.

The Executive Directors are also eligible to participate in the DS Smith International Sharesave Scheme, which is an all-employee share scheme approved by the Inland Revenue. This scheme does not contain performance conditions, since the Inland Revenue requires that options must be offered to all eligible employees on the same terms, without performance conditions.

The interests of the Directors in the share capital of the Company and details of options granted to date under the Executive Share Option Scheme are shown on pages 33 and 32 respectively.

(h) Benefits in kind

Mr Thorne has the provision of a company car and a driver and free fuel. Mr Morris receives a car allowance. Mr Thorne and Mr Morris both receive unapproved life cover, permanent health insurance and private medical cover. Mr Loison receives from Kaysersberg Packaging S.A.S. life cover, a car allowance, free fuel, private medical cover and his utility and telephone bills are also paid for by Kaysersberg Packaging.

(i) Pensions

Mr Thorne and Mr Morris 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 UK-based 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. In the case of Mr Thorne, whose benefits are 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 total accumulated unfunded provision at 30 April 2004 is £3.3 million (£3.1 million), £0.5 million of which relates to Mr Thorne.

In the case of newly appointed UK-based Executive Directors, the Company's normal policy under the current legislation in relation to the earnings cap is to provide compensation by way of a cash supplement, rather than by way of a funded or unfunded arrangement. Accordingly, Mr Morris receives a cash supplement of £40,000 per annum. This payment is not pensionable and is not considered as salary for the purpose of calculating any bonus payment.

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

Pensions in payment are increased annually in line with the increase in the UK Retail Prices 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 UK-based 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.

Members have the option of paying Additional Voluntary Contributions. Neither the contributions nor the resulting benefits are included in the table on page 33.

Mr Loison participates in a funded defined benefit pension scheme, which does not require an employee contribution. The Group provides pension benefits for Mr Loison at his normal pension age of 65 based on an accrual rate of one fortieth with reference to final average salary equal to the average of the last full five years' annual salaries preceding retirement, less any offset pensions.

This benefit is provided as a supplementary arrangement to the mandatory national programme, which operates on a pay-as-you-go basis and supplements social security benefits. Benefits under these arrangements are dependent on salary progression during an individual's career.

A charge over certain assets of the Company has been made as security against future pension payments pursuant to the non-tax approved unfunded pension arrangements on behalf of two former Directors, Mr D F Buttfield and Mr J P Williams.

(j) Service contracts and compensation

The Committee's general policy is that the notice periods for Executive Directors appointed in future will not exceed one year, although on appointment it may be necessary in exceptional cases to offer a longer initial period which reduces to one year or less after a specific date. In addition, service contracts for newly appointed directors will not normally include liquidated damages provisions. Instead, the payment of any sums due on the termination of employment by the Company will be determined pursuant to general contractual principles, and with full recognition of a Director's duty to mitigate his loss.

The service contract for Mr Thorne is dated 28 February 2001 and expires when he reaches his normal retirement age of 60. It may be terminated by 12 months' notice by the Company and by Mr Thorne. The Company may terminate the contract with immediate effect, in which case it must make a payment equating to 12 months' basic salary, plus an equal payment in respect of the loss of his contractual benefits. The service contract for Mr Morris is dated 5 November 2002 and expires when he reaches his normal retirement age of 60. It may be terminated by 12 months' notice by the Company, and by Mr Morris. The Company may terminate the contract with immediate effect, in which case it must make a payment equal to 12 months' basic salary, plus an equal payment in respect of the loss of his contractual benefits. The service contract for Mr Loison is dated 9 December 2003. This is in addition to his employment contract with Kaysersberg Packaging S.A.S. (a wholly owned French subsidiary of the Company), dated 22 March 1994. The contract with the Company is terminable by the Company giving 12 months' notice or by Mr Loison giving six months' notice. The contract with Kaysersberg Packaging S.A.S. is also terminable by that company giving 12 months' notice or Mr Loison giving six months' notice.

(k) Policy on external appointments

Executive Directors are allowed to accept external appointments 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. In normal circumstances, the Chief Executive may not accept more than one external appointment. Executive Directors are normally allowed to retain the fees paid from these appointments. Currently no Executive Director has an external appointment.

(l) Fees for non-Executive Directors

The remuneration for non-Executive Directors consists of annual fees for their services as members of the Board and, where relevant, for their work on selected committees. Non-Executive Directors, other than the Chairman, have letters of appointment for a term of three years whereupon they are normally renewed but for no more than three terms in aggregate. Mr Piette has a rolling 12 month letter of appointment from the Company. Their respective dates of appointment are shown on page 22.

The Chairman's letter of appointment provides for his appointment to continue until further notice, subject to review by the Board no later than 30 September 2005. His appointment may be terminated immediately by the Company if he is not re-elected at any general meeting of shareholders (or on giving nine months' notice if this occurs in connection with a change of control of the Company); or on the Chairman giving not less than six months' notice; or on the Company giving not less than 12 months' notice. If his appointment is terminated by the Company without notice, the Company may make a payment in lieu of notice. The remuneration of non-Executive Directors is determined by the Board on the advice, from time to time, 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 annual bonus, share option or other incentive arrangements.

m) Directors' emoluments (auditable)

	Salary/fees £'000	Annual bonus £'000	Deferred bonus £'000	Benefits £'000	Pension supplement £'000	2004 total £'000	2003 total £'000	Pension contributions 2004 £'000	Pension contributions 2003 £'000
Chairman									
A P Hichens	150	–	–	34	–	184	175	–	–
Chief Executive									
A D Thorne	390	69	69	23	–	551	609	15	14
J-P Loison	97	31	31	6	–	165	–	–	–
Finance Director									
G M Morris	236	41	41	19	40	377	209	6	3
Non-Executives									
R G Beeston	44	–	–	–	–	44	37	–	–
C J Bunker	14	–	–	–	–	14	–	–	–
P M Johnson	42	–	–	–	–	42	39	–	–
R E C Marton	35	–	–	–	–	35	33	–	–
D R Piette	40	–	–	–	–	40	38	–	–
Total	1,048	141	141	82	40	1,452	1,140		

Mr Morris is subject to the Inland Revenue 'earnings cap' and therefore he received during the year an additional non-pensionable payment.

Mr Loison's salary and benefits in kind from Kaysersberg Packaging S.A.S. are paid in euros and have been converted to sterling at the average exchange rate for the year.

The deferred bonus has been included in the table above as it was awarded in respect of the results for the financial year 2003/04. Shares in DS Smith Plc to the value of the deferred bonus will be purchased on 1 August 2004 and held in the Restricted Share Plan. The shares are transferred to the participants on the third anniversary of the award, but lapse on termination of employment. The total emoluments of Mr Thorne excluding the deferred bonus were £482,000. The total emoluments of Mr Morris excluding the deferred bonus were £336,000. The total emoluments of Mr Loison excluding the deferred bonus were £134,000.

(n) Directors' interests in share options (auditable)
Directors' interests in share options over ordinary shares are as follows:

Name of Director	Options held at 30 April 2003*	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options held at 30 April 2004	Exercise price (p)	Dates from which exercisable	Expiry date
A D Thorne	428,880	–	–	–	428,880	139.89	2 Mar 04	1 Mar 11
	215,834	–	–	–	215,834	138.96	27 Jul 04	26 Jul 11
	243,979	–	–	–	243,979	135.23	26 Jul 05	25 Jul 12
	–	241,245	–	–	241,245	149.22	31 Jul 06	30 Jul 13
J-P Loison	85,528	–	–	–	85,528	254.50	4 Aug 97	3 Aug 04
	88,415	–	–	–	88,415	169.62	30 Jul 00	29 Jul 07
	61,313	–	–	–	61,313	187.94	31 Jul 01	30 Jul 08
	9,515	–	–	–	9,515	167.12	30 Jul 02	29 Jul 09
	93,751	–	–	–	93,751	155.08	5 Oct 02	4 Oct 09
	93,547	–	–	–	93,547	159.85	31 Jul 03	30 Jul 10
	124,497	–	–	–	124,497	139.37	27 Jul 04	26 Jul 11
	128,988	–	–	–	128,988	151.53	26 Jul 05	25 Jul 12
	142,779	–	–	–	142,779	148.72	31 Jul 06	30 Jul 13
G M Morris	161,152	–	–	–	161,152	142.69	18 Dec 05	17 Dec 12
	–	154,129	–	–	154,129	149.22	31 Jul 06	30 Jul 13

*or at date of appointment

During the year the Company made a one-for-five rights issue. The number of shares under option and the option price of those shares under option held have been adjusted accordingly.

All of the above options were granted for nil consideration.

The market price of the ordinary shares at 30 April 2004 was 172.0p and the range (adjusted for the rights issue) during the year was 139.0p to 178.1p.

Aggregate gains made by directors on exercise of share options in the year were £nil (£nil).

All options will be exercisable from the dates stated above, subject to them satisfying the performance target stated on page 29.

(o) Directors' interests under the Restricted Share Plan (auditable)
The Company has operated the Restricted Share Plan, which is described on page 28. The Restricted Share Plan will cease to be operated with effect from the financial year 2004/05. Details of the Directors' interests in the Plan are as follows:

Executive Directors	Interests under the Plan at 30 April 2003*	Awards granted/ commitments made during year	Awards lapsed/ crystallised in year	Date of award	Market price on date of award	Market price at date of exercise	Interests under scheme at 30 April 2004	Exercisable from	Expiry date
A D Thorne	7,705	–	–	–	–	–	7,705	1 Aug 04	31 July 08
	–	71,774	–	–	–	–	71,774	1 Aug 06	31 July 10
J-P Loison	18,508	–	–	–	–	–	18,508	1 Aug 03	31 July 07
	19,140	–	–	–	–	–	19,140	1 Aug 04	31 July 08
	21,196	–	–	–	–	–	21,196	1 Aug 05	31 July 09
	42,349	–	–	–	–	–	42,349	1 Aug 06	31 July 10
G M Morris	–	28,219	–	–	–	–	28,219	1 Aug 06	31 July 10

*or at date of appointment

During the year the Company made a one-for-five rights issue and the Directors' interests in the Plan have been adjusted accordingly.

The exercise price is £1 in total, the grant being given in relation to the deferred bonus for the years ended 1999/00, 2000/01, 2001/02 and 2002/03 under the Restricted Share Plan described on page 28.

(p) Directors' interests in shares

The beneficial interests of the Directors and their families in the ordinary shares of the Company were as shown below. Each Director who held shares at the time of the rights issue, took up his full entitlement under the terms of the rights issue.

	30 April 2003*		30 April 2004	
Name of Director	Beneficial	Non-beneficial	Beneficial	Non-beneficial
A P Hichens	385,000	–	462,000	–
A D Thorne	47,000	–	56,400	–
J-P Loison	–	–	–	–
G M Morris	–	–	–	–
R G Beeston	25,000	–	30,000	–
C J Bunker	–	–	10,000	–
P M Johnson	25,000	–	30,000	–
R E C Marton	25,000	–	30,000	–
D R Piette	–	–	–	–

*or at date of appointment

Any ordinary shares required to fulfil entitlements under the Executive Share Option Scheme and the Restricted Share Plan may be provided by the David S Smith Group General Employee Benefit Trust ('the Trust'). As beneficiaries under the Trust, the Executive Directors are deemed to be interested in the shares held by the Trust which, at 30 April 2004, amounted to 1,704,439 ordinary shares.

(q) Directors' pension entitlements (auditable)

The following UK-based Executive Directors had accrued entitlements under defined benefit schemes as follows:

Name of Director	Employee contributions paid during the period £	Gross increase in accrued pension (1) £	Increase in accrued pension net of inflation (2) £	Total accrued pension at 30 April 2004 (3) £	Transfer value of net increase in accrual over period (net of Director's contribution) (4) £	Transfer value of accrued pension at 30 April 2004 (5) £	Transfer value of accrued pension at 30 April 2003 (6) £	Total change in value during period (net of Director's contribution) (7) £
A D Thorne	14,887	13,969	13,196	41,555	169,457	580,333	357,624	207,822
G M Morris	5,955	3,370	3,317	5,260	36,066	66,635	21,357	39,323
J-P Loison	0	1,489	1,489	34,557	15,378	356,913	333,453*	23,460

Pension accruals shown are the amounts which would be paid annually on retirement based on service to the end of the year.

Transfer values have been calculated in accordance with version 8.1 of guidance note GN11 issued by the actuarial profession.

The value of net increase (4) represents the incremental value to the Director of his service during the year, calculated on the assumption service terminated at the year end. It is based on the accrued pension increase (2) after deducting the Directors' contribution.

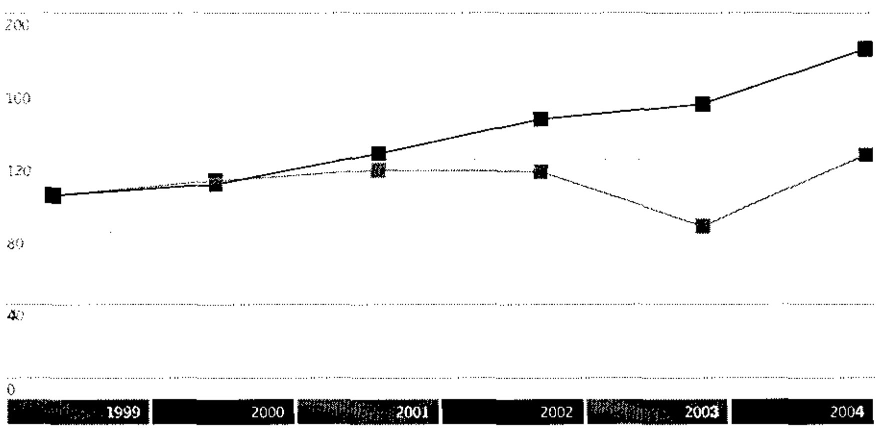
The change in transfer gap value (7) includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and Directors, such as stock market movements. It is calculated after deducting the Directors' contribution and deducting pension benefits payments made to those employees who retired during the year.

*Mr Loison became a main Board Director on 9 December 2003. Consequently, his 2003 figures are as at 9 December 2003 instead of 30 April 2003 and no allowance has been made for inflation up to 30 April 2004.

(r) Total Shareholder Return performance
The following graph illustrates the Company's total shareholder return performance since 1 May 1999, in accordance with paragraph 4 of the Directors' Remuneration Report Regulations 2002, relative to the FTSE Mid 250 Index.

The Company is a member of the FTSE Mid 250 Index and, accordingly, this index is considered to be the most appropriate comparator group for this purpose.

TOTAL SHAREHOLDER RETURN (Source: Thomson Financial)



■ Smith (DS) ■ FTSE Mid 250 Index

This graph looks at the value, by 30 April 2004 of £100 invested in Smith (DS) over the last five financial years compared with that of £100 invested in the FTSE Mid 250 Index. The other points plotted are the values at intervening financial year-ends.

On behalf of the Board

Bob Beeston
Chairman of the Remuneration Committee
23 June 2004

DIRECTORS' REPORT

The Directors submit their Annual Report and the audited financial statements for the financial year ended 30 April 2004.

Principal activities and business review

The Company acts as the holding company of a group, which, during 2003/04, was engaged in the production of corrugated and plastic packaging and of paper, primarily from recycled waste, and the distribution of office products. A full review of the activities during the financial year ended 30 April 2004 and future developments is given in the Chairman's Statement, Chief Executive's Review and in the Operating and Financial Reviews on pages 4 to 21. The principal subsidiary undertakings are listed in note 32 on page 62.

Results for the year

The financial results are shown on pages 38 to 62.

Dividends

An interim dividend of 2.8p net per ordinary share was paid on 9 March 2004 and the Directors recommend a final dividend of 5.6p net per ordinary share, making a total dividend to be paid for the year of 8.4p (2002/03: 8.8p) net per ordinary share. The final dividend of 5.6p per ordinary share, together with the restated interim dividend of 2.6p, maintains the total dividend for the year, restated for the rights issue, at 8.2p. Subject to approval of shareholders at the Annual General Meeting to be held on 10 September 2004, the final dividend will be paid on 21 September 2004 to shareholders on the register at the close of business on 20 August 2004. The dividends per ordinary share stated above are those actually paid or to be paid. Neither the interim or prior year dividend per ordinary share figures have been restated for the bonus element inherent in the rights issue, details of which are given below. Historic dividends per share have been restated in the five year summary on page 63.

Share capital

64,540,651 new ordinary shares were issued following the one-for-five rights issue announced on 4 March 2004. These shares were fully subscribed, resulting in total proceeds on issue of £70.4 million (net of expenses). These new shares ranked equally in all respects with the existing ordinary shares. Pursuant to the Company's employee share option schemes, 1,207,282 ordinary shares of 10p each were issued during the year. 9,480 shares pursuant to the Company's employee share option schemes were issued between 30 April 2004 and 23 June 2004 inclusive. Under the rules of the Company's share option schemes and following Inland Revenue approval, adjustments were made to the option price and to the number of ordinary shares under option for all options outstanding as at the date of the rights issue. The Company has not utilised its authority to make market purchases of shares granted to it at the 2003 Annual General Meeting but will be seeking to renew such authority at this year's meeting.

Substantial shareholders

At 23 June 2004, the Company has been informed of the following notifiable interests in its issued ordinary share capital:

	Ordinary shares held	%
Deutsche Bank AG	47,139,699	12.17%
Henderson Global Investors	38,500,968	9.94%
Newton Management Ltd	24,301,501	6.27%
Standard Life Investments	17,350,266	4.48%
Legal & General Investment Management Ltd	13,147,225	3.39%

Acquisitions and disposals

On 3 March 2004 the Group announced its intention to acquire LINPAC Containers Group, a UK manufacturer of corrugated packaging. The acquisition was subject to the approval of shareholders, which was given at the EGM on 22 March 2004. The net cost of the acquisition was £167 million including all fees for the transaction.

In October 2003 the Group acquired the business and certain assets and liabilities of the Macfarlane Group Plc corrugated packaging operations at Dundee, Govan and North Shields. One of these plants and a DS Smith Packaging sheet plant were subsequently sold in March 2004.

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 and expenditure is not significant.

Directors

The biographies of the present Directors are on page 22. All the present Directors served throughout the year except as follows: Mr C J Bunker was appointed as a non-Executive Director and Mr J-P Loison was appointed as an Executive Director of the Company on 9 December 2003. 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.

Re-election of Directors

The Articles of Association require that all Directors who are subject to retirement by rotation retire every three years, but they are eligible to submit themselves for re-election by the shareholders. The Directors retiring by rotation at the Annual General Meeting on 10 September 2004 are Mr A D Thorne, Mr R G Beeston and Mr D R Piette but, being eligible, they offer themselves for re-election at the Meeting. Mr Bunker and Mr Loison having been appointed to the Board since the last Annual General Meeting and in accordance with the Articles, retire from office at the Meeting and, being eligible, offer themselves for election. Mr Loison has a service contract with the Company. This is in addition to his employment contract with Kaysersberg Packaging S.A.S. (a wholly owned French subsidiary of the Company). The contract with the Company is terminable by the Company giving 12 months' notice. The contract with Kaysersberg Packaging S.A.S. is also terminable by that company giving 12 months' notice.

Directors' interests in shares

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 tables on pages 32 and 33. There were no changes in the interests of the Directors or their immediate families in the issued ordinary share capital of the Company between 30 April 2004 and 23 June 2004 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. Information is regularly communicated by briefings and newsletters. The Group operates 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. At each meeting, presentations are made on the Group's business strategy, financial results, health and safety and environmental performance. 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 and supports the involvement of its operations in local community activities.

Equal opportunities

The Group wholeheartedly supports the principle and achievement of equal opportunities in employment and its policies are designed to provide such equality irrespective of sex, religion, race, marital status, nationality or age. 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 Deutsche Asset Management Limited, Schroder Investment Management Limited and Alliance Bernstein Institutional Investment Management, such assets being held independently from the Group. The professional advisors to the fund are independent of the Group. The Trustee of the pension scheme sends an Annual Report to members of the scheme. The Trustee Company has an Investment Sub-Committee which was established in line with guidelines from the Myners Report.

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, an organisation which deploys funds for research into the problems of occupational ill-health.

Payment to suppliers

Although the Company does not follow any formal code or standard on payment practice, the Company agrees terms and conditions in the UK with each supplier, 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 30 April 2004 was equivalent to 27 days of purchases invoiced by suppliers during the year.

Charitable and political donations

The Group contributed £109,000 (£112,000) to charities in the UK. No payments were made to political parties. Donations were made by operating divisions to support their local communities and industries. The Group also supported a number of other charities across a range of causes.

Annual General Meeting

The notice of the Annual General Meeting of the Company to be held on 10 September 2004, together with explanations of the Resolutions to be proposed, appears at the back of this Annual Report.

Auditor

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

By Order of the Board

Carolyn Cattermole
Secretary
23 June 2004

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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 are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DS SMITH PLC

We have audited the financial statements on pages 38 to 62. We have also audited the information in the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of *Directors and Auditor*

The Directors are responsible for preparing the Annual Report and the Directors' remuneration report. As described on page 36, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditor, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on page 26 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement and the unaudited part of the Directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We have 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 and the part of the Directors' remuneration report to be audited. 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 and part of the Directors' remuneration report to be audited 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 and the part of the Directors' remuneration report to be audited.

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 30 April 2004 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
23 June 2004

GROUP PROFIT AND LOSS ACCOUNT
For the year ended 30 April 2004

	Note	2004 Before amortisation of intangibles £m	2004 Amortisation of intangibles (note 7) £m	2004 Total £m	2003 Before exceptional items and amortisation of intangibles £m	2003 Exceptional items and amortisation of intangibles (note 7) £m	2003 Total £m
Turnover	1	1,488.5	–	1,488.5	1,479.0	–	1,479.0
Cost of sales		(1,083.3)	–	(1,083.3)	(1,067.9)	–	(1,067.9)
Gross profit		405.2	–	405.2	411.1	–	411.1
Operating expenses	2	(316.4)	(4.0)	(320.4)	(323.1)	(2.6)	(325.7)
Group operating profit	1,3	88.8	(4.0)	84.8	88.0	(2.6)	85.4
Share of operating profits of associated undertakings	15	3.0	0.4	3.4	2.6	0.4	3.0
Total operating profit		91.8	(3.6)	88.2	90.6	(2.2)	88.4
Exceptional loss on sale of businesses*	7	–	–	–	–	(8.5)	(8.5)
Profit on ordinary activities before interest		91.8	(3.6)	88.2	90.6	(10.7)	79.9
Net interest payable and other similar items	8	(10.4)	–	(10.4)	(10.9)	–	(10.9)
Profit on ordinary activities before taxation		81.4	(3.6)	77.8	79.7	(10.7)	69.0
Tax on profit on ordinary activities	9	(22.0)	–	(22.0)	(21.6)	–	(21.6)
Profit on ordinary activities after taxation		59.4	(3.6)	55.8	58.1	(10.7)	47.4
Minority interests – equity		(0.6)	–	(0.6)	(0.3)	–	(0.3)
Profit for the financial year		58.8	(3.6)	55.2	57.8	(10.7)	47.1
Dividends paid and proposed	10	(30.6)	–	(30.6)	(28.2)	–	(28.2)
Retained profit for the financial year	26	28.2	(3.6)	24.6	29.6	(10.7)	18.9
Earnings per share:**	11						
Basic				15.9p			13.7p
Diluted				15.8p			13.7p
Adjusted		16.9p			16.8p		

The Group's results shown above are derived from continuing operations. Other than the acquisition of LINPAC Containers, there were no material acquisitions or discontinued operations in either year. The acquisition of LINPAC Containers did not have a material effect on the year's results as it was acquired on 22 March 2004.

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

The notes on pages 42 to 62 form part of these accounts.

*The loss on sale of businesses in the prior year includes £7.4m of goodwill previously written off to reserves.

**Restated for the bonus element of the rights issue.

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 30 April 2004

	2004 £m	2003 £m
Profit for the financial year	55.2	47.1
Exchange differences	(7.7)	7.3
Total recognised gains and losses relating to the financial year	47.5	54.4

GROUP RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 30 April 2004

	2004 £m	2003 £m
Profit for the financial year	55.2	47.1
Dividends	(30.6)	(28.2)
Retained profit for the financial year	24.6	18.9
Exchange differences on foreign currency net investments	(7.7)	7.3
Goodwill previously written off	–	7.4
New share capital issued under option schemes	1.8	0.4
Proceeds from rights issue (net of issue costs of £1.9m)	70.4	–
Net increase in shareholders' funds	89.1	34.0
Opening shareholders' funds	472.9	438.9
Closing shareholders' funds	562.0	472.9

BALANCE SHEETS

	Note	Group		Company	
		30 April 2004 £m	30 April 2003 £m	30 April 2004 £m	30 April 2003 £m
Fixed assets					
Intangible assets	12	185.6	49.0	–	–
Tangible assets	13	568.5	560.9	0.5	0.8
Investments	15	31.0	29.0	744.2	572.0
		785.1	638.9	744.7	572.8
Current assets					
Stocks	16	154.9	155.2	–	–
Debtors: amounts falling due within one year	17	345.1	327.5	45.3	101.2
Debtors: amounts falling due after more than one year	17	16.4	6.8	474.9	413.5
Short-term investments	19	20.8	26.7	–	–
Cash at bank and in hand	19	40.8	27.7	–	–
		578.0	543.9	520.2	514.7
Creditors: amounts falling due within one year					
Trade and other creditors	18	(361.5)	(355.9)	(65.3)	(34.6)
Borrowings	18,19	(39.7)	(142.7)	(44.4)	(157.6)
Net current assets		176.8	45.3	410.5	322.5
Total assets less current liabilities		961.9	684.2	1,155.2	895.3
Creditors: amounts falling due after more than one year					
Borrowings	18,19	(296.6)	(114.0)	(527.0)	(322.3)
Other	18	(2.4)	(2.7)	–	–
Provisions for liabilities and charges	23	(95.1)	(87.9)	(6.9)	(3.5)
		567.8	479.6	621.3	569.5
Minority interests – equity		(5.8)	(6.7)	–	–
Net assets		562.0	472.9	621.3	569.5
Capital and reserves					
Called up share capital	24	38.7	32.2	38.7	32.2
Share premium account	26	254.6	188.9	254.6	188.9
Revaluation reserve	26	8.5	8.8	–	–
Acquisition reserve	26	–	–	88.1	88.1
Capital reserve	26	–	–	50.0	50.0
Profit and loss account	26	260.2	243.0	189.9	210.3
Shareholders' funds – equity		562.0	472.9	621.3	569.5

Approved by the Board on 23 June 2004 and signed on its behalf by

A D Thorne, Director

G M Morris, Director

The notes on pages 42 to 62 form part of these accounts.

GROUP CASH FLOW STATEMENT

For the year ended 30 April 2004

	Note	2004 £m	2004 £m	2003 £m	2003 £m
Net cash inflow from operating activities	27a		131.8		142.0
Returns on investments and servicing of finance					
Net interest paid		(9.8)		(7.3)	
Interest element of finance leases		(0.2)		(0.2)	
Net cash outflow from returns on investments and servicing of finance			(10.0)		(7.5)
Taxation					
UK corporation and overseas tax paid			(17.9)		(15.1)
Capital expenditure and investments					
Purchase of tangible fixed assets		(51.7)		(63.4)	
Sale of tangible fixed assets		9.1		4.2	
Purchase of holding company shares		(1.0)		(0.8)	
Purchase of fixed asset investments		–		(0.1)	
Sale of fixed asset investments		1.7		0.6	
Net cash outflow from capital expenditure and investments			(41.9)		(59.5)
Acquisitions and disposals					
Purchase of subsidiary undertakings	29	(182.2)		(19.6)	
Net cash/(overdrafts) acquired		9.0		(0.5)	
Deferred consideration paid in relation to prior year acquisitions		(9.0)		–	
Purchase of associated undertakings		(1.0)		–	
Sale of associated undertakings		0.8		–	
Disposal of businesses	29	0.8		4.0	
Net cash outflow from acquisitions and disposals			(181.6)		(16.1)
Equity dividends paid			(28.2)		(28.2)
Net cash (outflow)/inflow before use of liquid resources and financing			(147.8)		15.6
Management of liquid resources	27b		4.3		(8.4)
Financing					
Issue of ordinary shares		74.1		0.3	
Rights issue costs		(1.9)		–	
Increase/(decrease) in debt and lease financing		96.3		(29.9)	
Net cash inflow/(outflow) from financing			168.5		(29.6)
Increase/(decrease) in cash in the year			25.0		(22.4)

Reconciliation of net cash flow to movement in net debt

	Note	2004 £m	2003 £m
Increase/(decrease) in cash in the financial year		25.0	(22.4)
(Increase)/decrease in debt and lease financing		(96.3)	29.9
(Decrease)/increase in liquid resources		(4.3)	8.4
(Increase)/decrease in net debt resulting from cash flow		(75.6)	15.9
Loans and finance leases acquired with subsidiary undertakings		(0.5)	(2.0)
Exchange differences		3.7	(20.3)
Increase in net debt in the financial year		(72.4)	(6.4)
Opening net debt		(202.3)	(195.9)
Closing net debt	19a, 28	(274.7)	(202.3)

The notes on pages 42 to 62 form part of these accounts.

ACCOUNTING POLICIES

A summary of the principal accounting policies, which have been applied consistently, is set out below:

(a) Accounting basis
The financial statements 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 consolidated financial statements include the accounts of the Company and all its subsidiary undertakings for the year ended 30 April 2004. The results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or to the date of disposal. The acquisition method of accounting has been adopted for all companies purchased during the year.

An associate is an undertaking in which the Group has a long-term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence. The Group's share of the profits less losses of associates is included in the consolidated profit and loss account and its interest in their net assets, less permanent diminution in value, is included in investments in the consolidated balance sheet.

(c) Goodwill and intangibles
Goodwill arising on acquisitions (representing the excess of fair value of the consideration given and associated costs over the fair value of the net assets acquired) completed after 2 May 1998 is capitalised and amortised on a straight-line basis over its expected useful economic life, not exceeding 20 years. As permitted by FRS 10, goodwill arising on acquisitions prior to 2 May 1998 which had already been written off to reserves has not been reinstated on the balance sheet. If a business is subsequently sold or closed, any goodwill that has not been amortised through the profit and loss account is included in calculating the profit or loss on sale or closure. Where negative goodwill arises it is amortised over the expected life of the assets to which it relates.

Other material intangible assets acquired are capitalised at cost and written off on a straight-line basis over their estimated useful economic lives, not exceeding 20 years.

(d) Tangible fixed assets
Tangible fixed assets are stated at cost, except that, as allowed under FRS 15 'Tangible Fixed Assets', on adoption of this standard the book amounts of revalued land and buildings were retained. These book values are based on the previous revaluation in 1995 and have not subsequently been revalued. Depreciation is calculated to write off the cost or valuation less the estimated residual value of all tangible fixed assets in equal annual instalments over their estimated useful lives at the following rates:

Plant, machinery, fixtures and fittings	5-33 1/3% pa
Motor vehicles	20-33 1/3% pa
Freehold and long leasehold properties	2-10% pa

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

(e) Fixed asset investments
Fixed asset investments are valued at cost less provisions for impairment.

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

(g) Deferred taxation
In accordance with FRS 19, deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise, based on current tax rates and the law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

(h) 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 are taken to the profit and loss account.

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

(j) Research and development
Research and development expenditure is written off as incurred.

(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 continues to take advantage of the transitional arrangements of FRS 17 'Retirement Benefits' which permit the costs, accruals and prepayments recorded in the financial statements to be reported under the requirements of SSAP 24 'Accounting for Pension Costs'. This is consistent with the basis adopted last year.

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.

Further disclosures including those required by FRS 17 are contained within note 6.

(m) Financial instruments
The Group uses financial instruments, primarily interest rate and currency swaps, only to manage interest and currency risk associated with the Group's underlying business activities and the financing of those activities. The Group does not undertake any trading activity in financial instruments.

These instruments are accounted for as hedges when designated as hedges at the inception of the contracts and, as a result, any gains or losses on foreign exchange contracts are offset against any foreign exchange gains or losses on the related financial assets and liabilities. Interest rate swaps are not shown in the Group balance sheet at the year end.

(n) Changes in presentation of financial information
The Company launched a one-for-five rights issue of 64.5 million shares at 112 pence per share in connection with the acquisition of LINPAC Containers Group, which closed on 26 March 2004. The weighted average number of shares used in the calculation of earnings per share has been adjusted for the bonus element of the rights issue. Prior year earnings per share and dividend per share figures have been restated accordingly.

1 Analysis of Group turnover, operating profit and capital employed

2004	Turnover £m	Group operating profit before exceptional items and amortisation of intangibles £m	Group operating profit £m	Return on sales %	Year end capital employed £m	Average capital employed £m	Return on average capital employed %
Packaging							
Paper and Corrugated Packaging	748.9	50.5	49.5	6.7%	657.4	524.1	9.6%
Plastic Packaging	208.7	15.2	12.3	7.3%	136.5	141.4	10.7%
	957.6	65.7	61.8	6.9%	793.9	665.5	9.9%
Office Products							
Office Products Wholesaling	498.8	21.7	21.6	4.4%	123.7	119.5	18.2%
Office Products Manufacturing	48.0	1.4	1.4	2.9%	13.7	14.3	9.8%
Intra-segment	(15.9)	–	–	–	–	–	–
	530.9	23.1	23.0	4.4%	137.4	133.8	17.3%
Total	1,488.5	88.8	84.8	6.0%	931.3	799.3	11.1%
United Kingdom	829.4	47.3	46.4	5.7%	639.3	503.6	9.4%
Rest of World	659.1	41.5	38.4	6.3%	292.0	295.7	14.0%
Total	1,488.5	88.8	84.8	6.0%	931.3	799.3	11.1%
2003							
Packaging							
Paper and Corrugated Packaging	747.0	53.1	53.0	7.1%	500.6	502.9	10.6%
Plastic Packaging	195.0	14.7	12.3	7.5%	136.0	128.2	11.5%
	942.0	67.8	65.3	7.2%	636.6	631.1	10.7%
Office Products							
Office Products Wholesaling	495.6	16.2	16.1	3.3%	122.3	127.1	12.7%
Office Products Manufacturing	59.7	4.0	4.0	6.7%	13.8	17.3	23.1%
Intra-segment	(18.3)	–	–	–	–	–	–
	537.0	20.2	20.1	3.8%	136.1	144.4	14.0%
Total	1,479.0	88.0	85.4	5.9%	772.7	775.5	11.3%
United Kingdom	865.5	59.7	59.7	6.9%	456.9	482.8	12.4%
Rest of World	613.5	28.3	25.7	4.6%	315.8	292.7	9.7%
Total	1,479.0	88.0	85.4	5.9%	772.7	775.5	11.3%

The operating profits shown above exclude the Group's share of operating profits and losses of associated undertakings (see note 15) and the exceptional net loss in the prior year relating to the sale of businesses shown below operating profit on the face of the consolidated profit and loss account (see note 7). The prior year exceptional net loss of £8.5m arose within the Paper and Corrugated Packaging segment. Return on sales is defined as operating profit before exceptional items and amortisation of intangibles divided by turnover. Average capital employed is the average monthly capital employed including the intangible assets on the balance sheet. Capital employed excludes net borrowings, deferred consideration receivable/due in respect of disposals/acquisitions, corporation tax, dividends payable, fixed asset investments and minority interests. Return on average capital employed is defined as operating profit before exceptional items and amortisation of intangibles divided by the average capital employed.

1 Analysis of Group turnover, operating profit and capital employed continued

Capital employed as shown on page 44 excludes items of a financing nature, corporation tax balances and fixed asset investments. Year end capital employed is reconciled to Group shareholders' funds as follows:

	2004 £m	2003 £m
Shareholders' funds	562.0	472.9
Net borrowings	274.7	202.3
Deferred consideration (receivable)/payable in respect of disposals/acquisitions	(0.5)	8.7
Dividends payable	21.7	19.3
Minority interests	5.8	6.7
Corporation tax creditor (net)	19.3	16.3
Deferred tax provision	79.3	75.5
Fixed asset investments	(31.0)	(29.0)
Year end capital employed	931.3	772.7

The geographical analysis shown on page 44 is shown by origin. The geographical analysis of turnover by destination is:

	2004 £m	2003 £m
United Kingdom	754.0	781.8
Continental Europe	671.4	626.8
Rest of World	63.1	70.4
	1,488.5	1,479.0

2 Operating expenses

	2004 £m	2003 £m
Distribution costs	172.0	166.1
Administrative expenses	148.4	159.6
	320.4	325.7

The administrative expenses in the year include amortisation of intangibles of £4.0m (2003: £2.6m).

3 Group operating profit

Operating profit is stated after charging the following:

	2004 £m	2003 £m
Depreciation – owned assets	63.3	61.1
– *leased assets*	1.2	1.1
Amortisation of intangibles	4.0	2.6
Hire of plant and machinery	10.7	10.3
Other operating lease rentals	9.8	10.0
Research and development	1.0	0.8
Amounts paid to KPMG Audit Plc and its associates (see below)	1.6	1.2

Auditor's remuneration

	2004			2003		
	UK	*Overseas*	*Total*	*UK*	*Overseas*	*Total*
Group audit						
Parent company	0.1	–	0.1	0.1	–	0.1
Other companies	0.3	0.4	0.7	0.3	0.3	0.6
	0.4	0.4	0.8	0.4	0.3	0.7
Non-audit services						
Tax advisory	0.1	–	0.1	0.1	0.2	0.3
Corporate services	0.5	–	0.5	0.2	–	0.2
Other assurance	0.1	0.1	0.2	–	–	–
	0.7	0.1	0.8	0.3	0.2	0.5
	1.1	0.5	1.6	0.7	0.5	1.2

This note has been extended to reflect best practice and the comparative information has been restated accordingly.

4 Directors' remuneration

Details of Directors' remuneration, shareholdings and share options are contained in the Report on Remuneration on pages 28 to 34.

5 *Employee information*

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

	2004 Number	2003 Number
Production	6,996	6,977
Selling and administration	3,940	4,023
	10,936	11,000

Their total remuneration was:

	2004 £m	2003 £m
Wages and salaries	244.3	238.9
Social security costs	35.7	34.4
Other pension costs	1.7	1.6
	281.7	274.9

6 Pensions

The Group operates a single funded defined benefit scheme in the UK, the DS Smith Group Pension Scheme. The latest formal actuarial valuation of the Scheme was carried out by independent actuaries as at 5 April 2001, using the projected unit method. The actuaries reviewed the methods and assumptions underlying the actuarial valuation of the Scheme and, as in previous years, a valuation basis linked to market value was used to value investments. The principal assumptions used at 5 April 2001 were as follows:

Valuation discount rate – pre-retirement	6.6%
– post-retirement	5.6%
Rate of increase in salaries	3.9%
Pension increases	2.4%

At the valuation date, the market value of the assets of the scheme was £527.3m and the actuarial value of the assets was 117% 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, subject to the continuing consent of the Trustee. The next triennial actuarial valuation of the Scheme will be as at 5 April 2004.

An amount of £15.8m (2003: £6.3m) in respect of the UK defined benefit scheme is included in debtors falling due after more than one year. This includes a £10.0m contribution (2003: £5.0m) to the UK defined benefit scheme made by the Group during the year.

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'. The pension cost for the year has been assessed as £0.2m (2003: £0.2m) and the balance sheet liability at 30 April 2004 as £3.5m (2003: £3.1m).

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

The disclosures required under the transitional arrangements within FRS 17 'Retirement Benefits' have been calculated by qualified independent actuaries based on the most recent full actuarial valuation at 5 April 2001, updated to 30 April 2004. The financial assumptions used were:

	2004 % per annum	2003 % per annum	2002 % per annum
Rate of increase in salaries	4.2%	4.0%	4.1%
Rate of increase in pensions in payment and deferred pensions	2.9%	2.5%	2.6%
Inflation	2.9%	2.5%	2.6%
Discount rate	5.7%	5.4%	5.9%

The assets in the scheme and the expected long-term rates of return were:

	2004		2003		2002	
	Expected rates of return %	Market value £m	Expected rates of return %	Market value £m	Expected rates of return %	Market value £m
Equities	7.9%	342.5	7.2%	294.5	7.6%	348.9
Bonds, Gilts and Cash (Weighted average)	4.7%	147.0	4.4%	132.4	5.2%	154.1
Total market value of assets		489.5		426.9		503.0

The following amounts were measured in accordance with the requirements of FRS 17:

	2004 £m	2003 £m
Total market value of assets	489.5	426.9
Present value of scheme liabilities	(567.6)	(560.9)
Deficit in the scheme	(78.1)	(134.0)
Related deferred tax asset	23.5	40.2
Net pension liability	(54.6)	(93.8)

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescales covered, may not necessarily be borne out in practice. The scheme's assets are not intended to be realised in the short term and their fair value may be subject to significant change before they are realised. The present value of the scheme's liabilities is derived from cashflow projections over long time periods and thus is inherently uncertain.

6 Pensions continued

If these amounts had been recognised in the financial statements, the Group's net assets and profit and loss account reserve at 30 April 2004 would have been as follows:

	2004 £m	2003 £m
Net assets	562.0	472.9
SSAP 24 prepayments and liabilities	(15.1)	(5.1)
Pension liability	(54.6)	(93.8)
Net assets including pension liability	492.3	374.0
Profit and loss account reserve excluding pension liability	260.2	243.0
SSAP 24 prepayments and liabilities	(15.1)	(5.1)
Pension reserve	(54.6)	(93.8)
Profit and loss account reserve including pension liability	190.5	144.1

The amount chargeable to operating profit and finance income for the year ended 30 April 2004 had FRS 17 been operative is as follows:

	2004 £m	2003 £m
Operating profit		
Current service cost	(13.3)	(13.2)
Past service cost	(0.1)	(0.1)
Total operating charge	(13.4)	(13.3)

	2004 £m	2003 £m
History of experience gains and losses		
Difference between expected and actual returns on scheme assets	39.6	(102.5)
Percentage of scheme assets	8%	24%
Experience gains and losses on scheme liabilities	(0.1)	12.5
Percentage of scheme liabilities	0%	2%
Total amount recognised in Statement of Total Recognised Gains and Losses	62.5	(119.5)
Percentage of scheme liabilities	11%	21%

	2004 £m	2003 £m
Other finance (cost)/income		
Expected return on pension scheme assets	27.1	34.4
Interest on pension scheme liabilities	(30.3)	(30.1)
Net return	(3.2)	4.3

The amount recognised in the Statement of Total Recognised Gains and Losses (STRGL) had FRS 17 been operative is as follows:

	2004 £m	2003 £m
Actual return less expected return on pension scheme assets	39.6	(102.5)
Experience gains and losses arising on the scheme liabilities	(0.1)	12.5
Changes in assumptions underlying present value of scheme liabilities	23.0	(29.5)
Actuarial gain/(loss) recognised in the STRGL	62.5	(119.5)

6 Pensions continued

The movement in the pre-tax deficit during the year is as follows:

	2004 £m	2003 £m
Opening deficit in the scheme	(134.0)	(10.5)
Current and past service cost	(13.4)	(13.3)
Cash contributions	10.0	5.0
Other finance (cost)/income	(3.2)	4.3
Actuarial gain/(loss)	62.5	(119.5)
Closing deficit in the scheme	(78.1)	(134.0)

7 Exceptional items and amortisation of intangibles

	2004 £m	2003 £m
Net loss on sale of businesses	–	(8.5)
Amortisation of intangibles (see note 12)	(4.0)	(2.6)
Amortisation of negative goodwill of associates	0.4	0.4
	(3.6)	(10.7)
Tax on exceptional items	–	–
Total	(3.6)	(10.7)

The loss on sale of businesses in the prior year includes £7.4m of goodwill previously written off to reserves.

8 Net interest payable and other similar items

	2004 £m	2003 £m
Interest payable and similar charges		
– on bank loans and overdrafts	(12.5)	(12.4)
– on other loans	(0.4)	(3.1)
– on finance leases	(0.2)	(0.2)
– hyperinflationary net monetary (loss)/gain	(0.1)	1.6
	(13.2)	(14.1)
Interest receivable and similar income	2.8	3.2
	(10.4)	(10.9)

9 *Taxation*

(a) Analysis of charge in the period:

	2004 £m	2003 £m
UK corporation tax – current year	4.4	10.7
UK corporation tax – prior years	–	(1.6)
Overseas taxation	17.2	11.4
Total current tax	21.6	20.5
Deferred tax – timing differences	0.4	1.1
Tax charge	22.0	21.6
Effective tax rate	28.3%	31.3%
Effective tax rate before exceptional items and amortisation of intangibles	27.0%	27.1%

(b) Factors affecting current tax charge for the year:
The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 30% (2003: 30%). The differences are explained below:

	2004 £m	2003 £m
Profit before tax	77.8	69.0
Tax on profit at 30% (2003: 30%)	23.3	20.7
Effects of:		
Depreciation for period in excess of capital allowances, and other timing differences	(2.9)	(3.6)
Permanent differences	1.3	3.8
Overseas tax rates	2.2	1.8
Prior year charge/(credit)	0.4	(1.6)
Other	(2.7)	(0.6)
Current tax charge for the year	21.6	20.5

(c) Factors that may affect future tax charges:
In future years, the Group's tax charge will be affected by the proportion of profits earned in the various countries in which the Group operates, movements in currently unrecognised deferred tax assets, the most significant of which relate to tax losses, and the extent to which any capital gains can be either rolled over or sheltered by capital losses.

10 Dividends paid and proposed

	2004 Per share	2003 Per share	2004 £m	2003 £m
Interim paid	2.8p	2.8p	8.9	8.9
Final proposed/paid	5.6p	6.0p	21.7	19.3
	8.4p	8.8p	30.6	28.2

The prior year dividend per share and current interim dividend per share are stated as paid. These have not been restated for the bonus element in the rights issue. Historic dividends per share have been restated in the Five Year Financial Summary on page 63.

11 Earnings per share

Basic earnings per share are calculated by dividing the profit for the financial year of £55.2m (2003: £47.1m) by the weighted average number of shares in issue and fully paid during the year of 348.2m (2003: 343.4m). The number of shares excludes the weighted average number of the Company's own shares on the Group's balance sheet during the year (see note 15) of 1.5m (2003: 1.1m). The weighted average number of shares has been adjusted for the bonus element of the rights issue, which closed on 26 March 2004. Figures for the prior year have been restated accordingly.

The Directors believe that the presentation of an adjusted earnings per share, being the basic earnings per share adjusted for exceptional items and amortisation of intangibles, helps to explain the underlying performance of the Group. A reconciliation of basic to adjusted earnings per share is as follows:

	2004		2003	
	£m	Pence per share	£m	Pence per share
Basic earnings	55.2	15.9	47.1	13.7
Exceptional items and amortisation of intangibles (after tax):				
Amortisation of intangibles, and goodwill relating to associates	3.6	1.0	2.2	0.6
Net loss on sale of businesses	–	–	8.5	2.5
Adjusted earnings	58.8	16.9	57.8	16.8

In calculating diluted earnings per share there are no adjustments to earnings, but the weighted average number of shares denominator is adjusted as follows:

	Number of shares in issue	
	2004 Millions	2003 Millions
Basic weighted average	348.2	343.4
Potentially dilutive shares issuable under share option schemes	0.8	0.2
Estimated vesting of Long-Term Incentive Plan shares	1.1	1.2
Diluted weighted average	350.1	344.8

12 Intangible assets

	Positive goodwill £m	Negative goodwill £m	Other intangibles £m	Total £m
Cost:				
At 1 May 2003	47.7	(2.0)	11.7	57.4
Arising on acquisitions (see note 29)	142.7	–	–	142.7
Disposals (see note 29)	(0.5)	–	–	(0.5)
Exchange differences	(1.8)	–	–	(1.8)
At 30 April 2004	188.1	(2.0)	11.7	197.8
Amortisation:				
At 1 May 2003	7.2	(0.1)	1.3	8.4
Amortisation charge for the year	3.5	(0.1)	0.6	4.0
Disposals (see note 29)	(0.2)	–	–	(0.2)
At 30 April 2004	10.5	(0.2)	1.9	12.2
Net book value:				
At 30 April 2004	177.6	(1.8)	9.8	185.6
At 30 April 2003	40.5	(1.9)	10.4	49.0

The goodwill arising on acquisitions in the financial year ended 30 April 2004 is being amortised over its estimated useful life up to a maximum of 20 years. Goodwill arising on the acquisition of associate undertakings is shown within fixed asset investments in note 15. The amount arising on acquisitions includes an increase in goodwill of £0.5m relating to acquisitions completed in previous years.

13 *Tangible fixed assets*

	Group					Company
	Land and buildings			Payments on account and assets in course of construction		
	Freehold £m	Leasehold £m	Plant and machinery £m	£m	Total £m	Plant and machinery £m
Cost or valuation:						
At 1 May 2003	205.8	14.3	896.6	28.4	1,145.1	2.9
Exchange differences	(2.0)	–	(11.3)	(0.4)	(13.7)	–
Acquisitions	27.7	2.3	100.5	1.0	131.5	–
Capital expenditure	1.1	–	32.9	15.8	49.8	–
Disposals	(3.4)	(0.4)	(14.7)	–	(18.5)	–
Sale of businesses	(0.2)	(0.1)	(0.2)	–	(0.5)	–
Transfers	11.6	(0.4)	19.3	(30.5)	–	–
At 30 April 2004	240.6	15.7	1,023.1	14.3	1,293.7	2.9
Accumulated depreciation:						
At 1 May 2003	32.0	7.3	544.9	–	584.2	2.1
Exchange differences	(0.3)	–	(6.4)	–	(6.7)	–
Acquisitions	12.0	1.1	83.7	–	96.8	–
Charge for the financial year	4.9	0.5	59.1	–	64.5	0.3
Disposals	(0.1)	(0.3)	(13.0)	–	(13.4)	–
Sale of businesses	–	–	(0.2)	–	(0.2)	–
At 30 April 2004	48.5	8.6	668.1	–	725.2	2.4
Net book value:						
At 30 April 2004	192.1	7.1	355.0	14.3	568.5	0.5
At 30 April 2003	173.8	7.0	351.7	28.4	560.9	0.8

Freehold land amounting to £53.1m (2003: £55.0m) has 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		Leasehold	
	2004 £m	2003 £m	2004 £m	2003 £m
Net book value:				
Professionally valued in 1995	75.6	86.6	3.2	4.0
At cost	116.5	87.2	3.9	3.0
	192.1	173.8	7.1	7.0

Included in plant and machinery are leased assets with a cost of £24.5m (2003: £24.6m) and a net book value of £6.6m (2003: £7.9m).

14 *Capital commitments*

	2004 £m	2003 £m
Future capital expenditure for which contracts have been placed	4.3	7.3

15 Fixed asset investments

	Group				Company		
	Associated undertakings £m	Negative goodwill on associated undertakings £m	Other investments £m	Total £m	Shares in Group undertakings £m	Other £m	Total £m
At 1 May 2003	22.4	(7.4)	14.0	29.0	569.0	3.0	572.0
Additions	1.0	–	1.0	2.0	175.8	1.0	176.8
Share of retained profits	2.5	–	–	2.5	–	–	–
Amortisation of goodwill	–	0.4	–	0.4	–	–	–
Disposals	(0.8)	–	(2.0)	(2.8)	(0.6)	(0.3)	(0.9)
Exchange differences	(0.1)	–	–	(0.1)	(3.7)	–	(3.7)
At 30 April 2004	25.0	(7.0)	13.0	31.0	740.5	3.7	744.2

The principal associated undertakings are:

	Nature of business	Principal country of operation	Financial year end	Issued capital	Group share %
OJSC Rubezhansk Paper and Packaging Mill	Manufacturer of paper and packaging	Ukraine	31 December	17,721,000 shares of UAH 1.50 each	39%*
Grovehurst Energy Ltd	Provision of energy and other services	England	31 December	100 shares of £1 each	50%*
Tri-Wall KK	Supplier of industrial packaging and heavy duty corrugated cases	Japan	31 March	7,515 shares of Yen 5,000 each	40%*
Foresco Golfkarton NV	Fabricator of corrugated cases	Belgium	31 December	39,000 shares of €24.79 each	35%*

*Indirectly held.

Other fixed asset investments include £2.4m (2003: £1.7m) of DS Smith Plc shares. The Group operates a General Employee Benefit Trust which acquires shares in the Company to satisfy the requirements of the DS Smith Plc Long-Term Incentive Plan (the Plan). At 30 April 2004 the Trust held 1.7m shares (2003: 1.2m shares). The market value of the shares at 30 April 2004 was £2.9m (2003: £1.9m). Dividends receivable on the shares owned by the Trust have been waived. For further details of the Plan see the Report on Remuneration on pages 28 to 34.

16 Stocks

	2004 £m	2003 £m
Raw materials and consumables	48.8	47.0
Work in progress	4.5	3.8
Finished goods	101.6	104.4
	154.9	155.2

17 Debtors

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
(a) Amounts falling due within one year:				
Trade debtors	312.1	299.4	–	–
Amounts owed by subsidiary undertakings	–	–	40.3	100.7
Amounts owed by associated undertakings	0.1	0.1	–	–
Corporation tax	1.1	1.2	–	–
Other tax and social security	4.5	6.0	–	–
Other debtors	14.1	10.6	4.9	0.4
Prepayments and accrued income	13.2	10.2	0.1	0.1
	345.1	327.5	45.3	101.2
(b) Amounts falling due after more than one year:				
Pensions	15.8	6.3	15.0	5.0
Amounts owed by subsidiary undertakings	–	–	459.9	407.2
Deferred tax asset	–	–	–	1.1
Other debtors	0.6	0.5	–	0.2
	16.4	6.8	474.9	413.5
Total debtors	361.5	334.3	520.2	514.7

18 Creditors

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
(a) Trade and other creditors falling due within one year:				
Trade creditors	207.4	208.5	–	–
Bills of exchange	21.3	19.6	–	–
Amounts owed to subsidiary undertakings	–	–	27.9	3.4
Corporation tax	20.4	17.5	–	–
Other taxes and social security	23.8	18.8	0.8	0.3
Accruals and deferred income	66.9	63.6	14.9	11.6
Deferred consideration due in respect of acquisitions	–	8.6	–	–
Proposed dividend	21.7	19.3	21.7	19.3
	361.5	355.9	65.3	34.6
(b) Borrowings falling due within one year:				
Bank loans and overdrafts	38.4	140.9	44.4	157.6
Other loans	0.3	0.8	–	–
Finance leases	1.0	1.0	–	–
	39.7	142.7	44.4	157.6
(c) Borrowings falling due after more than one year:				
Bank loans	199.3	12.2	187.1	–
Loans from subsidiary undertakings	–	–	246.0	225.2
Other loans	94.5	97.9	93.9	97.1
Finance leases	2.8	3.9	–	–
	296.6	114.0	527.0	322.3
(d) Other creditors due after more than one year:				
Deferred consideration due in respect of acquisitions	–	0.1	–	–
Other	2.4	2.6	–	–
	2.4	2.7	–	–
Total creditors	700.2	615.3	636.7	514.5

19 Financial assets and liabilities (see also note 20)

	2004 Book value £m	2004 Fair value £m	2003 Book value £m	2003 Fair value £m
(a) The Group's net borrowings are:				
Bank loans and overdrafts and other loans	332.5	326.1	251.8	249.0
Finance lease liabilities	3.8	3.8	4.9	4.9
Short-term investments (see note 27(b))	(20.8)	(20.8)	(26.7)	(26.7)
Cash at bank and in hand	(40.8)	(40.8)	(27.7)	(27.7)
	274.7	268.3	202.3	199.5
Gearing (net borrowings expressed as a percentage of shareholders' funds)	48.9%	N/A	42.8%	N/A

	2004 £m	2003 £m
(b) Bank loans and overdrafts and other loans are repayable as follows:		
Due within one year	38.7	141.7
Due between one and two years	89.6	1.4
Due between two and five years	106.3	4.3
Due after five years	97.9	104.4
	332.5	251.8
(c) Analysis of finance lease liabilities:		
Due within one year	1.0	1.0
Due between one and two years	0.9	1.0
Due between two and five years	1.2	1.7
Due after five years	0.7	1.2
	3.8	4.9
Lease payments:		
Due within one year	1.2	1.3
Due after one year	3.3	4.6
	4.5	5.9
Finance charges	(0.7)	(1.0)
	3.8	4.9

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

	2004 Book value £m	2004 Fair value £m	2003 Book value £m	2003 Fair value £m
(d) The Group's exposure to derivative financial instruments may be summarised as follows:				
Derivatives held to:				
Hedge future transactions	(0.1)	–	(5.6)	(5.7)
Manage the interest rate and currency exposure of borrowings	–	(10.0)	–	(4.8)
Net liability	(0.1)	(10.0)	(5.6)	(10.5)

Forward foreign exchange contracts have been taken to hedge contractual commitments for the purchase of capital equipment and raw materials and to hedge sales in foreign currencies. All of these contracts will have matured by April 2005. During the year, the Group entered into 5-year interest rate swap transactions in order to manage the interest rate exposure on sterling borrowings. During the prior year, the Group entered into 10-year currency and interest rate swap transactions in order to manage the interest rate and currency exposure arising from the Group's private placement (see note 20).

The fair value of derivative financial instruments has been determined on the basis of third party valuations.

20 Interest and currency profile of net borrowings

An explanation of the Group's treasury policy is included in the Financial Review on pages 18 to 21. Short-term debtors and creditors have been omitted from the disclosures presented below. The currency and interest rate exposure of the Group's net borrowings was:

	Sterling £m	Euro £m	Other £m	Total £m
At 30 April 2004				
Borrowings:				
Floating rate	105.1	168.0	18.7	291.8
Fixed rate	43.3	0.5	0.7	44.5
	148.4	168.5	19.4	336.3
Cash and short-term investments				
Floating rate	(10.8)	(19.9)	(13.5)	(44.2)
Fixed rate	–	(11.5)	(5.9)	(17.4)
	(10.8)	(31.4)	(19.4)	(61.6)
Net borrowings at 30 April 2004	137.6	137.1	–	274.7
At 30 April 2003				
Borrowings:				
Floating rate	37.1	195.5	22.8	255.4
Fixed rate	0.2	1.0	0.1	1.3
	37.3	196.5	22.9	256.7
Cash and short-term investments:				
Floating rate	(5.0)	(21.2)	(21.1)	(47.3)
Fixed rate	(0.7)	(5.7)	(0.7)	(7.1)
	(5.7)	(26.9)	(21.8)	(54.4)
Net borrowings at 30 April 2003	31.6	169.6	1.1	202.3

At 30 April 2004 50% of the Group's borrowings were denominated in euros in order to hedge the underlying assets of the Group's relevant continental European operations.

Interest rates on floating rate borrowings are based on LIBOR, EURIBOR or base rates. Fixed rate borrowings comprise mortgages, finance leases and borrowings fixed by interest rate swaps.

Currently the Group has a series of bilateral revolving credit facilities totalling £325m, of which £50m expires in May 2006, £75m in September 2007, £125m in May 2008 and £75m in May 2009. At 30 April 2004 the Group's bilateral revolving credit facilities totalled £290m. Advances drawn down under these facilities bear interest at margins over LIBOR. The acquisition of LINPAC Containers Group was partly financed by a facility of £140m provided by The Royal Bank of Scotland plc, which expires in September 2005. At 30 April 2004 £69m was drawn under this facility.

The Group has entered into a note purchase agreement with a number of institutions that have purchased US$105m of 6.24% senior notes and £25m of 6.85% senior notes issued in 2002. The notes will mature on 14 November 2012. The Group entered into a swap transaction with a bank counterparty under which it made a payment of US$80m in return for an equivalent amount denominated in euros. The swap counterparty also agreed to pay fixed rate dollar interest of 6.24% per annum in exchange for floating euro rate interest at rates linked to EURIBOR. The proceeds of the swap, €81.6m, or £55.2m at rates prevailing on 30 April 2004, are shown as bank loans due after five years. In addition, swap counterparties also agreed to pay fixed rate dollar interest of 6.24% on a principal amount of $25m in exchange for floating dollar interest linked to dollar LIBOR and fixed rate sterling interest of 6.85% on a principal of £25m in exchange for floating sterling interest linked to sterling LIBOR.

20 *Interest and currency profile of net borrowings continued*

Of the total borrowing facilities available to the Group, the undrawn committed facilities available at 30 April 2004 were as follows:

	2004 £m	2003 £m
Expiring within one year	10.5	53.1
Expiring between one and two years	25.2	10.9
Expiring between two and five years	165.1	125.0
Expiring in more than five years	0.9	165.9
	201.7	354.9

Bank loans, other loans and overdrafts of certain subsidiaries of £13.9m are secured over the assets of these companies.

21 Currency analysis of net assets

	2004			2003		
	Net assets excluding gross borrowings £m	Gross borrowings £m	Net assets £m	Net assets excluding gross borrowings £m	Gross borrowings £m	Net assets £m
Sterling	601.3	(148.4)	452.9	407.2	(37.3)	369.9
Euro	262.8	(168.5)	94.3	274.1	(196.5)	77.6
Other	34.2	(19.4)	14.8	48.3	(22.9)	25.4
	898.3	(336.3)	562.0	729.6	(256.7)	472.9

Currency exposures giving rise to currency gains and losses in the Group's profit and loss account are not material.

22 Other financial commitments

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

	Land and buildings		Plant and machinery	
	2004 £m	2003 £m	2004 £m	2003 £m
Expiring within one year	1.4	0.9	1.2	1.9
Expiring between one and five years	4.4	3.9	5.4	5.1
Expiring after five years	7.8	7.0	4.5	1.3
	13.6	11.8	11.1	8.3

23 Provisions for liabilities and charges

	Group				Company			
	Deferred taxation £m	Pensions £m	Other £m	Total £m	Deferred taxation £m	Pensions £m	Other £m	Total
At 1 May 2003	75.5	5.7	6.7	87.9	–	3.3	0.2	3.5
Acquired	3.4	–	4.5	7.9	–	–	–	–
Provided	0.4	0.6	0.9	1.9	3.2	0.3	–	3.5
Utilised	–	(0.8)	(1.6)	(2.4)	–	(0.1)	–	(0.1)
Exchange differences	–	–	(0.2)	(0.2)	–	–	–	–
At 30 April 2004	79.3	5.5	10.3	95.1	3.2	3.5	0.2	6.9

Other provisions mainly relate to reorganisation and redundancy costs and provisions for vacant leasehold properties. Provisions relating to reorganisation and redundancy costs are expected to be utilised during the next year.

Deferred taxation is analysed as follows:

	2004 £m	2003 £m
Accelerated capital allowances	67.3	68.7
Other timing differences	12.0	6.8
	79.3	75.5

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.

24 Share capital

	Number of shares			
	2004 Millions	2003 Millions	2004 £m	2003 £m
Ordinary equity shares of 10 pence each:				
Authorised	410.0	410.0	41.0	41.0
Issued, allotted, called up and fully paid	387.3	321.5	38.7	32.2

Shares issued during the year to 30 April 2004 and the consideration received were:

	Allotted, called up and fully paid			
	'000	Nominal Value £'000	Share premium £'000	Total consideration £'000
Reason for issue:				
Rights issue (net of issue costs of £1.9m)	64,541	6,454	63,967	70,421
Executive options (note 25)	792	79	1,102	1,181
Savings Related Option Scheme (note 25)	416	42	574	616

A total of 64.5 million shares were issued at 112.0 pence per share as part of the one-for-five rights issue in connection with the acquisition of LINPAC Containers Group, which closed on 26 March 2004.

25 Share options

During the year ended 30 April 2004, the following options were granted:

	Number of shares	Option price (range)	Date exercisable
Executive Share Option Scheme (1999)	2,010,970	148.7p – 149.2p	July 2006 – December 2013

At 30 April 2004, the following options were outstanding:

	Number of shares	Option price (range)	Date exercisable
Executive Share Option Scheme (1992)	3,805,498	164.8p – 306.3p	August 1997 – July 2009
Executive Share Option Scheme (1999)	6,704,428	135.2p – 159.9p	October 2003 – July 2013
1999 Savings Related Option Scheme	2,762,540	138.1p – 160.9p	January 2004 – June 2005

Following the one-for-five rights issue in connection with the acquisition of LINPAC Containers Group the exercise price and the number of shares under option have been adjusted to maintain the option holders' interests. During the year, awards totalling 601,493 shares were made to participating executives under the Long-Term Incentive Plan (the Plan). Following the one-for-five rights issue an additional 86,010 shares were acquired on behalf of participating executives within the Plan. At 30 April 2004, the total number of shares awarded and held in trust to satisfy obligations under the Plan was 1,352,315 (2003: 848,532).

26 Reserves

Group	Share premium account £m	Revaluation reserve £m	Profit and loss account £m
At 1 May 2003	188.9	8.8	243.0
Premium arising on shares issued under option schemes	1.7	–	–
Proceeds of rights issue (net of issue costs of £1.9m)	64.0	–	–
Retained profit for the financial year	–	–	24.6
Transfer	–	(0.3)	0.3
Exchange differences	–	–	(7.7)
At 30 April 2004	254.6	8.5	260.2

Exchange differences include an exchange gain of £3.7m (2003: loss of £20.3m) on foreign currency borrowings, offset by gains arising on the Group's equity investment in foreign subsidiary and associated undertakings. At 30 April 2004, the cumulative goodwill written off against the profit and loss account reserve for businesses acquired prior to 2 May 1998 was £156.0m (2003: £156.0m).

Company	Share premium account £m	Acquisition reserve £m	Capital reserve £m	Profit and loss account £m
At 1 May 2003	188.9	88.1	50.0	210.3
Premium arising on shares issued under option schemes	1.7	–	–	–
Proceeds of rights issue (net of issue costs of £1.9m)	64.0	–	–	–
Retained loss for the financial year	–	–	–	(20.4)
At 30 April 2004	254.6	88.1	50.0	189.9

No separate profit and loss account is presented for the Company as permitted by Section 230(4) of the Companies Act 1985.

The Company made a profit for the financial year of £10.2m (2003: £52.6m).

The Company's profit and loss account includes an amount of £126.6m (2003: £126.6m) which is considered non-distributable.

27 Group cash flow statement

	2004 £m	2003 £m
(a) Reconciliation of operating profit to net cash inflow from operating activities:		
Operating profit before exceptional items and amortisation of intangibles	88.8	88.0
Depreciation	64.5	62.2
Profit on sale of tangible fixed assets	(4.0)	(0.4)
Decrease/(increase) in stocks	2.7	(5.3)
(Increase)/decrease in debtors	(3.0)	1.6
Decrease in creditors	(16.7)	(2.3)
Decrease in provisions	(0.9)	(3.3)
Other non cash operating items	0.4	1.5
Net cash inflow from operating activities	131.8	142.0
(b) Net sale/(purchase) of short-term investments	4.3	(8.4)

Short-term investments mainly comprise deposits with banks.

28 *Analysis of changes in net debt*

	At 30 April 2003 £m	Acquired £m	Cash flow £m	Exchange movements £m	At 30 April 2004 £m
Cash at bank and in hand	27.7	–	15.4	(2.3)	40.8
Overdrafts	(39.8)	–	9.6	0.4	(29.8)
	(12.1)	–	25.0	(1.9)	11.0
Debt due after one year	(110.1)	–	(187.0)	3.3	(293.8)
Debt due within one year	(101.9)	(0.5)	89.7	3.8	(8.9)
Finance leases	(4.9)	–	1.0	0.1	(3.8)
	(216.9)	(0.5)	(96.3)	7.2	(306.5)
Short-term investments	26.7	–	(4.3)	(1.6)	20.8
Total	(202.3)	(0.5)	(75.6)	3.7	(274.7)

29 Acquisitions and disposals

a) Cash flow:

Cash flow arising on the acquisition and disposal of businesses.

	2004		2003	
	Acquisitions £m	Disposals £m	Acquisitions £m	Disposals £m
Tangible fixed assets	(34.7)	0.3	(3.1)	3.7
Working capital	(5.1)	0.2	(2.3)	2.7
Taxation	4.4	–	(0.1)	0.2
Provisions	4.5	–	–	–
(Cash)/loans	(8.5)	–	2.3	(1.0)
Net assets (acquired)/disposed	(39.4)	0.5	(3.2)	5.6
Minority interest	(1.3)	–	(1.0)	–
Group assets (acquired)/disposed	(40.7)	0.5	(4.2)	5.6
Positive/(negative) goodwill	(142.7)	0.3	(17.7)	7.4
Loss on disposal	–	–	–	(8.5)
(Acquisition)/disposal price	(183.4)	0.8	(21.9)	4.5
Deferred consideration	–	–	0.7	(0.5)
Deferred costs	1.2	–	–	–
Cost of investment transferred	–	–	1.6	–
Cash flow	(182.2)	0.8	(19.6)	4.0

29 Acquisitions and disposals continued

b) Fair value of acquisitions:

LINPAC Containers Group was acquired on 22 March 2004 and has been accounted for as an acquisition and consolidated in the financial statements from the date of acquisition. Details of this and other acquisitions during the year are summarised as follows:

	LINPAC Containers Group				Other acquisitions	
	Book value £m	Accounting policy adjustments £m	Fair value adjustments £m	Fair value £m	Fair value £m	Total fair value £m
Tangible fixed assets	37.3	0.2	(3.6)	33.9	0.8	34.7
Working capital	4.9	(0.9)	0.3	4.3	0.8	5.1
Taxation	(4.4)	–	–	(4.4)	–	(4.4)
Provisions	(1.5)	–	(2.5)	(4.0)	(0.5)	(4.5)
Cash/(loans)	9.0	–	–	9.0	(0.5)	8.5
Net assets acquired	45.3	(0.7)	(5.8)	38.8	0.6	39.4
Minority interest				–	1.3	1.3
Group assets acquired				38.8	1.9	40.7
Positive goodwill arising				*137.0*	*5.7*	*142.7*
				175.8	7.6	183.4
Satisfied by:						
Cash consideration paid				170.7	7.5	178.2
Expenses of acquisition				5.1	0.1	5.2
Total consideration				*175.8*	*7.6*	*183.4*
Deferred expenses of acquisition				(1.2)	–	(1.2)
Total cash flow				174.6	7.6	182.2

The material fair value adjustments are to recognise formal valuations on acquired tangible fixed assets and to bring provisioning *against stock and debtors into line with the relevant Group procedures. Fair value adjustments on other acquisitions are not significant.*

c) Summary results of LINPAC Containers Group:

The summary profit and loss account of LINPAC Containers Group for the period from 1 January 2004 to 22 March 2004, the effective date of acquisition, was as follows:

	£m
Turnover	*33.4*
Operating profit	2.4
Finance income	0.5
Profit before taxation	2.9
Taxation	(1.0)
Profit for the financial period	1.9

In the previous year from 1 January 2003 to 31 December 2003, the profit after taxation of LINPAC Containers Limited was £20.7m after an exceptional credit, net of taxation, of £6.9m.

The summarised total recognised gains and losses of LINPAC Containers Group for the period 1 January 2004 to 22 March 2004, the effective date of acquisition, is as follows:

	£m
Profit for the financial period	1.9
Dividends	(56.7)
Total recognised loss for the financial period	(54.8)

30 Related party transactions

	2004 £m	2003 £m
Sales to associated undertakings on normal trading terms	1.9	1.0
Purchases from associated undertakings on normal trading terms	25.2	22.3
Amounts due from associated undertakings (including loans)	3.4	4.2
Amounts due to associated undertakings	–	0.1

31 Contingent liabilities

Guarantees to third parties amount to £22.7m (2003: £19.7m). The Group and the Company has guaranteed certain future operating commitments of its associated undertaking, Grovehurst Energy Ltd (see note 15). The Company has guaranteed the gross overdrafts and loans of certain subsidiary undertakings which at 30 April 2004 amounted to £130.7m (2003: £123.0m). Other guarantees to third parties amount to £5.6m (2003: £5.0m).

32 Subsidiary undertakings

The Company's principal trading subsidiary undertakings as at 30 April 2004 are:

	Percentage of issued ordinary share capital held by DS Smith Plc	Country of incorporation or registration
Packaging		
St Regis Paper Company Ltd	100%	England
DS Smith (UK) Limited	100%	England
LINPAC Containers Ltd	100%	England
Kaysersberg Packaging S.A.S.	100%*	France
DS Smith Packaging Poland SA	98%*	Poland
Toscana Ondulati SpA	65%*	Italy
Çopikas AS	100%*	Turkey
Cartón Plástico s.a.	100%*	Spain
DW Plastics NV	100%*	Belgium
Ducaplast SAS	100%*	France
Demes Logistics GmbH & Co KG	100%*	Germany
David S. Smith America Inc.	100%*	USA
DSS Rapak Inc.	100%*	USA
Rapak Asia Pacific (Aust) Pty Ltd	100%*	Australia
StePac L.A. Ltd	55%*	Israel
Zewathener GmbH & Co KG	100%*	Germany
A. A. Griggs & Co. Ltd	100%*	England
Office Products		
Spicers Ltd	100%*	England
Spicers (Ireland) Ltd	100%*	Ireland
Spicers France SA	100%*	France
John Dickinson Stationery Ltd	100%	England
John Dickinson Stationery (Ireland) Ltd	100%*	Ireland

*Indirectly held by DS Smith Plc.

A complete list of subsidiary companies will be included in the next annual return.

33 Post balance sheet events

On 20 May 2004, the Office of Fair Trading announced that the acquisition of LINPAC Containers by the Group was to be referred to the UK Competition Commission for further inquiry. Information on this is included in the Chairman's Statement on page 4 and the Chief Executive's Review on page 6.

On 1 June 2004, the Group announced that it has agreed to acquire BPB Recycling, a recovered paper collection business, from BPB PLC, subject to clearance from the Office of Fair Trading.

FIVE YEAR FINANCIAL SUMMARY

	Year Ended 29 April 2000 £m	Year Ended 28 April 2001 £m	Year Ended 30 April 2002 £m	Year Ended 30 April 2003 £m	Year Ended 30 April 2004 £m
Turnover					
Paper and Corrugated Packaging	630.4	716.9	720.5	747.0	748.9
Plastic Packaging	113.2	146.3	171.9	195.0	208.7
Packaging	743.6	863.2	892.4	942.0	957.6
Office Products Wholesaling	419.4	485.0	500.5	495.6	498.8
Office Products Manufacturing	74.5	71.4	66.7	59.7	48.0
Intra-segment	*(19.8)*	*(20.5)*	*(19.4)*	*(18.3)*	*(15.9)*
Office Products	474.1	535.9	547.8	537.0	530.9
Group Turnover	1,217.7	1,399.1	1,440.2	1,479.0	1,488.5
Operating Profit					
Paper and Corrugated Packaging	37.1	51.5	51.2	53.1	50.5
Plastic Packaging	8.5	8.7	12.7	14.7	15.2
Packaging	45.6	60.2	63.9	67.8	65.7
Office Products Wholesaling	23.0	24.4	9.7	16.2	21.7
Office Products Manufacturing	(0.8)	0.3	(1.6)	4.0	1.4
Office Products	22.2	24.7	8.1	20.2	23.1
Group Operating Profit[1]	67.8	84.9	72.0	88.0	88.8
Associated undertakings[1]	(0.2)	(0.2)	2.2	2.6	3.0
Interest[1]	(9.9)	(12.5)	(11.6)	(10.9)	(10.4)
Profit before taxation, exceptional items and amortisation of intangibles	57.7	72.2	62.6	79.7	81.4
Exceptional items	*(8.5)*	*(4.3)*	*(32.4)*	*(8.5)*	–
Amortisation of intangibles	(0.6)	(1.1)	(1.4)	(2.2)	(3.6)
Profit before taxation	48.6	66.8	28.8	69.0	77.8
Free cash flow	*21.0*	*22.8*	*73.5*	*60.2*	*61.3*
Capital expenditure	55.3	75.8	74.8	57.4	49.8
Depreciation	57.0	60.4	63.6	62.2	64.5
Average capital employed[2]	*692.4*	*743.1*	*783.3*	*775.5*	*799.3*
Shareholders' funds	424.5	446.2	438.9	472.9	562.0
Net borrowings	162.4	193.4	195.9	202.3	274.7
Return on sales	5.6%	6.1%	5.0%	5.9%	6.0%
Return on average capital employed	9.8%	11.4%	9.2%	11.3%	11.1%
Gearing	38.3%	43.3%	44.6%	42.8%	48.9%
Earnings per share[1] [3]	12.5p	14.1p	13.1p	16.8p	16.9p
Dividends per share[3]	7.9p	8.2p	8.2p	8.2p	8.2p
Dividend cover	1.6x	1.7x	1.6x	2.0x	1.9x
Net assets per share[3]	123.4p	129.7p	127.5p	137.0p	145.2p

[1]Before exceptional items and amortisation of intangibles
[2]Average capital employed is defined in note 1 on page 44.
[3]Adjusted for the bonus element of the rights issue which took place during the year ended 30 April 2004.

NOTICE OF ANNUAL GENERAL MEETING 2004

Notice is hereby given that the Annual General Meeting of DS Smith Plc will be held at the Great Eastern Hotel, Liverpool Street, London EC2M 7QN, on Friday 10 September 2004 at 12 noon to consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 12 will be proposed as ordinary resolutions and resolutions 13 and 14 will be proposed as special resolutions:

1 To receive and adopt the Directors' Report, the Auditor's Report and financial statements for the year ended 30 April 2004.

2 To declare a final dividend on the ordinary shares.

3 To approve the Report on Remuneration.

4 To re-elect Mr A D Thorne as a Director of the Company.

5 To re-elect Mr R G Beeston as a Director of the Company.

6 To re-elect Mr D R Piette as a Director of the Company.

7 To elect Mr C J Bunker as a Director of the Company.

8 To elect Mr J-P Loison as a Director of the Company.

9 To re-appoint KPMG Audit Plc as Auditor of the Company.

10 To authorise the Directors to determine the remuneration of the Auditor.

11 That:

(a) the DS Smith Long-Term Incentive Plan (the 'Plan'), the main features of which are summarised on pages 65-66, be approved and the Directors be authorised to do all such acts and things as they may consider necessary or expedient to carry the Plan into effect; and

(b) the Directors be authorised to establish such schedules to the Plan as they may consider necessary in relation to employees in jurisdictions outside the UK, with such modifications as may be necessary or desirable to take account of local securities laws, exchange control and tax legislation, provided that any shares made available under such schedules must be treated as counting against the relevant limits on individual participation and overall participation in the Plan.

12 That:

(a) in accordance with Article 6 of the Articles of Association of the Company, the Directors be authorised to allot relevant securities up to a maximum nominal amount of £10,844,341;

(b) this authority shall expire on 9 September 2009 save that the Company shall be entitled under such authority to honour at any time before expiry thereof any commitment to allot its ordinary shares which will or might be concluded wholly or partly after the expiry of such authority; and

(c) all previous authorities under Section 80 of the Companies Act 1985 be revoked.

13 That:

(a) in accordance with Article 7 of the Articles of Association of the Company, the Directors be given power to allot equity securities for cash;

(b) for the purposes of paragraph (1)(b) of Article 7 of the Articles of Association of the Company, the nominal amount to which this power is limited (other than in connection with a rights issue) is £1,936,489;

(c) this power shall expire on 9 September 2009 save that the Company shall be entitled under such authority to honour at any time before expiry thereof any commitment to allot its ordinary shares which will or might be concluded wholly or partly after the expiry of such authority; and

(d) all previous authorities under Section 95 of the Companies Act 1985 be revoked.

14 That in accordance with Article 11 of the Articles of Association of the Company and the Companies Act 1985, the Company is generally and unconditionally 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 38,728,840 ordinary shares;

(b) the minimum price which may be paid for each ordinary share is 10p (exclusive of expenses payable by the Company);

(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 five business days immediately preceding the date of any such purchase (exclusive of expenses payable by the Company); and

(d) the authority hereby conferred shall, unless previously varied, revoked or renewed, expire on 9 March 2006 or, if earlier, at the conclusion of the next Annual General Meeting of the Company, 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.

By Order of the Board

Carolyn Cattermole
Secretary
4-16 Artillery Row
London SW1P 1RZ
14 July 2004

C.T. Catt

Notes

(i) Only those members registered in the Register of Members of the Company as at 6 pm on 8 September 2004 shall be entitled to attend and 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 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, will be available for inspection at the registered office of the Company during normal business hours on any weekday (Public Holidays excepted) and at the place of the Meeting, from 11.45am until the conclusion of the Meeting.

(v) Mr R G Beeston is Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees of the Board. Mr C J Bunker is a member of the Audit and Remuneration Committees of the Board. Mr D R Piette is a member of the Remuneration Committee. Mr A D Thorne is a member of the General Purposes and Nomination Committees of the Board.

(vi) The Chairmen of the Audit, Remuneration and Nomination Committees will be available to answer relevant questions at the Meeting.

Explanatory notes on the resolutions

Resolution 1:
Report and financial statements
The Directors present to shareholders at the AGM the Reports of the Directors and Auditor and the financial statements of the Company for the year ended 30 April 2004. These are contained in the Annual Report.

Resolution 2:
Declaration of a final dividend
Final dividends declared by shareholders must not exceed the amount recommended by the Directors. By passing Resolution 2, shareholders will declare a final dividend. The amount of the final dividend recommended by the Directors is 5.6p net per ordinary share.

Resolution 3:
Approval of Report on Remuneration
As required by the Directors' Remuneration Report Regulations 2002, shareholder approval is sought for the Report on Remuneration set out on pages 28 to 34.

Resolutions 4-8:
Re-election of Directors
The Articles of Association of the Company require that all Directors retire at least once every three years but are eligible to submit themselves for re-election by the shareholders. The Directors who retire at each AGM are those who would otherwise have served for over three years without re-election by the date of the following AGM.

Mr Beeston and Mr Thorne will retire and, being eligible, offer themselves for re-election at this year's AGM. Mr Piette is submitting himself for re-election as he has served more than three terms of appointment.

The Articles of Association of the Company require that a Director appointed since the previous AGM shall be subject to election by the shareholders. Mr Bunker and Mr Loison were appointed Directors with effect from 9 December 2003 and, in accordance with the Articles, they both retire from office at the Meeting. Being eligible they offer themselves for election.

A short biography of each Director, including those seeking re-election and election, appears on page 22 of the Annual Report. Mr Thorne has a service contract with the Company which may be terminated by the Company on giving 12 months' written notice. Mr Loison has a Letter of Appointment with the Company and a service contract with the Company's subsidiary, Kaysersberg Packaging S.A.S., which may be terminated by the Company or Kaysersberg Packaging S.A.S. respectively on giving 12 months' written notice.

Resolutions 9 and 10:
Re-appointment of Auditor
The auditor of a company must be re-appointed at each general meeting at which accounts are presented. Resolution 9 proposes the re-appointment of the Company's existing Auditor, KPMG Audit Plc, until the next AGM. Resolution 10 gives authority to the Directors to determine the Auditor's remuneration.

Resolution 11:
Approval of new Long-Term Incentive Plan
The rationale for the introduction of the new Long-Term Incentive Plan is set out in the Report on Remuneration on page 29. The operation of the Plan will be supervised by the Remuneration Committee of the Board (the 'Remuneration Committee').

(a) Eligibility
The Remuneration Committee has discretion to grant awards under the Plan ('Awards') to any employee (including an executive director) of the Company or any of its subsidiaries (the 'Group') who is required to devote substantially the whole of his working time to his employment and is not within six months of his anticipated retirement date.

(b) Grant of Awards
Awards will be over ordinary shares in the Company ('Shares'). Subject to the exceptional circumstances referred to below, their vesting will be contingent on the satisfaction of a specified performance target and the continued employment of the participant with the Group.

Awards may be granted at any time within the six-week period following the date on which the Plan is approved by the Company in general meeting and thereafter in any six-week period following the announcement of the Company's results or at any other time when the circumstances are considered to be exceptional by the Remuneration Committee. No payment is required from participants for either the grant of an Award or when an Award vests.

An Award will not generally vest before the specified performance target has been met at the end of the period of three financial years beginning with the year in which Awards are made. The extent to which the performance target is met will determine the number of Shares under the Award which will vest.

(c) Performance targets
The performance target for the initial Awards will relate to the Company's total shareholder return performance relative to companies in the FTSE Mid 250 Index, excluding investment trusts. Total shareholder return takes into account both share price performance and dividend payments, and will be averaged over the two-month periods immediately before the beginning and end of the performance period in order to minimise the impact of short-term price fluctuations.

The performance targets which will apply for Awards granted in 2004 are set out in the following table.

Total Shareholder Return Ranking	% of Award Vesting
Upper Quartile	100%
Median	30%
Median-Upper Quartile	30%-100% (pro rata, on a straight-line basis)
Below Median	Nil

In addition, no Awards will vest unless the Company's earnings per share growth is at least equal to the increase in the Retail Prices Index over the performance period.

Only a single test will be made at the end of the three year performance period, and no re-testing will be permitted.

Performance targets on existing awards may be amended to ensure that they remain appropriate, provided that the amended targets are no less or more challenging than the initial ones.

The Remuneration Committee will regularly monitor the continuing suitability of the performance targets and may impose different targets on Awards granted in subsequent years, provided that they are no less challenging.

(d) Individual limit
No individual may receive an Award over Shares which have an aggregate market value when the Award is granted which is more than 100 per cent of his annual rate of basic salary. In the event that any individual is granted both options under the Company's executive share option scheme and Awards under the Plan in the same financial year, the aggregate market value of Shares granted under his Award for that year will not exceed 75 per cent of his salary, other than in exceptional circumstances such as high level recruitment or promotion (in which case the 100 per cent of salary limit will apply to his Awards).

(e) Limits on the issue of Shares under the Plan
No Award may be granted under the Plan if, as a result, the aggregate number of Shares issued or issuable pursuant to grants made during the previous 10 years under the Plan and all other executive share schemes established by the Company would exceed 5 per cent of the issued ordinary share capital of the Company from time to time, or more than 10 per cent of the issued ordinary share capital of the Company when aggregated with grants made under all of the Company's employee share schemes. Any treasury Shares used in the Plan will count against these limits.

The Plan may use Shares purchased in the market and held by an employee benefit trust, but it is not intended that such trust will hold more than 5 per cent of the Company's issued ordinary share capital at any time.

(f) Vesting of Awards
An Award will normally vest on the third anniversary of its grant date to the extent that the applicable performance condition has been satisfied and provided that the participant is still an employee of the Group. However, where a participant leaves due to:

- death; or
- injury or disability evidenced to the satisfaction of the Remuneration Committee; or
- statutory redundancy; or
- retirement at or after contractual retirement age or early retirement with the consent of the Remuneration Committee; or
- the company employing the participant ceasing to be a member of the Group, or the business in which the participant works being transferred to a person who is not a member of the Group; or
- any other reason that the Remuneration Committee in its discretion so permits;

then Awards may vest immediately. However, the number of Shares under an Award which vest in these circumstances will depend upon the extent to which the performance targets are satisfied at that time unless the Remuneration Committee decides otherwise in exceptional circumstances.

(g) Delivery of Shares on vesting
Once a participant's Award has vested, the relevant number of ordinary shares in the Company will be delivered to the participant as soon as practicable.

(h) Change of control
In the event of a takeover, reconstruction, amalgamation or winding-up of the Company, all subsisting Awards will vest immediately to the extent the performance conditions are satisfied when measured up to the date of the relevant event. Awards will be pro-rated to time unless the Remuneration Committee decides otherwise in the circumstances.

(i) Variation of share capital
In the event of any variation in the share capital of the Company prior to the vesting of an Award, including a capitalisation issue, a rights issue, a sub-division or consolidation of shares, a reduction in capital or a demerger, the payment of capital dividend or similar event affecting the Company, the Remuneration Committee may make such adjustments to the number of shares subject to Awards as it considers appropriate.

(j) Rights relating to the Awards
Awards shall not confer the right to vote the Shares under them or receive any dividends or any other rights in respect of those Shares until the Shares under the Awards have been allotted or transferred to the participant following vesting.

Shares issued pursuant to the Plan shall rank pari passu in all respects with the ordinary shares already in issue except that they will not rank for any dividend or distribution paid or made by reference to a record date falling prior to the date the shares are transferred to participants.

Benefits obtained under the Plan will not be pensionable, and Awards are not assignable or transferable (except in the event of death, when they may be assigned to the participant's personal representatives).

(k) Amending the rules of the Plan
The Remuneration Committee may amend the Plan provided that the prior approval of the Company in general meeting will be required for any amendment to the advantage of participants to those provisions of the Plan relating to eligibility, the limitations on the number of Shares subject to the Plan, a participant's maximum entitlement, the basis for determining a participant's entitlement under the Plan and the adjustment of Awards in the event of a variation in capital, except in the case of minor amendments to benefit the administration of the Plan, to take account of changes in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any member of the Group.

(l) Overseas jurisdictions
Additional schedules to the rules may be incorporated to operate outside the UK. These schedules may vary the rules of the Plan to take account of any securities law, exchange control or taxation laws or regulations. Any shares made available under such schedules will count against the relevant limits on individual participation and overall participation in the Plan.

(m) Termination
The Plan may be terminated at any time by resolution of the Board or of the Company in general meeting and shall in any event terminate on the tenth anniversary of the date on which the Plan is approved by the Company in general meeting. Termination will not affect the outstanding rights of participants.

Resolution 12:
Directors' authority to allot shares
Authority was granted to the Directors at last year's AGM, pursuant to Section 80 of the Companies Act 1985, to allot shares in the Company without the prior consent of shareholders for a period of five years. Resolution 12, which will be proposed as an ordinary resolution, will, if passed, give

the Directors renewed authority to allot shares up to a maximum nominal value of £10,844,341 (representing 28 per cent of the issued share capital of the Company at 23 June 2004).

Other than in connection with any exercise of options under the Group's employee share option schemes, the Directors have no present intention of exercising the allotment authority proposed by this Resolution. The authority will expire on 9 September 2009, except in so far as commitments to allot shares have been entered into before that date. It is the present intention of the Directors to seek a similar authority annually.

Resolution 13:
Directors' power to disapply pre-emption rights
This Resolution, which will be proposed as a special resolution, supplements the Directors' authority to allot shares in the Company (proposed by Resolution 12).

Section 89 of the Companies Act 1985 requires a company proposing to allot equity securities for cash to offer them first to existing shareholders pro rata to their existing shareholdings. Authority was granted to the Directors at last year's AGM and the Directors propose to seek shareholders' approval to renew this authority, pursuant to Section 95 of the Companies Act 1985, to allot such securities, notwithstanding the requirement imposed by Section 89, in two cases:

- in connection with a rights issue; and
- allotments of shares for cash up to a total nominal value of £1,936,489 (representing 5 per cent of the Company's issued share capital at 23 June 2004). This gives the Directors flexibility to take advantage of business opportunities as they arise, whilst the 5 per cent limit ensures that existing shareholders' interests are protected, and is in line with guidelines issued by institutional investors' bodies.

This authority will expire on 9 September 2009, except in so far as commitments to allot shares have been entered into before that date. It is the present intention of the Directors to seek a similar authority annually.

Resolution 14:
Company's authority to purchase shares
This Resolution, which will be proposed as a special resolution, seeks to renew the existing authority for the Company to purchase its own shares in the market. This authority gives the Company greater flexibility in managing its capital resources. The Directors have no specific intention of using this authority and would do so only when, in the light of market conditions, they believed that the effect of such purchases would be to increase earnings per share, and that the purchases were in the interests of shareholders generally. The Directors would also give careful consideration to gearing levels of the Company and its general financial position. The purchase price would be paid out of distributable profits. Any shares purchased under this authority will be cancelled and the number of shares in issue will be reduced accordingly.

Resolution 14 specifies the maximum number of shares which may be purchased (representing 10 per cent of the Company's issued share capital at 30 April 2004), the minimum and maximum prices at which they may be bought and when the authority will expire, reflecting the requirements of the Companies Act 1985 and the Listing Rules of the UK Listing Authority.

The maximum price at which the shares may be purchased is 5 per cent above the average of the middle market values of those shares for the five business days before the purchase is made.

Purchases of shares under the proposed authority are required by the UK Listing Authority to be made in compliance with The Model Code for securities transactions by directors of listed companies. Accordingly, the Company would not exercise the authority at a time when the Directors would be precluded from dealing in the Company's shares. Specifically, purchases would not be made within the two months preceding the announcement of the interim or final results. This proposal should not be taken as an indication that the Company would purchase shares at any particular price or to imply any opinion on the part of the Directors as to the market or other value of the Company's ordinary shares.

The total number of ordinary shares that are under option through the Company's share option schemes at 23 June 2004 (being the latest practicable date prior to publication of this notice) is 13,248,235 of which 11,968,775 are options over unissued ordinary shares. The proportion of issued ordinary share capital that the options over unissued ordinary shares represented on this date was 3.09% and the proportion of issued ordinary share capital that they will represent if the full authority to purchase shares (existing and being sought) is used is 2.81%.

The authority will expire on 9 March 2006 or at the conclusion of the next AGM (whichever is the earlier). It is the present intention of the Directors to seek a similar authority annually.

Important notes about the Annual General Meeting

Date
Friday 10 September 2004.

Location
Great Eastern Hotel, Liverpool Street, London EC2M 7QN.

Timing
The Meeting will start promptly at 12 noon and shareholders wishing to attend are advised to be in the venue no later than 11.50 am. The reception area will be open from 11.30 am, from which time refreshments will be served.

Travel information
See map on the reverse of Admittance Card for the location of the Great Eastern Hotel, and the nearest underground and railway stations. The venue is less than five minutes' walk from Liverpool Street station. There are no car parking facilities at the venue.

Admission
Please bring the Admittance Card with you to the Meeting. You may be asked to show the Card before being admitted to the venue. Shareholders and proxy holders may also be required to provide proof of identity. The registration process may take longer without these documents.

Facilities
The Great Eastern Hotel has wheelchair access. If you are planning to come to the Meeting and are a wheelchair user, it would be helpful if you would telephone the venue in advance on 020 7618 5618.

Enquiries and questions
Shareholders who intend to ask a question related to the business of the Meeting are asked to provide their name, address and question at the Registration desk. Staff from Lloyds TSB Registrars will be on hand to provide advice and assistance.

SHAREHOLDER INFORMATION

Financial diary

24 June 2004
Preliminary announcement of results for the year ended 30 April 2004

18 August 2004
Ex-dividend date for final dividend

10 September 2004
Annual General Meeting

21 September 2004
Payment of final dividend

8 December 2004*
Announcement of interim results for the six months ended 31 October 2004

2 February 2005*
Ex-dividend date for interim dividend

8 March 2005*
Payment of interim dividend

30 June 2005*
Preliminary announcement of results for the year ended 30 April 2005

*Provisional date

Company website
The Company's website at www.dssmith.uk.com contains the latest information for shareholders, including press releases and an updated financial diary. Email alerts of the latest news, press releases and financial reports about DS Smith may be obtained by registering for the email news alert service on the website.

Share price information
The latest price of the Company's ordinary shares is available from the FT Cityline service. Calls within the UK are charged at 60 pence per minute at all times. The telephone number is 0906 843 4044. Alternatively click on www.londonstockexchange.com. DS Smith's ticker symbol is SMDS. It is recommended that you consult your financial adviser and verify information obtained from these services before making any investment decision.

Registrar
Please contact our Registrar at the address below to advise of a change of address or for any enquiries relating to dividend payments, lost share certificates or other share registration matters.

The Registrar provides on-line facilities at www.shareview.co.uk. Once you have registered you will be able to access information on your DS Smith Plc shareholding, update your personal details and amend your dividend payment instructions on-line without having to call or write to the Registrar.

Dividends
Shareholders who wish to have their dividends paid directly into a bank or building society account should contact the Registrar. In addition, the Registrar is now able to pay dividends in 35 foreign currencies. This service is called 'TAPS' and enables the payment of your dividends directly into your bank account in your home currency. A charge of £2.50 is deducted from each dividend payment to cover the costs involved. Please contact the Registrar to request further information.

Share dealing services
The Registrar offers a real time telephone and internet dealing service. Further details including terms and rates can be obtained by logging on to the website at www.shareview/dealing.co.uk or by calling 0870 850 0852. Lines are open between 8.30 am and 4.30 pm, Monday to Friday.

Cazenove operates a low cost share dealing service for private investors who wish to buy or sell ordinary shares of the Company. This is an execution-only service and further details can be obtained from The Share Dealing Service, Cazenove & Co. Ltd, 20 Moorgate, London EC2R 6DA. Telephone 020 7606 1768. Please note there is a minimum level of £500 for investment in shares using this service.

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