Annual report & accounts 2017

Redefining Packaging

Contents

Our business

DS Smith is a leading provider of corrugated packaging in Europe and of specialist plastic packaging worldwide. We create sustainable value by working in balance, to develop our business, our people and our environment.

Our vision

To be the leading supplier of sustainable packaging solutions.

Our culture

We have a clear set of values that we expect all of our employees to own and live by.

Be caring
We take pride in what we do and we care about our customers, our people and the world around us.

Be challenging
We are not afraid to constructively challenge each other and ourselves to find a better way forward.

Be trusted
We can always be trusted to deliver on our promises.

Be responsive
We seek new ideas and understanding and are quick to react to opportunities.

Be tenacious
We get things done.

Redefining packaging

To realise our vision, we are redefining packaging to respond to the trends and changes in our markets and to help our customers realise their full potential.

Consumer and retail environments are dynamic

See page 2

Customer requirements are changing

See page 4

Our insight and innovation deliver best-in-class packaging solutions

See page 6

Consumer and retail environments are dynamic

Superior market insight

- Sale of goods via e-commerce is showing double-digit growth in Europe
- Consumers are making more frequent, smaller shopping trips
- Discount and convenience stores are gaining market share
- There are numerous methods for products being delivered in the 'last mile'
- There is an opportunity for personalised packaging, to enhance the impact of the product

€252bn
goods sold via e-commerce in Europe

4.2bn
parcels sent per annum in Europe

Find out more about our market on page 16

> "Rapid growth in e-commerce is driving change and adaptation of packaging. This is a great opportunity for DS Smith to develop packaging solutions that add value for our customers."

Isabel Rocher
Head of e-commerce packaging

Customer requirements are changing

Understanding customer needs

- The e-commerce supply chain is much more complex than that for traditional retail due to the increased number of touch-points throughout the distribution chain
- Packaging for e-commerce needs to both protect and promote the product
- Product manufacturers and retailers have not yet optimised their processes for e-commerce
- Eliminating void space in e-commerce will substantially reduce costs
- Personalisation of packaging can potentially enhance product retention rates

55%
average empty space in an e-commerce package

€4bn
potential saving in transportation costs across e-commerce in Europe, using right-sized packaging

Find out more about how we are thinking about the future on page 17

"Achieving packaging for e-commerce that is the correct size for the product will create huge savings through more efficient distribution and will improve the consumer experience."

Chiara Covone
Innovation Director

Our insight and innovation deliver best-in-class packaging solutions

Adding value for our customers

- DS Smith has a large network of designers and innovation experts, who work closely with our customers
- DS Smith partners with e-commerce leaders to set industry standards
- PackRight Centres and Impact Centres offer a route to engage with both customers and retailers about how packaging can help them sell more, reduce costs and manage their risks

27
PackRight Centres

9
Impact Centres

Find out more about our customers on page 12

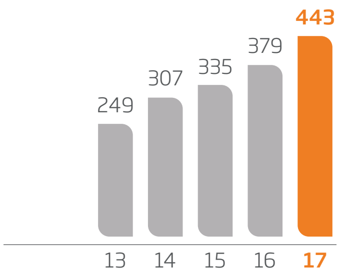
> "Impact Centres provide consumer and retailer insights and inspire our customers by demonstrating how excellent packaging can help them. In our PackRight Centres, we work together with our customers as a team across all disciplines, from marketing to logistics, to achieve a solution that everyone buys into."

Per Frederiksen
Managing Director, Market Activation

2017 operational and financial highlights

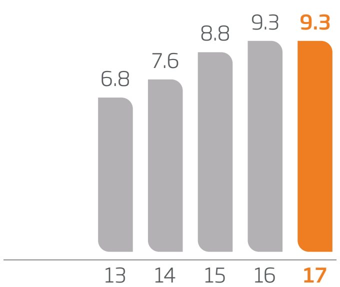
Operating profit[1] (£m)

£443m



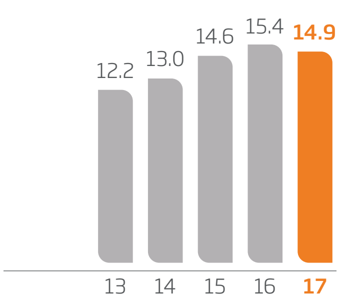
Return on sales[1] (%)

9.3%



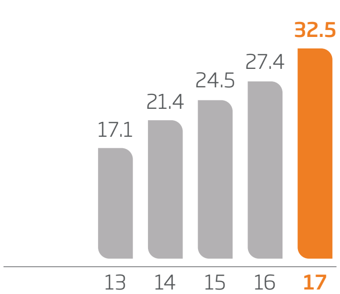
ROACE[1] (%)

14.9%



Earnings per share[1] (p)

32.5p



1 Before exceptional items and amortisation.

Expanding our business

In November 2016 we grew our business with the addition of a new, state of the art, point of sale and display packaging manufacturing site in Germany. We have also invested in our technical capability with the development of digital pre-print solutions. In addition we spent £85 million in 2016/2017 on acquisitions to expand our packaging business in Iberia,to develop our European point of sale and display business, and to expand our plastic business (see below), in total welcoming over 800 new colleagues to the Group.

Award-winning packaging

DS Smith won 12 Worldstar packaging awards, which is the most prestigious industry award, the largest number of any supplier. The award wins demonstrate the depth and breadth of expertise at DS Smith, recognising work across the whole of Europe and in a number of industries. DS Smith has also won numerous awards from its customers around Europe, including the Nestlé Relationship Excellence award in Germany, and six awards from Mars for outstanding quality in supply.

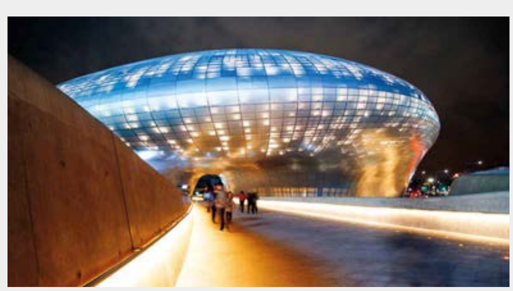
Employee charter

We have signed an employee charter with our European Works Council, enshrining DS Smith's commitment to, and expectations of, our employees.

See page 26 for more about the charter

Investing in plastic packaging

DS Smith Plastics acquired Parish Manufacturing – a leading provider of bag-in-box solutions in North America. The acquisition complements DS Smith's expertise and leading position in the Flexible Packaging and Liquid Dispensing markets under its Rapak™ brand.



Thought leadership

In autumn 2016, we published a set of scenarios about how the consumer environment might change, and what the impact on both retail and packaging by 2025 might be.

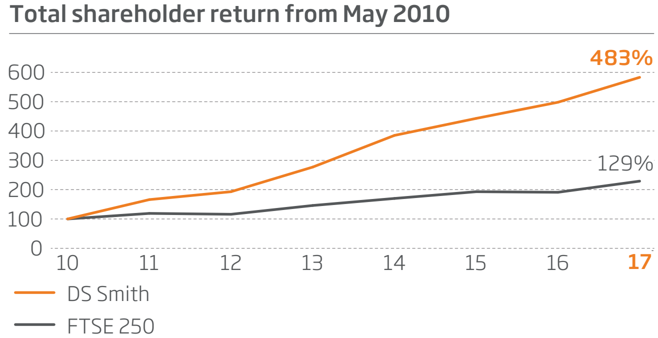
Download our scenarios booklet or watch the video:
http://www.dssmith.com/packaging/strategists/our-vision/rehearsing-the-future

Performance

2016/17 has been another year of delivery against all our targets and of growth by DS Smith. We have grown the business both organically and by acquisition, and continued to invest in areas where we see the greatest opportunities, such as display packaging and e-commerce packaging.

In the past financial year, we have invested £85 million in targeted acquisitions, expanding our expertise and geographic coverage. All acquisitions are rigorously assessed against our financial criteria to ensure that they will deliver value to shareholders. These acquisitions follow on from the previous year when we expanded our businesses in Iberia and south eastern Europe substantially. As those businesses have now been owned for around two years, it is gratifying to see that they are now an integral part of the overall DS Smith business. We work hard to ensure that all colleagues understand from the outset how they and their work fits into the overall aims of the Group, and that can be seen from the excellent growth in those new regions.

Total shareholder return from May 2010



When we invest, financial discipline is paramount, and I am pleased to report that we have once again achieved all our financial targets, with our return on average capital employed at the top of our range, at 14.9 per cent, and I am delighted with this result.

Proposed acquisition in the US

Today, DS Smith is announcing that it has entered into a conditional agreement to acquire 80 per cent of the total issued share capital of Interstate Management Resources, Inc for US$920 million plus assumed debt of c. US$226 million. Interstate is a family-owned integrated packaging and paper producer concentrated on the East Coast of the United States, operating from 19 production sites and having approximately 1,500 employees. There are detailed announcements available on our website. I am delighted, because we have seen significant customer pull for our innovative packaging solutions in the US and are excited by the opportunity to grow and support our customers' needs over a wider geographic area. It is a further important step in our strategy, representing an attractive US market entry point and strengthening DS Smith's global supply chain, and we look forward to working with all Interstate stakeholders and contributing to the overall growth of DS Smith.

Dividend

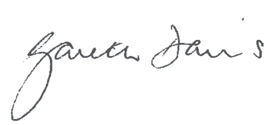
For the year 2016/17, the Board recommends a final dividend of 10.6 pence, which together with the interim dividend of 4.6 pence gives a total dividend for the year of 15.2 pence per share (2015/16: 12.8 pence per share). This represents an increase of 19 per cent on the prior year and cover of 2.1 times in relation to adjusted earnings per share (before amortisation and exceptional items), in line with our policy.

Delivering sustainable value

Since May 2010, under current leadership, the business has consistently delivered growth and returns. Total shareholder return, which is a measure of growth in the share price combined with the benefit of reinvested dividends, has grown 483 per cent, considerably out-stripping the FTSE 250 at 129 per cent over the same period. Adjusted EPS has grown at a compound annual rate of 28 per cent over the same period, with the dividend per share growing at 25 per cent.

Outlook

On behalf of the Board, I would like to welcome colleagues who have joined in the year and to thank everyone throughout DS Smith for their commitment over the past year. That hard work has delivered these excellent results, with more customers than ever looking to DS Smith for their sustainable packaging solutions. The Board has great confidence in the future.



Gareth Davis
Chairman

See page 46 for a Q&A with our Chairman, Gareth Davis

Building a customer-focused international packaging solutions business

DS Smith is a leading provider of corrugated packaging in Europe and of specialist plastic packaging worldwide, supported by paper and recycling operations.

UK

£962m
Revenue

c. 4,900
Employees

DCH[1] and Northern Europe

£989m
Revenue

c. 4,700
Employees

1 Germany and Switzerland

Western Europe

£1,264m
Revenue

c. 6,300
Employees

Central Europe and Italy

£1,239m
Revenue

c. 7,900
Employees

Plastics

£327m
Revenue

c. 1,900
Employees

For a more in-depth look at our business see page 20 and the operating review on page 31

In Europe our corrugated packaging business operates in four geographic segments. Recycling and paper form an integrated part of our operations.

Plastic packaging is a global business with manufacturing sites in the US, in Europe and in Asia Pacific. Its products are sold globally.

37
countries worldwide

9
Impact Centres

27
PackRight Centres

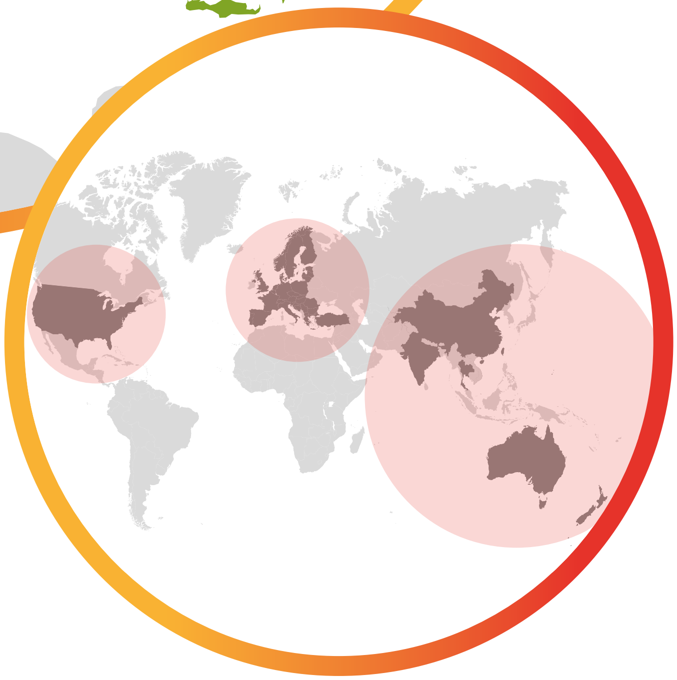
c. 200
packaging manufacturing sites

9
paper mills

Global consultancy and sourcing capability

We have an independent packaging consultancy business, to help our customers make their packaging design work better for their brands by enhancing product utility and reducing environmental impact. Our consultants offer a global solution from offices based in the UK, Belgium, the US, India and China.

We also offer global sourcing support through our Total Marketing Support (TMS) operations for customers who seek a consistent approach from their packaging sourced in regions beyond DS Smith's current manufacturing footprint.



North America

- Plastic packaging
- Packaging consultancy services

Europe

- Corrugated packaging
- Plastic packaging
- Packaging consultancy services

Asia

- Corrugated packaging sales office in Shanghai, China
- Packaging consultancy services in India and Hong Kong
- Plastic packaging in Thailand, Australia and New Zealand

High-quality customer relationships

Our packaging customers include many of the largest fast-moving consumer goods (FMCG) companies, owners of some of the world's best-known branded products, and leading industrial businesses. Our recycling business serves major retail groups.

Our customer profile

FMCG and food customers comprise just over two thirds of our business. These customers produce products commonly sold in supermarkets, convenience stores, other retail outlets, or over the internet. Just under ten per cent of our business is related to other consumer-related products, for example consumer electronics, automotive or pharmaceuticals. The remainder of our business services other industrial customers trading in products such as bulk chemicals, where packaging may help transport products safely and securely in large quantities.

Long-standing partnerships drive value for both parties

- Volume growth among our pan-European customers has been a consistent driver of Group growth, as large customers look for a co-ordinated approach to their packaging.
- Long-standing supply partnerships drive value for both parties, as we can work together with customers to reduce their overall supply chain costs with innovative, efficient packaging.
- We have worked with many of our customers for over a decade.
- Our emphasis on FMCG customers means that the demand for our product is relatively consistent, as consumption of staple products tends to be less variable than discretionary items.
- We have a high quality diverse customer base which is not reliant on any single customer. Our largest packaging customer represents less than 3 per cent of Group revenue and our top-20 packaging customers comprise c. 13 per cent of Group revenue.

FMCG and food
Grocery
Home and personal care
Beverages
Tobacco
Agriculture

Other consumer related products
Pharmaceutical
Electronics
Automotive

Other industrial
Machinery
Chemicals
Construction

Our plastic packaging customers

Our three principal types of plastic packaging are used by a range of customers in our key market sectors:

Market	flexible packaging	rigid packaging	foam products
Beverage	●	●	
Pharmaceutical	●	●	●
Automotive	●	●	●
Fresh produce	●		●
Construction		●	●
Retail	●	●	●

Find out more about our plastics (and packaging) business on our website: www.dssmith.com

> "Packaging is an essential part of everyday life, and changes in the consumer environment are making it more relevant than ever."

Miles Roberts
Group Chief Executive

Redefining packaging

Watch the full year results interview:
www.dssmith.com/investors/results-and-presentations

Q What do you mean by 'redefining packaging'?

Packaging is an essential part of everyday life and changes in the consumer environment are making it more relevant than ever. Packaging is also playing an increasing role in the sale of an item, and, in the case of e-commerce, needs to convey the brand and quality proposition of an item in the way that traditionally a shop has done. In that respect, packaging is fast becoming the new advertising, as demonstrated by the move of marketing budgets away from traditional media to in-store marketing. It also plays an essential role in the smooth running of the supply chain – the process of getting goods from the manufacturer into the hands of the consumer. As that supply chain gets more complex, so the requirements for smart packaging increase. I see the opportunities for packaging continuing at an even faster pace and therefore it is an opportunity for DS Smith, as a leader in the industry, to redefine packaging to meet these new requirements.

From left to right: Colin McIntyre (Head of Paper and Recycling), Stefano Rossi (Head of Corrugated Packaging), Mark Smith (Head of Plastics)

Function business heads

Our corrugated packaging business is operated on a regional basis, with packaging, paper and recycling integrated in order to maximise efficiencies between them. In order to ensure consistency of approach to customers and the highest possible operational performance, we also have function heads for corrugated packaging, and for paper and recycling. Plastics is operated separately from fibre-based packaging.

Q DS Smith aims to be a leader in sustainable packaging solutions – what does being a leader mean?

In addition to building market share in the short term, at DS Smith we are looking to the long-term. Thought leadership is important, and by that I mean challenging ourselves to think about the future, so that we can anticipate changes in the world around us and how they might impact the business. This is key to a sustainable business. This year, our strategy team has developed a set of scenarios that have helped us think about the future five to 10 years hence, and I encourage you to watch the short videos on our website, that summarise some of those themes. These cover a wide range of potential influences on our business, from the rise in e-commerce, social pressure for zero packaging, potential regulatory or legislative pressure around the use, reuse and recycling of raw materials, to the changes in global demographics. These all have the potential to materially influence the business environment in the years to come, both positively or negatively. We use this work to inform our medium-term planning and risk analysis too.

www.dssmith.com/packaging/strategists/our-vision/rehearsing-the-future

Q Culture and values are important to all companies, but can be hard to pin down. What does DS Smith do that demonstrates your approach?

We put substantial work into communicating with employees so that they understand our strategy and are kept up to date with what is going on in the business. When we buy businesses, this process is particularly important as the successful integration of a business depends on the commitment of both DS Smith employees and our new colleagues, and we all recognise that change can sometimes be a challenge. I am particularly pleased with the way that the businesses acquired over the last two years have been integrated. As an example, Duropack was acquired in July 2015 and initially lagged behind the Group on certain employee engagement measures. We have worked together over the period implementing our 'Engaging Managers' programme, and I was delighted to see, in the employee survey conducted in the autumn of 2016, that this region is now leading the way, in a Group context. It is a great example of many of our corporate values, such as caring, responsiveness and tenacity, contributing to the business being a success.

Q What might be the impact of Brexit on DS Smith?

Within Europe DS Smith has operations in 30 countries. The UK represented approximately 20 per cent of Group revenues in 2016/17. While the UK may be leaving the EU, it remains part of Europe, as do we. DS Smith does relatively little trade across the English Channel and customers are largely served locally by our broad network of sites across Europe, including those in the UK. From our perspective as a manufacturer and a large employer, we would like to see minimum barriers to trade and to the movement of labour, and we will work with whatever agreement is reached.

Q What are you most proud of in 2016/17?

The year has been one of consistent improvement and delivery against financial targets, against service targets, against health and safety targets, and against our own plans for integration of new businesses.

See page 22 for delivery against our KPIs

Health and safety is our number one priority and I am very proud of the improvements we continue to make. However, any accident is one too many and during the year a tragic accident in Germany resulted in the death of an employee. Our thoughts are with his family, friends and colleagues.

While the political world has changed a great deal over the last 12 months, we have kept focused on our business and continued to drive it forward. Our corporate values include responsiveness, trust and tenacity, and these have all been demonstrated, many times over, throughout the organisation, and by our whole workforce.

Read the Chief Executive's review on page 28

Responding to a changing environment

Packaging is integral to the efficient supply chains of our customers. Those customers are responding to changes in the consumer environment, which means that the packaging used needs to be designed to work optimally at every stage of the supply chain, from the point at which the product is packaged, to when it is in the customers' hands.

Market drivers	What's happening	The impact
Retail and e-retail	• High growth in e-commerce. • Traditional retail in a state of flux, with large format stores in decline and discount and convenience stores rising.	• Packaging becomes designed for e-commerce fulfilment at the outset, including being suitable for all elements of the supply chain and ultimately presentation to consumers as the packaging that is delivered to the home. • Packaging has to be adaptable to the needs of different store formats. • Increased importance of product presentation in the retail environment, which requires higher quality packaging.
Brands	• Large brands, while clearly still significant, are being challenged by micro-brands, for example those sold direct to customers on subscription. • Consumers seek a more personalised or customised product.	• Packaging can help to differentiate brands, large and small. • Packaging can offer personalisation. • Packaging can provide links to information about the product, both enhancing the product and providing details about its provenance.
Social pressure for zero packaging	• Packaging is still widely perceived as a problem, including excess packaging, voids in e-commerce, and unrecyclable materials that are badged as recyclable, for example disposable coffee cups.	• Packaging is required that is better designed to minimise void space and deliver value across the whole supply chain. • Recycled and recyclable packaging will be in greater demand, so long as this can be demonstrated and communicated.
Customers	• Customers are focusing on their end consumer and are seeking fewer, longer-term supply partners to drive efficiencies in their supply chains.	• Packaging businesses need to be able to work within complex supply chains to drive value. • Packaging businesses need to be able to serve customers across multiple manufacturing sites and countries.
Demographics	• Consumers are more interested in making their brand choice inside a store, rather than driven by advertising viewed at home online or through traditional media.	• Packaging needs to be more visually appealing and facilitate the primary product being chosen in store. • Point of sale packaging, i.e. temporary displays commonly used for promotional products which provide flexibility for retailers.

See page 22 for our strategic priorities

See page 39 for how we manage our risk

Our market environment

- The European corrugated packaging market is fragmented, with the top five corrugated packaging producers estimated to comprise around 40 per cent of the total European market.
- Plastic packaging is a global business with numerous niche products.

The DS Smith response

DS Smith is well positioned, as a leader in corrugated packaging in Europe, to respond to these trends. We are responding in four ways.

1. Focus on multinational capability

We continue to build our coverage of Europe, in order to serve customers who require a multinational solution for their packaging.

2. Focus on e-commerce packaging and point of sale

We are further building our expertise in this area with recruitment and allocation of resource within the business, and the acquisition of a number of businesses in 2016/17.

3. Focus on innovation, research and development

We are continuing our investment in Impact Centres and PackRight Centres with 12 opened in 2016/17 and a further 16 planned for 2017/18. We also have a collaboration with a research institute in Sweden, associated with Stockholm University, to lead the industry in paper science.

4. Implementation of our performance packaging programme

We are continuing our focus on optimal efficient use of fibre in packaging, both within our packaging business and in collaboration with our paper manufacturing operations.

Thought leadership at DS Smith

DS Smith has published a set of scenarios, which are the result of work considering the big trends that will forge the future to 2025 and what the consequences might be. They are not predictions, but they are plausible, and are radically different to today's business environment. We undertook this work because we believe we will not only thrive in that future, but also can shape it too. Please see our videos and brochure, available on our website (see link below).

1. Caring convenience

E-commerce creates consumer pressure to rethink packaging and logistics.

2. Everything is an experience

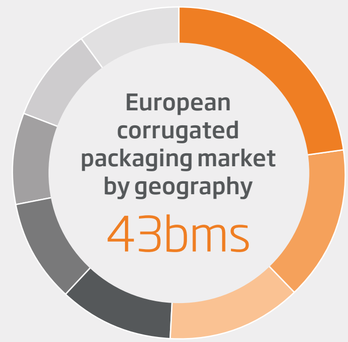
Consumers demand ever-more exciting experiences from brands.

3. Asian new deal

Led by China, the world's governments create a data-driven circular economy.

The results are in three short films and a brochure: www.dssmith.com/packaging/strategists/our-vision/rehearsing-the-future

Facts and figures

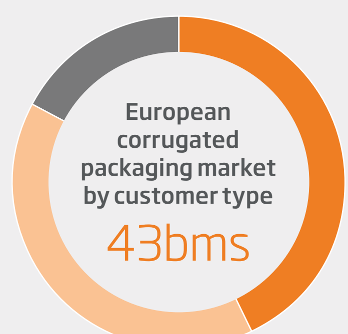


- Germany 23%
- Italy 15%
- France 13%
- Spain 11%
- UK 10%
- Poland 9%
- Turkey 9%
- Other 10%

Source: FEFCO 2015

- Testliner 23mt
- Kraftliner 5mt

Source: CEPI



- FMCG and agriculture 43%
- Industrial 40%
- Other consumer 17%

Source: FEFCO 2015

bms = billion metres squared

mt = million tonnes

ccm = corrugated case material

Our business model is focused on sustainable packaging

What we use

Financial capital
We are funded by a combination of shareholder equity, debt raised and cash flow generated by our operations, which is reinvested in the business.

Manufacturing capital
We have an extensive network of corrugated packaging manufacturing sites, paper mills, recycling depots, Impact Centres, PackRight Centres and offices throughout Europe and worldwide. DS Smith also utilises the infrastructure of the countries in which we operate, such as the transportation networks, energy providers and telecommunications.

Human capital
We employ approximately 26,000 people. We have an employee engagement programme, OWN IT!, designed to help align employees with the overall aims of the business, in order that all employees understand how their work contributes to the success of DS Smith.

Intellectual capital
As a leader in this industry we have substantial business know-how which is used throughout the Group. We own patents, for example for certain packaging design processes, in both corrugated and particularly plastic packaging.

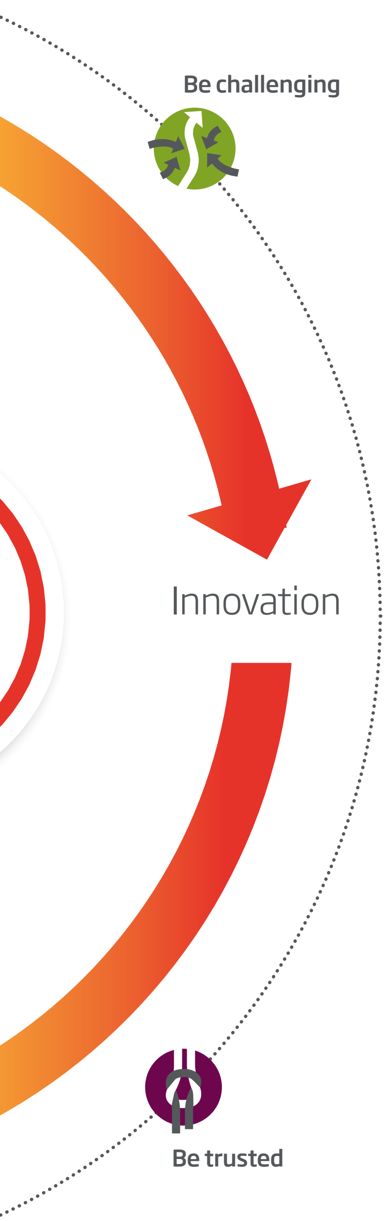
Social capital
We have a set of values that all employees are expected to follow in their interactions with other employees, customers, suppliers, and their communities.

We have very long-standing relationships with many of our customers, commonly 10 years or more. These relationships are built on mutual understanding and trust, based on our commitment to continue to provide excellence in our service and products.

Natural capital
We operate a highly sustainable model through the recycling of natural material, in particular wood fibre. We collect used fibre and use it to make paper for packaging, and then convert that paper into corrugated board, which is then made into packaging. After the packaging has been used, that board then goes back into the recycling process and the loop begins again. The paper-making process requires substantial amounts of water, so sites are typically situated close to a natural water source.

What we do

We use our insight and innovation to design the optimum packaging for our customers' supply chains, and then manufacture it to the highest standard.



Our business operations

Packaging Paper Recycling Plastics

See page 20 for more about our business

Insight

We work with many of the leading FMCG brand owners, major retailers and leading industrial companies. This breadth of interaction with businesses on a multinational basis, combined with our own expertise, means that we have considerable knowledge in how changing consumer and retail trends affect the role and use of packaging. We showcase our insight in our network of Impact Centres, designed to inspire our customers and help them understand how packaging can help them sell more, reduce their costs and manage their risk.

Innovation

Innovation in packaging design can help customers sell more (such as SalesFront®), reduce costs (such as Trayzer®) or manage their risks (such as interlocking, non-tip systems). Our network of designers work with customers to create innovative packaging solutions to meet their requirements. Best practice is shared internally and designers are coordinated across all our regions. In corrugated packaging, we also develop innovative machine solutions that build boxes at high speeds, which can significantly reduce costs and improve efficiency for customers.

Design

Using our network of 27 PackRight Centres, we design packaging that fulfils our customer requirements at all stages of their supply chain, including the manufacturing process, logistics, and marketing. We work collaboratively with our customers to come up with the optimum solution wherever their end market is.

Manufacturing

We manufacture corrugated packaging, plastic packaging and paper to a high standard, expertly designed for its purpose. For corrugated packaging, we manufacture corrugated board, then print, cut and glue the boxes, which are then shipped flat on pallets, ready for assembly and filling at our customers' factories. We have invested in the most advanced digital pre-printing capability in an exclusive relationship with Hewlett Packard. Plastic packaging is manufactured by us and supplied to our customers ready for filling. Our paper mills manufacture recycled corrugated case material (CCM) from old corrugated cases (OCC).

What we create

Returns

Returns for our equity holders and debt providers.

Assets

Cash to re-invest in our assets and our people.

Efficiency

Packaging that helps our customers drive cost inefficiencies out of their supply chains.

Opportunity

Employment, training and development opportunities for all our employees regardless of gender, race or age.

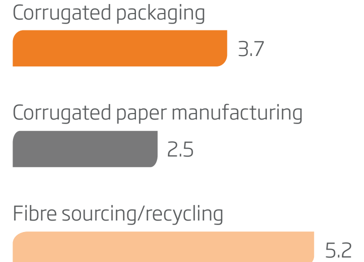
Supply cycle thinking

Thought leadership across the whole supply chain.

A strong culture

An engaged workforce that enhances the communities they operate in.

Balance of our business (million tonnes per annum)



Unless otherwise specified, all data regarding our operations, including sites, volumes and employee numbers, include all businesses acquired by 30 April 2017, with sales volumes stated on an annualised basis.

See page 22 for our strategic goals and KPIs

Our business operations

Packaging

We are a leading European packaging company of customer-specific corrugated packaging with an emphasis on leading edge design and the highest quality service in the geographies our customers demand. Our product portfolio includes transit packaging, consumer packaging, displays and promotional packaging, customised protective packaging and industrial packaging, providing solutions for each market requirement.

We operate along the whole supply-cycle, from the raw materials to the high-quality finished product. We offer our customers sustainable packaging which also helps them achieve their own sustainability targets.

Corrugated packaging is typically produced within c. 200km of its destination due to the requirements for just-in-time delivery and the cost of transport.

c. 21,000
employees

33
countries

Paper

We are a leading European manufacturer of high-quality recycled papers. Our papers are used by the packaging industry for conversion into board for making corrugated boxes. We also make some specialist paper grades such as plasterboard liner, all of which are from recycled material.

We operate a unique paper sourcing platform that coordinates the decisions around 'make, buy, sell' for the paper grades and quality required by our packaging business.

Paper is readily transportable and is traded globally.

c. 2,000
employees

8
countries

Recycling

We are the market leading fibre recycling and waste management company and the largest paper recycler in Europe, collecting c. 5.2 million tonnes annually.

Our customers rely on us to provide them with integrated solutions, with the aim of making 100 per cent of resources into something useful once more.

We harvest quality paper and cardboard for recycling from a range of sectors, including retailers, manufacturers, local authorities, print, recycling and waste management companies.

The recyclate we collect provides the most cost efficient raw material for the Group's paper making processes. We also sell recyclate to third parties globally.

c. 800
employees

9
countries

Plastics

Our plastics business comprises flexible packaging and dispensing solutions, extruded and injection moulded products, and foam products. We work with many of the world's leading companies in a diverse range of industries and markets.

Plastic packaging is a specialist market with numerous niche products.

Flexible packaging and dispensing solutions
Our product brands include Rapak™, a global leader in bag-in-box packaging and filling systems, and Worldwide Dispensers' high quality precision moulding and customer design solutions.

Extruded products
We design and manufacture extruded products such as corrugated plastic sheets and returnable transit packaging for a variety of industries.

Injection moulded products
We are a leader in Europe in the design and manufacture of plastic beverage crates, pallets, speciality trays and bulk containers.

Foam products
We design and manufacture foam moulded custom designed components and protective packaging.

c. 1,900
employees

13
countries

Our key differentiators

We are dedicated to providing great service, quality and innovation. We are able to do so because of the scale of our business and our investment in innovation and process improvement.

Pan-European scale – enables us to serve large customers efficiently on a multinational basis

- Our corrugated packaging presence throughout Europe enables us to serve customers locally and with short lead-times.
- Long-standing relationships with a wide range of multinational FMCG customers.

Investment in innovation – adding value to our customers

- Forward thinking approach.
- Network of PackRight Centres and Impact Centres.
- Intellectual property and know-how.
- Collaboration with leading universities.

Total value approach – aligns us with our customers who seek to maximise their efficiency

- Sell more, reduce costs, manage risk.
- 'Performance packaging' approach.
- Supply chain and market insight consultancy services.

We help our customers achieve more

More sales

Range, availability, activation, promotional success and more

Lower cost

Driving out waste, cost and carbon in packing, warehousing and distribution

Managed risk

Security, future proofing, sustainable practice and regulatory compliance

Our people

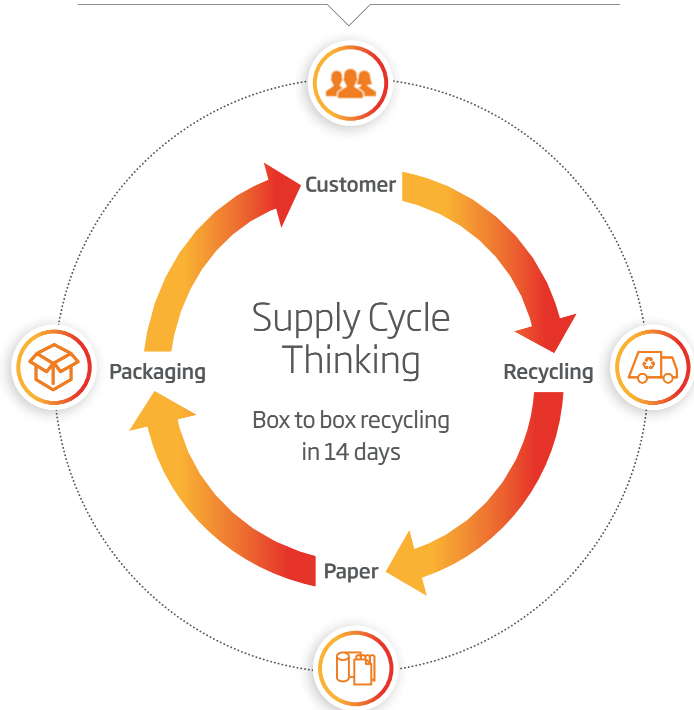
We employ dedicated, skilled and motivated people, and invest in ensuring that they understand how to play their part in the success of the business. We work hard to integrate new colleagues, including those who join from businesses acquired by DS Smith, as quickly and smoothly as possible.

Our strong corporate values underpin our culture and behaviours, and are central to how wider value is created for our business and stakeholders.

See page 24 for more about our people

Sustainability is at the heart of our business

- Closed-loop model.



We have long recognised the importance of the circular economy

Our recycling, paper and packaging operations are closely integrated. Cardboard boxes are made, used, collected, recycled, pulped, pressed and made back into cardboard boxes again, from start to finish in as little as 14 days.

Watch our video online at dssmith.com/packaging/strategists/our-vision

Our vision is to be the leader in sustainable packaging solutions

Our strategy is balanced across our four key strategic priorities: to delight our customers, to realise the potential of our people, to double our size and profitability, and to lead the way in sustainability.

Our strategic goals

To delight our customers

We do this by

- Delivering on all our commitments
- Further improving our quality standards
- Driving innovation
- Building industry-leading customer services

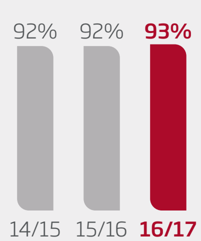
Performance

In 2016/17 we delivered:
- Strong volume growth from pan-European customers
- Two new Impact Centres and 10 new PackRight Centres opened
- Improved customer service
- Expanded our capability in e-commerce and display packaging

In 2017/18 we will:
- Open further Impact Centres and PackRight Centres, in particular in Iberia
- Continue to invest in R&D
- Invest further in specialist markets such as display, automotive and e-commerce
- Continue to drive improvement in customer service
- Complete the roll-out of performance packaging and commercial excellence programmes

Our KPIs

On-time, in-full delivery



Target

97%

Definition

Proportion of orders fulfilled on-time, in-full, across all businesses.

To realise the potential of our people

We do this by

- Ensuring the safety of all
- Creating a place where people are proud to work and give their best
- Building a common culture

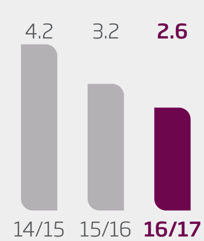
Performance

In 2016/17 we delivered:
- 207 sites without a lost-time accident
- Accident frequency rate reduced by 19 per cent
- Rolled out new Sharesave programme in 40 countries
- Engaging Managers Programme now available in 28 countries and taking place in 24 languages
- Integration events for our five acquired businesses, welcoming over 800 new colleagues to the Group

In 2017/18 we will:
- Continue our strong focus on health and safety
- Continue our employee engagement programme, OWN IT!
- Continue to drive our talent management programme
- Continue to develop our management development programmes
- Develop our global human resource model and systems

Our KPIs

Accident Frequency Rate (AFR)



Target

Zero accidents

Definition

The number of lost-time accidents (LTAs) per million hours worked.

To lead the way in sustainability

We do this by

- Building sustainability into our decisions
- Growing our recycling platform across Europe

Find out more in our Sustainability Report

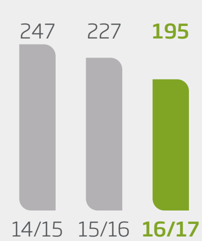
Performance

In 2016/17 we delivered:
- 14 per cent underlying improvement in CO_2 equivalent per tonne production
- Achievement of 2020 targets in CO_2e/tonne and in water effluent/tonne, three years ahead of target
- Improved score in the highly regarded Carbon Disclosure Project to 95B
- Donations of £311,000 via the DS Smith Charitable Foundation

In 2017/18 we will:
- Set new long-term sustainability goals aligned with the changing requirements of the industry, customers, and non-government organisations
- Work towards 100 per cent Forest Stewardship Council (FSC) certification at all our sites
- Implement a global supplier standard
- Continue to invest in best-in-class solutions to improve energy efficiency

Our KPIs

CO_2 equivalent emissions



Target

20% Reduction over the 10 years to 2020

Definition

Total CO_2 equivalent (CO_2e) emissions per tonne of production.

Our strategic goals

To double our size and profitability

We do this by

- Winning market share and expanding into new markets
- Building a resilient and sustainable business model

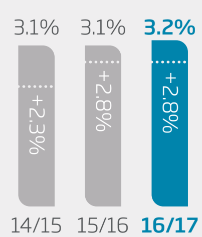
Performance

In 2016/17 we delivered:
- 3.2 per cent underlying box volume growth
- 6 per cent revenue growth (constant currency)
- 5 per cent profit growth (constant currency)
- Expanded our position in Iberia
- Expanded our capabilities in display packaging

In 2017/18 we will:
- Continue to drive growth through investment and acquisitions
- Optimise our manufacture and sourcing of recycled CCM and kraftliner
- Maximise efficiency of operations and procurement

Our KPIs

Like-for-like corrugated volume growth



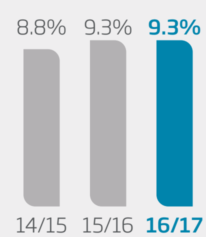
Target

GDP +1% weighted GDP +1% target

Definition

Like-for-like volume of corrugated box products sold (excluding the effect of acquisitions and disposals) measured by area.

Return on sales



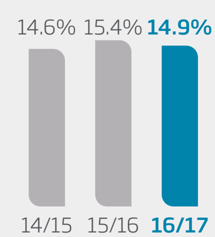
Target

8-10%

Definition

Earnings before interest, tax, amortisation and exceptional items as a percentage of revenue.

Return on average capital employed (ROACE)



Target

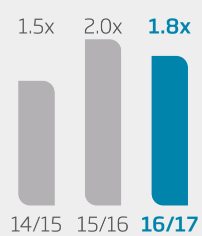
12-15%

Definition

Earnings before interest, tax, amortisation and exceptional items as a percentage of average capital employed, including goodwill, over the prior 12 month period.

Our KPIs

Net debt/EBITDA



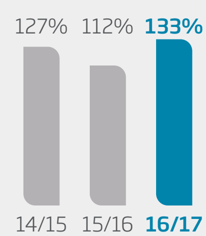
Target

≤2.0x

Definition

Net debt calculated at average FX rates for the year, over earnings before interest, tax, depreciation, amortisation and exceptional items for the preceding 12 month period.

Cash conversion



Target

≥100%

Definition

Free cash flow before tax, net interest, growth capex, pension payments and exceptional cash flows as a percentage of earnings before interest, tax, amortisation and exceptional items.

Please see page 42 for more discussion on how we align and manage our risks

Please see note 32 on page 127 for details on non-GAAP performance measures

DS Smith is committed to sourcing and developing the highest quality talent at all levels of the organisation. To help talented colleagues to realise their own potential and deliver results for the business, we also seek to create an engaging workplace and a high performance culture.

2016/17 highlights

- Accident Frequency Rate reduced by 19 per cent.
- Engaging Managers programme now available in 24 languages and taking place in 28 countries.
- Integration events for our five acquired businesses, welcoming over 800 new colleagues to the Group.
- Response rate of 88 per cent for Group Employee Survey.
- 207 sites with zero Lost Time Accidents.

We dedicate time, effort and attention to implementing systems, ways of working and initiatives to create conditions in which people are eager and empowered to contribute.

Leaders of the future

We see graduates as our leaders of the future and our graduate programmes introduce young talent into the organisation to support the growth of the business, giving them the opportunity to join DS Smith on a fast track development programme. Graduates are selected from a number of our paper mills and packaging regions all across Europe and join a two-year programme which includes placement in another country.

As future leaders, graduates are given the opportunity to gain a solid professional experience by working on strategic projects and develop their management skills in an international environment.

E-commerce design challenge

With the growing demands of consumers in the e-commerce sector, e-retailers and brands are facing many challenges including faster order lead times and wider product ranges. For packaging a key issue is finding the optimum range of pack sizes that fit with the thousands of products available online.

To pre-empt our customers' needs and meet the challenges of this growing industry, DS Smith ran a design challenge specifically looking for solutions that would have the greatest impact on e-commerce.

Graduate trainee, Xavier

DS Smith graduate programme

Xavier recently completed the DS Smith graduate programme and has become an Operations Improvement Engineer in our paper division:

"After finishing my studies in Spain, I joined the DS Smith graduate programme. I was first based in Kemsley in the UK. During my placement there I was involved in many different projects. The one I particularly remember was focusing on material efficiency. It was about understanding the requirements and limitations that both the production and planning department have. By understanding both and putting them together we optimise the way we plan and produce. That helped us to reduce the off-cut and actually completely eliminate it. That gave us a huge benefit of c. £1 million per year. For me it was an excellent opportunity after university to lead a project and improve my communication skills.

After one year in Kemsley I had the great opportunity, and challenge, to move to Lucca in Italy and join the asset management programme which is looking to optimise the maintenance processes.

For me the DS Smith Graduate Programme has been a very rich experience and I would recommend it to any student looking to join an international manufacturing company."

www.dssmith.com/people/career
for more on working at DS Smith

The challenge was to find solutions for some key e-commerce problems: reduce the range of packaging items needed in stock, reduce shipping and packaging costs and reduce the risk of product damage.

In November, seven finalists (out of 69 entries) were invited to Packaging headquarters in Brussels to present their solutions. Participants from Italy, Germany, Spain, the UK and France shared their presentation and prototypes to the panel and a winner was chosen.

Culture of performance – OWN IT! champions

DS Smith firmly believes that the best way to deliver our strategy is through the engagement of all colleagues in our vision, shared objectives, and values. Over the past year we have sought to accelerate the pace with which we increase employee engagement levels and have assembled a team of internal champions to support the business in this aim.

As a team, the champions provide a sounding board for ideas, share best practices and promote the materials and training available to help managers and non-managers gain skills in communication, facilitation and managing change that are necessary to drive the implementation of strategy at their location.

Selected primarily for their attitude and passion for creating a better workplace, the champions team supports different operating businesses and works as an international network. Their fresh approach and positive energy are bringing enthusiasm to our OWN IT! programme and transforming good concepts into practical and applied solutions on site. As a result of the team's support for the employee survey process in 2016, we have seen an increased response rate of 88 per cent and the results demonstrate increased understanding of the company direction and values across the Group.

Investing in employee communications

Communication is key to innovation in our business. Breaking down silos and sharing best practice allows us to leverage the expertise in our business and provide the best service to our customers. Because of this, DS Smith invested in enhancing our communication and collaboration platforms by making them accessible in the cloud.

In addition to greater accessibility, the developments also added social networking functionality through Yammer. Social tools equip DS Smith employees to openly share challenges to obtain solutions in a quick and efficient manner. Open communities in Yammer also enable our employees to discover a wider network of colleagues and tap into resources previously closed off.

Serena Savini, OWN IT! champion – Italy

"We come from different countries, we have different backgrounds, we speak different languages, we have different stories – but we share something very similar. We all believe in OWN IT!, not only to help DS Smith to reach the vision and become a great company by any measure, but also because we believe in our colleagues and in the hidden potential that we ALL possess."

Gender diversity

Board

Male: 6
Female: 2

Senior Management

Male: 118
Female: 14

Group

Male: 20,036
Female: 5,607

The Engaging Managers Programme

Whilst it is important for employees to have communication platforms that enable them to share knowledge and continuously seek improvements to products and processes, these behaviours are dependent on, and driven by, a culture of tenacity and constructive challenge. To enable this culture to build and thrive, DS Smith has been supporting line managers through the Engaging Managers Programme (EMP) which focuses on the development of self-awareness, skills and techniques needed to create an engaging and open culture based on our values.

Primarily, EMP is a learning and development initiative but, through developing the skills of those who attend the course, far wider ripples have gone through the Group. The resulting engagement of employees and positive environment is nowhere more evident than in the relatively new region of south east Europe.

Snapshot

The south east Europe region of our business achieved an employee engagement score of 74 per cent for managers, four percentage points above our external benchmark, and a score of 80 per cent for performance enablement, again well above external comparison. The region has been through a lot of change since being acquired by DS Smith in 2015, including the implementation of many initiatives and different ways of working. Amongst all that change, the introduction of the Engaging Managers Programme along with OWN IT! has strengthened management understanding of the values of DS Smith and how to apply them and this has raised their own engagement levels. In the coming months, these engaged managers will in turn have a positive impact on the engagement and enablement of all colleagues in the region. We plan to support these managers in this process through ongoing learning and development activities including the development of coaching skills, improved performance management skills and deeper emotional intelligence.

74%
Employee engagement score for managers

80%
Performance enablement score for managers

Employee charter

DS Smith has always made quality dialogue with our colleagues throughout the Group a priority. We do this on a global scale with a biennial employee survey and through local town-hall meetings or briefings in the normal course of doing business. In addition, we have built strong relationships with our employee representatives through forums and works councils where local, regional and European topics are shared and discussed. To strengthen our commitment to effective dialogue we have taken this a step further this year and drawn up an employee charter as a joint initiative between management and our European Works Council (EWC). The wide-ranging statement clarifies various aspects of the employee-employer relationship. Viewed alongside the DS Smith values, Code of Conduct and individual contracts of employment, it will provide employees with greater clarity on what is expected of them – and what they can expect in return.

Joseph Reed, Chairman of the EWC, Miles Roberts, Group Chief Executive and Alan Taylor, Group Human Resources Director (interim) with other EWC members signing the charter.

DS Smith is an equal opportunities employer and is firmly committed to both the principle and realisation of equality as set out in our Code of Conduct.

The charter encompasses commitments to safeguarding fundamental employee rights, as well as establishing longer term aspirations. Examples of the pledges that DS Smith makes to its employees are to keep them safe while working, to apply a zero-tolerance approach to child labour, to provide open access to senior leaders, to support flexible working and to reward employees fairly and equitably, wherever they are based.

The document also sets out DS Smith's core expectations of its employees – from taking pride in their work and being a good ambassador for the business, to taking their full holiday entitlement and avoiding excessive working hours.

"The creation and signing of an employee charter is a natural progression for DS Smith. It builds on two decades of close working, cooperation and collaboration between DS Smith and its EWC and supports our drive to become an exemplary employer in our sector," said Joseph Reed, EWC Chairman, "we are delighted to have signed this agreement, on behalf of all DS Smith's employees, and look forward to working with the business to drive this forward."

Health and safety

The safety of all people – employees, agency workers, contractors and visitors – is a cornerstone of our business. We set high standards and make exacting demands for continuous improvement in our safety performance, and as a Group we strive to ensure that everyone who comes into contact with our operations is kept safe.

On Saturday, 12 November 2016 a tragic accident happened at the DS Smith site in Fulda, Germany. During work on the perimeter of the factory premises an employee fell from one of the building roofs and was fatally injured. This accident was fully investigated and all appropriate remedial measures have been taken.

Our safety key performance indicators (KPIs) have both continued to improve. Total number of lost time accidents (LTAs), was 113 and the number of sites with zero LTAs was 207. Our performance against our KPIs for the year is shown in the table below:

Health and safety key performance indicators	**2016/17**	2015/16	2014/15	2013/14	Variance
Total LTAs[1]	**113**	120	146	171	-5.8%
AFR[2]	**2.6**	3.2	4.2	4.8	-19%

The figures in the table show the absolute number of LTAs incurred by employees of the Group during 2016/17. It should be noted that the number of operations has increased substantially during the reporting year, and the figures for 2016/17 include accidents at a number of acquisitions that had been newly integrated to the business. There is a clear correlation between the length of time that a site has been under DS Smith ownership and a consistently reducing AFR; this is mainly due to the high degree of management scrutiny and the investment in safer equipment, processes and systems that is a hallmark of DS Smith's management approach. There is, however, a lag between making these improvements, and the ensuing reduction in accident rates. We remain committed to achieving a zero accident culture, and we recognise that more work still needs to be done to improve our sites, reduce exposure to hazards and to raise the safety awareness of our employees. We continue to believe that this target, whilst challenging, is achievable.

A Health, Safety and Environment Leadership Team coordinates Group policy and ensures that best practice and learnings from across the organisation are shared and disseminated throughout the business. This team meets quarterly to review major LTAs/high potential severity incidents, and to coordinate audit activity and accident investigation.

1 Lost Time Accident (LTA): number of accidents resulting in lost time of one shift or more.

2 Accident Frequency Rate (AFR): number of LTAs per million hours worked.

Sharesave

This year has seen the maturation of DS Smith's first international Sharesave Plan, launched in 2014 as well as an invitation to join a new plan.

Our Sharesave 2017 personalised invitation packs were translated into 26 languages. Pre-communication about Sharesave was given via augmented reality posters which allowed users to watch an information video, explore the plan in more detail and provided a link to the online application portal. The award winning innovation of using augmented reality allowed those without easy access to computers, such as machine operators and drivers, to access information directly through their own mobile devices.

Both the invitation pack and the information video included views from peers as well as the management team.

We always seek feedback from colleagues after each invitation and maturity via a pulse survey about the clarity of the information provided and the ease of use. This enables us to make continuous improvements to the communication materials and the process.

Julie Westcott – Health and Safety Director, European Packaging

"At the start of the reporting period, DS Smith's factory in Andorra, Northern Spain, was one of the newest acquisitions in the DS Smith family. Our due diligence had identified potential for improvements in safety standards, and the site was identified as a priority for improvement action plans. Thanks to the dedication of the local management teams, and supported by central health and safety resources, we are delighted to announce that the site celebrated 365 days without a LTA – a threefold improvement on the previous period.

"The actions taken to achieve this milestone included additional training, audits and regular safety reviews. Furthermore, numerous safety upgrades were made to machinery, the building and protective equipment."

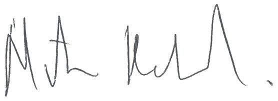
Emilio Griñón, the site's health and safety manager, said: "We are all so pleased to achieve 365 days without an LTA, and we are looking forward to achieving our next milestone. I would like to personally thank everyone involved for their positive attitude toward safety and their dedication in ensuring safety is our number one priority."

Creating sustainable value for our shareholders

Overview

In the financial year 2016/17, DS Smith has once again delivered on all our financial metrics, with continued strong organic volume growth. The business has also continued to expand, with five acquisitions completed in the year for a total of £85 million, both consolidating our presence in the important growth region of Iberia and expanding our capability in the specialist sector of display packaging. Integration of our acquisitions is fully on track and the customer and employee reactions have been extremely positive. In addition to delivering against all our financial KPIs, we have also made further improvements to our non-financial metrics. We have delivered another annual reduction, of 19 per cent, in our accident frequency rate, our service levels are further improving, and we have again seen reductions in our emissions of greenhouse gases per tonne of production.

"We are delighted to report another year of good growth for DS Smith, delivered through a combination of acquisitions and organic development. We have again expanded our customer offering during the year both geographically and through our continuous focus on innovative solutions for our customers, and we have delivered against all our medium-term financial targets."



Miles Roberts
Group Chief Executive

Corrugated box volumes have grown by 3.2 per cent, on a like-for-like basis, with good momentum in the second half of the year. All regions have shown growth, with particularly good growth from the UK, which has seen more benefit from e-commerce customers, and from the Central Europe and Italy region. This rate of growth is ahead of our target of volume growth of GDP +1 per cent, which equates to 2.8 per cent. The contribution from our pan-European customers has continued to be very good, with growth well ahead of the Group average. This has been due to unique innovation and service offerings coupled with an expanded geographic coverage. This demand is part of a continuing trend that we are seeing among customers who are seeking to reduce their overall supply chain costs by sourcing their materials, such as packaging, from fewer, strategic suppliers. This is why we are investing in our geographic coverage (such as the new additions in Iberia) and in specialist packaging such as display packaging, where we are seeing a similar trend. Our long-standing approach of working with customers to increase their sales, reduce their costs and manage their risks, remains as relevant as ever.

For the full-year, revenue growth of 6 per cent was broadly equally weighted between the contribution from organic growth and from acquired businesses (net of disposals), which contributed 3 per cent growth each on a constant currency basis. Organic growth was predominantly driven by corrugated box volume growth, and by volume growth from other elements of the business, along with improved sales price/mix. The impact of foreign exchange (FX) translation boosted reported revenue by £432 million or 11 per cent over the year as a whole, reflecting the material devaluation of sterling following the EU referendum in June 2016.

Adjusted operating profit increased by 5 per cent on a constant currency basis to £443 million (17 per cent on a reported basis), driven by the contribution from volume growth, contributing 9 per cent growth (£38 million), and from the net contribution of businesses acquired and disposed of, contributing 2 per cent growth (£10 million). Input cost increases were driven by a rise in the cost of raw materials and other operating costs, which impacted profit by £36 million.

The weakening of sterling in the year resulted in an increase in profits of £43 million on translation.

Adjusted earnings per share increased by 7 per cent on a constant currency basis to 32.5 pence (19 per cent on a reported basis) (2015/16: 27.4 pence). This result builds on six years of consistently strong growth, with the seven year compound annual growth rate for adjusted EPS being 28 per cent.

The Board considers the dividend to be an important component of shareholder returns and, as such, has a policy to deliver a progressive dividend, where dividend cover is between 2.0 and 2.5 times, through the cycle. For the year 2016/17, the Board recommends a final dividend of 10.6 pence, which together with the interim dividend of 4.6 pence gives a total dividend for the year of 15.2 pence per share (2015/16: 12.8 pence per share). This represents an increase of 19 per cent on the prior year and cover of 2.1 times in relation to earnings per share (before amortisation and exceptional items).

Investment in the business

DS Smith remains ambitious to grow both through continued organic investment and through acquisition. The success of our pan-European customer strategy demonstrates that there is significant customer demand for high quality packaging and consistent service on a multinational basis, and as such we continue to see this as a major opportunity. All investment in the business must fulfil our strategic and financial criteria. Our strategic aim is to become the leader in sustainable packaging solutions. In order to achieve this we will continue to seek to extend our reach, as driven by customer demand, and further improve the quality of our service and products. Scale allows us to invest in innovation and design, with the benefit shared throughout the business and with our customers.

We have made further steps this year to expand our scale and breadth of service in key growth areas, such as display packaging, following on from the prior year when we substantially increased our geographic scope.

In the year, we have acquired three specialist businesses focused on display packaging and point of sale, being Creo (acquired in June 2016, based in the UK), Deku-Pack (acquired in September 2016, based in Denmark) and P&I Display (acquired in November 2016, based in Portugal). This, combined with the opening of a new state of the art point of sale and display production facility in Germany, is part of a strategy to offer a pan-European solution for display packaging, alongside other corrugated packaging. We expect this to be an area of strong growth as in-store marketing continues to grow rapidly.

Return on average capital employed

14.9%

2015/16: 15.4%

Earnings per share

32.5p

2015/16: 27.4p

In November 2016 we acquired Gopaca, a well-invested corrugated packaging business in Portugal, with c. 135 employees. This acquisition expanded our position in the Iberian peninsula and complemented the operations we have in this important region. More recently, in January 2017, we acquired Parish, a plastics bag-in-box business complementary to our existing operations in the US.

Integration of acquisitions remains an absolute focus in the Group and we have an experienced team with well-established processes to ensure successful integration. Communicating corporate values and developing a positive corporate culture both within our existing Group and to newly acquired businesses is vital to delivering sustainable value and in order to achieve this, immediately upon completion of an acquisition, we hold an integration event for the senior management of the acquired business along with key individuals from DS Smith. Building on the due diligence undertaken prior to ownership, we then spend an initial period refining the business plan, taking into account the input of the local management team. We will also implement OWN IT!, our employee engagement programme which helps colleagues around the organisation understand their part in delivering the corporate strategy.

We have continued to invest in our assets ahead of depreciation, with net capex of £226 million (2015/16: £201 million). We are investing to support our strategic priorities, with over 40 per cent invested in growth projects, in particular in the UK, south eastern Europe and Iberia, supporting our customer growth and commitment to high quality production.

Delivering on our medium-term targets and key performance indicators

We have again delivered against all our key performance indicators over the full-year. As explained above, corrugated box volumes grew by 3.2 per cent. This exceeded our target of GDP+1 per cent, with year-on-year GDP growth, weighted by our sales in the markets in which we operate, estimated at 1.8 per cent (Source: Eurostat) resulting in a 40 basis point outperformance against the target of 2.8 per cent. All regions have again recorded volume growth in the year, with a particularly strong contribution from the UK and from Central Europe and Italy, including businesses acquired in the prior year. Underlying the regional performances has been the growth of our pan-European customer base, where we continue to make significant gains with existing customers as we increase our market share with them, further demonstrating the demand for a high quality pan-European supplier of corrugated packaging, operating on a co-ordinated multinational basis.

Adjusted return on sales has remained at 9.3 per cent, in the upper half of our target range of 8 to 10 per cent, reflecting the benefit of good drop-through from incremental revenues into profit, offset by substantial input cost pressure over the period.

Adjusted return on average capital employed (ROACE) on a constant currency basis is 14.9 per cent, at the top end of our medium-term target range of 12 to 15 per cent and significantly above our cost of capital. This represents the expected small decline compared to the prior year which reflects the impact of capital invested in recently acquired businesses; acquisitions typically move into our target ROACE range over a three-year period, and, as such, can be dilutive to the overall Group returns initially. The ongoing high ROACE reflects significant focus on an efficient capital base, in addition to profitability. We have maintained our continual focus on tight capital allocation and management within the business, including working capital, which has shown further improvement this year, despite the growth of the business. ROACE is our primary financial measure of success, and is measured and calculated on a monthly basis.

Net debt has remained broadly unchanged, despite the material impact of FX on the translation of euro-denominated debt, to £1,092 million (30 April 2016: £1,099 million) while net debt/EBITDA (calculated in accordance with our banking covenant requirements) has improved to 1.8 times (2015/16: 2.0 times) reflecting the currency matching of debt to cash flow. This is in line with our medium-term financial KPI of a ratio of 2.0 times or below and reflects the acquisitions made as well as ongoing tight cash management and control throughout the business.

During the year, the Group generated free cash flow of £363 million (2015/16: £238 million). Cash conversion was 133 per cent, in line with our target of being at or above 100 per cent.

DS Smith is committed to providing all employees with a safe and productive working environment. We are pleased to report a further substantial improvement in our safety record, with our accident frequency rate (defined as the number of lost time accidents per million hours worked) reducing by a further 19 per cent from 3.2 to 2.6, reflecting our ongoing commitment to best practice in health and safety. This follows the substantial improvement in the prior years, such that the accident frequency rate is now 46 per cent lower than in 2013/14. We are pleased to report that 207 sites achieved our target of zero accidents this year and we continue to strive for zero accidents for the Group as a whole.

The Group has a challenging target for customer service of 97 per cent on-time, in-full deliveries. In the year we achieved 93 per cent, an improvement versus the prior year, but still below our target. Management remains dissatisfied with this outcome and is fully committed to delivering the highest standards of service, quality and innovation to all our customers and will continue to set ourselves the demanding standards our customers expect.

One part of the DS Smith strategy is to lead the way in sustainability. Corrugated packaging is a key part of the sustainable economy, providing essential protection to products as they are transported, and at the end of use, it is fully recyclable. Corrugated packaging is also substantially constructed from recycled material, as are many of our plastic packaging products. Our Recycling business works with customers across Europe to improve their recycling operations and overall environmental performance. In calendar 2016, compared to calendar 2015, on a restated basis to reflect acquisitions, our CO_2 equivalent emissions, relative to production, have reduced by 7.0 per cent. Our targets on sustainability were first set in 2010, when the DS Smith business was very substantially smaller than it is now. The target to deliver a 20 per cent reduction in CO_2 equivalent emissions (relative to production), has already been achieved, as has our target on water usage, and we are on track to achieve our target on waste to landfill. As a result, we are taking the opportunity to restate our sustainability targets to set ourselves new challenges, with more detail to follow in our Sustainability Report.

Outlook

The current year has started well, with progress from 2016/17 continuing into the new financial year. Full recovery of the recent paper price rises is progressing well and as expected.

Although economic conditions remain uncertain, our innovation-led offering and the scale of our business means that we are confident about further growth and sustainable returns in the years ahead.

Miles Roberts
Group Chief Executive

Unless otherwise stated, any commentary and comparable analysis in the operating review is based on constant currency performance.

UK

	Year ended 30 April 2017	Year ended 30 April 2016	Change
Revenue – £m	**962**	864	11%
Operating profit[1] – £m	**94**	85	11%
Return on sales[1] – %	**9.8**	9.8	0bps

The UK has seen strong volume growth in a competitive market environment, driven by success in the area of e-commerce as well as a good operating performance by our major sites. The results include TRM, a corrugated manufacturing site acquired in March 2016, and Creo, the specialist display packaging business, acquired in June 2016, which together contributed a significant proportion of the revenue growth.

The increase in profitability in the region has come from both underlying trading and the benefit of profits from the acquired businesses. The acquired businesses have performed well with a very positive reaction from customers. For example, following the acquisition of Creo, we were able to offer a comprehensive solution to a large FMCG customer, who were tendering their display requirements in the second half of calendar 2016. We won a significant proportion of this work due to the combination of expertise from Creo and our existing geographic reach.

DCH and Northern Europe

	Year ended 30 April 2017	Year ended 30 April 2016	Change – reported	Change – constant currency
Revenue – £m	**989**	853	+16%	+2%
Operating profit[1] – £m	**82**	93	(12%)	(23%)
Return on sales[1] – %	**8.3**	10.9	(260bps)	(260bps)

Volumes in this region have been positive, with good growth in Northern Europe and continued challenging market conditions in the DCH (Germany and Switzerland) region.

Constant currency revenues grew by 2 per cent, reflecting both the benefit of positive volumes from existing customers and the contribution from the Danish display business acquired in the year, Deku-Pack.

Constant currency adjusted operating profit decreased by 23 per cent, despite a modest contribution from the acquired business, reflecting the impact of input cost pressures on the paper manufacturing operations in the region. Consequently, return on sales fell 260 basis points to 8.3 per cent.

Western Europe

	Year ended 30 April 2017	Year ended 30 April 2016	Change – reported	Change – constant currency
Revenue – £m	**1,264**	1,044	+21%	+7%
Operating profit[1] – £m	**104**	77	+35%	+18%
Return on sales[1] – %	**8.2**	7.4	+80bps	+80bps

Like-for-like volumes in the region have been good, with Iberia performing particularly well with increased demand from pan-European customers and e-commerce customers. France also performed well, driven by growth from existing FMCG customers, offsetting continued flat market conditions in Benelux. Revenues have grown by 7 per cent, principally from good organic growth and the acquisitions in Iberia.

Adjusted operating profit on a constant currency basis increased by 18 per cent, again driven by both organic growth and acquisitions. Return on sales has improved by 80 basis points following a number of profit improvement initiatives.

Central Europe and Italy

	Year ended 30 April 2017	Year ended 30 April 2016	Change – reported	Change – constant currency
Revenue – £m	**1,239**	1,022	+21%	+7%
Operating profit[1] – £m	**125**	92	+36%	+19%
Return on sales[1] – %	**10.1**	9.0	+110bps	+100bps

Volumes in this region have again been very good, particularly in Poland and the Baltic region, but also in south eastern Europe and in Italy. Constant currency revenue growth of 7 per cent reflects good organic growth and a small incremental contribution from the Duropack business, acquired near the start of the prior year, and the other smaller acquisitions in the region (Milas Ambalaj in Turkey and Cartonpack in Greece).

Adjusted operating profit grew by 19 per cent on a constant currency basis, with the majority due to organic growth across the region plus a smaller contribution from the acquired businesses. As a result of the profit growth, return on sales increased by 100 basis points.

Plastics

	Year ended 30 April 2017	Year ended 30 April 2016	Change – reported	Change – constant currency
Revenue – £m	**327**	283	+16%	+3%
Operating profit[1] – £m	**38**	32	+19%	+3%
Return on sales[1] – %	**11.6**	11.3	+30bps	(10bps)

Constant currency revenue increased 3 per cent, reflecting good organic growth plus a modest contribution from the acquisition of Parish, a small but highly complementary bag-in-box business in north America. Adjusted operating profit also grew by 3 per cent on a constant currency basis, reflecting the benefits of organic growth, the prior restructuring in Europe and a contribution from the acquired business.

1 Adjusted for amortisation and exceptional items.

2 Please see note on page 32 and note 32 on page 127 for more details on non-GAAP performance measures.

Adrian Marsh
Group Finance Director

Delivering strong financial performance

Overview

The Group continued to perform strongly in 2016/17, despite the ongoing challenges of uncertain economic conditions and input cost headwinds. Growth of the business was again achieved both organically and through acquisitions. In the year we expanded our specialist display and point of sale business, our plastics business and our geographic reach through the acquisitions of Creo in the UK; Deku-Pack in Denmark; Gopaca and P&I Display in Portugal; and Parish in the US. DS Smith continues to have the widest reach in Europe of any packaging group and is able to offer a complete pan-European solution to all our customers.

The Group continues to deliver against all the targets the Board has set for its financial key performance indicators, as well as all of its medium-term financial measures:

- Adjusted operating profit before exceptional items and amortisation up 5 per cent on a constant currency basis at £443 million (2015/16: £379 million)
- Like-for-like corrugated box volume growth of 3.2 per cent (2015/16: 3.1 per cent)
- Adjusted return on sales[1] of 9.3 per cent (2015/16: 9.3 per cent)
- Adjusted return on average capital employed[1] of 14.9 per cent (2015/16: 15.4 per cent)
- Net debt/EBITDA of 1.8 times (2015/16: 2.0 times)
- Average working capital to sales 0.9 per cent (2015/16: 1.6 per cent)

1 Adjusted for amortisation and exceptional items.

Trading results

All numbers within this review are based on continuing operations before amortisation and exceptional items.

Group revenue increased to £4,781 million (2015/16: £4,066 million), a growth of 18 per cent on a reported basis, including the positive currency effects. The euro accounted for 62 per cent of Group revenue and its strength against sterling during the year represented the majority of the £432 million of currency impact. On a constant currency basis revenue increased by 6 per cent, including organic growth of £130 million.

Whilst revenue growth is clearly important, it is inevitably correlated to the price of paper. The more relevant measure to describe business performance is corrugated box volume growth which once again was ahead of target of GDP +1 per cent at 3.2 per cent, delivering meaningful growth.

Adjusted operating profit rose by 17 per cent on a reported basis to £443 million (2015/16: £379 million), with currency having a positive impact of £43 million. Growth on a constant currency basis was 5 per cent. The acquisitions of Creo, Deku-Pack, Gopaca, P&I Display and Parish during the financial year have already begun to generate synergies in the short time that they have been part of the Group and are well on track to deliver their acquisition business cases. This good result is testament to the Group's experience in the effective integration of, and support for, acquired businesses. Whilst the devaluation of sterling in the year has supported the reported profit growth, growth on a constant

Non-GAAP performance measures

In response to the issuance of the Guidelines on Alternative Performance Measures (APMs) issued by the European Securities and Markets Authorities (ESMA) in June 2015, the Group has sought to explain further the non-GAAP measures used by the Group to measure and communicate performance in the 2016/17 Annual Report.

The Group uses certain key non-GAAP measures in order to provide an additional view of the Group's overall performance and position, eliminating significant unusual or non-operational items that may obscure understanding of the key trends and position. These measures are used internally to evaluate business performance, as a key constituent of the Group's planning process, as well as comprising targets against which compensation is determined.

Reporting of non-GAAP measures alongside reported measures is considered useful to enable investors to understand how management evaluates performance and value creation internally, enabling them to track the Group's adjusted performance and the key business drivers which underpin it.

Note 32 to the consolidated financial statements further explains the use of non-GAAP performance measures.

currency basis was achieved despite lower paper prices for most of the year and volatile fibre input costs. The Group systematically mitigates against these uncertainties through year on year benefits (on a reported basis) from energy management programmes (c. £12 million) and procurement savings (c. £35 million).

Depreciation increased by £21 million in the year on a reported basis as a result of previous capital investments and foreign exchange. Amortisation for the year was £65 million (2015/16: £51 million), the increase primarily driven by intangible assets recognised through business acquisitions during 2015/16 and in 2016/17.

Group margins continue to benefit from both operational leverage and continuous focus on cost and efficiency, which mitigated increases in direct material costs, resulting in stable return on sales of 9.3 per cent (2015/16: 9.3 per cent). In 2015 the return on sales target range was increased to 8–10 per cent and again performance has been fully in line with this upgraded target. The return on average capital employed for the year was 14.9 per cent (2015/16: 15.4 per cent), which is at the top end of the target set by the Board of 12–15 per cent. The return on average capital employed remains significantly above the Group cost of capital. Given the measure of capital employed is the average balance and not a single point in time, this current year ratio is affected fully by acquisitions made in 2015/16 and partially by acquisitions made in 2016/17.

Income statement

	2016/17 £m	2015/16 £m
Revenue	**4,781**	4,066
Adjusted operating profit[1]	**443**	379
Adjusted return on sales[1]	**9.3%**	9.3%
Net financing costs	**(55)**	(47)
Share of profit/(loss) of equity accounted investments, net of tax	**3**	(1)
Adjusted profit before tax[1]	**391**	331
Adjusted income tax expense[1]	**(85)**	(73)
Non-controlling interests	**1**	–
Adjusted earnings[1]	**307**	258
Basic adjusted earnings per share[1]	**32.5p**	27.4p
Amortisation of intangible assets, before tax	**(65)**	(51)
Exceptional items, before tax	**(62)**	(79)

1 Adjusted for amortisation and exceptional items.

Exceptional items

Exceptional items before tax and share of results of associates were £62 million (2015/16: £79 million).

Restructuring costs of £26 million and integration costs of £17 million are the largest elements of exceptional items. Restructuring and reorganisation costs were incurred primarily in DCH and Northern Europe (£11 million) and in the UK (£6 million). Approximately a third of the restructuring charges relate to initiatives that commenced in the prior year, with the remainder attributable to new initiatives launched in the current year. Integration costs relate to the businesses acquired during 2015/16 and 2016/17.

Acquisition costs of £7 million were incurred in respect of professional advisory fees, legal fees and directly attributable salary costs related to acquisitions completed during the year as well as to deals which are still in the pipeline.

Interest, tax and earnings per share

Net interest expense before exceptional items was £50 million, up £9 million from the prior year. The increase from the prior year was primarily due to the acquisitions completed during 2015/16 which were funded by increased borrowings.

The employment benefit net finance expense was £5 million (2015/16: £6 million).

Adjusted profit before tax (excluding amortisation and exceptional items was £391 million (2015/16: £331 million), an increase of 18 per cent on a reported basis.

The share of the profit of equity accounted investments was £3 million (2015/16: £1 million loss).

The Group's effective tax rate, excluding amortisation, exceptional items and associates was 22 per cent (2015/16: 22 per cent). The exceptional items tax credit was £13 million (2015/16: £27 million).

Reported profit after tax, amortisation and exceptional items was £208 million (2015/16: £167 million).

Adjusted earnings per share were 32.5 pence (2015/16: 27.4 pence), an increase of 19 per cent on a reported basis and 7 per cent on a constant currency basis. Basic earnings per share were 22.1 pence (2015/16: 17.7 pence).

Dividend

The proposed final dividend is 10.6 pence (2015/16: 8.8 pence), giving a total dividend for the year of 15.2 pence (2015/16: 12.8 pence). Dividend cover before amortisation and exceptional items was 2.1 times in 2016/17 (2015/16: 2.1 times) and dividend growth is consistent with earnings growth at actual exchange rates.

The final dividend of 10.6 pence per share will be paid on 1 November 2017 to ordinary shareholders on the register at close of business on 6 October 2017.

Acquisitions and disposals

In line with its strategic aims, the Group has continued to grow the business in order to meet the requirements of its major customers. Acquisitions play an important part in expanding the business model and this year the Group made continued progress with five acquisitions which both increase our leadership in display packaging and consolidate our presence in Iberia.

These include the acquisition of two businesses specialising in point of sale and display product and services for in-store marketing (Creo in the UK, and Deku-Pack in Denmark), Parish (a US manufacturer and supplier of bag-in-box systems), Gopaca (a Portuguese integrated box manufacturer) and P&I Display (a specialist corrugated display business in Portugal) for a total of £71 million (together with loans and borrowings acquired of £14 million).

Acquisitions in 2015/16 included the Duropack packaging business in south eastern Europe for €305 million and the corrugated packaging activities of Lantero for €190 million.

Cash flow

Closing net debt of £1,092 million (30 April 2016: £1,099 million) has decreased year on year with cash flows from operating activities more than offsetting exchange effects, acquisitions and other investment outflows. Working capital inflows of £124 million reflect further initiatives to improve receivables and payables, which remains an area of opportunity in recently acquired businesses.

Capital expenditure net of asset disposals increased to £226 million in the year (2015/16: £201 million). The Group capital expenditure strategy of balancing asset renewal/replacement and investment in growth and efficiency has been maintained. Growth and efficiency together account for 61 per cent of expenditure. Proceeds from the disposal of property, plant and equipment were £18 million (2015/16: £28 million), resulting in profits of £14 million (2015/16: £12 million).

Net interest payments of £45 million were £13 million higher than the prior year. Interest on the Euro Medium Term Note (EMTN) issued in September 2015 is payable annually, which accounts for the majority of the difference between cash interest paid and finance costs in the income statement for the prior year.

Cash costs of exceptional items amounted to £66 million, representing the cash investment in restructuring and infrastructure. Investment in subsidiary businesses, net of cash and cash equivalents (but before acquired debt), totalled £71 million in the year. No businesses were disposed of in 2016/17.

During the year dividends of £121 million, representing the 2015/16 interim dividend and final dividend, were paid.

The £695 million cash generated from operations before exceptional cash items and net acquisitions made in the year has resulted in a total Group cash inflow for the year of £105 million, compared to an outflow of £239 million in the prior year. Loans and borrowings from acquired businesses was £14 million. Proceeds from the issue of share capital were £13 million in the year, primarily as the Group's first international sharesave plan, which was launched in 2014, matured. Foreign exchange, fair value and other non-cash movements increased net debt by £97 million.

Cash flow

	2016/17 £m	2015/16 £m
Cash generated from operations before exceptional cash items	**695**	520
Capital expenditure (net of disposal of fixed assets)	**(226)**	(201)
Tax paid	**(61)**	(49)
Net interest paid	**(45)**	(32)
Free cash flow	**363**	238
Cash outflow for exceptional items	**(66)**	(77)
Dividends	**(121)**	(108)
Acquisitions/divestments of businesses	**(71)**	(292)
Net cash flow	**105**	(239)
Loans and borrowings acquired	**(14)**	(120)
Other movements	**(84)**	(89)
Net debt movement	**7**	(448)
Opening net debt	**(1,099)**	(651)
Closing net debt	**(1,092)**	(1,099)

Statement of financial position

Shareholders' funds have increased to £1,355 million at 30 April 2017, an increase of £215 million over the reported position of the prior year. The improvement in shareholders' funds is principally due to profit attributable to shareholders of £208 million (2015/16: £167 million), currency translation gains of £71 million and income tax on items which may be reclassified to profit or loss of £35 million. The increases were offset by the dividend payments of £121 million (2015/16: £108 million).

The net debt to earnings before interest, tax, depreciation and amortisation (EBITDA) ratio, calculated in accordance with the Group's debt covenants, was 1.8 times at 30 April 2017, down from 2.0 times at the previous year end. The Group is in compliance with all financial covenants, which specify an EBITDA to net interest payable ratio of not less than 4.50 times and a maximum ratio of net debt to EBITDA of 3.25 times.

The covenant calculations exclude from the income statement exceptional items and any interest arising from the defined benefit pension schemes. At 30 April 2017, the Group had substantial headroom under its covenants.

Statement of financial position

	2016/17 £m	2015/16 £m
Intangible assets	**1,178**	1,089
Property, plant and equipment	**1,866**	1,678
Inventories	**406**	338
Trade and other receivables	**769**	699
Cash and cash equivalents	**139**	134
Other	**135**	140
Total assets	**4,493**	4,078
Bank overdrafts	**(16)**	(19)
Interest bearing loans and borrowings	**(1,263)**	(1,258)
Trade and other payables	**(1,372)**	(1,126)
Provisions	**(29)**	(41)
Employee benefits	**(181)**	(188)
Other	**(277)**	(306)
Total liabilities	**(3,138)**	(2,938)
Shareholders' funds	**1,355**	1,140
Net debt	**1,092**	1,099
Net debt to EBITDA ratio	**1.8x**	2.0x

Energy costs

Energy costs remained broadly flat year on year despite the increase in Group size. Energy is a significant cost for the Group and gas, electricity and diesel costs totalled £179 million in the year (2015/16: £178 million). Capital invested in combined heat and power facilities, currency translation, lower prices and energy efficiency initiatives have all contributed to the management of energy costs. The Group continues to manage the risks associated with its purchases of energy through its Energy Procurement Group. By hedging energy costs with suppliers and financial institutions the Group aims to reduce the volatility of energy costs and provide a degree of certainty over future energy costs.

Capital structure and treasury management

The Group funds its operations from the following sources of capital: operating cash flow, borrowings, finance and operating leases, shareholders' equity and, where appropriate, disposals of non-core businesses. The Group's objective is to achieve a capital structure that results in an appropriate cost of capital whilst providing flexibility in short and medium-term funding so as to accommodate material investments or acquisitions. The Group also aims to maintain a strong balance sheet and to provide continuity of financing by having borrowings with a range of maturities from a variety of sources, supported by its investment grade credit rating.

The Group's overall treasury objectives are to ensure that sufficient funds are available for the Group to carry out its strategy and to manage financial risks to which the Group is exposed.

The Group regularly reviews the level of cash and debt facilities required to fund its activities. At 30 April 2017, the Group's committed borrowing facilities totalled c. £1.8 billion of which c. £700 million were undrawn. The Group's committed borrowing facilities at 30 April 2017 had a weighted average maturity of 3.8 years (30 April 2016: 4.7 years). The Group's total gross borrowings at 30 April 2017 were £1,263 million (30 April 2016: £1,258 million).

During the year the Group entered into three new committed, bilateral bank term loan agreements totalling €270 million. The proceeds were used in part to repay $95 million of US private placement notes and to repay drawings under the Group's syndicated bank revolving credit facility (RCF). In addition, the Group's investment grade credit rating from Standard and Poor's has been maintained (BBB-, Stable) and reflects the Group's commitment to strong credit metrics and the ongoing financial discipline of management. This credit rating allows the Group to issue investment grade bonds in the public debt markets under its €2.5 billion EMTN programme.

Committed facilities and debt at 30 April 2017

Facility	Currency	Committed funds million	Maturity	£ million equivalent
Syndicated bank RCF	GBP	800	2020	800
EMTN	EUR	500	2022	422
Term loan facilities	EUR	270	2018-21	228
Private placement	EUR	118	2018-20	100
Private placement	USD	400	2017-22	297[1]
Total				**1,847**

1 Net of cross-currency interest rate swaps.

Impairment

When applying IAS 36 *Impairment of Assets*, the Group compares the carrying amounts of goodwill and intangible assets with the higher of their net realisable value and their value-in-use to determine whether impairment exists. The value-in-use is calculated by discounting the future cash flows expected to be generated by the assets or group of assets being tested for impairment. In April 2017 tests were undertaken to determine whether there had been any impairment to the balance sheet carrying values of goodwill and other intangible assets. The key assumptions behind the calculations are based on the regional long-term growth rates and a pre-tax discount rate of 9.5 per cent which is a basic WACC of 8.8 per cent plus a blended country risk premium of 0.7 per cent. No impairments were identified as a result of the testing.

The net book value of goodwill and other intangibles at 30 April 2017 was £1,178 million (30 April 2016: £1,089 million).

Pensions

The Group's principal funded defined benefit pension scheme is in the UK and is closed to future accrual. The Group also operates various local post-retirement and other employee benefit arrangements for overseas operations, as well as a small UK unfunded scheme relating to three former directors and secured against assets of the UK business.

IAS 19 *Employee Benefits (Revised 2011)* requires the Group to make assumptions including, but not limited to, rates of inflation, discount rates and current and future life expectancies. The use of different assumptions could have a material effect on the accounting values of the relevant assets and liabilities, which in turn could result in a change to the cost of such liabilities as recognised in the income statement over time. The assumptions involved are subject to periodic review.

The aggregate gross assets of the schemes at 30 April 2017 were £1,099 million and the gross liabilities at 30 April 2017 were £1,280 million, resulting in the recognition of a gross balance sheet deficit of £181 million (30 April 2016: £188 million). The net deficit was £139 million (30 April 2016: £145 million) after taking into account deferred tax assets of £42 million (30 April 2016: £43 million).

A triennial valuation of the main UK scheme was carried out at 30 April 2016, following which a deficit recovery plan was agreed with the Trustee Board on 28 April 2017.

The Group has agreed to increase existing cash contributions by 10 per cent per annum commencing with the current year back-dated to the beginning of the year. The planned contribution for 2016/17 was, therefore, increased from £16 million to £17.6 million. The contribution for 2017/18 will increase to £18.3 million. The recovery plan is expected to be completed on or around November 2025.

The actual cash contributions paid into the Group pension schemes were £17 million in 2016/17 (2015/16: £17 million), principally comprising £16 million in respect of the agreed contributions to the pension scheme deficit (for the deficit recovery plan) and are included in cash generated from operations. The back dated payment of £1.6 million will be paid in 2017/18.

The reduction in the gross balance sheet deficit of £7 million is principally attributable to updated demographic assumptions and the introduction of a new investment strategy to hedge interest rate and inflation risk exposure.

Adrian Marsh
Group Finance Director

We are committed to conducting business in a socially and environmentally responsible manner

Sustainability means many things to many people. At DS Smith, we are focused on three key areas:

Our business
Creating shared value through responsible recycling, paper and packaging.

Our environment
Minimising our impact, from design to production and supply to recycling.

Our people
Ensuring the safety and wellbeing of colleagues and contributing to our communities.

2016/17 highlights

- Reduced our Scope 2 CO_2 emissions in 81 sites.
- Improved our carbon intensity by 7 per cent.
- Improved our CDP score to Management B (95) and achieved a Leadership A rating for the CDP Water and Forest modules.
- Maintained our gold status in EcoVadis.

For a more detailed discussion of these topics, please see our 2017 Sustainability Report

See page 24 for more about our people

Our approach

Sustainability governance

The Board considers risks arising from sustainability issues as being among the key risks to the Group's operations. To mitigate these risks, DS Smith has taken steps to ensure that adequate and effective policies and procedures for managing emergent sustainability issues and related, known risks are in place, and the Board receives regular reports on performance. Policies are periodically reviewed and updated, with action plans communicated to the heads of each business unit. Compliance with policies is monitored throughout the year.

The Group Chief Executive is responsible for addressing sustainability-related issues, and through the Group Operations Committee, a Group Sustainability Committee oversees the process and sets and monitors internal targets and strategies to ensure sustainability-related risks and opportunities are appropriately managed. Any residual issues are brought to the Board. The Group Sustainability Committee is chaired by the Group General Counsel and Company Secretary.

Our material issues

Last year we conducted a comprehensive materiality analysis which identified seven priority issues that are of high or growing importance to internal and external stakeholders. These were:

- health and safety
- traceability and transparency
- fibre sourcing and availability
- carbon and energy
- recycling and waste
- packaging reputation
- supply cycle thinking

Our principles

DS Smith is committed to conducting business in a socially and environmentally responsible manner. We believe that delighting our customers and ensuring our employees operate in a safe and productive workplace is the only sustainable approach to creating value for our shareholders over the long-term. In order to demonstrate these values, DS Smith subscribes to a number of international standards and guidelines relevant to corporate responsibility and business conduct, including:

- United Nations Global Compact;
- United Nations Declaration of Human Rights and the Convention on the Rights of the Child;
- International Labour Organisation Eight Fundamental Conventions; and
- Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises.

Our business

During the last year, DS Smith has continued to engage with our stakeholders in relation to sustainability. Our closed loop recycling business model already provides inherently sustainable packaging solutions for our customers, but increasingly they are demanding more from their suppliers. We are proud to be able to support them in their objectives to achieve zero waste to landfill, or to reduce their logistics and supply chain environmental impacts through more efficient and better designed packaging.

See page 39 for our risk factors

Our environment

Management and regulation

The Group has a governance structure in place to consider carbon emissions, energy usage, water consumption, waste and product responsibility. Each production site is required to implement an environmental management system which is appropriate to its level of activity. At present, 148 (2016: 116) manufacturing sites have an ISO 14001 certification.

The Energy Efficiency Directive 2012/27/EU has led to many production sites in a number of regions pursuing the ISO 50001 certification for energy management. We have evaluated the programme and agreed to roll this initiative to all regions in 2017.

Each production site that converts or trades in wood fibre or other wood derivative products is mandated to pursue a recognised certification programme leading to a chain of custody for responsible fibre sourcing. Over 78 per cent of our production sites are currently certified by a recognised certification scheme.

During the year we received notification of breaches or minor environmental incidents at four sites. There were no major incidents (defined as incidents of significant impact reportable to local or national authorities, or incidents potentially resulting in legal prosecution) reported for the period of this report.

Our targets

As indicated last year, our Group environmental targets were reviewed during the year as part of our materiality analysis and stakeholder engagement exercise. We found that our long-standing carbon reduction targets had been superseded by events in the Global Climate Change policy sphere. Many sites had already achieved their 2020 targets and in addition the Group had achieved its targets for 2020 in both CO_2 and water, four years early. We are committed to building a sustainable business for the long-term, so we have extended our carbon reduction target to cover the period 2015-2030, using an updated 2015 baseline that is more representative of the current business mix. This represents a substantial extension of our commitment to reduce emissions of greenhouse gases. Relative to production, we now aim to reduce our CO_2 equivalent (CO_2 e) emissions by 30 per cent over the 15 years to 2030[1].

This same review also found that aggregate Group-level targets to reduce water and waste were less appropriate for the current footprint and business mix. Both topics continue to be actively managed at site level, and remain the subject of both Group scrutiny as well as national environmental legislation. However we found that aggregating the performance of over 200 varied production sites into a single Group-level KPI did not provide any meaningful insight into individual sites' performance.

We have decided to manage water consumption at a more granular level, and in our Sustainability Report we split out usage by manufacturing process. This allows us to explain more accurately the impacts of our highest-consuming facilities, and to provide more detailed explanations of the inter-relationships between water consumption, water purity and water stress.

Likewise, we have decided to manage waste to landfill at a more granular level, and in our Sustainability Report we split out an analysis of our waste streams by country. This allows us to more accurately explain the options for our highest-producing facilities, and to provide more detailed explanations of the inter-relationships between national recycling and waste management infrastructure.

In the coming year, we will develop new Group-level targets to drive increased supply chain transparency. We are already an A/B member of SEDEX and in the past year, 100 per cent of our own production sites have achieved a positive evaluation using the SEDEX platform and we will develop targets for our supply chain to match the standards we are setting.

We have also committed to achieve 100 per cent of relevant production sites having a recognised, accredited, responsible forestry certification – we are on track to achieve this by 2018.

Our performance

We are pleased to have achieved good progress against our CO_2e emissions targets. The business emitted 7 per cent less CO_2e from both Scope 1 and Scope 2 sources, and once the emissions from energy exported by our power stations is subtracted there is a net reduction of 5.1 per cent emissions compared to the previous year. In absolute terms this represents over 80kt fewer tonnes of CO_2e emitted to the atmosphere. Relative to production this represents a 7 per cent decrease in CO_2e emissions per tonne of production from 209 kg to 195 kg CO_2e.

Detailed information is on our website and in our sustainability report

2020 targets

KPI	Unit	2011	2016	**2020 target**	**% variance since 2011**	**Target status**
CO_2e per tonne of production	kg CO_2e/tonne nsp	308.1	195	**-20%**	**-36.6%**	**Exceeded**
Total water effluent per tonne of production	m^3/tonne nsp	3.10	2.41	**-20%**	**-22.4%**	**Exceeded**
Waste to landfill per tonne of production	kg/tonne nsp	13.70	11.91	**-20%**	**-13%**	**On track**

1 For an in-depth discussion of this target, the calculation of the 2015 baseline and our compliance with the Non-Financial Reporting Directive please see our Sustainability Review 2017.

Of the 198 manufacturing sites where a full year-on-year comparison is possible we also see good performance. 95 of these sites achieved a reduction in CO_2e emissions per tonne of production and 79 sites achieved a reduction in absolute Scope 1 emissions. This is driven largely by reduced emissions from our paper mills, which showed strong reductions in Scope 1 emissions driven by the reduced generation of power using fossil fuels in our combined heat and power (CHP) plants.

Analysis of our performance in reducing Scope 2 emissions tells a similar story, with 81 sites achieving an absolute reduction. This has largely been driven by initiatives to replace high bay lighting with LED lighting and an increased emphasis being placed on energy management at our sites.

The figure for total production volume is 8.2 million tonnes, 1.8 per cent higher than in 2015. This increase is due to strong performances from our Packaging and Recycling divisions. This increase in production complements the reductions we've made in CO_2e emissions to enhance our CO_2e performance per tonne of production.

In the areas of water effluent and waste we are facing more challenges, primarily driven by high production figures in our paper mills. As a process, paper making is water-intensive which has driven a large increase in water usage, but through effective treatment we are able to ensure that our effluent does not adversely affect the water bodies we share with our local communities. Supporting our customers in new territories means that we have to operate in countries where the waste management infrastructure is less mature, but we aim to use the expertise within our Group to manage the waste from our mills and reduce the amount of landfill waste in the future.

Notes on environmental performance indicators

We collect environmental data on a monthly basis, and report this data for the previous calendar year in order to align with the generally accepted practice of industry peers and external stakeholders. This aids sector and industry benchmarking.

Emissions figures given in the table below are therefore all on a calendar year basis. The environmental performance data table displays the data for calendar year 2016 together with the data previously reported in 2015, re-stated to reflect the acquisitions during the year in order to show the data on a comparable like-for-like basis.

KPI	Unit of measure	2015 restated	2016 with acquisitions	% variance
Scope 1	kt CO_2e	1,678	1,570	-6.4
Scope 2	kt CO_2e	355	333	-6.2
Emissions from energy exports	kt CO_2e	(348)	(299)	-14.1
Total CO_2e (net energy export)	kt CO_2e	1,686	1,604	-4.9
Total production	kt nsp	8,059	8,209	1.9
Waste to landfill	kt	87	98	12.6
Total water effluent	Mm^3	19	20	5.3
CO_2e per tonne of production	kg CO_2e/tonne nsp	209	195	-6.7
Water effluent per tonne of production	m^3/tonne nsp	2.34	2.41	3.0
Waste to landfill per tonne of production	kg/tonne nsp	10.74	11.91	10.8

Methodology

1 The CO_2 and CO_2e emissions were calculated using the UK DECC 2016 factors for all fuels and the UK national grid. Emissions from other national grids use the DECC factors (IEA) from 2015. Where available we use the market based emissions factor for bought electricity from the supplier of energy to our business. If this figure is not reported, the country emission's factor from the IEA is used instead.

2 Total production is the sum of printed reels and paper reels from our paper mills; plastics production (all types) from our plastics sites; recovered fibre and other materials collected and processed through our recycling depot network; and boxes and sheets sold to third parties from our packaging sites.

Full details on the methodology and additional facts and figures on our sustainability data can be found in our Sustainability Review 2017.

Verification Statement from Bureau Veritas UK Ltd

Bureau Veritas UK Limited (Bureau Veritas) has been commissioned by DS Smith Plc (DS Smith) to provide an independent opinion on the following environmental performance indicators: energy consumption, greenhouse gas emissions, raw material usage, water consumption, waste and discharge (to air and water) for calendar year 2016. The reporting boundaries cover DS Smith's global operations. Based on our verification activities and scope of work, nothing has come to our attention to suggest that the reported data does not provide a fair representation of environmental performance across the DS Smith Group for the defined period.

DS Smith should be commended on its approach to environmental data collection, including the use of a central reporting system, clear responsibilities at Head Office and site levels, frequent data gathering, and the existence of an audit trail from source evidence to reported data at the sites visited.

A full verification statement including the methodology, basis for the opinion, additional recommendations, limitations and a statement of Bureau Veritas's independence can be found on the DS Smith Plc website at: www.dssmith.com/company/sustainability/our-environment/performance

How risk management supports effective planning and quality decision-making

Our risk management activities are part of a strong framework that ensures we have robust processes to identify, quantify, manage and report on the principal risks that could affect the Group's ability to execute its strategy and deliver on its commitments.

The objectives of the risk management process are to:

- support the executive management across the Group in making decisions;
- reduce the magnitude of threat events; and
- capitalise on potential opportunities.

This process forms the basis for the Board's conclusions on effectiveness of the Group's risk management and internal controls.

Principal risks update

During 2016/17, the Board based its assessment of the Group's principal risks on questions relating to our strategic priorities. In order to achieve these objectives, our strategic focus remains on:

- growing our business organically and through acquisitions;
- investing in innovation to deliver commercial differentiation;
- optimising the performance of our packaging whilst using less fibre;
- increasing efficiency within our manufacturing and support functions; and
- ensuring all our colleagues have access to and engage in appropriate learning and development to fulfil their potential.

The table on the right illustrates the questions and answers that were discussed.

Additional principal risks

In light of this analysis and bearing in mind the uncertainty of the outcomes related to Brexit, the Board has decided to include two additional principal risks resulting from:

- fibre technology, that increases the use of fibre substitutes or leads to fibre being used for alternative purposes; and
- strategic process changes.

These threats have been recognised previously. However, given their potential impact over our planning horizon, the Board has decided to mark them as principal risks in their own right.

The Board has also recognised that, as a result of our investment, the relative balance between risk and reward has changed, compared with last year. A summary of these changes are shown in the threat-opportunity heat map on page 40.

The Board and executive management are committed to continuous monitoring of all the principal risks that have been identified. The current list of principal risks is outlined in the table on pages 42 to 45. The list includes specific references to the amount of risk the Board is comfortable with, commonly referred to as the Board's risk appetite.

Q Why might our customer-led solutions fail to deliver profitable growth in our markets?

If our acquisition strategy fails to deliver our planned growth.

Our plans have a level of dependence on the success of a growth strategy designed to create greater value through the economies of scale, as well as product and service differentiation to our existing customers whenever they require it.

If access to capital markets and liquidity restrictions take hold.

Adverse political, economic and credit conditions including uncertainty about and the impact of Brexit might have an adverse effect on our ability to finance growth. These conditions may have a negative impact on our competitive position, net operating profit and cash flow flexibility.

If markets continue to consolidate.

The continuing trend towards consolidation in our markets creates larger and more focused competitors, which may leave the Group less differentiated. This trend could have an impact on our relative bargaining power with suppliers and has a potential to reduce margins and market share in one or more of our markets.

If Eurozone and macro-economic markets weaken.

The complex interplay of the multiple political and economic factors from Brexit to foreign exchange and interest rates, may impact on disposable consumer income and the level of industrial activity. This could affect the Group's results and future prospects, given the concentration of business in the Eurozone.

Q What may limit momentum building, responsiveness to market changes and being innovative?

If we do not recognise the speed with which consumer-led demands drive fundamental changes in the retail environment.

Our investments in innovative packaging might fail to match the growth in consumer spending. This may arise from mega brands, micro-brands, online, discounters and 'big box' superstores and their distribution channels.

If our investments fail to exploit the opportunities that personalised packaging offers.

We might fail to harness improvements in digital printing or fail to integrate our packaging products and services to drive further integration between our customers and other related products.

What factors may threaten the balance of our paper supplies to meet minimum security needs?

If trading patterns make us vulnerable to essential sources of paper supply.

The Group is a net purchaser of corrugated case material and paper made from virgin pulp purchased from third party suppliers. Therefore, large fluctuations in cost and availability of fibre or paper could adversely affect our long-term performance.

If we miss rapid developments in fibre technology or use of fibre substitute products.

We could fail to exploit major developments in fibre substitute products or to capitalise on breakthrough technology in fibre recovery and/or new packaging materials technology.

What might prevent us from achieving consistent business efficiency throughout the Group?

If we fail to manage process change.

Efficiency and process change investments, mainly those focused on strategic energy deployment, asset footprint alignment and various initiatives such as our 'perfect box' project, may fail to deliver expected outcomes.

If our business model fails to adapt to regulatory changes.

New and broader regulations challenge how we deploy resource in our business and constrain the use of certain materials that could inhibit our know-how and capability to operate effectively in the circular economy.

If we do not live up to our sustainability promise.

The foundation between our business strategy and the sustainability priorities of our customers may fail to deliver the required level of transparency, clarity and traceability.

What might stop us from attracting, developing, motivating and retaining the best people?

If our operating arrangements fail to make the most effective use of our best people.

Despite our investments, we may fail to retain and develop a motivated workforce. We may also fail to identify, support and sufficiently develop key talent necessary to harness the Group's potential across key business areas.

The Board has three classifications of risk appetite. A green colour reflects the Board's decision to actively take the risk to deliver the best returns to our shareholders. Yellow is where the Board feels the level of risk warrants additional oversight, whilst red indicates the areas where the Board is willing to revisit its strategic assumptions and adapt its plans to changing circumstances and opportunities.

A risk aware culture remains our continuous focus and we embed it through an effective risk governance structure. We recognise the inherent nature of the threats affecting all our business activities. In 2016/17 we have continued to make investments that enable us to better identify, assess and mitigate threats at the appropriate organisational level and to generate value by delivering on our plans.

Risk heat map

A visual presentation of the results of a risk assessment process aligned to our strategic priorities.

1 Acquisition strategy
2 Capital markets
3 Talent barriers
4 Eurozone and macro-economic limits
5 Market consolidation
6 Governance and compliance
7 Changes in shopping habits
8 Security of supply
9 Sustainability
10 Digital vulnerabilities
11 Process changes
12 Fibre technology

Risk governance review

Your Board is responsible for maintaining the Group's risk management and internal control systems. The Board sets risk appetite levels and the tone and direction for risk control. This ensures that the nature and extent of significant risks taken across the Group is aligned with our overall goals and strategic objectives.

In accordance with our governance practices, the Audit Committee assists the Board in monitoring the Group's exposure to risk and continues to be responsible for reviewing the effectiveness of our risk management and internal control systems. The Group's Risk Officer and Internal Audit team support the Audit Committee in evaluating the design and operational effectiveness of the risk mitigation strategies and the internal control processes implemented by senior management.

Our executive management, through the Group Operations Committee and Group Strategy Committee, regularly review the level of risk related to strategic objectives and the operational effectiveness of our controls. This helps to ensure that all risk management actions performed in the business are aligned with, and focused on, the current strategy.

Developments in risk management

One of our priorities for 2016/17 has been to fully embed an ongoing risk 'monitoring environment' and validate the effectiveness of our current controls. Specific risk discussions were added as a regular agenda item at the divisional trading meetings held monthly by the Group Chief Executive and Group Finance Director. This has supported, with effective 'tone from the top', the evolution of our risk management systems. As a result, the effectiveness of our business risk assessments has been challenged and refined to ensure early identification of new and emerging risks.

To supplement regular risk assessments our strategy team and a representation of employees from various divisions and functions developed a suite of scenarios to understand how some of the most powerful threats, uncertainties and opportunities could shape the future of our industry. Whilst the scenarios are in no sense intended as predictions, using their outputs has provided a rich context to enable our Board to better understand the nature of key threats and their impact on our business plans and to actively debate with and challenge executive management.

These two examples demonstrate our commitment to continuously improve our risk management processes. We strongly believe that a risk aware culture has a great potential to lead to positive outcomes. The Board is confident that the investments to support our risk management capabilities will continue to produce new insights to maintain resilient and sustainable business plans.

Integrating risk management scenario planning with viability assessments

Throughout the year our risk management team, working alongside the strategy and finance teams, has reviewed the principal risks detailed on page 39. The teams have also analysed the connections between these risks and our scenario planning activities. In the context of the three scenarios published earlier in 2016, the following principal risks were considered:

- impacts of macro-economic developments on foreign exchange rates within the Group trading activities;
- higher than expected volatility in the price and availability of fibre and paper;
- changes in shopping habits; and
- unforeseen government interventions, including restrictive regulations adversely affecting credentials of our sustainability business.

Using key insights from our scenario planning sessions and connecting these with the identified principal risks, the teams were able to establish a clear set of conditions. These conditions were later used to model outcomes over the three-year plan period and provided the basis for sensitivities considered in the Group's 2017 viability assessment and subsequent statement.

Viability statement

In accordance with the revised 2014 UK Corporate Governance Code, the Directors have assessed the viability of the Group over a three-year period to 30 April 2020, which is a longer period than the twelve months outlook required in adopting the going concern basis of accounting. The three-year time period was considered appropriate given the time scale of the Corporate Plan, the evolution of the Group over the last three years, and the medium-term nature of our pan-European customer relationships.

A robust assessment of the principal risks facing the Group as detailed on pages 42 to 45 was performed, including those that will threaten its business model, future performance and solvency or liquidity.

The assessment of the Group's viability considers likely downside sensitivities (including mitigating actions), both individually and in combination. Downside sensitivities selected are severe but plausible scenarios aligned to the principal risks and uncertainties set out on pages 42 to 45 where the realisation of these risks is considered more than remote, taking into account the effectiveness of the Group's risk management and control systems and considering current risk appetite. The degree of severity applied to the sensitivities was based on historical extremes and the Directors' assessment of plausible movement in assumptions. Sensitivities considered included a prolonged downturn in paper price, significant adverse foreign exchange movements, and significant drops in packaging volumes. To rigorously challenge the resilience of the Group, a worst case scenario including downsides on all these sensitivities was included in the evaluation.

The Group's viability assessment assumes that the existing banking and debt facilities will remain in place or mature as predicted. The Directors have also considered mitigating actions available to the Group to respond to the stressed scenarios such as restrictions on capital investment, further cost reduction opportunities and restricting dividend growth. It has been assumed that these mitigating actions can be applied on a timely basis, and at insignificant or no cost.

Based on this analysis, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

Going concern page 58 Directors' report

Find out more about our scenarios on our website at www.dssmith.com

Risk impact key

Increased	Stable	Decreased
↗	↔	↘

Principal risk areas	Inherent risk	Controlled risk	Link to strategic priority	Risk appetite	What threats could we potentially face?
Acquisition strategy	↗	↔	To double our size and profitability	○ ○ ●	• Our acquisition plans could lead to substantive integration difficulties. • Our acquisition growth may fail to fully support our customers, as they seek to develop a more global supply chain.
Access to capital markets and liquidity restrictions	↔	↔	To double our size and profitability	○ ○ ●	• Uncertainty over the impact of Brexit and the unpredictable global political landscape could restrict our access to funds. • Unplanned decreases or changes in sources of finance might restrict our ability to fund the Corporate Plan.
Increasing market consolidation	↗	↗	To double our size and profitability	○ ○ ●	• Our competitive position in our existing markets could weaken, due to competitors' rapid growth. • The integrity of our business model could become undermined. • Our bargaining power and margins could be adversely affected if our supply chain becomes too limited or concentrated.
Governance and compliance	↗	↗	To delight our customers	○ ● ○	• We might uncover a systematic failure or weakness in our internal systems of control, functions or operational areas that could adversely affect our business. • As we expand into new markets, our business practices could be challenged and cultural differences may conflict with our core business ethics.
Process changes	↔	↔	To delight our customers	○ ○ ●	• Vulnerabilities in one or more critical business processes might lead to an unanticipated and a protracted business disruption. • Failure to properly implement a change in our strategic processes or systems could cause delays or unanticipated cost overruns.
Changes in shopping habits	↗	↔	To delight our customers	○ ○ ●	• Our investments in innovation might fail to meet the expected growth across existing retail markets. • We might not be quick enough to address the use of new materials and large scale product substitution of the traditional single use and recyclable packaging.

What opportunities are we considering?	How is management addressing this risk?	How does the Board review this risk?
• We believe that there are significant opportunities to be had in the use of corrugated packaging, particularly in display and e-commerce. • We also believe that the adoption of bag-in-box packaging presents significant growth opportunities.	• We have adapted our capital allocation to put more emphasis on e-commerce and display. • Our M&A team continues to build a strong pipeline of actionable potential acquisition targets.	• The Board participates in a full discussion on the three-year Corporate Plan. • At each Board meeting the Group Chief Executive provides updates on progress of the acquisition strategy.
• We continuously review alternative sources of liquidity and evaluate what is required to access them.	• Our centralised treasury function actively manages all cash and debt to optimise liquidity. • We maintain effective relationships with a small number of core banking partners, who are committed to providing liquidity to the Group. • We continue to have access to various financing facilities, including a revolving credit facility.	• Our Audit Committee regularly reviews liquidity schedules, cash flows, covenant headroom and semi-annually confirms on the 'going concern' assumption. • The Group Finance Director provides regular updates to the Board with regards to alternative financing opportunities.
• We aim to identify the best consolidation opportunities through market mapping and broadening our geographical spread. • We continue to exploit our European markets, which remain attractive due to segmentation. • We also consider regions outside Europe, where growing populations and demand for branded consumer goods enhance their attractiveness.	• Our experienced leadership team participates in regular market reviews. They also consider contingency arrangements and the development of strategic segments and service offerings. • We are committed to building stronger global and pan-European strategic alliances and implementing new strategic approaches to improve all our procurement activities.	• The Board receives regular updates on competitors' activity. These updates are a part of the Group Finance Director's report.
• We are committed to ethical behaviour at all times when dealing with our customers, regulators and other stakeholders in line with our operating framework. • We continue to maintain our collaboration with various associations to monitor and better understand regulatory implications in order to address and reposition our business model to ensure we remain fully compliant.	• We continue to develop safety strategies and occupational safety programmes. • We implement Group policies relating to business ethics, including operating framework, anti-trust, competition law and modern slavery. • We have a robust divisional self-assessment compliance process.	• The Audit Committee regularly reviews results of internal control reports. • The Board receives updates throughout the year on health and safety performance, corporate governance, modern slavery, market abuse, ethics and compliance.
• We actively pursue all forms of efficiency opportunities to enhance the effectiveness of our fibre processing programmes. • We continue to improve asset management through footprint and machine specification, new technology reviews and integration.	• Management continues to implement asset management and other techniques across our businesses and ensures their continuous monitoring. • We have a broad network of sites across Europe that operate independently but can pick up and complete orders from another site.	• The Board keeps updated on the transformation programme covering support functions.
• We continue to identify growth and through extensive engagement with our customers we are well positioned to notice early signs of potential opportunities. • We maintain a long-term commitment to research and development (R&D) and to maintain divisional strategies underpinned by innovation.	• We continue to invest in innovative resources within our divisions to ensure the deployment of innovation around different themes, i.e. e-commerce, bricks and mortar, digital world and delighting consumers. • Our 'more from less' services initiative continues to build momentum.	• The Board has been presented with strategic updates on how e-commerce, innovation and in-store activation links into the Corporate Plan. • The Board reviews the Group strategy and scenario planning outputs.

Risk impact key

Increased ↗ | Stable ↔ | Decreased ↘

Principal risk areas	Inherent risk	Controlled risk	Link to strategic priority	Risk appetite	What threats could we potentially face?
Digital vulnerabilities	↗	↔	To delight our customers		• We may fail to adopt digital technology to accelerate the speed and flexibility needed to deliver improvements in our packaging solutions. • Weaknesses in the Group's network security may fail to protect critical IT infrastructure, creating an unforeseen and prolonged impact to the Group's ability to operate.
Eurozone and macro-economic limits	↗	↗	To double our size and profitability		• We might not be able to adapt to structural changes caused by governmental actions or interventions. • In response to Brexit, we may fail to successfully reposition the business model to maintain desired levels of supplier and customer costs and performance. • Adverse foreign exchange rates and volatility in other markets could create new and unpredictable pressures on our input costs.
Interference in securing required paper supplies	↗	↔	To lead the way in sustainability		• Our paper short strategy may leave the Group excessively exposed to significant volatility in prices or availability. • We remain vulnerable to unanticipated and prolonged price volatility and availability of specific paper grades in the locations where the Group does not have its own production capabilities.
Unanticipated fibre technology changes	↗	↗	To lead the way in sustainability		• We might fail to adapt to rapid technological changes in new fibre recovery, paper technology and new packaging materials.
Sustainability promise	↔	↘	To lead the way in sustainability		• We could fail to meet planned targets of energy demands within our sustainability and energy cost plans. • We might incur an unsustainable inflation cost due to the adoption of climate change and energy policies or a change in recycling behaviours that could make other packaging more attractive.
Talent barriers	↗	↔	To realise the potential of our people		• We could experience weaknesses in the organisational structure, fail to keep pace with growth or become unable to drive innovation, manage change or embed an identifiable business culture across the Group. • Despite extensive research and development (R&D) activities, we could experience shortages in innovation-led skills or might be unable to integrate them into our standard operational activities.

What opportunities are we considering?	How is management addressing this risk?	How does the Board review this risk?
• We are targeting investment to strengthen our packaging division and build capabilities in e-commerce and digital technology.	• We have a well invested infrastructure and remain confident that we are secure against perceived threats addressed through our IT security capability. • We have created an information and IT security governance structure to support our business security needs. • There is an IT transformation programme underway which will further improve our commercial and operational excellence.	• The Board has reviewed security risks in the context of the Corporate Plan and scenario planning outputs. • There have also been a number of reviews focusing on innovation and digital investment, e-commerce, customer experience and IT transformation plans.
• We explore the opportunities to reposition our business model outside our traditional markets, across all divisions and alternative sources of supply.	• Management teams, as a matter of course, are always evaluating cost optimisation and operational efficiency. • We have formed a Group Brexit committee to oversee our response to developments in the UK government negotiations. • We continue to invest in a strategy to address any long-term Eurozone currency imbalances within our portfolio.	• The Board reviews performance and forecasts of the business activities in relation to the macro-economic environment. • The Board has planned a full Brexit review to consider the key implications.
• We improve our supply chain performance by implementing our strategy based on a closed loop and paper short approach, which significantly enhances our customer appeal. • We continue to leverage the scale of our own sourcing and production with the external market to generate a cost and quality 'best fit'.	• We continue to develop and refine our fibre strategy based on performance packaging, alongside a dynamic geographical footprint and changing capacity needs of our packaging division. • We aim to maximise the recovery of paper price changes though timely commercial negotiations and 'index contracts' which allow payment adjustments linked to prices of commodities.	• There are regular discussions at Board meetings which focus on M&A updates from the paper security perspective. • The Board also receives regular updates on fibre risks and paper price trends.
• We continue to research and evaluate a variety of fibre technologies that have the potential to support the Group's product and service offering.	• We pursue improvements in fibre efficiency through strategic investments, specifically in fibre recovery and stock preparations. • We support research and development areas of fibre recovery, papermaking and performance packaging.	• The Board is provided with regular updates on the Group's integrated fibre performance.
• We recognise the potential for a cleaner energy strategy in all production upgrades, expansion plans and redevelopment of our energy production infrastructure, which includes improvements such as our 'energy from waste' project.	• We plan to disclose our sustainability data to provide visibility and assurance to all stakeholders. • Our capability continues to build across leadership and operational management with the development of specific internal sustainability indicators to track performance.	• The Board has been updated on the reporting arrangements in relation to sustainability. • The Group Finance Director has provided updates on energy, including a waste project that attracted an investment in a new anaerobic digestion plant.
• We focus on improvements in health and safety processes and explore ways of a more efficient and effective use of people skills and experience. • We are developing a specific Group-wide approach to secure young and exceptional talent. • We refresh and refine our succession planning, assignments and talent review processes.	• Our OWN IT! programme has been refreshed to highlight our vision, strategy and values to our employees. • The human resources (HR) information system has been improved, in order to drive HR processes and ensure more efficient and effective use of people skills and experience.	• The Board has received regular updates and reports and routinely discusses talent management.

"Corporate governance is about what the board of a company does and how it sets the values of the company. This report explains your Board's approach to corporate governance and how our governance structure supported our activities during the year."

Gareth Davis
Chairman

Good governance is fundamental to the way we do business

Q | Why is good governance important to DS Smith?

The definition of corporate governance has evolved over time and has significantly broadened in terms of scope and purpose. We aim to build an environment of trust, transparency and accountability which is necessary for fostering long-term investment, financial stability and business integrity. Throughout this report we have tried to showcase how good governance supports our businesses. I am pleased to confirm that we have complied throughout the year in full with the principles and provisions of both the 2014 and the 2016 UK Corporate Governance Code (the Code), of which we were an early adopter.

Q | Appropriate design and control around remuneration is one of the key factors in the Code. What has been the approach to designing the new remuneration policy?

This year our remuneration policy is due for re-approval by the Company's shareholders. Your Remuneration Committee Chairman has been working closely with the Group and its advisers to produce another clear remuneration policy that promotes the long-term success of the Company. Further information can be found in the Remuneration Committee section on page 64.

Q | What factors do you take into account when considering governance at DS Smith?

There are various governance reviews in progress, which we have considered, including the Government's Green Paper and the Financial Reporting Council's review of the Code. We have also taken into account views from our own European Works Councils and wider issues from a global perspective. More information about environmental and social issues affecting DS Smith can be found in our separate sustainability report available on the Group's website.

Embedding our values

The Board is accountable for setting and leading our culture. It ensures the correct tone is established from the top and is embedded in our values. Our open culture at DS Smith encourages employees at all levels to say something if they see something through our "Speak Up!" policy. This year we refreshed the campaign and rolled out new posters to further encourage the use of our independent hotline to report any problems. You can read more about this in the Audit Committee report on page 61.

We carried out our employee survey this year. This is a platform for all employees to voice their opinion about their day-to-day work and how they see DS Smith as a whole. The survey produces a wealth of information which allows us to celebrate and build on successes, and highlights areas where progress can still be made. This engagement makes DS Smith a better place to work and drives value across the business. You can read more about the survey findings in our separate sustainability report available on the Group's website.

Be caring | Be challenging | Be trusted | Be responsive | Be tenacious

Q One of DS Smith's values is to be challenging. How has the Board challenged itself to develop and sustain a strong talent pipeline?

Our Board evaluation this year was developed with a particular focus on the Nomination Committee, in response to the 2016 joint report by EY and the Institute of Chartered Secretaries and Administrators (ICSA) "The nomination committee – coming out of the shadows". We have taken a number of steps to determine the effectiveness of the Board composition and to ensure that Board succession planning is fit for purpose. The Nomination Committee has carried out a review of the talent pipeline, described on page 49. DS Smith carries out an annual performance and talent management review for all of our colleagues, allowing us to realise the potential of our people and encouraging them to perform to the best of their abilities. This provides access to a broader talent pool that will support our strategic focus.

Q How does the Board help DS Smith achieve its strategic goals?

All the Directors ensure that they give sufficient time in order to be effective representatives of shareholders' interests. Directors' responsibilities are increasingly complex, as board and key committee memberships demand greater time commitments. The Board and executive committees operate within a wider governance framework as described on page 53. This ensures that decisions are taken at the right level in the business by the people best placed to take them.

"There have been positive discussions about talent, succession and the shape of the Board."

Q How has the Board approached the increased disclosure requirements for UK companies?

One of our values, underpinned by our Code of Conduct, is to be trusted. During the year under review we published DS Smith's first modern slavery statement, addressing the role of businesses in preventing modern slavery within their organisation and beyond, into their supply chain. Our second statement will be published on our website in September 2017. DS Smith will be publishing its first gender pay gap report by April 2018, in line with the new regulations issued last year. The Board continues to keep abreast of any new regulatory and legal requirements to ensure good governance flows throughout the whole of the organisation.

Q There have been some big name scandals reported this year. How does the Board seek to protect DS Smith's reputation?

DS Smith is committed to the highest ethical standards. We apply these to the way in which we engage with each other, our customers, employees, shareholders, suppliers and other stakeholders. Our reputation as a Group is founded on always meeting these high standards. Our Code of Conduct sets out in detail what our commitment to the highest ethical standards means; the behaviour which is expected of us all; and how it is aligned with our core values.

Compliance with the UK Corporate Governance Code

Our governance framework, which is shaped by the UK Corporate Governance Code, the Companies Act 2006 and secondary legislation and Financial Conduct Authority rules and guidance, sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders. Each Director has access to all information relating to the Group and to the advice and services of the Company Secretary and, as required, external advice at the Group's expense.

Leadership Your Board rigorously challenges strategy, performance, responsibility and accountability to ensure that every decision we make is of the highest quality.

Learn about the Directors' skills and experience on pages 50 and 51

Effectiveness Your Board continuously evaluates the balance of skills, experience, knowledge and independence of the Directors. We ensure that all new Directors receive a tailored induction programme and we scrutinise the effectiveness of our performance in an annual Board evaluation.

You can read more about the Board's effectiveness on page 56

Accountability All of our decisions are discussed within the context of the risks involved. Effective risk management is central to achieving our strategic objectives.

Discover more about our approach to this on page 39

Remuneration Having a formal and transparent procedure for developing policy on remuneration for Executive Directors is crucial. Our remuneration policy aims to attract, retain and motivate by linking reward to performance.

The detail of our approach to developing this policy and how it was implemented during the year starts on page 64

Relations with stakeholders Maintaining strong relationships with our shareholders, both private and institutional, is crucial to achieving our aims. We hold events throughout the year to maintain an open dialogue with our investors.

You can see more information about shareholder and stakeholder dialogue on page 57

The governance report includes:

"The Nomination Committee has the key role of ensuring we have the right skills on the Board to deliver the Group's strategy and deal with the changes in the business environment."

Member	Since
Gareth Davis	2010
Chris Britton	2013
Ian Griffiths	2014
Jonathan Nicholls	2009
Kathleen O'Donovan	2012
Miles Roberts	2010
Louise Smalley	2014

The Group General Counsel and Company Secretary acts as Secretary to the Committee.

Details of individual Directors' attendance can be found on page 55.

Gareth Davis
Chairman

"The Chairman ensures that the Board as a whole is enabled to play a full and constructive part in the development and determination of the Group's strategy and strategic objectives."

Key responsibilities

- Reinforcing the culture and diversity expertise in the Board's composition and maintaining ongoing succession plans.
- Considering ways to improve diversity in the pipeline for senior management roles.
- Further strengthening of the senior management team.
- Reviewing the Group's talent management process.

The Nomination Committee's Terms of Reference can be found at http://www.dssmith.com/investors/corporate-governance/committees/

Dear shareholders

The Nomination Committee and the Board as a whole are responsible for establishing the culture, values and ethics of the Company. It is important that the Board sets the correct 'tone from the top' and that our Directors lead by example and ensure that good standards of behaviour flow throughout the organisation.

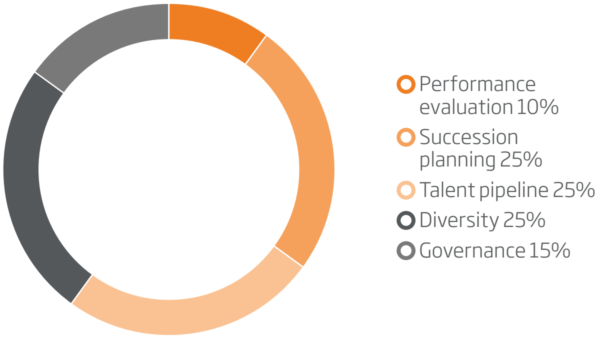
Activities during the year

Board diversity

The Company's diversity policy, which covers everyone from the Board down, was adopted by the Board in 2015. It is the responsibility of the Nomination Committee to implement and monitor the objectives set out in this policy and to periodically review it.

When evaluating diversity within DS Smith we look at diversity of gender, age, nationality, and educational and professional background, as well as individual characteristics such as a broad life experience. This is important for us since we believe it to be a key factor behind high-performing and innovative teams. The Nomination Committee has discussed our talent management plans.

Allocation of time



The Nomination Committee read with interest the Parker Report published in November 2016. Currently the Board's composition does not fully reflect the international nature of our business and this is one of the matters due to be considered by the Committee in 2017/18.

In preparation for the first gender pay gap reporting by April 2018, we have looked at any factors that might lead to a gender pay gap across the Group.

Through our internal initiatives such as the Engaging Managers Programme and the Arkwight Scholarship, we are taking steps to ensure that there are no barriers to anyone succeeding at any level within DS Smith. The Board remains committed to strengthening the pipeline of senior female executives within the business.

Nomination Committee evaluation

The Nomination Committee's performance was considered as part of the overall Board evaluation. The Committee's evaluation was based around the 12 questions for nomination committees posed by the EY and ICSA 2016 report, "The nomination committee: coming out of the shadows". The report, which was based on a series of roundtable discussions with industry leaders, focused on the role of the nomination committee and how boards could improve this work.

Our Nomination Committee's work during the year included reviewing the Committee's remit and evaluating its effectiveness, in terms of both managed and emergency succession planning. The evaluation of the individual performance of all Directors, including the Group Chief Executive and Group Finance Director, was also undertaken. Succession plans for each of these roles were also reviewed.

Succession planning

Board succession planning is focused on ensuring the right mix of skills and experience for the Board. The Board believes in the importance of diverse Board membership, including diversity of gender, age, and educational and professional background. There have been positive discussions about talent management, succession planning and the shape of the Board.

We have not appointed a new Director during the period but enhancing a skill matrix for the overall shape of the Board continues to be the focus of discussions. Whilst we have no current plans to increase the number of Executive Directors on the Board, we keep this possibility under review as part of our succession planning.

In line with best practice, during 2016/17 the Nomination Committee explored the contingency plan for unexpected departures and reviewed the Group Chief Executive's succession plan. The plan envisages the role being filled by either internal or external candidates and this discussion will be revisited in 2017/18.

Independence and re-election of Directors

The Board is satisfied that all of its non-Executive Directors bring robust independent oversight and continue to remain independent. Biographical details of each Director can be found on pages 50 to 51.

The Nomination Committee conducted a particularly rigorous review of the independence of Jonathan Nicholls when considering whether to renew his letter of appointment. It was noted that Jonathan serves as Chairman of Shaftsbury Plc. The Committee was satisfied that he allocates sufficient time to DS Smith and performs his responsibilities effectively. The Committee concluded that he remains independent in judgement and character, his commitment to the Company is undiminished and his performance continues to be effective. Jonathan will reach the end of his third three-year term in 2018.

Nomination Committee areas for further development:

- **Succession planning** – continued Board engagement in talent management and succession planning, allowing high-calibre internal potential candidates scope to develop.
- **Board composition** – developing a skills matrix to support the Board's succession planning work.
- **Diversity** – is not just gender or ethnicity; diversity of outlook and approach is also important. Diversity also extends beyond the Board and we support management in their efforts to build a more diverse organisation.
- **Culture** – continue to support the executive team in communicating a strong culture in line with DS Smith's values.
- **Training** – assist the Chairman to consider where new and ongoing training can be applied.

Both Ian Griffiths and Louise Smalley's letters of appointment expired on 24 June 2017. The Nomination Committee reviewed their commitment and contribution to the Board and is satisfied that their letters of appointment should be renewed for a further three-year term.

An evaluation of my performance as Chairman during the year, led by Jonathan Nicholls as Senior Independent Director, was considered in my absence.

Following these evaluations by the Nomination Committee, the Board recommends the re-election of all the Directors at the 2017 Annual General Meeting (AGM).

External chairmanships

Following a review by the non-Executive Directors and the Senior Independent Director, the Board believes that my performance continues to be effective and I continue to demonstrate commitment to my role as Chairman.

I also serve as chairman to two other listed companies. The Board continues to believe that I am the most appropriate person for the role of Chairman at this time, and is satisfied that I allocate sufficient time to DS Smith and perform my responsibilities effectively. I will be retiring as Chairman of William Hill Plc before May 2018, once a successor has been appointed.

Details of all the Directors' other directorships can be found in their biographies on pages 50 and 51.

Gareth Davis

Gareth Davis
Chairman

29 June 2017

1. Gareth Davis
Chairman

N R

Appointment: Gareth was appointed to the Board as a non-Executive Director on 1 June 2010. He became Chairman of the Board on 4 January 2012 and is Chairman of the Nomination Committee.

Skills and Experience: Gareth is a knowledgeable Chairman with over 20 years' experience of sitting on boards. Previously he was Chief Executive of Imperial Tobacco Group PLC from its incorporation in 1996 until May 2010.

External Appointments: Gareth is currently chairman of Wolseley plc and William Hill PLC (he is expected to step down from this role before William Hill's 2018 AGM).

Contribution: Governance and leadership; agreeing and reviewing induction, training and development needs for each Director; ensuring meetings are properly conducted; and managing shareholder and stakeholder relationships.

2. Miles Roberts
Group Chief Executive

N G

Appointment: Miles was appointed to the Board on 4 May 2010 as Group Chief Executive.

Skills and Experience: In his earlier years he gained an engineering degree at Bristol University. Following that he qualified as an accountant, and brings to the Board extensive financial experience. He was previously Chief Executive of McBride plc, having originally joined as its Group Finance Director. He served as Senior Independent Director on the board of Poundland Group plc until September 2016.

External Appointments: He has been a non-Executive Director of Aggreko plc since March 2017.

Contribution: Strategy and vision; overseeing business operations and managing risk; prime responsibility for health and safety within the Group; and building and leading an effective Group Operations Committee.

3. Adrian Marsh
Group Finance Director

G

Appointment: Adrian was appointed to the Board as Group Finance Director on 24 September 2013.

Skills and Experience: As the former head of Tax, Treasury and Corporate Finance at Tesco PLC, Adrian has helped DS Smith to significantly develop the finance function and deliver strong financial results. As a qualified accountant, and coming from a FTSE background, he has held senior finance positions at Pilkington plc, AstraZeneca plc and Inchcape plc.

External Appointments: Adrian currently has no external appointments.

Contribution: Overseeing the management of financial risk; and providing general support to the Group Chief Executive, including overseeing the operational performance of the business.

4. Chris Britton
Non-Executive Director

N R A

Appointment: Chris was appointed to the Board as a non-Executive Director on 6 March 2013.

Skills and Experience: He was previously non-Executive Director for Alliance Boots GmbH for six years, founder and MD of B&B Investment Partners and CEO of the Findus Group. He has additionally held executive board positions at a number of companies. Before that he worked for Diageo for 20 years in marketing and general management positions, including his final role as global marketing director of Diageo.

External Appointments: Chris is currently chairman of two private equity portfolio companies, Graze and Dr Gerard. He is an investor/director in a number of food and drink consumer brands.

Contribution: Provides a strong source of advice and judgement; constructively challenges and helps develop proposals on strategy; provides significant commercial experience and skills; and provides an international perspective given his past and current roles.

5. Ian Griffiths
Non-Executive Director

N R A

Appointment: Appointed to the Board as non-Executive Director on 23 June 2014.

Skills and Experience: Prior to his current role, he was at EMAP plc for 13 years in various senior finance positions including Group Finance Director from 2005 to 2008. Prior to that he was at Ernst & Young LLP, where he worked in the corporate finance team.

External Appointments: Ian was Group Finance Director of ITV plc and from 3 May 2017 he became Chief Operating Officer and Group Finance Director.

Contribution: Provides a strong source of advice and judgement; constructively challenges and helps develop proposals on strategy; and provides significant external commercial experience and a broad range of skills for the Board to draw on.

6. Jonathan Nicholls
Senior Independent Director

N R A

Appointment: Jonathan was appointed to the Board as a non-Executive Director on 1 December 2009. In July 2012 he was appointed as the Senior Independent Director. He is Chairman of the Audit Committee.

Skills and Experience: As a Member of the Institute of Chartered Accountants, Jonathan holds a number of non-Executive directorships and has extensive experience of sitting on boards. He was previously Group Finance Director of Hanson Plc and was most recently Group Finance Director of Old Mutual Plc. He was a non-Executive Director and Chairman of the Audit Committee of Great Portland Estates plc and a non-Executive Director and Chairman of the Audit Committee of SIG plc.

External Appointments: He is Chairman of Shaftesbury Plc and Senior Independent Director of Ibstock PLC.

Contribution: Provides a strong source of advice and judgement; constructively challenges and helps develop proposals on strategy; provides significant external commercial experience and a broad range of skills for the Board to draw on; provides advice and judgement to the Chairman as necessary; is available to liaise with shareholders who have concerns that they feel have not been addressed through the normal channels; and conducts the annual performance review of the Chairman.

7. Kathleen O'Donovan
Non-Executive Director

N R A

Appointment: Kathleen was appointed to the Board as a non-Executive Director on 5 December 2012. She was appointed Chairman of the Remuneration Committee in September 2013.

Skills and Experience: She was previously a Senior Independent Director and Chair of Audit Committee of ARM Holdings plc and Great Portland Estates plc, non-Executive Director and Chair of Audit Committee of Prudential plc and EMI Group plc, and non-Executive Director of O2 plc. She served as a Director and Chair of Audit Committee on the Court of the Bank of England from 1998 to 2004 and was Chief Financial Officer of BTR plc and Invensys plc from 1991 to 2002.

External Appointments: Kathleen currently holds no other non-Executive Plc appointments.

Contribution: Provides a strong source of advice and judgement; constructively challenges and helps develop proposals on strategy; provides significant external commercial experience and a broad range of skills for the Board to draw on; and through the Remuneration Committee, takes responsibility for determining appropriate levels of remuneration for senior executives.

8. Louise Smalley
Non-Executive Director

N R A

Appointment: Louise was appointed to the Board as a non-Executive Director on 23 June 2014.

Skills and Experience: Louise brings strong HR experience to the Board having held a number of key HR roles at Whitbread. She previously worked as a HR professional in the oil industry, with BP and Esso Petroleum.

External Appointments: She is Group Human Resources Director and an Executive Director of Whitbread PLC.

Contribution: Provides a strong source of advice and judgement; constructively challenges and helps develop proposals on strategy; and provides significant external commercial experience and a broad range of skills for the Board to draw on.

9. Iain Simm
Group General Counsel and Company Secretary

N R A

Appointment: Iain was appointed Group General Counsel and Company Secretary on 6 June 2016.

Skills and Experience: He was previously General Counsel and Company Secretary with BBA Aviation plc and prior to that General Counsel at P&O Ports Ltd. He undertook his legal training with Slaughter and May LLP and worked for a number of years in their corporate and commercial group.

External Appointments: No external appointments held.

Contribution: Ensures a good flow of information to the Board and its Committees and between the GOC and the non-Executive Directors; facilitates all Director inductions; advises the Board on corporate governance; and keeps the Board up to date on all legal, regulatory and other developments.

Key

N Nomination Committee

R Remuneration Committee

G General Purposes Committee

A Audit Committee

Role and responsibilities of the Board

The Board is responsible for ensuring that there is an effective organisational and reporting structure in place with clear reporting lines across the Group and well defined roles and responsibilities.

The role of the Board is to rigorously challenge strategy, performance, responsibility and accountability to ensure that every decision we make is of the highest quality. The roles of the Chairman and the Group Chief Executive are clearly established and remain separate.

The Board is assisted by various Committees, whose structure is outlined on the page opposite. The Board regularly reviews membership of these Committees. All Board Committees have written terms of reference approved by the Board and these are regularly reviewed and updated. They are available on the Company's website, and on request from the Company Secretary.

The Board Committees' Terms of Reference can be found at http://www.dssmith.com/investors/corporate-governance/committees/

Gender diversity

- Female 25%
- Male 75%

Tenure

- 1-3 years 0%
- 4-6 years 88%
- 7-9 years 12%

Board composition

- Executive 25%
- Non-Executive 75%

Role of the Chairman

- leading the operation and governance of the Board as well as building and maintaining an effective Board;
- overseeing corporate governance matters and ensuring they are addressed;
- leading the performance evaluations of the Group Chief Executive, non-Executive Directors and the Board;
- ensuring Directors receive timely, accurate and clear information on Group business and that all Directors are fully informed of relevant matters; and
- communicating effectively with shareholders and stakeholders.

The Chairman, in conjunction with the Company Secretary, ensures that Directors receive a full, formal and tailored induction to the Group and ongoing training as relevant.

Role of the Group Chief Executive

- leading the development of the Group's strategic direction and implementing the agreed strategy;
- communicating effectively with shareholders and other stakeholders;
- overseeing business operations and managing risks;
- taking prime responsibility for health and safety within the Group and its subsidiary operations;
- building and leading an effective Group Operations Committee (GOC) (which comprises the heads of the Group's principal operations and functions) and management of the Group's business; and
- communicating matters discussed at the GOC to the Board.

The Group Chief Executive is assisted in meeting his responsibilities by the Group Finance Director, the GOC and the Group Strategy Committee.

Role of the Board

- setting the long-term objectives and commercial strategy;
- oversight of the management of the DS Smith Group;
- setting financial key performance indicators (KPIs);
- approval of major corporate transactions and commitments;
- approval of the Group and Company financial statements and ensuring that the Annual Report is fair, balanced and understandable;
- recommending or declaring dividends;
- maintaining a sound system of internal controls and risk management;
- review of the Group's overall corporate governance arrangements;
- succession planning and appointments to the Board and senior management following recommendation by the Nomination Committee;
- reviewing the performance of the Board, its Committees and individual Directors annually;
- approval of any significant changes in accounting policies or practices;
- agreeing the remuneration policy (subject to shareholder approval) for the Directors, the Group General Counsel and Company Secretary and other senior executives;
- approval of the delegation of authority between the Chairman and the Group Chief Executive and the terms of reference of all Board Committees;
- approval of all key policies and material amendments to those policies, including the Code of Conduct, Health and Safety and Environmental polices;
- approval of treasury policy; and
- approval of major changes to the DS Smith Group's corporate structure.

Governance framework and compliance

The Board

Chaired by Gareth Davis
Meets a minimum of seven times a year
Accountable to shareholders for the long-term sustainable success of the Group. This is achieved through setting out the strategy, monitoring the strategic objectives and providing oversight of the implementation by the management team.

Nomination Committee

Chaired by Gareth Davis
Meets a minimum of four times a year

The Nomination Committee regularly reviews the structure, size and composition of the Board and its Committees. It identifies and nominates suitable candidates to be appointed to the Board (subject to Board approval) and considers diversity, culture, talent and succession generally.

Read more about the work of the Nomination Committee on page 48

Audit Committee

Chaired by Jonathan Nicholls
Meets a minimum of four times a year

The Audit Committee has responsibility for overseeing and monitoring the Group's financial statements, accounting processes, audit (internal and external) controls and matters relating to fraud and other reports received under the "Speak Up!" policy.

You can explore the issues considered by the Audit Committee on page 61

Remuneration Committee

Chaired by Kathleen O'Donovan
Meets a minimum of five times a year

The Remuneration Committee reviews and recommends to the Board the framework and policy for the remuneration of the Chairman, the Executive Directors and the Group Operating Committee. The remuneration of the non-Executive Directors is determined by the Chairman and the Executive Directors. The Committee takes into account the business strategy of the Group and how the remuneration policy reflects and supports that strategy.

See page 64 for more information

Disclosure Committee

The Group Chief Executive, the Group Finance Director, the Chairman and the Company Secretary. Other Directors, representatives from the Company's brokers, members of the Company's management and other external advisers may attend meetings in whole or in part, if invited. The Disclosure Committee oversees the Company's compliance with its disclosure obligations.

General Purposes Committee

The Group Chief Executive, Group Finance Director and the Chairman. To facilitate swift and efficient operational management decision-making for the business in relation to day-to-day financing and administrative matters.

Group Operating Committee

Chaired by Miles Roberts
Meets monthly
The Group Finance Director, divisional Chief Executives, the Head of Strategy, Group Human Resources Director and Chief Procurement Officer. Considers Group-wide initiatives and priorities. Reviews the implementation of strategy and operational plans. Reviews changes to policies and procedures and facilitates the discussion of the development of new projects.

Group Strategy Committee

Chaired by Miles Roberts
Meets monthly
The Group Finance Director, divisional Chief Executives, the Head of Strategy, the Head of Mergers & Acquisitions and the Group General Counsel and Company Secretary. Plans the business strategy implementation through the annual Corporate Plan process. The Corporate Plan is used to develop the Group's strategy, based on the set strategic direction. The Corporate Plan's focus is primarily on strategic actions, supported by high level financial information. Our Corporate Plan covers a three-year horizon and is reviewed annually with the Board.

Operating Divisions

Day-to-day business delivery

Corporate Functions

Day-to-day business delivery

Board activities

Topic	Key activities and discussions in 2016/17	Key priorities in 2017/18
Strategy The strategic report explains this in more detail on page 22	• Reviewed and approved the Corporate Plan. • Reviewed and approved a number of acquisitions. • Reviewed financial key performance indicators (KPIs). • Considered and approved the Group's dividend policy. • Reviewed the potential impact of the EU referendum (Brexit) to the business.	• Approve the Corporate Plan and keep under review. • Consider acquisitions and divestments as identified and determine appropriate course of action. • Keep financial KPIs under review. • Keep the Group's dividend policy under review.
Risk and risk management An in-depth explanation of our risks and risk process is set out on page 39	• Carried out a robust assessment of principal key risks (see pages 42 to 45), monitored and reviewed the internal controls process, and assessed the Group risk profile by identifying where the business's key risks lay, aligning them with the business's risk appetite and highlighting how to target and mitigate those risks effectively. • Monitored compliance with the anti-bribery and anti-corruption policy, competition law policy, social media policy and data protection policy. • Reviewed Group's bid defence strategy.	• Review key risks and ensure that the Group remains at the forefront of developing and embedding best practice for risk management. • Continue to monitor compliance with the key policies, including anti-bribery and anti-corruption policy, competition law policy, social media policy and data protection policy.
Governance You can find our Code of Conduct on our website at http://www.dssmith.com/people/culture/code-of-conduct	• Continued to focus on the composition, balance and effectiveness of the Board. • Reviewed the key operational roles and identified gaps in experience needed to deliver the strategy. • Reinforced compliance with DS Smith's Code of Conduct and the Operating Framework, a document which sets out the Group's culture and values, as well as its key policies and procedures, all in accordance with the principles of good corporate governance. • Considered the new regulations affecting the Company, signed off and published the Group's first modern slavery statement. • Engaged with our individual shareholders at the AGM. • Engaged with institutional shareholders, investors and other stakeholders throughout the year. • Formal Audit, Governance and Remuneration Committee training took place throughout the year and the Board received Market Abuse Regulation (MAR) training. • A Disclosure Committee of the Board was set up in order to facilitate compliance with MAR and in particular to aid in the assessment of when inside information existed. • Separate non-Executive Director sessions held with the Chairman after every Board meeting to discuss leadership and other Board matters. • Reviewed and approved the 2015/16 Annual Report. The Board agreed that, taken as a whole, the 2015/16 Annual Report was fair, balanced and understandable.	• Ensure that the Company remains at the forefront of developing and embedding best practice in responsible business behaviour. • Maintain and enhance DS Smith's culture and values and key policies and procedures and ensure these are rolled out to acquired businesses. • Continue to strengthen internal controls and reporting. • Review level of institutional holdings and consider actions to broaden the Group's shareholder base further. • Implementing, subject to shareholder approval, the remuneration policy being presented to shareholders at the AGM in 2017. • Further understanding and planning actions in relation to new regulations over the period.

Topic	Key activities and discussions in 2016/17	Key priorities in 2017/18
Organisational capacity You can read more about the Employee Charter on page 26	• Monitored health and safety performance across the Group and reviewed the lessons learned to keep our employees and others affected by our operations safe. Regular Board updates received on actions improving health and safety. • Held a number of meetings with people in the senior talent pipeline to further improve information flow. • Reviewed the governance framework and continued training and awareness drives for key policies. • Monitored senior executive talent management and development plans with succession planning for all key positions in mind. • There was a major focus on engagement with the European Works Council (EWC) to assist in managing employee relations across Europe and improving employee communications.	• Continue to monitor senior executive talent management and development plans to provide succession for all key positions. • Continue to increase the diversity of the Board and the management team.
Board development You can read more about this on page 56	• Continued to focus on the composition, balance and effectiveness of the Board. Reviewed Board composition and discussed and acted on the recommendations of the Nomination Committee. • Undertook an internal evaluation of the Board, its Committees and individual Directors, with the aim of becoming the best Board we can be. Following the evaluation an action plan was developed.	• Enhance the Board's strategic understanding of geopolitical and economic risks in international markets. • Use Board visits to promote understanding of markets and the business development opportunities they offer. • Annual evaluation of Board performance – to be led externally.

Board and Board Committee meetings attendance

	Board	Nomination Committee	Audit Committee	Remuneration Committee	Annual General Meeting	% attended
Total number of meetings in 2016/17	8	4	4	5	1	100%
Executive Directors						
Miles Roberts	8	N/A	N/A	N/A	1	100%
Adrian Marsh	8	N/A	N/A	N/A	1	100%
Non-Executive Directors						
Gareth Davis	8	4	–	5	1	100%
Chris Britton	8	4	4	5	1	100%
Ian Griffiths	8	4	4	5	1	100%
Jonathan Nicholls[1]	8	3	4	5	1	95%
Kathleen O'Donovan	8	4	4	5	1	100%
Louise Smalley[2]	8	4	4	4	1	95%

1 Jonathan Nicholls was unable to attend the Nomination Committee in December due to prior Shaftesbury board commitments.

2 Louise Smalley was unable to attend the Remuneration Committee meeting in January due to prior Whitbread board commitments.

In addition to the seven scheduled Board meetings, one ad hoc meeting was held to discuss business matters that the Chairman and Group Chief Executive decided should be considered by the Board. All Directors received papers for all meetings, and had the opportunity to comment in advance of meetings they were unable to attend.

The culture of the Board is open, transparent and collegiate. The Chairman demonstrates leadership and encourages an open and transparent style around the Board table.

Allocation of time

The Board held seven scheduled meetings and one ad hoc meeting during the year. Individual attendance is set out on page 55. Sufficient time is provided at the start and end of each meeting for the Chairman to meet privately with the Senior Independent Director and the non-Executive Directors to discuss any matters arising.

All Directors are aware of the need to allocate sufficient time to the Company in order to discharge their responsibilities effectively. The letters of appointment for non-Executive Directors set out the time commitment expected to allow them to perform their duties effectively.

Conflicts

All Directors have a duty under the Companies Act 2006 to avoid a situation in which they have, or could have, a direct or indirect conflict of interest or possible conflict of interest with the Company and the Group. A review of conflicts which have been authorised is undertaken by the Board annually. Following the last review, the Board concluded that any conflicts had been appropriately authorised, no circumstances existed which would necessitate that any prior authorisation be revoked or amended, and the authorisation process continued to operate effectively.

Directors' training and induction

The Chairman, supported by the Group General Counsel and Company Secretary, takes responsibility for ensuring that Directors receive accurate, timely and clear information across a wide range of matters relevant for the Board to operate effectively. There are half-yearly updates on governance matters and explanations of how these impact on DS Smith. Presentations are made by internal management and external advisers to provide briefings to support better awareness of issues and to facilitate decision-making.

During the period the Board received training on the new Market Abuse Regulations (MAR). There were detailed discussions around when transactions were sufficiently likely to constitute inside information, along with what might be legitimate reasons to delay immediate announcement.

A comprehensive induction programme is tailored for each new Director prior to their appointment to the Board. The programme is designed for each individual, taking account of their existing knowledge of the business, specific areas of expertise and proposed Committee appointments.

"Part of the success of DS Smith has been the ability to build sustainable relationships with stakeholders, which is reflected in the insights that are presented to the Board."

Culture in action – Board evaluation

This year our Board evaluation was designed around our corporate values.

Be challenging

Recommendation	Proposed action
To leverage Board experience to better support the executive team.	The Board will continue to support and challenge executive management, with particular focus on execution of strategy.

Be responsive

Recommendation	Proposed action
To enhance Board succession planning, particularly in respect of key roles.	The Nomination Committee will develop a skills matrix to support the Board succession plan. The Nomination Committee will continue to assess the skills and experience needed on the Board to ensure that Board composition is balanced.

Be tenacious

Recommendation	Proposed action
To ensure the Board has access to sufficient information about the international landscape in which the Company operates.	The form and content of reporting to the Board will be reviewed and refreshed by management to ensure that the Board receives the most appropriate information.

Be caring

Recommendation	Proposed action
To ensure the Board has a good insight into areas that might affect the Company's reputation.	The Board will continue to identify opportunities for more free-ranging discussion of risk, including as part of the annual Board strategy session.

Be trusted

Recommendation	Proposed action
To ensure the Board has the appropriate balance of skills and mix of experience to enable it to discharge its duties and responsibilities effectively.	The Board training programme for 2017/18 to be reviewed and refreshed to factor in tailored governance training.

The Board evaluation was carried out internally, and consisted of a comprehensive questionnaire sent to individual Board Directors. One-to-one interviews were conducted with the Chairman to give Directors the chance to discuss any issues raised. The Senior Independent Director held separate interviews to discuss the performance of the Chairman. A presentation of the overall findings was discussed at the Board, and individual Committee feedback was given to the Chairs to discuss at the relevant Committee meetings. Following the Board discussion, a formal action plan was agreed which would be implemented over the following year.

"The Chairman is very experienced and is able to bring a tremendous breadth of perspective and insight, while remaining responsive to the individual and collective needs of his Board."

Shareholder and stakeholder engagement

The Board recognises the importance of regular, open and constructive dialogue with shareholders and other stakeholders, not just ahead of the AGM, but throughout the year.

The Group's Investor Relations and Company Secretarial departments act as the centre for ongoing communication with shareholders, investors and analysts. The Board receives regular updates on the views of the Group's major shareholders and stakeholders from this engagement or direct contacts. The Chairman and the Senior Independent Director are always available to major shareholders. Formal trading updates are given to the market four times a year. Following the quarterly update, in Q1 and Q3, a conference call is held with shareholders and analysts and after the full-year and interim results a presentation is made to shareholders and analysts. A programme of meetings and conference calls is also organised periodically throughout the year at which the Group Chief Executive and Group Finance Director meet with investors, either individually or in groups, to discuss Company performance and respond to any questions raised.

Go to page 12 to find out more about our customers

Site visits and Board dinners

The Board as a whole held a number of dinners throughout the year and an additional non-Executive Director dinner, hosted by Gareth Davis, attended by all the non-Executive Directors.

On 31 January 2017 the Board visited Aschaffenburg Mill where they received a presentation from the local management team, undertook a site visit and held a dinner with the senior management team.

See page 24 for more about our focus on our DS Smith people

The annual general meeting (AGM)

The Board views the AGM as an opportunity to communicate with private investors and sets aside time at the meeting for shareholders to ask questions. At the AGM, the Chairman provides a brief summary of the Company's activities during the previous year. All resolutions at the 2016 AGM were voted by way of a poll. As recommended by the Code, all resolutions were voted on separately and the final voting results, which included all votes cast for, against and those withheld, were released to the London Stock Exchange as soon as practicable after the meeting. All Directors will retire and stand for re-election this year.

At our 2016 AGM, we received votes representing approximately 79% (2015: 78%) of our issued share capital. Our next AGM will be held on Tuesday 5 September 2017. All Directors plan to be in attendance. Full details are contained in the Notice of Meeting available on our website and, where applicable, posted with this Annual Report.

Investor meetings 2016/17

June 2016	Full-year results
June 2016	London and Scotland roadshow
July 2016	US and European roadshow
August 2016	Discussions with investors and advisory bodies prior to AGM
September 2016	AGM
September 2016	Investor conferences
October 2016	Trading update
November 2016	Investor conference
December 2016	Half-year results
December 2016	London and Scotland roadshow
January 2017	Capital Markets Day, Germany
February 2017	US roadshow
March 2017	Trading update
March 2017	Investor site visit, Fordham, UK
May 2017	Trading update

Substantial shareholders

Information provided to the Company pursuant to the Financial Conduct Authority's (FCA) Disclosure Guidance and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website.

As at 30 April 2017, the following information has been received, in accordance with DTR5, from holders of notifiable interests in the Company's issued share capital.

	Ordinary shares held	%	Nature of holding
Standard Life Investments Limited	94,123,364	9.90	Direct & indirect
Aviva plc	68,755,811	7.22	Direct & indirect
Ameriprise Financial Inc, and its group	47,955,690	5.04	Direct & indirect
Blackrock Inc	47,547,034	4.99	Indirect
Norges Bank	38,459,887	4.04	Direct

The trustee of the Employee Benefit Trust (the Trust), which is used to purchase shares on behalf of the Company as described in note 23, has the power to vote or not vote, at its absolute discretion, in respect of any shares in the Company held unallocated in the Trust. However, in accordance with good practice, the trustee adopts a policy of not voting in respect of such shares.

The trustee has a dividend waiver in place in respect of shares, which are the beneficial property of the Trust.

Going concern

In considering the going concern basis for preparing the financial statements, the Directors have considered the Company's objectives and strategy, its risks and uncertainties in achieving its objectives and its review of business performance, which are all set out in the strategic report, operating review and financial review sections of this annual report and accounts. The Group's liquidity and funding arrangements are described in notes 19 and 20 to the financial statements, as well as in the capital structure and treasury management section of the strategic report. The Directors consider that the Group has significant covenant and liquidity headroom in its borrowing facilities for the foreseeable future.

After reviewing the Company's expenditure commitments, current financial projections and expected future cash flows (with appropriate sensitivities applied), together with the available cash resources and undrawn committed borrowing facilities, the Directors have considered that adequate resources exist to continue in operational existence for a period of at least 12 months from the date of approval of this report. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Acquisitions and divestments

2016/17 acquisitions and disposals

In the year ended 30 April 2017, the Group made various business acquisitions, which are not considered material to the Group individually or in aggregate. These comprise the acquisition of two businesses specialising in point of sale and display product and services for in-store marketing (Creo in the UK, and Deku-Pack in Denmark), Parish (a US manufacturer and supplier of bag-in-box systems), Gopaca (a corrugated producer in Portugal) and P&I Display (a specialist corrugated display business in Portugal) for a total of £71 million (net of cash and cash equivalents). Loans and borrowings acquired from these transactions were £14 million.

2015/16 acquisitions and disposals

On 31 May 2015, the Group acquired the Duropack business, effected by the purchase of equity of the Duropack business for €305 million on a cash, debt and, to the extent legally possible and commercially practicable, pension free basis.

On 31 July 2015, the Group acquired the corrugated activities of Grupo Lantero, including several operations in which DS Smith previously held an equity accounted minority. That acquisition was effected by the purchase of equity, and the total consideration, including the assumption of debt, was €190 million. In addition to the acquisitions detailed above the Group also made various other business acquisitions and disposals, which are not considered material to the Group individually or in aggregate.

Share capital

Details of the issued share capital and the rights and restrictions attached to the shares, together with details of movements in the Company's issued share capital during the year, are shown in note 23. Pursuant to the Company's employee share option schemes, 6,478,392 ordinary shares of 10 pence each were issued during the year. 491,042 shares pursuant to the Company's employee share option schemes were issued between 1 May and 29 June 2017 inclusive. The Company has not utilised its authority to make market purchases of 94,493,212 shares granted to it at the 2016 AGM but, in line with market practice, will be seeking to renew such authority at this year's AGM.

Dividends

An interim dividend for 2016/17 of 4.6 pence per ordinary share was paid on 2 May 2017 and the Directors recommend a final dividend of 10.6 pence per ordinary share which, together with the interim dividend, increases the total dividend for the year to 15.2 pence (2015/16: 12.8 pence). Subject to approval of shareholders at the AGM to be held on 5 September 2017, the final dividend will be paid on 1 November 2017 to shareholders on the register at the close of business on 6 October 2017.

Political donations

No political donations were made during the year ended 30 April 2017 (2015/16: nil). DS Smith has a policy of not making donations to political organisations or independent election candidates or incurring political expenditure anywhere in the world, as defined in the Political Parties, Elections and Referendums Act 2000.

Directors' and officers' liability insurance

The Company has purchased and maintains appropriate insurance cover in respect of Directors' and Officers' liabilities. The Company has also entered into qualifying third-party indemnity arrangements for the benefit of all its Directors, in a form and scope which comply with the requirements of the Companies Act 2006. These indemnities were in force throughout the year and up to the date of this Annual Report.

Risk governance

The Board retains accountability for establishing and maintaining the Group's systems of internal control and risk management and for reviewing their effectiveness but has delegated day-to-day responsibility to the Audit Committee. These systems are designed to manage, and where possible eliminate, the risk of failure to achieve business objectives and to provide reasonable, but not absolute, assurance against material misstatement or loss. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group.

Our risk management framework and the processes we put in place last year are operating well and serve to identify, assess and consider the possible remedies and responses to the principal risks and uncertainties the Group faces. The Group continues to improve the management of its key risks and to hold a strong position to absorb the financial and operational impact should those risks materialise. In doing so, the Board is encouraged by the continuing work across the Group and its Divisions, the investments being made in risk management and the growing interest and skills of our employees in this area.

Further details on the Group's risk management approach and its management and mitigation of each principal risk is set out in the principal risks section on pages 42 to 45. Following the new requirement of the Code to report on the Group's longer-term solvency and viability, the Group's viability statement is set out on page 41.

Other disclosures

This Directors' governance report fulfils the requirements of the directors' report for the purposes of the Companies Act 2006 (the Act). The strategic report can be found on pages 1 to 45, and encompasses our corporate social responsibility report.

In line with the Regulations which implement the European Union Accounting Directive (SI 2015/980), a complete list of the Group's subsidiaries has been included on pages 130 to 133 to comply with s409 of the Act.

We have chosen, in accordance with the Act, to include certain information in our strategic report or financial statements that would otherwise be required to be disclosed in the Directors' report. These are as follows:

Subject matter	Page
Important events since the financial year-end	9
Likely future developments in the business	16
Research and development	19
Use of financial instruments	35
Waiver of dividends	57
Employment of disabled persons	26
Employee involvement	24
Greenhouse gas emissions	38

The information that fulfils the requirements of the Corporate Governance Statement for the purposes of the Disclosure Guidance and Transparency Rules can be found on pages 46 to 63, and forms part of the Directors' report. The 2014 and the 2016 UK Corporate Governance Code can be accessed at www.frc.org.uk

Internal control

The Board has an overall responsibility for the Group's system of internal control, including financial, operational and compliance controls. The Board is also responsible for risk management systems and for reviewing their effectiveness. Such a system, however, can only be designed to manage rather than to eliminate risk. Therefore it can provide only reasonable and not absolute assurance against material misstatement or loss. We have the necessary procedures in place to ensure that there is an ongoing process for identifying, evaluating and managing the significant risks to the Group. These procedures are in line with Financial Reporting Council guidance and have been in place throughout the year under review and up to the date of the approval of these financial statements. Our risk governance process, including how it is reviewed by the Board, is described in more detail on page 39.

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 is accountable for, but has delegated to the Audit Committee the responsibility for, establishing a system of internal controls appropriate to the business environments in which the Group operates. Key elements of this system include:

- a clearly defined divisional 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 those risks. Risk consideration is embedded in decision-making processes. The most significant risks are periodically reported to the Board and considered by it. The risk process is reviewed by the Audit Committee;
- the preparation and review of comprehensive annual divisional and Group budgets and an annual review and approval by the Board of the Corporate Plan;
- the monthly reporting of actual results and their review against budget, forecasts (including bank covenant headroom) and the previous year, with explanations obtained for all significant variances;
- an Operating Framework laying down common control procedures and policies to apply throughout the Group. This includes clearly defined policies for capital expenditure and investment, including appropriate authorisation levels, with larger capital projects, acquisitions and disposals requiring Board approval;
- regular formal meetings between the Group Chief Executive, the Group Finance Director and divisional management to discuss strategic, operational and financial issues; and
- communicating key corporate values through our Code of Conduct to all employees.

Internal audit

The Group's Internal Audit function, which is outsourced to KPMG LLP, undertakes regular reviews of the individual businesses' operations and their systems of internal controls, makes recommendations to improve controls and follows up to ensure that management implements the recommendations made.

The Internal Audit plan is determined on a risk assessment basis and is reviewed and approved by the Audit Committee.

Internal Audit's findings are reported to Group and divisional business management as well as to the Audit Committee. The Board can confirm that it has carried out an annual review of the overall effectiveness of the Group's system of internal controls and risk management procedures, during the year and up to the date of approval of this Annual Report. This included a process of self-certification by senior divisional management in which they were asked to confirm that their divisions have complied with Group policies and procedures and to report any significant control weaknesses identified during the past year. In addition, it involved reviewing the results of the work of the Group's Internal Audit function and the risk identification and management processes identified above.

Disclosure of information to the Auditor

Each of the persons who is a Director at the date of the approval of this Annual Report confirms that:

a) so far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and

b) the Director has taken all the steps he/she ought to have taken as a Director in order to make him/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

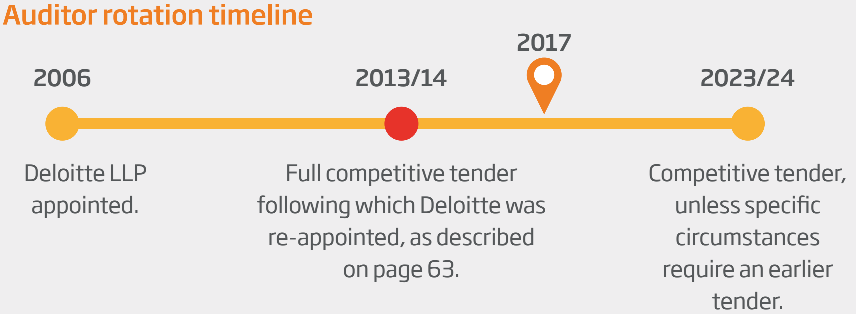
Deloitte LLP have expressed their willingness to continue in office as Auditor and a resolution to reappoint them will be proposed at the forthcoming AGM.

By order of the Board

Iain Simm
Group General Counsel and Company Secretary

29 June 2017

Auditor rotation timeline



"The Audit Committee continues to address its key responsibilities and to respond effectively to changes in the business and legislative environment."

Member	Since
Jonathan Nicholls	2009
Chris Britton	2013
Ian Griffiths	2014
Kathleen O'Donovan	2012
Louise Smalley	2014

The Group General Counsel and Company Secretary acts as Secretary to the Committee.

Details of individual Directors' attendance can be found on page 55.

Jonathan Nicholls
Chairman of the Audit Committee

Key responsibilities

- The accounting principles, policies and practices adopted in the Group's accounts.
- External financial reporting and associated announcements.
- Managing the appointment, independence, effectiveness and remuneration of the Group's external Auditor, including the policy on the award of non-audit services.
- Initiating and supervising a competitive tender process for the external audit when next required.
- The resourcing, planning and effectiveness of Internal Audit performed on behalf of the Group by an accountancy firm (currently KPMG LLP), which is independent from the Group's external Auditor.
- The adequacy and effectiveness of the internal control environment.
- The Group's risk management processes and performance.
- The establishment and oversight of fraud prevention arrangements and reports under the "Speak Up!" policy.
- The Group's compliance with the 2014 and the 2016 UK Corporate Governance Code (the Code).
- The provision of advice to the Board on whether the Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable and provides all the necessary information for shareholders to assess the Company's performance, business model and strategy.

The Audit Committee's Terms of Reference can be found at http://www.dssmith.com/investors/corporate-governance/committees

Dear shareholders

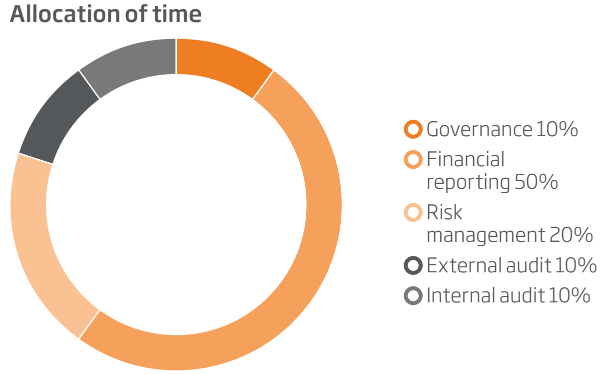
Membership and operation of the Committee

During the year, the Audit Committee met four times and met privately with the external Auditor after each meeting. In addition to the Audit Committee members, the Chairman, the Group Chief Executive, the Group Finance Director, representatives from the external Auditor, Internal Audit and the Group Financial Controller attended parts of these meetings by invitation.

Meetings of the Committee are scheduled close to the end of the half and full year, as well as before the publication of the associated half and full-year financial reports, so as to ensure the Committee is informed fully, and on a timely basis, on areas of significant risks and judgement.

The Board is satisfied that Jonathan Nicholls and the members of the Audit Committee have both current and relevant financial experience (as set out on pages 50 to 51) and that therefore the Audit Committee, as a whole, has competence relevant to the sector in which the Company operates. The Audit Committee is satisfied that the Group's executive compensation arrangements do not prejudice robust controls and good stewardship.

Allocation of time



The Chairman of the Audit Committee also held separate private meetings during the year with representatives from Internal Audit, the Group Finance Director and his team, and the external Auditor.

The Audit Committee received sufficient, reliable and timely information from management to enable it to fulfil its responsibilities.

Role of the Committee

The Audit Committee's role is central in bringing together the Group's risk management activities and control environment to ensure the integrity of financial reporting and maintain a strong risk focused culture. The Chairman of the Audit Committee attends the Group's Annual General Meeting every year and makes himself available for any shareholder questions on the Committee's remit.

The Committee oversees and reviews the management of risk, financial results, and the Group's internal audit function. The acquisition and integration programmes continue to be a focus, responding to the Group's continuing growth during 2016/17, as well as the transformation projects that have been undertaken to optimise the support infrastructure of the enlarged Group.

In order to help the Committee continue to meet their responsibilities, training and briefing sessions are organised during the Committee meetings. During 2016/17, sessions included a Corporate Governance developments update, and a briefing on the revised UK pensions investment strategy.

Risk management and internal controls

In fulfilling the Committee's oversight of the risk management and control environment, a number of key activities are undertaken during the year, as well as having regular meetings with senior management.

The Audit Committee considered the risk management activities during the year (including particular focus on specific areas of IT security and Brexit), and reviewed risk reporting to ensure that the balance between risk and opportunity was in keeping with the Group's risk appetite.

The Committee receives a separate report on any matters raised through "Speak Up!", the Group's confidential whistleblowing channel, and any related investigations.

The Committee approved the Group's annual Internal Audit plan, which was primarily risk-based focusing on the assurance of core processes, as well as overseeing internal compliance activities. During the year, the Committee received regular reports summarising findings from the Internal Audit reviews performed, and action plans to address any areas highlighted for improvement.

Significant matters considered

In 2016/17, the Audit Committee's review of other significant accounting and financial reporting issues included a focus on the key areas outlined as follows:

Issue	Review and conclusion
Classification and presentation of exceptional items	The Group has continued to deliver programmes to restructure the business to evolve and optimise the operational footprint and the support infrastructure. The costs of these programmes, together with other elements of income and cost (including acquisition and integration costs, impairments, and gains or losses on business disposals), are classified as exceptional because of their nature, incidence or size. The Directors believe that such a classification assists in the understanding of the trading and financial results of the Group. The Audit Committee has reviewed the appropriateness of the income and costs both included in, and excluded from, exceptional items by challenging and seeking explanations from management. The Audit Committee reviewed reports prepared by management and the external Auditor. This work is a recurring agenda item in all Audit Committee meetings where the Audit Committee reviews reports prepared by management. The external Auditor reports on these matters at the half and full year. The Audit Committee is satisfied with the resulting presentation.
Taxation	The focus by the Committee on taxation during the year considered the high current level of fiscal authority activity, the upcoming country by country reporting requirements and the Group's expansion into new markets, in the context of the Group's overall tax strategy. Taxation represents a significant cost to the business both in cash and accounting terms, and the Group is exposed to differing tax regimes and risks which affect both the carrying values of tax balances (including deferred tax) and the resultant income statement charges. The Audit Committee reviewed the tax charge for the half year and the full year, including the underlying tax effect, the appropriateness of and movement in tax provisions recognised, and the risks associated with them.

During the year the Committee reviewed the updated wording of the Group's longer-term viability statement, set out on page 41. In order to do this, they ensured that the model used for scenario and sensitivity testing aligned clearly with the principal risks of the Group, challenged the underlying assumptions used, and reviewed the results of the detailed work performed. The Committee was satisfied that the viability statement had been prepared on an appropriate basis and that the statement was justified.

The UK Corporate Governance Code requires the Board to confirm that the Annual Report presents a fair, balanced and understandable assessment of the Group's performance, business model and strategy. Following a request from the Board, the Committee undertook procedures to advise on this matter. In particular, Committee members received an early draft of the Annual Report during the planning process to enable review of any areas requiring additional clarity or better balance in the messaging.

External Auditors

Pursuant to the terms of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Process and Audit Committee Responsibilities) Order 2014 (Competition & Markets Authority Order), which was introduced with effect from this year, the Audit Committee is solely responsible for negotiating and agreeing the external Auditor's fee, the scope of the statutory audit and initiating and supervising a competitive tender process for the external audit where it is appropriate to do so. When a tender is undertaken, the Committee will be responsible for making recommendations to the Board as to the external Auditor's appointment.

The Audit Committee meets with the external Auditor to determine annually their qualifications, expertise, resources, independence, objectivity and effectiveness. In addition, the performance of the external and Internal Audit functions is evaluated as part of the annual cycle.

In order to ensure the independence and objectivity of the Auditor, the Audit Committee maintains and regularly reviews the Auditor Independence Policy which covers services which may be provided by the external Auditor, and fees permitted when they are allowed.

The policy on the supply of non-audit services by the external Auditor is as follows: The Group should not employ the Auditor to provide non-audit services where either the nature of the work or the extent of such services might impair the Auditor's independence or objectivity. The external Auditor is permitted to undertake some non-audit services, providing it has the skill, competence and integrity to carry out the work in the best interests of the Group, for example, advisory services and due diligence activities associated with potential acquisitions and disposals, and major changes in accounting regulations.

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 following the policy for 2016/17 should not exceed 75% of the annual Group audit fee without prior formal approval of the Audit Committee. During 2016/17, total non-audit fees were 18% of the annual Group audit fee (2015/16: 25%). In addition, £5.3 million was paid to other accounting firms for non-audit work, including £0.7 million for work relating to Internal Audit (see note 3).

EU regulations and other guidance mean that, with effect from the Group's 2017/18 year, the non-audit services permitted to be provided by the Auditor will be limited further and the ability for pre-approval of non-audit services will be substantially removed. In addition, a cap on the ratio of non-audit fees to audit fees paid to the Auditor of 70% has been introduced which is expected to be effective from the Group's 2020/21 year. In response to these changes, the Audit Committee has updated its internal guidance to reflect the new requirements as they become effective.

The Audit Committee receives written confirmation from the external Auditor as to any relationships that might have a bearing on their independence, whether they consider themselves independent within the meaning of the UK regulatory and professional requirements, and on their quality control processes and ethical standards. On the basis of the Committee's own review, approval requirements in the non-audit services policy, and the Auditor's confirmation, the Audit Committee is satisfied with Deloitte's independence and effectiveness.

The Audit Committee is able to monitor the effectiveness of the external Auditor both through direct assessment and through recurring activities. The Audit Committee Chairman meets with the lead engagement partner regularly and individual Committee members are encouraged to, and do, meet privately with Deloitte.

External audit fee negotiations are approved by the Audit Committee each year. There are no contractual restrictions on the Group with regard to Deloitte's appointment.

Deloitte LLP were first appointed as external Auditor to the Group in 2006. In 2013/14, the Company carried out a full competitive tender for the role of Statutory Auditor, following which Deloitte were reappointed. The Committee's policy is that the role of external Auditor will be put out to tender at least every 10 years in line with the applicable rules, or at other times should specific circumstances require this.

The Committee has the current intention to put the external audit out to tender no later than the 2023/24 year end. The Committee has the discretion to accelerate the planned audit tender timeline at any time. The timeline will be kept under review on an annual basis in conjunction with the assessment of the effectiveness of the external audit process and the needs of the Group, including the benefit of stability in the independent oversight provided by the external audit provision, which the Committee considers to be in the best interests of shareholders.

The lead audit partner rotates every five years and Ian Waller, the current lead audit partner, has been in post since 2013/14 and is due to rotate after the 2017/18 year end.

The Audit Committee confirms that the Company has complied with the provisions of the Competition & Markets Authority Order in regards to external audit tendering and audit responsibilities throughout its financial year ended 30 April 2017.

Jonathan Nicholls
Chairman of the Audit Committee

29 June 2017

"Our remuneration policy and arrangements are focused on alignment with the long-term success of DS Smith and our shareholders; and ensuring we can compete for talent."

Member	Since
Kathleen O'Donovan	2012
Gareth Davis	2010
Chris Britton	2013
Ian Griffiths	2014
Jonathan Nicholls	2009
Louise Smalley	2014

The Committee consults with the Group Chief Executive, who may attend meetings of the Committee, although he is not involved in deciding his own remuneration. The Committee is assisted by the Group General Counsel and Company Secretary and the Group Head of Reward.

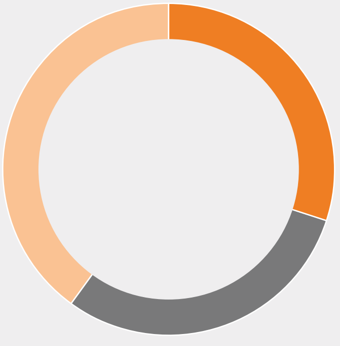
Details of individual Directors' attendance can be found on page 55.

Kathleen O'Donovan
Chairman of the Remuneration Committee

Key responsibilities

- Design of remuneration policy.
- Remuneration policy implementation.
- Ensuring the competitiveness of reward.
- Design of incentive plans.
- Setting incentive targets and determining award levels.

Allocation of time



Remuneration policy summary

The proposed future remuneration policy is set out on pages 67 to 70

Dear shareholders

Background

On behalf of the Board, I am pleased to present our Directors' remuneration report for the year ended 30 April 2017. Before I get into the detail of my report, I would like to remind shareholders about some achievements against our strategic priorities in the past year under the leadership of the executive team. You can read more detail in the strategic report on page 22 but some of the key achievements are summarised below. We have also included some key remuneration statistics on page 66.

Our current remuneration policy is due to expire and we are therefore presenting a revised policy to shareholders for approval, together with our annual report on Directors' remuneration, at our Annual General Meeting (AGM) on 5 September 2017.

The proposed policy is substantially unchanged from the policy approved by shareholders in 2014 and in the main only involves minor amendments and clarifications. The proposed changes are in line with best practice and help to underpin the alignment of Executive Directors' remuneration with the long-term success of DS Smith and our shareholders.

Key achievements by the business

- Five acquisitions costing £85 million completed during the year.
- 12 PackRight Centres opened with a further 17 planned for 2017/18.
- 1,970 jobs opportunities for young people created.
- Expanding into the US packaging and paper market with the acquisition of Interstate.
- Numerous packaging awards won for our supply cycle solutions.
- Adjusted earnings per share (EPS) increased 19%.
- Green Space business award.
- Employee charter agreed and signed with European Works Council.
- Award winning sustainability and annual report.
- Employee engagement up.
- Total shareholder return (TSR) 303% over the last five years.

Review process

The Committee has monitored and reported annually on the effectiveness of the current remuneration policy since it was first approved by shareholders at the AGM in 2014. During 2016/17 the Committee undertook an extensive review of the current policy and the performance share plan (PSP) rules which are due to expire in 2018. The review took into account:

- the business strategy (to delight our customers, realise the potential of our people, double our size and profitability, and lead the way in sustainability);
- how executive pay compares with the wider employee remuneration (DS Smith has a workforce of circa 26,000 across over 40 countries);
- current and emerging market practice; and
- the best practice expectations of institutional investors.

In assessing the effectiveness and overall levels of remuneration, the Committee took account of a number of reference points, both internal and external. Independent advice was also sought, as appropriate, from New Bridge Street, the Committee's adviser.

We have consulted extensively with major shareholders throughout the policy review. Reassurance was given on the change to the award limit in the PSP rules in normal circumstances. This change is intended only to provide flexibility for any structural changes made to the policy in the future, with no plans in the short to medium term to do so. We clarified that increases could not be made to Executive Directors' PSP levels without shareholder approval.

Proposed remuneration policy changes

Policy change	Rationale
For salary benchmarking purposes, a move away from a bespoke benchmarking group to the use of a broader index set with reference to company size and complexity.	Removes any judgement regarding choice of companies in the benchmark group. For a growing business such as DS Smith, this allows the Committee to modify the relevant cut of the FTSE index if ever there were a substantial change in size and complexity.
In exceptional circumstances the PSP award granted in a year may be up to 400% to support recruitment.	The current remuneration policy already allows for buy-out awards to be made. Having the option to offer an enhanced PSP award as part of the recruitment offer meets the business objective of buy-outs being longer term, performance-related and in shares wherever possible.
In normal circumstances where good leaver treatment is offered on unvested deferred bonus shares, the vesting date will be the normal vesting date rather than the termination date.	This better aligns with the principle of continued alignment with shareholders' interests after the Executive Director's departure.
Where good leaver treatment is offered on unvested incentive awards, as well as any time pro rata adjustment for the proportion of the performance periods served, a further downward adjustment may need to be made to take into account the circumstances behind the departure.	This removes the binary outcome of full good leaver or full forfeiture and allows the Committee to determine award levels that best suit the circumstances of the case.

Detail of the policy review

The existing framework consists of:

- basic salary;
- pension and benefits;
- annual bonus (paid half in cash and half in deferred shares); and
- a PSP (with a two-year holding period from vesting).

The Committee's conclusion was that the current structure works well and remains fit for purpose. It is simple and consistent, with pay outcomes dependent upon performance linked to our business strategy. It ensures a significant proportion of pay is delivered in shares to provide alignment with investors and incorporates a number of best practice features, including a two-year post-vesting holding period for PSP awards.

There are only a few simple amendments to the proposed policy. The Committee believes these are appropriate to ensure that the Executive Directors remain appropriately incentivised and that the policy is flexible enough to remain applicable over the next three-year cycle.

In summary there are no policy changes to the award levels for the Executive Directors. The changes are to broaden the benchmarking group; allow buy-outs in recruitment (as already permitted under the current policy) to be satisfied by an enhanced PSP award; and to make two minor changes regarding good leaver treatment.

Details of proposed PSP rule changes

The PSP rules run for ten years, whilst the remuneration policy runs for a maximum of three years. As these rules are due to expire shortly, the Committee is taking the opportunity to put these to shareholders for renewal at this year's AGM. The main structural change to the rules is to introduce an award limit of 400 per cent in exceptional recruitment circumstances. This is to enable the operation of the proposed policy change under recruitment (see above). At the same time, the Committee is proposing to increase the award limit in normal circumstances to 300 per cent in order to future proof the rules over their ten-year life span. This 300 per cent limit will not be part of the remuneration policy being put to shareholders at this time. Under the proposed remuneration policy the maximum award limit remains at 225 per cent and award levels above this cannot be made until such time as a new remuneration policy with a higher PSP award limit is brought to shareholders and approved by them.

Recommendation

The Committee believes that the proposed revisions to the remuneration policy ensure that executive remuneration is aligned to the delivery of the Group's business strategy and ensures alignment between executives and shareholders.

The remuneration policy resolution (resolution 3) and renewal of the PSP rules (resolution 16) are subject to a binding vote at our AGM. The annual report on remuneration explains how our policy has been implemented during the year under review and, along with this letter, will be subject to an advisory vote at our AGM (resolution 4). We hope that you will support all three resolutions.

Kathleen O'Donovan
Chairman of the Remuneration Committee

29 June 2017

Remuneration policy

The table below sets out a summary of how the proposed remuneration policy will apply during 2017/18.

Remuneration element	Application of the remuneration policy

Base salary	• Salaries will be increased by 2.5% on 1 August 2017 as follows:
	  • Group Chief Executive £741,000; and
	  • Group Finance Director £465,600.

Pension	• No changes to contribution or cash alternative rates of:
	  • Group Chief Executive 30%; and
	  • Group Finance Director 20%.

Annual bonus	• No changes to maximum award levels of:
	  • Group Chief Executive 200%; and
	  • Group Finance Director 150%.
	• Bonus paid half in cash and half in deferred shares, under the deferred share bonus plan (DSBP), and the shares vest after three years
	• The performance measures for 2017/18 will be 50% EBTA and 50% ROACE

PSP	• No changes to maximum award levels of:
	  • Group Chief Executive 225%; and
	  • Group Finance Director 175%.
	• The performance measures for 2017/18 will be EPS, ROACE and relative TSR with equal weighting.
	• Two-year post-vesting holding period applies.

Shareholding guidelines	• Shareholding target of 225% of salary for the Group Chief Executive and 175% for the Group Finance Director. • Actual holding at 30 April 2017 was 972% and 41% respectively.

Key objectives of our reward policy

The policy aims to deliver a remuneration package that:

- attracts and retains high calibre executive directors and senior managers in a challenging and competitive business environment;
- reduces complexity, delivering an appropriate balance between fixed and variable pay for each Executive Director and the senior management team;
- encourages long-term performance by setting challenging targets linked to sustainable growth;
- is strongly aligned to the achievement of the Group's objectives and shareholder interests and to the delivery of sustainable value to shareholders; and
- seeks to avoid creating excessive risks in the achievement of performance targets.

2016/17 outcomes

Performance measure	Threshold	Target	Maximum	**Actual**	Weighting	% of maximum achieved
Annual bonus						
Adjusted EBTA	£347.7m	£366.0	£384.3m	**£356.4m**	50%	24%
ROACE	14.6%	15.4%	16.2%	**15.6%**	50%	65%
PSP						
Average 3-year EPS	24.0p		28.0p	**28.1p**	25%	100%
Average 3-year ROACE	13.0%		15.0%	**15.0%**	25%	100%
Total shareholder return ranking	Median		Upper quartile	**11th**	50%	100%

The relative TSR performance was measured against the constituents of the FTSE 250 Industrial Goods and Services Supersector.
Awards vest on a straight-line basis between threshold and maximum performance.
For threshold performance 0% and 25% of the maximum award vests for the annual bonus and PSP respectively.

2014 PSP awards values (vested in full during 2016/17)

	PSP original award value	PSP award appreciation
Miles Roberts	£1,004,998	£651,840
Adrian Marsh	£499,998	£324,298

Value of the original awards based on share price on 30 July 2014 of £2.675 for Miles Roberts and Adrian Marsh. The estimated appreciation value of the vested shares is based on the average share price during the three months to 30 April 2017 (£4.41).

Remuneration policy

This part of the Directors' remuneration report sets out the remuneration policy for the Company and has been prepared in accordance with the Companies Act 2006 (the Act), The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the UK Code on Corporate Governance and the Listing Rules of the UK Listing Authority. Our Directors' remuneration policy was approved by shareholders at our AGM on 17 September 2014 and became effective from that date. We consulted with shareholders during the review period, as described on page 65, to develop the policy outlined below. This new policy will be put to a binding vote of shareholders at the AGM to be held on 5 September 2017 and will apply for a maximum of three years from the date of approval.

Future remuneration policy

Element, purpose and link to strategy	Operation and performance metrics	Maximum opportunity
Basic salary To help recruit and retain key senior executives. To provide a competitive salary relative to comparable companies, in terms of size and complexity.	Normally reviewed by the Committee annually and fixed for the twelve months commencing 1 August. The Committee takes into account: • role, competence and performance; • average change in broader workforce salary; and • total organisational salary budgets. When external benchmarking is used, the comparator groups are chosen having regard to: • size: market capitalisation, turnover, profits and the number of employees; • diversity and complexity of the business; • geographical spread of the business; • relevance to the paper, plastics and packaging industry; and • domicile of the Executive Director.	Salaries will normally be increased in line with increases for the workforce in general, unless there has been an increase in the scope, responsibility or complexity of the role, when increases may be higher. Phased higher increases may also be awarded to new Executive Directors who were hired at a discount to the market level to bring salary to the desired mid-market positioning, subject to individual performance. The aim is to position salaries around the mid-market level, although higher salaries may be paid, if necessary, in cases of external recruitment or retention.
Annual bonus To incentivise executives to achieve or exceed specific, predetermined objectives during a one-year period. To reward ongoing delivery and contribution to strategic initiatives. Deferred proportion of bonus, awarded in shares, provides a retention element and additional alignment of interests with shareholders.	Targets are set annually. The performance measures, targets and weightings may vary from year to year in order to align with the Company's strategy and goals during the year to which the bonus relates. Bonus payouts are determined by the Committee after the year end, based on performance against predetermined objectives, at least the majority of which will be financial. Up to half of the bonus is paid in cash and the balance is deferred into shares. The deferred bonus shares vest after three years. Dividend equivalents arising over the period between the grant date and the vesting date are paid in cash or shares in respect of the shares which vest. The annual bonus plans are not contractual and bonuses under the plans are not eligible for inclusion in the calculation of the participating executives' pension plan arrangements. Malus and clawback provisions apply to the annual bonus plan and the deferred bonus shares so that individuals are liable to repay/forfeit some or all of their bonus if there is a material misstatement of results, error in calculation, or if there is serious misconduct.	Maximum bonus potential of 200% of base salary, with target bonus being one half of the maximum. Bonus starts to be earned at the threshold level (below which 0% is payable). Current maximum potential for each Executive Director is set out in the annual report on remuneration.
Share ownership guidelines To further align the interests of executives with those of shareholders.	Executive Directors are expected to build and maintain a shareholding in the Company's shares as a multiple of their base salary within five years of appointment as an Executive Director (Group Chief Executive 225%, Group Finance Director 175%). To achieve this, Executive Directors are expected to retain at least 50% of shares (net of tax) which vest under the Company's share plans until the share ownership guidelines are met. Nil cost options which have vested but that the Executive Director has yet to exercise are considered to count towards the shareholding on a notional post-tax basis. Non-Executive Directors are expected to build and maintain a shareholding that is equivalent to 50% of their annual fee from the Company within two years of their date of appointment.	None.

Element, purpose and link to strategy	Operation and performance metrics	Maximum opportunity
Performance share plan (PSP) To incentivise Executive Directors and other senior executives to achieve returns for shareholders over a longer-time frame. To help retain executives and align their interests with shareholders through building a shareholding in the Company.	Awards of nil-cost options are made annually with vesting dependent on the achievement of performance conditions over the three subsequent years. Awards will vest, subject to performance, on the third anniversary of grant and will be subject to an additional two-year holding period post vesting, during which time awarded shares may not be sold (other than for tax). The Committee reviews the quantum of awards annually to ensure that they are in line with market levels and appropriate, given the performance of the individual and the Company. Vesting of awards would normally be based on: i the Company's total shareholder return performance against a peer group of companies selected by the Committee at the start of the performance period. The vesting scale is median to upper quartile of the group of companies, with nothing vesting for below median performance; and ii key financial measures of performance (such as, but not limited to, earnings per share, and return on average capital employed). Dividend equivalents arising over the period between the grant date and the vesting date are paid in cash or shares in respect of the shares which vest. Malus and clawback provisions apply to the PSP so that individuals are liable to repay/forfeit some or all of their shares if there is a material misstatement of results, or error in calculation, or if there is serious misconduct.	The maximum annual award under the PSP that may be granted to an individual in any financial year is 225% of salary in normal circumstances and 400% of salary in exceptional circumstances, which is limited to buy-out awards under recruitment. Actual award levels to Executive Directors are set out in the annual report on remuneration. 25% of the relevant part of the award will vest for achieving threshold performance, increasing to full vesting for the achievement of maximum performance.
All Employee Share Plan Encourages long-term shareholding in the Company.	Executive directors have the opportunity to participate in the UK or international sharesave plans on the same terms as other eligible employees. There are no performance conditions applicable to awards.	Consistent with prevailing HMRC limits, currently £500 per month (or local currency equivalent) for the SAYE plan.
Pension To remain competitive in the marketplace and provide income in retirement.	Executive Directors can elect to: • participate in the Group's registered defined contribution plan (DC Plan); or • receive a salary supplement; or • a combination of the above.	Maximum: 30% of base salary (combined cash supplement and DC Plan contribution). Future appointments to the Board would have a maximum of no more than 25% of base salary.
Benefits To help retain employees and remain competitive in the marketplace.	Directors, along with other UK senior executives, receive a car allowance or company car equivalent, income protection insurance, four times life cover, family medical insurance and subsidised gym membership. Additional benefits (including a relocation allowance) may be provided from time to time, where they are in line with market practice. Any reasonable business related expenses may be reimbursed (including tax thereon, if deemed to be a taxable benefit).	Benefit levels may be increased in line with market levels to ensure they remain competitive and valued by the recipient. However, as the cost of the provision of benefits can vary without any change in the level of provisions, no maximum is predetermined.
Non-Executive Directors and Chairman Attract and retain high performing individuals.	Reviewed annually by the Board (after recommendation by the Committee in respect of the Chairman). Fee increases, if applicable, are normally effective from 1 August. The Board and, where appropriate, the Committee, considers pay data at comparable companies of similar scale. The Senior Independent Director and the Chairmen of the Audit and Remuneration Committees receive additional fees. No eligibility for participation in bonuses, retirement plans or share plans but limited benefits may be delivered in relation to the permanency of their duties as a Director (e.g. hospitality, provision of a mobile phone, iPad/laptop and travel-related expenses). Tax may be reimbursed if these benefits are deemed to be a taxable benefit. If there is a temporary yet material increase in the time commitments for non-Executive Directors, the Board may pay extra fees on a pro-rata basis to recognise the additional workload.	No prescribed maximum annual increase. Details of current fees are set out in the annual report on remuneration. Aggregate annual fees limited to £750,000 by Articles of Association[1].

1 A separate resolution will be put to the shareholders at the AGM on 5 September 2017 to increase this overall limit to £1,000,000.

Recruitment (and appointment) policy

The remuneration package for a new Executive Director would be set in accordance with the terms of the Company's approved remuneration policy in force at the time of appointment. Similar considerations may also apply where a Director is promoted to the Board from within the Group.

Element	Recruitment policy
Basic salary	The Committee will take into consideration a number of factors, including the current pay for other Executive Directors, external market forces, skills and current level of pay. Salary may (but need not necessarily) be set below the normal market rate, with a series of planned increases implemented over the following few years to bring it to the desired positioning, subject to individual performance.
Benefits	Benefits provision would be in line with normal policy. The Committee may agree that the Company will meet appropriate relocation costs.
Pension	In line with normal policy, i.e. a maximum company contribution of no more than 25 per cent of base salary.
Annual bonus	Eligible to take part in the annual bonus, with a maximum bonus of up to 200 per cent of salary in line with policy. Depending on the timing of the appointment, the Committee may deem it appropriate to set annual bonus performance metrics different from those that apply to the current Executive Directors for the first performance year in which the appointment falls.
Performance share plan	A normal award of up to 225 per cent of salary, in line with policy. In exceptional circumstances this may be increased up to 400 per cent of salary in order to accommodate any buy-out awards.
Buy-out awards	In exceptional circumstances, the Committee may offer additional awards (using Listing Rule 9.4.2, if necessary). Any such awards would be for the specific purpose of recruiting an Executive Director key to the operation of the Group. The awards would not exceed what is felt to be a fair estimate of remuneration forfeited when leaving the former employer and would reflect (as far as possible) the nature and time horizons attached to that remuneration and the impact of any performance conditions. The Company would aim to replace any forfeited cash awards with shares wherever possible. Shareholders will be informed of any such payments at the time of appointment.

In the case of an internal executive appointment, any variable salary element awarded in respect of the prior role would be allowed to pay out according to its existing terms, adjusted as relevant to take the appointment into account. In addition, any other ongoing remuneration obligations existing prior to appointment would continue.

For the appointment of a new chairman or non-executive director, the fee arrangement would be set in accordance with the approved remuneration policy in force at that time.

Notice period and payment for loss of office

The Committee's policy is that the notice periods for Executive Directors appointed will not exceed one year. Non-Executive Directors have letters of appointment for a term of three years whereupon they are normally renewed, but generally for no more than three terms in aggregate. The notice period is one month by either the Company or the non-Executive Director. Non-Executive Directors are not eligible for payments on termination. In line with the UK Corporate Governance Code (the Code), all non-Executive Directors are subject to annual re-election by shareholders at the AGM. Their letters of appointment detail the time commitment expected of each non-Executive Director. Both these and the Executive Directors' service contracts are available for inspection at the registered office during normal business hours and on the date of the AGM.

		Date of contract/letter of appointment	Expiry of current term
Gareth Davis	Chairman	26 April 2016	31 May 2019
Miles Roberts	Group Chief Executive	4 May 2010	12 months by either the Director or the Company
Adrian Marsh	Group Finance Director	24 September 2013	12 months by either the Director or the Company
Chris Britton		7 March 2016	6 March 2019
Ian Griffiths		14 April 2014	23 June 2020
Jonathan Nicholls	Senior Independent Director	24 November 2015	1 December 2018
Kathleen O'Donovan		24 November 2015	5 December 2018
Louise Smalley		14 April 2014	23 June 2020

Termination payments

Service contracts may be terminated without notice and without payment or compensation, except for sums earned up to the date of termination of employment, on the occurrence of certain events, such as gross misconduct.

The Company may terminate the contract with immediate effect by making a payment equal to basic salary and, in the case of the current Group Chief Executive, pensions allowance for any unexpired period of notice. The Committee's normal policy on termination is to make phased compensatory payments and to reduce or stop such payments to former Executive Directors where they receive remuneration from other employment during the notice period (where this is consistent with local employment legislation and market practice).

The table below sets out key provisions for Directors leaving the Company under their service contracts and the incentive plan rules.

Element	Termination policy
Salary, benefits and pension	• Payment will be made up to the termination date in line with relevant contractual notice periods and will not exceed contractual entitlements.
Annual bonus: good leaver	• Annual cash bonus will be paid out, subject to performance against targets set. Vesting will be on the normal payment date unless the Committee determines that the payment will be made early on the date of termination of employment (in exceptional circumstances only). The payout will be reduced on a pro-rata basis to reflect the proportion of the performance period served. • Deferred bonus shares will vest on the normal vesting date unless the Committee determines that awards will vest early on the date of termination of employment. • The Committee retains discretion to further reduce the awards granted to reflect any personal performance issues.
Performance share plan: good leaver	• PSP awards will vest, subject to performance on the normal vesting date unless the Committee determines that the awards will vest early on the date of termination of employment (in exceptional circumstances only). Awards will normally be reduced on a pro-rata basis unless, exceptionally, the Committee determines that such an adjustment would be inappropriate. The Committee retains discretion to further reduce the awards granted to reflect any personal performance issues.
Incentive plans: all other leavers	• All performance-related elements of pay will lapse immediately at the earlier of notice being served or the date of termination, unless by exception the Committee determines that it will lapse on the date of termination.

For all leavers, the Committee may also determine to make a payment in reimbursement of a reasonable level of outplacement and legal fees in connection with a settlement agreement. The Committee may agree payments it considers reasonable in settlement of legal claims. This may include an entitlement to compensation in respect of leavers' statutory rights under employment protection legislation in the UK or in other jurisdictions.

Change of control

There are no enhanced provisions on a change of control.

Discretions and judgements

The Committee will operate the annual bonus plan and long-term plans according to the rules of each respective plan, their respective ancillary documents and the UKLA Listing Rules, which, consistent with market practice, include discretion in a number of respects in relation to the operation of each plan. Discretions include:

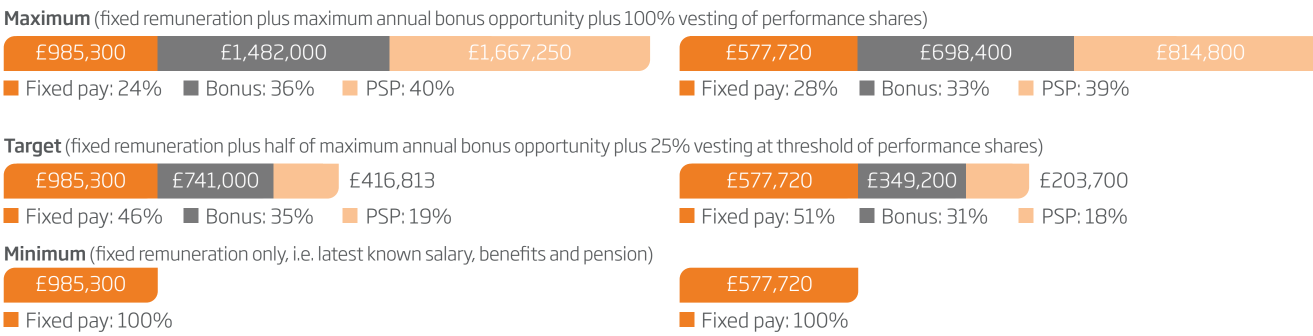
- who participates in the plan;
- determining the timing of grants of awards and/or payments;
- determining the quantum of an award and/or payment;
- determining the extent of vesting;
- how to deal with a change of control or restructuring of the Group;
- whether an Executive Director or a senior manager is a good/bad leaver for incentive plan purposes and whether the proportion of awards that vest do so at the time of leaving or at the normal vesting date(s);
- how and whether an award may be adjusted in certain circumstances (e.g. for a rights issue, a corporate restructuring or for special dividends);
- what the weighting, measures and targets should be for the annual bonus plan and PSP plans from year to year; and
- the Committee also retains the ability within the policy to adjust targets and/or set different measures or weightings for the annual bonus plan and PSP plans, if events occur that cause it to determine that the conditions are unable to fulfil their original intended purpose.

All historical awards that have been granted by the date this policy comes into effect and still remain outstanding (including those detailed on pages 75 to 77 of the annual report on remuneration) remain eligible to vest based on their original award terms.

Illustration of the proposed remuneration policy for 2017/18

The balance between fixed and variable 'at risk' elements of remuneration changes with performance. The Company's remuneration policy results in a significant proportion of remuneration received by Executive Directors being dependent on Company performance. The application of the total remuneration of the Executive Directors for a minimum, target and maximum performance in 2017/18 is presented in the charts below. These figures are indicative as share price movement and dividend accrual have been removed.

Miles Roberts | **Adrian Marsh**



Annual report on remuneration

The table below shows how we have applied the current remuneration policy during 2016/17. It discloses all the elements of remuneration received by the Directors during the year. The current remuneration policy, as approved by shareholders in 2014, is as set out in the 2013/14 Annual Report available on our website, www.dssmith.com/annual-reports/.

Single total figure of remuneration for each Director (audited)

	Salary/fees[1] £'000		Benefits[2] £'000		Annual bonus[3] £'000		Long-term incentives[4] £'000		Pensions[5] £'000		**Total 2016/17 £'000**	Total 2015/16 £'000
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16		
Executive Directors												
Group Chief Executive Miles Roberts	718	698	22	22	651	1,109	2,974	2,410	215	208	**4,580**	4,447
Group Finance Director Adrian Marsh	451	436	19	19	307	523	1,253	345	90	88	**2,120**	1,411
Total	1,169	1,134	41	41	958	1,632	4,227	2,755	305	296	**6,700**	5,858
Non-Executive Directors												
Chairman Gareth Davis	261	254	–	–	–	–	–	–	–	–	**261**	254
Chris Britton	55	54	–	–	–	–	–	–	–	–	**55**	54
Ian Griffiths	55	54	–	–	–	–	–	–	–	–	**55**	54
Jonathan Nicholls	73	71	–	–	–	–	–	–	–	–	**73**	71
Kathleen O'Donovan	65	64	–	–	–	–	–	–	–	–	**65**	64
Louise Smalley	55	54	–	–	–	–	–	–	–	–	**55**	54
Total	564	551	–	–	–	–	–	–	–	–	**564**	551

1 Includes payment in respect of Senior Independent Director fee of £7,500 per annum and chairmanship of Board Committees at an annual rate of £10,000 for both the Remuneration Committee and the Audit Committee.

2 Taxable benefits in 2016/17 principally include a car allowance of £20,000 for Miles Roberts and £17,500 for Adrian Marsh. Both Directors also receive income protection, life and health cover.

3 The annual bonus is paid 50% in cash and 50% is deferred into shares as described in the policy table on page 67.

4 The value of LTIs for 2016/17 represents the estimated value of the 2014 PSP and the 2014 share matching plan (SMP) (the performance period for both awards being the three years ending 30 April 2017) and the Sharesave plan which matured on 1 April 2017, which provides a gain of £5,529 for both Miles Roberts and Adrian Marsh. The LTIs for 2015/16 were valued in the 2015/16 annual report using the average share price for the last three months of that financial year. This has now been restated based on the share price on the actual vesting dates now that this share price is known. This also impacts the total figure for the prior year. Note that the SMP was discontinued in 2014.

5 Miles Roberts receives an annual pension allowance of 30% of basic salary in lieu of membership of the defined contribution scheme. Adrian Marsh is a member of the defined contribution scheme. He contributes up to his annual allowance and the Company contribution is paid as a cash supplement. The annual pension allowances are not pensionable and are not considered to be salary for the purpose of calculating any bonus payment.

Fixed pay

Basic salary

	Salaries effective from: 1 August 2015 (£)	1 August 2016 (£)	1 August 2017 (£)	**Received in 2016/17 (£)**
Miles Roberts	702,000	723,000	741,000	**717,750**
Adrian Marsh	441,000	454,250	465,600	**450,938**

The salary increase for the 2017 review was 2.5% (3% for 2016).

Fees for non-Executive Directors and the Chairman

The rates for the Chairman's and non-Executive Directors' fees are:

	Base fee effective from 1 August 2015 (£)	1 August 2016 (£)	1 August 2017[1] (£)	**Received in 2016/17 (£)**
Gareth Davis	256,000	263,680	270,300	**261,120**
Chris Britton	54,300	55,900	57,300	**55,367**
Ian Griffiths	54,300	55,900	57,300	**55,367**
Jonathan Nicholls[2]	54,300	55,900	57,300	**72,867**
Kathleen O'Donovan[3]	54,300	55,900	57,300	**65,367**
Louise Smalley	54,300	55,900	57,300	**55,367**

1 The fee increase for 2017 was 2.5% (3% in 2016).

2 The amount received in 2016/17 includes payment in respect of Senior Independent Director fee of £7,500 per annum and Chairman of the Audit Committee fee of £10,000 for 1 August 2015 and 1 August 2016. From 1 August 2017 this fee will be increased to £11,000 per annum.

3 The amount received in 2016/17 includes payment in respect of Chairman of the Remuneration Committee fee of £10,000 for 1 August 2015 and 1 August 2016. From 1 August 2017 this fee will be increased to £11,000 per annum.

Variable pay

The remuneration policy encourages long-term performance by setting challenging targets linked to sustainable growth for the variable pay, which consists of the annual cash bonus, DSBP and PSP. The Remuneration Committee can use discretion to adjust the targets, for example after a substantial restructuring, but has not done so in the year under review and would disclose and fully explain if it had.

Performance targets

An explanation of the performance conditions for the annual bonus and PSP are set out below.

Total shareholder return (TSR)

TSR is the increase (or decrease) in the value of a notional investment in a share in the Company and each of the companies in the Industrial Goods and Services supersector within the FTSE 250 over the three-year PSP performance period, taking account of share price movement and the value of dividends (which are deemed to be re-invested) over that period.

Adjusted earnings per share (EPS)

Adjusted EPS is disclosed in the Company's annual report and accounts and is the portion of the Group's adjusted after tax profit allocated to each outstanding share. Adjusted EPS is an indicator of the underlying performance of the DS Smith Group. The extent to which a PSP award subject to this performance condition vests depends on the Company's average adjusted EPS performance over the three financial years.

Return on average capital employed (ROACE)

ROACE is disclosed in the Company's annual report and accounts. It is defined as operating profit before amortisation and exceptional items divided by average capital employed and is a measure of the efficiency and profitability of the Company's assets and investments.

The performance period for the annual bonus is measured over one year. The performance period for the PSP is measured over three years with targets based on the average of the three financial years.

Adjusted earnings before tax and amortisation (EBTA)

EBTA is adjusted earnings before taxation and amortisation after the effect of pension interest but does not include the results of our investments in associates. The performance period for the annual bonus is measured over one year.

Annual bonus

Bonus earned in 2016/17

The Executive Directors' targets for the 2016/17 bonus were based on budgeted financial targets set out in the tables below, with annual bonus payments determined by reference to performance over the financial year ended 30 April 2017. Achievement is calculated on a straight-line basis between threshold and target and between target and maximum.

The table below shows the target ranges set, the business outturn and the bonus outcomes achieved.

Targets

Financial measure	Threshold 0% of maximum	Target 50% of maximum	Maximum	Achieved[1]
Adjusted EBTA	£347.7 million	£366.0 million	£384.3 million	£356.4 million
ROACE	14.6%	15.4%	16.2%	15.6%

Outcomes

% of performance target achieved	Miles Roberts	Adrian Marsh
Adjusted EBTA	24/50	24/50
ROACE	65/50	65/50
Total (as a proportion of the maximum opportunity)	45/100	45/100
Maximum bonus opportunity as a % of salary	200%	150%
Award level[2]	£650,700	£306,618

1 Performance is assessed on a constant currency and consistent basis and therefore the actual results have been restated using budgeted exchange rates and amended to exclude the effects of unbudgeted acquisitions.

2 The annual bonus will be paid in July 2017 for the financial year 2016/17. 50% of the annual bonus awarded will be deferred for a period of three years in DS Smith shares, and be due to vest in July 2020. The only qualifying condition for the deferred bonus awards to vest is for the Executive Director to remain in the employment of the Company at the vesting date.

The annual bonus plan for the Executive Directors and other senior executives is operated as shown above. Bonus results are determined by the Committee after the year end, based on performance against targets. Bonus awards are measured against the achievement of Group objectives. Maximum bonus opportunity for 2016/17 is shown above for the Executive Directors and is generally between 70% and 110% for the other senior executives.

Implementation for 2017/18

Implemented in line with policy.

The annual bonus will have a maximum opportunity of 200% of salary for the Group Chief Executive and 175% for the Group Finance Director.

It will be based on EBTA and ROACE, each with equal weighting.

In the event of an acquisition in the year, the Committee will assess whether the financial performance of the acquired company should be included and targets adjusted accordingly, or simply excluded.

In the opinion of the Remuneration Committee, the annual bonus measures and targets for 2017/18 are commercially sensitive and accordingly are not disclosed. These will be disclosed next year in the Directors' remuneration report, so that achievement against those targets will be visible, in retrospect.

Awards vesting based on performance in the three-year period to 2016/17

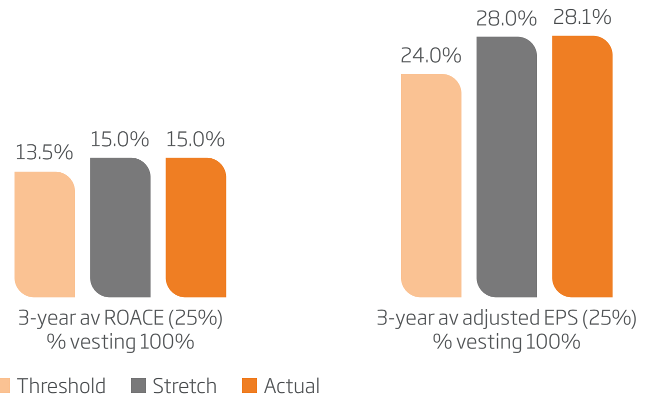
The PSP and SMP awards granted on 30 July 2014 are based on performance over the three years to 30 April 2017. The 2014 PSP awards were based on 50% TSR; 25% EPS; 25% ROACE performance conditions. An explanation for these performance conditions is on page 72. The ROACE and EPS performance conditions attached to these awards and actual performance against these conditions are set out in the chart opposite.

The relative TSR performance was measured against the constituents of the FTSE 250 Industrial Goods and Services Supersector with median being the threshold target and the upper quartile the stretch target. Actual performance exceeded the upper quartile therefore 100% of this element of the award will vest.

The Committee's policy is that no adjustments for exchange rate movements are made to EPS or ROACE over the three-year performance period as the Committee feels that these are of a long-term nature and fluctuations are more likely to average out over the three years.

Performance share plan (PSP)

ROACE and EPS performance targets on long-term incentives



Resulting award levels

Executive Director	Award	Number of shares at grant	Number of shares to vest[1]	Number of shares to lapse	Re-investment of dividend	Total	Estimated value[2] (£'000)
Miles Roberts	PSP	375,700	375,700	–	36,260	411,960	1,817
	SMP	238,099	238,099	–	22,980	261,079	1,151
Adrian Marsh	PSP	186,915	186,915	–	18,040	204,955	904
	SMP	71,074	71,074	–	6,859	77,933	344

1 These shares are subject to a two-year holding period.

2 The estimated value of the vested shares is based on the average share price during the three months to 30 April 2017 (£4.41). These shares will vest on the third anniversary of grant on 30 July 2017.

The maximum granted SMP award was 75% of salary. The actual award was based on a matching ratio of 1.5:1 on the first 50% of salary converted into shares under the DSBP. The SMP was discontinued in 2014 and no awards have been made since then. The award vesting in 2016/17 is the last award vesting under this plan. Details of the performance conditions are set out in the table on page 77.

The table on page 77 sets out details of the Executive Directors' outstanding share awards.

Implementation in 2017/18

In line with the award levels in 2016/17:

- The award to be made in July 2017 will be at 225% of salary for the Group Chief Executive and at 175% of salary for the Group Finance Director.
- Shares that vest under the PSP awarded in July 2017 to Executive Directors must be retained for a further two years before they can be sold.
- The awards will be granted as nil-cost options.
- The PSP will be subject to three performance measures: relative TSR, three-year average adjusted EPS and three-year average adjusted ROACE, with equal weighting on each element.

Targets may be adjusted by the Committee (for example, to reflect the impact of acquisitions and disposals) to ensure that the conditions achieve their original purpose.

An average adjusted EPS/ROACE for the three years of the performance period will be calculated and compared to the targets above. To deliver against a target which is measured as the average over the performance period requires steady and sustainable growth over the period. The Committee considers that the use of such a target is a more demanding requirement than one which is based only on performance in the final year.

The respective targets for the 2017 PSP award will be:

% vesting as a proportion	Relative TSR one third[1]	3-year average EPS one third[2]	3-year average adjusted ROACE one third[3]
100%	Upper quartile	39.1p	15.7%
Between 25% and 100%	Between median and upper quartile	34.2p – 39.1p	14.5% – 15.7%
25%	Median quartile	34.2p	14.5%

Awards vest on a straight-line basis between threshold and maximum performance.

1 The comparator group for measurement of relative TSR will be the FTSE 350 Industrial Goods and Services Supersector.

2 Three-year average adjusted EPS, as disclosed in the annual report, over the forthcoming three financial years, commencing with the financial year in which the award is made. The setting of the targets, assuming steady growth, resulted in a requirement for the Company to achieve an average compound annual growth in EPS over the three year period of between 4% and 11%.

3 Three-year average adjusted ROACE over the forthcoming three financial years, commencing with the financial year in which the award is made.

All employee share plan

We believe that our Sharesave plan (SAYE) is a valuable way of aligning our employees' interests with those of our long-term shareholders. We were very proud to be recognised for our innovative use of augmented reality posters to communicate SAYE to employees across our business during 2016/17, which resulted in the following:

- winner of ProShare's Most Effective Use of Technology award;
- highly commended for ProShare's Best International Share Plan award; and
- winner of Global Equity Organization's Most Creative Solution award.

These awards recognise our commitment to delivering equal opportunity for all of our employees to participate in a plan that allows them to be engaged with the strategic direction of DS Smith and to share in its financial success.

Executive Directors are eligible (along with all employees of the Company and participating subsidiaries of the Group) to participate in the SAYE. Options are granted under the SAYE, which is an HMRC tax-advantaged plan in the UK. Participants contract to save up to the equivalent of £250 per month over a period of three years (two years in the US). The option price is discounted by up to 20% (15% in the US) of the average closing mid-market price of the Group's shares on the three dealing days prior to invitation (20-day average to the day before grant in France and the mid-market average on the day of grant in the US). In common with most plans of this type, there are no performance conditions applicable to options granted under the SAYE.

This Plan will continue on an unchanged basis for 2017/18.

Governance

Details of Directors' interests in the SAYE are as follows:

Executive Director	Options held at 30 April 2016	Options granted during the year	Options exercised during the year	Options lapsed during the year	**Options held at 30 April 2017**	Exercise price (p)	Dates from which exercisable	Expiry date
Miles Roberts	3,345	–	–	–	**3,345**	269.0	1 Apr 17	30 Sep 17
	–	2,702	–	–	**2,702**	333.0	1 Apr 20	30 Sep 20
Adrian Marsh	3,345	–	–	–	**3,345**	269.0	1 Apr 17	30 Sep 17
	–	2,702	–	–	**2,702**	333.0	1 Apr 20	30 Sep 20

The gain on the 2014 SAYE which vested on 1 April 2017 was £5,529 for both Miles Roberts and Adrian Marsh.

Share ownership guidelines

Executive Directors are required to build a significant shareholding in the Company within five years from the date of their appointment. Non-Executive Directors are required to build up a holding of 50% of their fees in shares within two years of their date of appointment. Current shareholdings are summarised in the following table:

Name of Director	**Total as at 30 April 2017**	Total as at 30 April 2016	Unvested and subject to performance conditions[1]	Unvested and subject to continued employment	Vested but not exercised	Shareholding required (% salary/fee)	Shareholding at 30 April 2017 (% salary/fee)[2]	Requirement met
Executive Directors								
Miles Roberts	**1,629,026**	1,329,068	1,385,889	464,187	3,345	225%	972%	Yes
Adrian Marsh	**43,504**	–	652,295	190,956	3,345	175%	41%	See note 3
Non-Executive Directors								
Gareth Davis	**106,900**	106,900	–	–	–	50%	175%	Yes
Chris Britton	**10,550**	10,550	–	–	–	50%	81%	Yes
Ian Griffiths	**15,000**	15,000	–	–	–	50%	116%	Yes
Jonathan Nicholls	**109,307**	109,307	–	–	–	50%	643%	Yes
Kathleen O'Donovan	**10,471**	10,471	–	–	–	50%	69%	Yes
Louise Smalley	**14,615**	14,615	–	–	–	50%	113%	Yes

1 The PSP and SMP awards granted in 2014 to Miles Roberts and Adrian Marsh as detailed in the table on page 77, which are included in this table, will vest on 30 July 2017 but are not subject to any further performance conditions.

2 Based on a share price of £4.315 (being the closing price on 28 April 2017) multiplied by the current year shareholding.

3 Adrian Marsh joined the Board in September 2013 and has up to five years from his date of appointment (to 24 September 2018) to build up a shareholding that is equivalent to 175% of his salary.

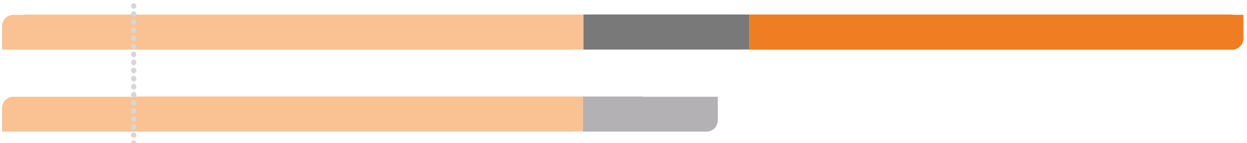
Failure to meet the minimum shareholding requirement is taken into account when determining eligibility for share-based incentive awards. There have been no changes to the shareholdings set out above between the financial year end and the date of the report.

It is currently intended that any ordinary shares required to fulfil entitlements under the DSBP will be provided by the David S. Smith Group General Employee Benefit Trust (the Trust), which buys shares on the market to do so. The Trust may also be used to fulfil certain entitlements under the PSP, SMP and the SAYE (along with new issue shares for other entitlements).

Executive Directors' shareholdings against policy

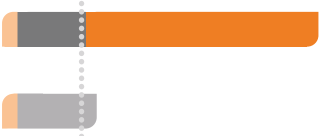
The chart shows the value of shares and awards held and the percentage of shares required to be held by the shareholding policy.

Miles Roberts



- Shares held: £7,029,247
- Unvested, subject to continued employment: £2,002,967
- Unvested, subject to performance conditions and continued employment: £5,980,111
- Shareholding post 2017 awards vesting: £8,945,902
- Shareholding requirement: £1,626,750

Adrian Marsh



- Shares held: £187,720
- Unvested, subject to continued employment: £823,975
- Unvested, subject to performance conditions and continued employment: £2,814,653
- Shareholding post 2017 awards vesting: £957,467
- Shareholding requirement: £794,938

Adrian Marsh joined the Board in September 2013 and has until September 2018 to build up a shareholding that is equivalent to 175% of his salary. After 30 July 2017 he will hold approximately 211% salary worth of shares.

Outstanding share awards

The table below sets out details of Executive Directors' outstanding share awards, which will vest in future years subject to performance and/or continued service.

	Award date	Awards held at 30 April 2016	Granted	Notional dividend shares accrued	Exercised/ vested	Lapsed/ forfeited	Market price on date of award (p)	Market price at date of exercise (p)	Awards held at 30 April 2017	Vesting date if performance conditions are met	Expiry date
Miles Roberts											
PSP	23 Jul 13	372,745	–	32,398	382,778	22,365	249.5	395.0	–	23 Jul 16	23 Jul 23
PSP	30 Jul 14	375,700	–	–	–	–	267.5	–	375,700	30 Jul 17	30 Jul 24
PSP	24 Jul 15	356,214	–	–	–	–	384.6	–	356,214	24 Jul 18	24 Jul 25
PSP	1 Jul 16	–	415,876	–	–	–	379.8	–	415,876	1 Jul 19	1 Jul 26
									1,147,790		
DSBP	23 Jul 13	152,825	–	–	152,825	–	249.5	395.0	–	23 Jul 16	23 Jul 23
DSBP	30 Jul 14	158,733	–	–	–	–	267.5	–	158,733	30 Jul 17	30 Jul 24
DSBP	24 Jul 15	156,734		–	–	–	384.6	–	156,734	24 Jul 18	24 Jul 25
DSBP	1 Jul 16	–	146,018	–	–	–	379.8	–	146,018	1 Jul 19	1 Jul 26
									461,485		
SMP	23 Jul 13	229,237	–	18,652	220,381	27,508	249.5	395.0	–	23 Jul 16	23 Jul 23
SMP	30 Jul 14	238,099	–	–	–	–	267.5	–	238,099	30 Jul 17	30 Jul 24
									238,099		
Adrian Marsh											
PSP	10 Dec 13	80,076	–	6,960	82,231	4,805	312.2	408.8	–	10 Dec 16	10 Dec 23
PSP	30 Jul 14	186,915	–	–	–	–	267.5	–	186,915	30 Jul 17	30 Jul 24
PSP	24 Jul 15	191,107	–	–	–	–	384.6	–	191,107	24 Jul 18	24 Jul 25
PSP	1 Jul 16	–	203,199	–	–	–	379.8	–	203,199	1 Jul 19	1 Jul 26
									581,221		
DSBP	30 Jul 14	47,383	–	–	–	–	267.5	–	47,383	30 Jul 17	30 Jul 24
DSBP	24 Jul 15	72,074	–	–	–	–	384.6	–	72,074	24 Jul 18	24 Jul 25
DSBP	1 Jul 16	–	68,797	–	–	–	379.8	–	68,797	1 Jul 19	1 Jul 26
									188,254		
SMP	30 Jul 14	71,074	–	–	–	–	267.5	–	71,074	30 Jul 17	30 Jul 24
									71,074		

The targets for historical awards granted under PSP and the SMP are set out below:

Plan	Year	3-year average ROACE	3-year average adjusted EPS	TSR[1]
Performance share plan	2014	13.0% – 15.0%	24.0p – 28.0p	Median – upper quartile
	2015	13.0% – 15.0%	26.6p – 30.4p	
	2016	14.5% – 15.7%	30.1p – 34.3p	
Share matching plan	2014	13.0% – 15.0%	24.0p – 28.0p	N/A

1 Measured against the FTSE 250 Industrial Goods and Services Supersector.

2014 PSP award: 50% based on relative TSR, 25% based on three-year average adjusted EPS and 25% based on three-year average adjusted ROACE. The performance period for this award ended on 30 April 2017. Details of the number of shares to vest are set out on page 74.

2015 and 2016 PSP award: one-third based on relative TSR, one-third based on three-year average adjusted EPS and one-third based on three-year average adjusted ROACE. 25% of the award vests for achieving threshold performance, increasing on a straight-line basis to full vesting for maximum performance.

2014 SMP award: 50% based on three-year average adjusted EPS and 50% based on three-year average adjusted ROACE. 25% of the award vests for achieving threshold performance, increasing on a straight-line basis to full vesting for maximum performance.

External appointments

The Board supports Executive Directors taking up appointments outside the Company to broaden their knowledge and experience. Each Executive Director is permitted to accept one non-Executive appointment (or in exceptional circumstances two appointments) from which they may retain any fee. Any external appointment must not conflict with a Director's duties and commitments to DS Smith.

Miles Roberts was a non-Executive Director of Poundland Group plc until 15 September 2016 and retained fees of £26,048 for the period that he served as a director (2015/16: £55,000). He was appointed a non-Executive Director of Aggreko plc on 7 March 2017 and retained fees of £9,541 for the period from his appointment to 30 April 2017. Adrian Marsh does not currently have any remunerated external appointments.

Payments to past Directors or for loss of office (audited)

No payments were made to past Executive Directors during the year ended 30 April 2017 (2015/16: Nil). No payments were made in respect of loss of office during the year ended 30 April 2017 (2015/16: Nil).

Statement of change in pay of Group Chief Executive compared with other employees (audited)

The table below shows the change in the Group Chief Executive's remuneration compared to all full-time equivalent employees based in the UK. The UK employee workforce was chosen as a suitable comparator group as the Group Chief Executive is based in the UK (albeit with a global role and responsibilities) and pay changes across DS Smith vary widely depending on local market conditions. As stated earlier, his salary increase effective from 1 August 2017 will be in line with the workforce generally at 2.5%.

	Group Chief Executive	**All UK employees**
	Percentage change 2016 to 2017	**Percentage change 2016 to 2017**
Salary	**2.9%**	**3.9%**
Benefits	**0.0%**	**0.0%**
Bonus	**(41.3)%**	**(24.1)%**

Relative importance of spend on pay

The table below shows the expenditure and percentage change in overall spend on employee remuneration and dividends.

£ million unless otherwise stated	**2016/17**	2015/16	Percentage change
Overall expenditure on employee pay[1]	**1,046**	895	16.9%
Dividend paid in the year	**121**	108	12.0%

1 Total remuneration reflects overall employee costs and includes some exchange rate fluctuation. See financial statements note 6 for further information.

Remuneration of the Group Chief Executive

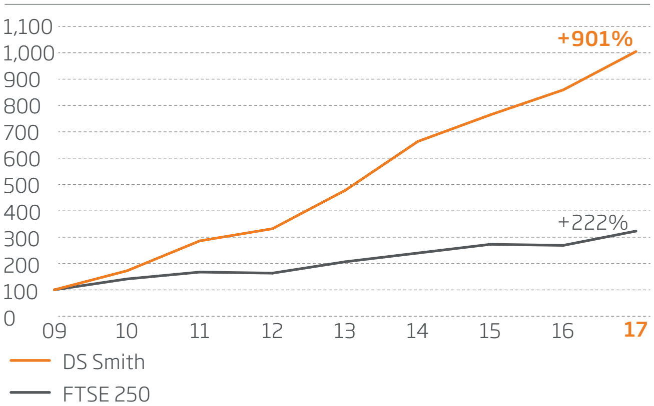
The table below shows the total remuneration figure for the Group Chief Executive during each of those financial years. The total remuneration figure includes the annual bonus and LTIP awards which vested, based on performance in those years. The annual bonus and LTIP percentages show the payout for each year as a percentage of the maximum available for the financial year.

	2009/10[1]	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16[2]	**2016/17**
Total remuneration (£'000)	1,499	1,796	2,170	6,057	3,696	5,527	4,447	**4,580**
Annual bonus (%)	100%	100%	100%	82%	85%	88%	79%	**45%**
LTIP vesting (%)	28%	100%	100%	100%	98%	92%	94%	**100%**

1 2009/10 figures relate to the previous Group Chief Executive, Tony Thorne.

2 The 2015/16 figure has been updated to include the actual share price on the date of vesting for the PSP and SMP now that this is known.

Total shareholder return from May 2009



Review of past performance – total shareholder return graph

This graph illustrates the Company's TSR performance since 1 May 2009, relative to the FTSE 250 Index. The Company is a member of the FTSE 250 Index and at 30 April 2017 ranked in the top 10 by market capitalisation. This graph looks at the value, at 30 April 2017, of £100 invested in DS Smith over the last eight financial years compared with that of £100 invested in the FTSE 250 Index. The other points plotted are the values at intervening financial year ends.

Remuneration Committee governance

The Board is ultimately accountable for executive remuneration and delegates this responsibility to the Committee. The Committee's principal function is to support the Group's strategy by ensuring that its delivery is supported by the Company's overall remuneration policy, as described above. It also determines the specific remuneration package, including service contracts and pension arrangements, for each Executive Director and our most senior executives.

All members of the Committee are independent non-Executive Directors. We see this as fundamental in ensuring Executive Directors' and senior executives' remuneration is set by people who are independent and have no personal financial interest, other than as shareholders, in the matters discussed. There are no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in running the business. The Committee consults with the Group Chief Executive, who may attend meetings of the Committee, although he is not involved in deciding his own remuneration. The Committee is assisted by the Group General Counsel and Company Secretary and the Group Head of Reward. No-one is allowed to participate in any matter directly concerning the details of their own remuneration or conditions of service.

New Bridge Street (a part of Aon plc) has been appointed by the Committee to provide advice on the remuneration of Executive Directors and other senior executives. New Bridge Street also provides advice to the Company in connection with the operation of the Company's share-based incentive plans. New Bridge Street is a signatory to the Code of Conduct for remuneration consultants and a member of the Remuneration Consultants Group. New Bridge Street did not provide any other services to the Group during the year. Aon's risk solutions business carried out work for our insurance programme for the Group during the year, but otherwise Aon did not provide any other services and there was no conflict. The total fees in respect of New Bridge Street's services to the Committee during the year were £94,278.

This report has been prepared in accordance with the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the Listing Rules of the UK Listing Authority. The Board, in conjunction with the Committee, has taken the necessary steps to ensure that the Company complies with the provisions of the Code which relate to Directors' remuneration. The Committee confirms that throughout the year it has complied with governance rules and best practice provisions.

The Regulations require the Auditor to report to shareholders on the audited information within this report and to state whether, in their opinion, the relevant sections have been prepared in accordance with the Act. The Auditor's opinion is set out in the Independent Auditor's report and we have clearly marked the audited sections of the report.

Voting on the remuneration report at the 2016 AGM

At the AGM held in 2016, votes cast by proxy and at the meeting in respect of the Directors' remuneration were as follows:

Resolution	Votes for including discretionary votes	Percentage for	Votes against	Percentage against	Total votes cast excluding votes withheld	Votes withheld[1]	Total votes cast (including discretionary votes)
Directors' remuneration report	662,071,535	88%	92,307,762	12%	754,379,297	466,913	754,379,297

1 Votes withheld are not included in the final figures as they are not recognised as a vote in law.

Prior to the 2016 AGM the Committee Chairman engaged with shareholders on the implementation of the remuneration policy. Some concern was expressed regarding certain aspects of remuneration and this was reflected in some of the votes against. Since the AGM the Committee Chairman has made herself open to engage with those shareholders who did not support the Company's remuneration arrangements at the last AGM.

The Committee values highly the contribution that shareholder views have on the process of formulating policy decisions. This feedback together with emerging relevant guidance was considered by the Committee and formed part of the review of the remuneration policy.

The Remuneration Committee's Terms of Reference can be found at www.dssmith.com/investors/corporate-governance/committees/

The Company does not formally consult with employees on Executive Directors' remuneration. However, when setting the remuneration policy for Executive Directors the Committee takes into account the overall approach to reward for, and the pay and employment conditions of other employees in the Group. As part of the development of the proposed policy the Committee also considered the pay structures across the wider workforce.

On behalf of the Board

Kathleen O'Donovan
Chairman of the Remuneration Committee

29 June 2017

Directors' responsibilities statement

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare such financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent Company financial statements in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework*. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 *Reduced Disclosure Framework* has 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 Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 29 June 2017 and is signed on its behalf by:

Miles Roberts
Group Chief Executive

29 June 2017

Adrian Marsh
Group Finance Director

29 June 2017

Opinion on financial statements of DS Smith Plc

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 April 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes 1 to 34. The financial statements also comprise the parent Company balance sheet and related notes 1 to 15. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Summary of our audit approach

Key audit risks	The key audit risks that we identified in the current year were: – classification and presentation of exceptional items; and – taxation.
Materiality	The materiality that we used in the current year was £16m which was determined on the basis of profit before tax and exceptional items.
Scoping	Our full scope audit procedures provided coverage at the Group's key locations accounting for 55% (2015/16: 57%) of revenue and 55% (2015/16: 53%) of profit before tax and exceptional items. The component auditor performed procedures on the significant risks and material balances for the other locations which accounted for 33% (2015/16: 30%) of revenue and 29% (2015/16: 36%) of profit before tax and exceptional items.
Significant changes in our approach	Last year our report included one other risk in relation to acquisition accounting which is not included in our report this year. The acquisitions made in the current year are not individually or in aggregate significant to the statement of financial position of the Group. The acquisition accounting in relation to these purchases is therefore not considered to be a key risk to the Group financial statements this year. There have been no significant changes in our audit approach in the current year other than this matter.

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 1(a) to the financial statements and the Directors' statement of the longer-term viability of the Group on page 41.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the Directors' confirmation on page 41 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 39 – 45 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in note 1(a) to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements; and
- the Directors' explanation on page 41 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

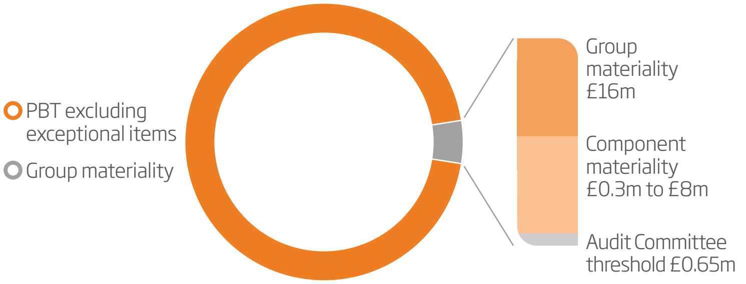
Risk	How the scope of our audit responded to the risk
Classification and presentation of exceptional items The presentation and consistency of costs and income within exceptional items is a key determinant in the assessment of the quality of the Group's earnings before exceptional items. Management judgement is required in determining whether an item is exceptional based on the size and nature of the item. For the year ended 30 April 2017, the Group incurred net exceptional and acquisition related costs of £62 million. Refer to note 4 for details of the exceptional items in the year and note 1(v) for management's policy for identifying exceptional items.	Exceptional items have been evaluated as to their nature in order to assess whether their classification and presentation are in line with the Group's accounting policy and guidance from ESMA and the Financial Reporting Council. The quantification of such items has been assessed by agreeing to source documentation. We have reviewed management's application of the policy for consistency with previous accounting periods. We also assessed whether the disclosures within the financial statements provide sufficient detail for the reader to understand the nature of these items. **Key observations** We are satisfied that the amounts classified as exceptional items are reasonable in all material respects and the related disclosure of these items in the financial statements is appropriate.
Taxation The value of the tax provisions recorded in respect of a number of uncertain tax positions require judgements in respect of the likely outcome of negotiations with various tax authorities. Refer to note 1(u) for management's process for estimating and recording tax provisions and note 21 for detail of the deferred tax balances.	We worked with our tax audit specialists, including those in required local jurisdictions, to challenge the estimates and judgements made by management when calculating the income tax payable in each territory and the associated provisions held. We reviewed the correspondence with the taxation authorities in significant locations, as well as reviewing the support or opinions received from external counsel or other advisers where management has utilised such opinions to appraise the likely outcome of technical tax treatments and assessing the reasonableness of the provisions made. **Key observations** We are satisfied that the assumptions used in calculating the tax charge are appropriate.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The description of the risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 62.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:



Group materiality	£16 million (2015/16: £13 million)
Basis for determining materiality	Approximately 5% profit before tax and exceptional items (2015/16: approximately 5%). This is consistent with the prior year. The materiality equates to less than 1% (2015/2016: less than 1%) of revenue from continuing operations and 1% (2015/16: 1%) of net assets.
Rationale for the benchmark applied	We exclude the effect of exceptional items to provide a stable basis for materiality, as these items are expected to be volatile year on year and profit before tax and exceptional items is a key metric for users of the accounts and is consistent with the Group's internal and external reporting.

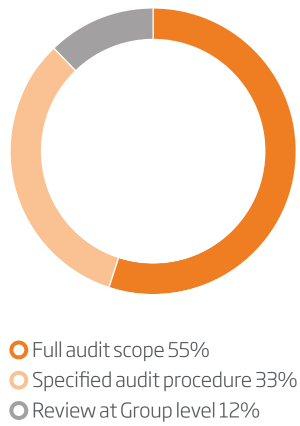
We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £650,000 (2015/16: £650,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

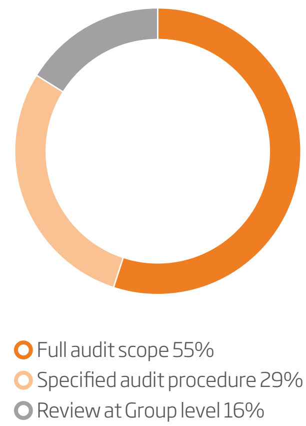
Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

Based on that assessment, we focused our Group audit scope primarily on the audit work at nine components (2015/16: nine) located in the United Kingdom, France, Germany, Italy, Spain and Austria. These nine components represent the principal business units within the Group's key reportable segments and, accordingly, provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. The Group audit team takes an active part in the conduct of the audits at these components and follows a programme of planned site visits that is designed to ensure that the Senior Statutory Auditor or another senior member of the Group audit team visits each of the full scope components or attends close out meetings. These components accounted for 55% (2015/16: 57%) of revenue and 55% (2015/16: 53%) of profit before tax and exceptional items.

Revenue



Profit before tax and exceptional items



For the remaining locations within our audit scope, the component auditor performed audit procedures on the significant risks and material balances and provided reporting to the Senior Statutory Auditor. The Senior Statutory Auditor or another senior member of the Group audit team held discussions with the local audit partner in the current year. These remaining locations accounted for 33% (2015/16: 30%) of revenue and 29% (2015/16: 36%) of profit before tax and exceptional items.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of significant risks and material balances.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

– the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;

– the information given in the strategic report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

– the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report and the Directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

– we have not received all the information and explanations we require for our audit; or

– adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

– the parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report arising from these matters.

Corporate governance statement

Under the Listing Rules we are also required to review the part of the corporate governance statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code.

We have nothing to report arising from our review.

Our duty to read other information in the annual report
Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

– materially inconsistent with the information in the audited financial statements; or
– apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
– otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of Directors and Auditor
As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland).

We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Ian Waller
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
29 June 2017

Consolidated income statement

Year ended 30 April 2017

	Note	Before exceptional items 2017 £m	Exceptional items (note 4) 2017 £m	After exceptional items 2017 £m	Before exceptional items 2016 £m	Exceptional items (note 4) 2016 £m	After exceptional items 2016 £m
Revenue	2	**4,781**	**–**	**4,781**	4,066	–	4,066
Operating costs	3, 4	**(4,338)**	**(57)**	**(4,395)**	(3,687)	(92)	(3,779)
Operating profit before amortisation, acquisitions and disposals	2	**443**	**(57)**	**386**	379	(92)	287
Amortisation of intangible assets; acquisitions and disposals	10, 4	**(65)**	**(5)**	**(70)**	(51)	14	(37)
Operating profit		**378**	**(62)**	**316**	328	(78)	250
Finance income	5	**1**	**–**	**1**	1	–	1
Finance costs	4, 5	**(51)**	**–**	**(51)**	(42)	(1)	(43)
Employment benefit net finance expense	24	**(5)**	**–**	**(5)**	(6)	–	(6)
Net financing costs		**(55)**	**–**	**(55)**	(47)	(1)	(48)
Profit after financing costs		**323**	**(62)**	**261**	281	(79)	202
Share of profit/(loss) of equity accounted investment, net of tax	12	**3**	**–**	**3**	(1)	–	(1)
Profit before income tax		**326**	**(62)**	**264**	280	(79)	201
Income tax (expense)/credit	7, 4	**(69)**	**13**	**(56)**	(61)	27	(34)
Profit for the year		**257**	**(49)**	**208**	219	(52)	167
Profit/(loss) for the year attributable to:							
Owners of the parent		**258**	**(49)**	**209**	219	(52)	167
Non-controlling interests		**(1)**	**–**	**(1)**	–	–	–

Earnings per share	Note	Before exceptional items 2017		After exceptional items 2017	Before exceptional items 2016		After exceptional items 2016
Earnings per share							
Basic	8			**22.1p**			17.7p
Diluted	8			**22.0p**			17.5p
Adjusted earnings per share[1]							
Basic	8	**32.5p**			27.4p		
Diluted	8	**32.3p**			27.0p		

1 Adjusted to exclude amortisation and exceptional items.

All activities comprise continuing operations.

Financial statements

Consolidated statement of comprehensive income

Year ended 30 April 2017

	Note	**2017 £m**	2016 £m
Profit for the year		**208**	167
Items which will not be reclassified subsequently to profit or loss			
Actuarial (loss)/gain on employee benefits	24	**(1)**	11
Income tax on items which will not be reclassified subsequently to profit or loss	7	**(3)**	(5)
Items which may be reclassified subsequently to profit or loss			
Foreign currency translation differences		**71**	49
Movements in cash flow hedges		**9**	(2)
Share of other comprehensive income of equity accounted investment	12	**1**	-
Income tax on items which may be reclassified subsequently to profit or loss	7	**35**	4
Other comprehensive income for the year, net of tax		**112**	57
Total comprehensive income for the year		**320**	224

Total comprehensive income attributable to:

Owners of the parent	**321**	224
Non-controlling interests	**(1)**	-

Consolidated statement of financial position
At 30 April 2017

	Note	2017 £m	2016 £m
Assets			
Non-current assets			
Intangible assets	10	**1,178**	1,089
Property, plant and equipment	11	**1,866**	1,678
Equity accounted investment	12	**9**	4
Other investments	13	**3**	3
Deferred tax assets	21	**79**	58
Other receivables	15	**3**	3
Derivative financial instruments	20	**19**	17
Total non-current assets		**3,157**	2,852
Current assets			
Inventories	14	**406**	338
Income tax receivable		**10**	11
Trade and other receivables	15	**766**	696
Cash and cash equivalents	18	**139**	134
Derivative financial instruments	20	**13**	40
Assets held for sale		**2**	7
Total current assets		**1,336**	1,226
Total assets		**4,493**	4,078
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	19	**(1,144)**	(1,073)
Employee benefits	24	**(181)**	(188)
Other payables	16	**(14)**	(8)
Provisions	22	**(5)**	(5)
Deferred tax liabilities	21	**(133)**	(141)
Derivative financial instruments	20	**(11)**	(9)
Total non-current liabilities		**(1,488)**	(1,424)
Current liabilities			
Bank overdrafts	18	**(16)**	(19)
Interest-bearing loans and borrowings	19	**(119)**	(185)
Trade and other payables	16	**(1,358)**	(1,118)
Income tax liabilities		**(120)**	(109)
Provisions	22	**(24)**	(36)
Derivative financial instruments	20	**(13)**	(47)
Total current liabilities		**(1,650)**	(1,514)
Total liabilities		**(3,138)**	(2,938)
Net assets		**1,355**	1,140
Equity			
Issued capital	23	**95**	94
Share premium		**728**	716
Reserves		**530**	327
Total equity attributable to owners of the parent		**1,353**	1,137
Non-controlling interests		**2**	3
Total equity		**1,355**	1,140

Approved by the Board of Directors of DS Smith Plc on 29 June 2017 and signed on its behalf by

M W Roberts
Director

A R T Marsh
Director

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

Consolidated statement of changes in equity

Year ended 30 April 2017

	Note	Share capital £m	Share premium £m	Hedging reserve £m	Translation reserve £m	Own shares £m	Retained earnings £m	Total reserves attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
At 1 May 2015		**94**	**715**	**(27)**	**(122)**	**–**	**359**	**1,019**	**(1)**	**1,018**
Profit for the year		–	–	–	–	–	167	167	–	167
Actuarial gain on employee benefits	24	–	–	–	–	–	11	11	–	11
Foreign currency translation differences		–	–	–	49	–	–	49	–	49
Cash flow hedges fair value changes		–	–	(20)	–	–	–	(20)	–	(20)
Reclassification from cash flow hedge reserve to income statement	20	–	–	18	–	–	–	18	–	18
Income tax on other comprehensive income	7	–	–	–	4	–	(5)	(1)	–	(1)
Total comprehensive (expense)/income		**–**	**–**	**(2)**	**53**	**–**	**173**	**224**	**–**	**224**
Issue of share capital		–	1	–	–	–	–	1	–	1
Employee share trust		–	–	–	–	(3)	(4)	(7)	–	(7)
Acquisition of subsidiary with non-controlling interests		–	–	–	–	–	–	–	4	4
Share-based payment expense (net of tax)		–	–	–	–	–	8	8	–	8
Dividends paid	9	–	–	–	–	–	(108)	(108)	–	(108)
Other changes in equity in the year		**–**	**1**	**–**	**–**	**(3)**	**(104)**	**(106)**	**4**	**(102)**
At 30 April 2016		**94**	**716**	**(29)**	**(69)**	**(3)**	**428**	**1,137**	**3**	**1,140**
Profit for the year		–	–	–	–	–	209	209	(1)	208
Actuarial loss on employee benefits	24	–	–	–	–	–	(1)	(1)	–	(1)
Foreign currency translation differences		–	–	–	71	–	–	71	–	71
Cash flow hedges fair value changes		–	–	1	–	–	–	1	–	1
Reclassification from cash flow hedge reserve to income statement	20	–	–	8	–	–	–	8	–	8
Share of other comprehensive income of equity accounted investment	12	–	–	–	1	–	–	1	–	1
Income tax on other comprehensive income	7	–	–	(2)	37	–	(3)	32	–	32
Total comprehensive income/(expense)		**–**	**–**	**7**	**109**	**–**	**205**	**321**	**(1)**	**320**
Issue of share capital		1	12	–	–	–	–	13	–	13
Employee share trust		–	–	–	–	(1)	(5)	(6)	–	(6)
Share-based payment expense (net of tax)		–	–	–	–	–	9	9	–	9
Dividends paid	9	–	–	–	–	–	(121)	(121)	–	(121)
Other changes in equity in the year		**1**	**12**	**–**	**–**	**(1)**	**(117)**	**(105)**	**–**	**(105)**
At 30 April 2017		**95**	**728**	**(22)**	**40**	**(4)**	**516**	**1,353**	**2**	**1,355**

Consolidated statement of cash flows

Year ended 30 April 2017

Continuing operations	Note	2017 £m	2016 £m
Operating activities			
Cash generated from operations	26	**629**	444
Interest received		**1**	1
Interest paid		**(46)**	(33)
Tax paid		**(61)**	(49)
Cash flows from operating activities		**523**	363
Investing activities			
Acquisition of subsidiary businesses, net of cash and cash equivalents	30	**(71)**	(313)
Disposal of subsidiary businesses, net of cash and cash equivalents	30	**–**	21
Capital expenditure		**(244)**	(229)
Proceeds from sale of property, plant and equipment and intangible assets		**18**	28
Cash flows used in investing activities		**(297)**	(493)
Financing activities			
Proceeds from issue of share capital		**13**	1
Repayment of borrowings		**(924)**	(337)
Proceeds from borrowings		**785**	605
Proceeds from settlement of derivative financial instruments		**31**	–
Repayment of finance lease obligations		**(9)**	(5)
Dividends paid to Group shareholders	9	**(121)**	(108)
Cash flows (used in)/from financing activities		**(225)**	156
Increase in cash and cash equivalents		**1**	26
Net cash and cash equivalents at 1 May		**115**	82
Exchange gains on cash and cash equivalents		**7**	7
Net cash and cash equivalents at 30 April	18	**123**	115

1. Significant accounting policies

(a) Basis of preparation

These financial statements are consolidated financial statements for the Group consisting of DS Smith Plc, a company registered in the UK, and all its subsidiaries. The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('adopted IFRSs'), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements are also in compliance with IFRSs as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements are prepared on the historical cost basis with the exception of assets and liabilities of certain financial instruments, employee benefit plans and share-based payments that are stated at their fair value.

The consolidated financial statements have been prepared on a going concern basis as set out on page 58 of the Directors' Governance report. The Directors consider that adequate resources exist for the Company to continue in operational existence for the foreseeable future.

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect whether and how policies are applied, and the reported amounts of assets and liabilities, income and expenses. Estimates with a significant risk of material adjustment are discussed in accounting policy 1(x). There are no critical accounting judgements.

The following new accounting standards, amendments or interpretations have been adopted by the Group as of 1 May 2016:

- IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11;*
- IAS 1 *Disclosure Initiative – Amendments to IAS 1;*
- Annual Improvements to IFRSs 2012-2014 Cycle;
- Amendments to IAS 27 *Equity Method in Separate Financial Statements*; and
- Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation.*

The adoption of these standards, amendments and interpretations has not had a material effect on the results for the year.

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

(b) Basis of consolidation

(i) Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control is achieved when the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

(ii) Interests in equity accounted investments

The Group's interests in equity accounted investments comprise interests in associates and joint ventures. An associate is an entity over which the Group has significant influence, but not control or joint control, over the financial and operating policy decisions of the investment. A joint venture is an entity in which the Group has joint control, whereby the Group has rights to the net assets of the entity, rather than rights to its assets and obligations for its liabilities.

Interests in associates and joint ventures are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investments, until the date on which significant influence or joint control ceases.

(iii) Non-controlling interests

Non-controlling interests are shown as a component of equity in the consolidated statement of financial position net of the value of options over interests held by non-controlling interests in the Group's subsidiaries.

(iv) Business combinations

The acquisition method is used to account for the acquisition of subsidiaries. Identifiable net assets acquired (including intangibles) in a business combination are measured initially at their fair values at the acquisition date.

Where the measurement of the fair value of identifiable net assets acquired is incomplete at the end of the reporting period in which the combination occurs, the Group will report provisional fair values. Final fair values are determined within a year of the acquisition date and applied retrospectively.

The excess of the consideration transferred and the amount of any non-controlling interest over the fair value of the identifiable assets (including intangibles), liabilities and contingent liabilities acquired is recorded as goodwill.

The consideration transferred is measured as the fair value of the assets given, equity instruments issued (if any), and liabilities assumed or incurred at the date of acquisition.

Acquisition related costs are expensed as incurred.

The results of the subsidiaries acquired are included in the consolidated financial statements from the acquisition date.

1. Significant accounting policies continued

(c) Revenue

Revenue comprises the fair value of the sale of goods and services, net of value added tax and other sales taxes, rebates and discounts and after eliminating sales within the Group. Revenue from the sale of goods is recognised when:

- the Group has transferred the significant risks and rewards of ownership to the buyer;
- all significant performance obligations have been met;
- the Group retains neither continuing managerial involvement nor effective control over the goods sold;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the amount of revenue can be measured reliably.

This is typically either when the goods are loaded onto the collection vehicle if the buyer is collecting them, or when the goods are unloaded at the delivery address if the Group is responsible for delivery.

(d) Supplier rebates

The Group receives income from its suppliers, mainly in the form of volume based rebates and early settlement discounts. These are recognised as a reduction in operating costs in the year to which they relate. At the period end the Group is sometimes required to estimate supplier income due from annual agreements for volume rebates.

(e) Government grants

(i) Emission quotas

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

(ii) Other

Other government grants are recognised in the statement of financial position initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attached to them. Grants that compensate the Group for expenses incurred are offset against the expenses in the same periods in which the expenses are incurred. Grants relating to assets are released to the income statement over the expected useful life of the asset to which they relate on a basis consistent with the depreciation policy. Depreciation is provided on the full cost of the assets before deducting grants.

(f) Dividends

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

(g) Foreign currency translation

The consolidated financial statements are presented in sterling, which is the Group's presentational currency. Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the foreign exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation of monetary assets and liabilities are recognised in the consolidated income statement. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the transactions.

The assets and liabilities of all the Group entities that have a functional currency other than sterling are translated at the closing exchange rate at the reporting date. Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transactions).

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, borrowings, and other financial instruments designated as hedges of such investments, are recognised in the translation reserve. On the disposal of foreign currency entities, the cumulative exchange difference recorded in the translation reserve is taken to the consolidated income statement as part of the gain or loss on disposal.

(h) Intangible assets

(i) Goodwill

The recognition of business combinations requires the excess of the purchase price of acquisitions over the net book value of identifiable assets acquired to be allocated to the assets and liabilities of the acquired entity. The Group makes judgements and estimates in relation to the fair value allocation of the purchase price.

Goodwill is stated at cost less accumulated impairment losses. The useful life of goodwill is considered to be indefinite. Goodwill is allocated to the cash generating units (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the combination and is tested annually for impairment; or more frequently if impairment is indicated.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss recognised in the consolidated income statement.

(ii) Intellectual property

Intellectual property is stated at cost less accumulated amortisation and impairment losses.

(iii) Computer software

Computer software that is integral to a related item of hardware is included within property, plant and equipment. All other computer software is treated as an intangible asset.

(iv) Customer related

Customer relationships, acquired as part of a business combination, are capitalised separately from goodwill and are carried at cost less accumulated amortisation and impairment.

(v) Other intangible assets

Other intangible assets that are acquired by the Group are carried at cost less accumulated amortisation and impairment.

1. Significant accounting policies continued

(h) Intangible assets continued

(vi) Amortisation

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

The estimated useful lives are as follows:

Intellectual property	Up to 20 years
Computer software	3-5 years
Customer relationships	5-15 years

(i) Property, plant and equipment and other investments

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses.

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

The estimated useful lives are as follows:

Freehold and long leasehold properties	10-50 years
Plant and equipment, fixtures and fittings (including IT hardware)	2-30 years
Motor vehicles	3-5 years

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

Gains or losses arising on the sale of surplus property assets are recorded through operating profit before exceptional items. For further information on current year gains or losses, see note 26.

(j) Impairment

The carrying amounts of the Group's assets, including tangible and intangible non-current assets, are reviewed at each reporting date to determine whether there are any indicators of impairment. If any such indicators exist, the asset's recoverable amount is estimated. Goodwill is tested for impairment annually at the same time, regardless of the presence of an impairment indicator. An impairment loss is recognised whenever the carrying amount of an asset, collection of assets or its CGU exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Cash generating units

For the purposes of impairment testing, each segment, split by process, is a separate CGU. Impairment testing of property, plant and equipment and other intangibles is carried out at an individual CGU level. Goodwill impairment testing is carried out based on regional groupings of CGUs as illustrated in note 10, as this is the lowest level at which goodwill is monitored for internal management purposes.

(ii) Calculation of recoverable amount

The recoverable amount of the Group's assets is calculated as the value-in-use of the CGU to which the assets are attributed or the net selling price, if greater. Value-in-use is calculated by discounting the cash flows expected to be generated by the CGU/group of CGUs being tested for evidence of impairment. This is done using a pre-tax discount rate that reflects the current assessment of the time value of money, and the country-specific risks for which the cash flows have not been adjusted. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

(iii) Reversals of impairment

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

(k) Derivative financial instruments

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

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

Derivative financial instruments are accounted for as hedges when designated as hedges at the inception of the contract and when the financial instruments provide an effective hedge of the underlying risk.

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

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

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

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

1. Significant accounting policies continued

(k) Derivative financial instruments continued

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

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

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

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

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

(l) Treasury shares

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

(m) Trade and other receivables

Trade and other receivables are stated at their cost less impairment provisions.

(n) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on a weighted average cost or first-in first-out basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(o) Cash and cash equivalents and restricted cash

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

Cash subject to contractual restrictions on use by the Group is excluded from cash and cash equivalents in the consolidated financial statements and is presented within other investments in the consolidated statement of financial position. Restricted cash is stated at amortised cost.

(p) Borrowings

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

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

(q) Employee benefits

(i) Defined contribution schemes

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

(ii) Defined benefit schemes

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

The discount rate is the yield at the reporting date on AA credit rated bonds that have maturity dates approximating to the duration of the schemes' obligations. The calculation is performed by a qualified actuary using the projected unit method. Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

(iii) Share-based payment transactions

The Group operates equity-settled share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised within personnel expenses, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The fair value of the options granted is measured using a stochastic model, taking into account the terms and conditions upon which the options were granted. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions.

At each reporting date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

1. Significant accounting policies continued

(r) Provisions

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

(s) Trade and other payables

Trade and other payables are stated at their cost.

(t) Leases

(i) Finance leases

Assets held under finance leases are recognised as assets of the Group at the inception of the lease at the lower of their fair value and the present value of the minimum lease payments. Depreciation on leased assets is charged to the income statement on the same basis as owned assets. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the income statement so that a constant periodic rate of interest is recognised on the outstanding balance of the liability.

(ii) Operating leases

Operating lease rentals are charged to the income statement on a straight-line basis over the lease term. Any premium or discount on the acquisition of a lease is spread over the life of the lease on a straight-line basis.

(u) Taxation

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

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

The Group is subject to corporate taxes in a number of different jurisdictions and judgement is required in determining the appropriate provision for transactions where the ultimate tax determination is uncertain. In such circumstances, the Group recognises liabilities for anticipated taxes based on the best information available and where the anticipated liability is both probable and estimable. Such liabilities are classified as current when the Group expects to settle the liability within 12 months with the remainder as non-current. Any interest and penalties accrued are included in income taxes in both the consolidated income statement and the consolidated statement of financial position. Where the final outcome of such matters differs from the amount recorded, any differences may impact the income tax and deferred tax provisions in the period in which the final determination is made.

Deferred tax is provided for using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The tax effect of certain temporary differences is not recognised, principally with respect to goodwill; temporary differences arising on the initial recognition of assets or liabilities (other than those arising in a business combination or in a manner that initially impacts accounting or taxable profit); and temporary differences relating to investment in subsidiaries and equity accounted investees to the extent that they will probably not reverse in the foreseeable future and the Group is able to control the reversal of such temporary differences. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

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

(v) Exceptional items

Items of income or expenditure that are significant by their nature, size or incidence, and for which separate presentation would assist in the understanding of the trading and financial results of the Group, are classified and disclosed as exceptional items.

Such items include business disposals, restructuring and optimisation, acquisition related and integration costs, and impairments.

(w) Non-GAAP performance measures

In the reporting of financial information, the Group has adopted certain non-GAAP measures of historical or future financial performance, position or cash flows other than those defined or specified under International Financial Reporting Standards (IFRSs).

Non-GAAP measures are either not defined by IFRS or are adjusted IFRS figures, and therefore may not be directly comparable with other companies' reported non-GAAP measures, including those in the Group's industry.

Non-GAAP measures should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measures.

Details of the Group's non-GAAP performance measures are included in note 32.

1. Significant accounting policies continued

(x) Critical accounting judgements and key sources of estimates

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

The Group's key sources of estimates are as detailed below. There are no critical accounting judgements.

(i) Pensions and other employee benefits

IAS 19 *Employee Benefits (Revised 2011)* requires the Group to make assumptions including, but not limited to, rates of inflation, discount rates and life expectancies. The use of different assumptions, in any of the above calculations, could have a material effect on the accounting values of the relevant statement of financial position assets and liabilities which could also result in a change to the cost of such liabilities as recognised in profit or loss over time. These assumptions are subject to periodic review. See note 24 for additional information including sensitivity analysis.

(ii) Taxation

The Group's tax payable on profits is determined based on tax laws and regulations that apply in each of the numerous jurisdictions in which the Group operates. The Group is required to exercise judgement in determining income tax provisions, along with the recognition of deferred tax assets/liabilities. While the Group aims to ensure that estimates recorded are accurate, the actual amounts could be different from those expected. See note 7 for additional information.

(iii) Exceptional items

In applying the exceptional items accounting policy to items of income and expenditure, the Group takes account of their origination, as well as considering similar items in prior years to ensure consistency and appropriate presentation. See note 4 for additional information.

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

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued new standards and interpretations with an effective date after the date of these financial statements.

International Financial Reporting Standards (IFRS/IAS)		Effective date – financial year ending
IAS 7	Disclosure Initiative – Amendments to IAS 7	30 April 2018
IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12	30 April 2018
IFRS 15	Revenue from Contracts with Customers	30 April 2019
IFRS 9	Financial Instruments	30 April 2019
IFRS 2	Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2	30 April 2019
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration	30 April 2019
IFRS 16	Leases	30 April 2020

IFRS 9 *Financial Instruments* will replace IAS 39 *Financial Instruments: Recognition and Measurement* and concerns the classification and measurement of financial assets and financial liabilities, the de-recognition of financial instruments and hedge accounting. A full impact assessment will be carried out before implementation, but the anticipated impact on the Group is not expected to be material.

IFRS 15 *Revenue from Contracts with Customers* replaces IAS 18 *Revenue* and related interpretations, introducing a single, principles-based approach to the recognition and measurement of revenue from all contracts with customers. The new approach requires identification of performance obligations in a contract and revenue to be recognised when or as those performance obligations are satisfied, as well as additional disclosure. The Group is currently in the process of completing its review of the potential impact of adopting IFRS 15. For the majority of the Group's contracts, the performance obligation is the delivery of goods, which under IFRS 15 would be recognised at a single point of time, on delivery of goods, consistent with the current accounting treatment under IAS 18. Whilst the Group is yet to complete its assessment of the impact of IFRS 15 on other revenue streams of the business and other implications, management's expectations are that the impact will not be material. The necessary processes to capture all of the adjustments and any additional disclosures required under IFRS 15 will be put into place during 2017/18.

IFRS 16 *Leases* prescribes a single lessee accounting model that requires the recognition of a right of use asset and corresponding liability for all leases with terms over 12 months unless the underlying asset is of low value. The liability is initially measured at the present value of future lease payments for the lease term. Depreciation of right of use assets, and interest on lease liabilities is recognised in profit and loss over the lease term. In the cash flow statement, the total amount of cash paid is separated into a principal portion (within financing activities) and an interest portion (within operating activities) in the cash flow statement. The implementation of IFRS 16 is likely to have a significant impact on the Group, with the transition work to be undertaken in 2017/18.

The Group does not anticipate that the adoption of the remaining standards and interpretations that are effective for the year ending 30 April 2018 will have a material effect on its financial statements.

Of these standards, only IFRS 15 and IFRS 9 have currently been endorsed by the EU.

2. Segment reporting

Operating segments

IFRS 8 *Operating Segments* requires operating segments to be identified on the same basis as is used internally for the review of performance and allocation of resources by the Group Chief Executive (who is the Chief Operating Decision Maker as defined by IFRS 8). Further details of these segments are given in the Strategic Report on page 31.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Central administration costs are allocated to the individual segments on a consistent basis year on year. All assets and liabilities have been analysed by segment, except for items of a financing nature, taxation balances, employee benefit liabilities and current and non-current asset investments. Debt and associated interest are managed at a Group level and therefore have not been allocated across the segments.

Year ended 30 April 2017	Note	**UK £m**	**Western Europe £m**	**DCH and Northern Europe £m**	**Central Europe and Italy £m**	**Plastics £m**	**Total continuing operations £m**
External revenue		**962**	**1,264**	**989**	**1,239**	**327**	**4,781**
EBITDA		**122**	**144**	**112**	**165**	**48**	**591**
Depreciation	11	**(28)**	**(40)**	**(30)**	**(40)**	**(10)**	**(148)**
Adjusted operating profit[1]		**94**	**104**	**82**	**125**	**38**	**443**
Unallocated items:							
Amortisation	10						**(65)**
Exceptional items	4						**(62)**
Total operating profit (continuing operations)							**316**
Analysis of total assets and total liabilities							
Segment assets		**823**	**1,062**	**951**	**1,170**	**215**	**4,221**
Unallocated items:							
Equity accounted investment and other investments							**12**
Derivative financial instruments							**32**
Cash and cash equivalents							**139**
Tax							**89**
Total assets							**4,493**
Segment liabilities		**(292)**	**(533)**	**(192)**	**(299)**	**(65)**	**(1,381)**
Unallocated items:							
Borrowings and accrued interest							**(1,299)**
Derivative financial instruments							**(24)**
Tax							**(253)**
Employee benefits							**(181)**
Total liabilities							**(3,138)**
Capital expenditure		**53**	**57**	**38**	**81**	**15**	**244**

1 Adjusted to exclude amortisation and exceptional items.

2. Segment reporting continued

Year ended 30 April 2016	Note	UK £m	Western Europe £m	DCH and Northern Europe £m	Central Europe and Italy £m	Plastics £m	Total continuing operations £m
External revenue		864	1,044	853	1,022	283	4,066
EBITDA		112	113	118	122	41	506
Depreciation	11	(27)	(36)	(25)	(30)	(9)	(127)
Adjusted operating profit[1]		85	77	93	92	32	379
Unallocated items:							
Amortisation	10						(51)
Exceptional items	4						(78)
Total operating profit (continuing operations)							250
Analysis of total assets and total liabilities							
Segment assets		747	959	899	1,031	175	3,811
Unallocated items:							
Equity accounted investment and other investments							7
Derivative financial instruments							57
Cash and cash equivalents							134
Tax							69
Total assets							4,078
Segment liabilities		(227)	(438)	(170)	(256)	(58)	(1,149)
Unallocated items:							
Borrowings and accrued interest							(1,295)
Derivative financial instruments							(56)
Tax							(250)
Employee benefits							(188)
Total liabilities							(2,938)
Capital expenditure		53	51	42	72	11	229

1 Adjusted to exclude amortisation and exceptional items.

Geographical areas

In presenting information by geographical area, external revenue is based on the geographical location of customers. Non-current assets are based on the geographical location of assets and exclude investments, deferred tax assets, derivative financial instruments and intangible assets (which are monitored at the operating segment level, not at a country level).

	External revenue		**Non-current assets**		**Capital expenditure**	
Continuing operations	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
UK	**932**	813	**397**	382	**82**	54
France	**704**	629	**227**	224	**36**	29
Germany	**606**	533	**298**	272	**40**	30
Italy	**512**	444	**208**	186	**28**	24
Rest of the World	**2,027**	1,647	**739**	617	**58**	92
	4,781	4,066	**1,869**	1,681	**244**	229

Financial statements

3. Operating profit

Continuing operations	2017 £m	2016 £m
Operating costs		
Cost of sales	**2,409**	2,050
Other production costs	**911**	772
Distribution	**331**	284
Administrative expenses	**744**	673
	4,395	3,779

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

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

Continuing operations	2017 £m	2016 £m
Depreciation – owned assets	**143**	124
– leased assets	**5**	3
Amortisation of intangible assets	**65**	51
Profit on sale of non-current assets	**(14)**	(12)
Hire of plant and machinery	**18**	14
Other operating lease rentals	**28**	22
Research and development	**7**	4

	2017			2016		
Auditor's remuneration	**UK £m**	**Overseas £m**	**Total £m**	UK £m	Overseas £m	Total £m
Fees payable to the Company's Auditor for audit of the Company's annual accounts	**0.1**	**–**	**0.1**	0.1	–	0.1
Fees payable to the Company's Auditor and their associates for other services:						
Audit of the Company's subsidiaries, pursuant to legislation	**0.8**	**1.9**	**2.7**	0.6	1.5	2.1
Total audit fees	**0.9**	**1.9**	**2.8**	0.7	1.5	2.2
Corporate finance services	**–**	**–**	**–**	0.2	–	0.2
Audit related assurance services	**0.1**	**–**	**0.1**	0.1	–	0.1
Tax and other services	**0.3**	**0.1**	**0.4**	0.2	–	0.2
Total non-audit fees	**0.4**	**0.1**	**0.5**	0.5	–	0.5
Total Auditor's remuneration	**1.3**	**2.0**	**3.3**	1.2	1.5	2.7

Non-audit fees do not include costs in respect of the proposed acquisition of Indevco Management Resources Inc. which were incurred after the year end and are estimated to be in the region of £1.2m in total.

A description of the work of the Audit Committee is set out in the corporate governance section on pages 61 to 63 and includes an explanation of how the external Auditor's objectivity and independence are safeguarded when non-audit services are provided by the external Auditor.

4. Exceptional items

Items are presented as exceptional in the financial statements where they are significant items of financial performance that the Directors consider should be separately disclosed to assist in the understanding of the trading and financial results of the Group. Such items include business disposals, restructuring and optimisation, acquisition related and integration costs, and impairments.

Continuing operations	**2017 £m**	2016 £m
Acquisition related costs	**(7)**	(9)
Gains on acquisitions and disposals	**2**	23
Acquisitions and disposals	**(5)**	14
Integration costs	**(17)**	(12)
Other restructuring costs	**(26)**	(50)
Impairment of assets	**(5)**	(21)
Other	**(9)**	(9)
Total pre-tax exceptional items (recognised in operating profit)	**(62)**	(78)
Income tax credit on exceptional items	**13**	27
Exceptional finance cost	**-**	(1)
Total post-tax exceptional items	**(49)**	(52)

2016/17

Acquisition costs of £7m relate to professional advisory, legal and consultancy fees and directly attributable internal salary costs relating to the review and execution of potential deals, and deals completed during the year, including the acquisition of Creo, Deku-Pack, Gopaca, P&I Display and Parish.

Integration costs relate to integration projects underway to ensure appropriate health and safety standards are operating and to achieve cost synergies from the acquisitions made in the current year and previous financial year. They include directly attributable internal salary costs.

The £26m other restructuring costs includes reorganisation and restructuring in DCH and Northern Europe (£11m), the UK (£6m), Western Europe (£4m) and Plastics (£2m).

Other exceptional items of £9m principally relate to infrastructure optimisation and efficiency projects.

The income tax credit on exceptional items in the year ended 30 April 2017 includes an increase in tax provisions arising from the acquisition of a business (£1m), and the tax effect at the local applicable tax rate of exceptional items that are subject to tax. The exceptional items in the year give rise to a net income tax effect, with the exception of non-deductible deal related advisory fees in relation to acquisitions and disposals.

2015/16

Acquisition costs consist of professional advisory, legal and consultancy fees and directly attributable internal salary costs relating to the review and execution of potential deals, and deals completed during the year, including the acquisition of Duropack and Lantero.

Gains on acquisitions and disposals comprise the profit on sale of StePac of £9m, with the majority of the remainder relating to a £10m gain on the step acquisition of the Lantero business (where previously the Group held an associate interest).

Integration costs relate to integration projects underway to achieve cost synergies from the acquisitions made in the year, including Duropack and Lantero.

Of the £50m other restructuring costs in the year, £10m relates to the closure of the Wansbrough paper mill in the UK, announced in October 2015 after the completion of a consultation process, with the majority of the remainder relating to further reorganisation and restructuring in the UK (£10m), DCH and Northern Europe (£17m) and Western Europe (£7m).

Impairment of assets is primarily associated with impairment arising from the announced closure of the Wansbrough paper mill in the UK (£20m).

Other exceptional items principally relate to infrastructure optimisation and efficiency projects, site remediation costs and the continuing costs of UK centralisation projects.

The income tax credit on exceptional items in the year ended 30 April 2016 includes an amount received from the previous owners of an acquired business under the tax indemnity (£3m), the reversal of tax provisions arising from the acquisition of a business (£2m), and the tax effect at the local applicable tax rate of exceptional items that are subject to tax. The exceptional items in the year give rise to a net income tax effect, with the exception of gains or losses on certain disposals which are not subject to tax under local rules, and non-deductible deal related advisory fees in relation to acquisitions and disposals.

5. Finance income and costs

Continuing operations	2017 £m	2016 £m
Interest income from financial assets	**(1)**	(1)
Finance income	**(1)**	(1)
Interest on borrowings and overdrafts	**46**	38
Other	**5**	5
Finance costs	**51**	43

6. Personnel expenses

Continuing operations	2017 £m	2016 £m
Wages and salaries	**825**	705
Social security costs	**169**	148
Contributions to defined contribution pension plans	**37**	30
Service costs for defined benefit schemes (note 24)	**5**	6
Share-based payment expense (note 25)	**10**	6
Personnel expenses	**1,046**	895

Average number of employees	2017 Number	2016 Number
UK	**5,261**	5,277
Western Europe	**6,853**	6,844
DCH and Northern Europe	**4,701**	4,860
Central Europe and Italy	**8,370**	8,585
Rest of the World	**489**	499
Average number of employees	**25,674**	26,065

7. Income tax expense

Continuing operations	2017 £m	2016 £m
Current tax expense		
Current year	**(99)**	(84)
Adjustment in respect of prior years	**9**	6
	(90)	(78)
Deferred tax credit		
Origination and reversal of temporary differences	**18**	23
Reduction in tax rates	**(3)**	(4)
Adjustment in respect of prior years	**6**	(2)
	21	17
Total income tax expense before exceptional items	**(69)**	(61)
Current and deferred tax relating to exceptional items (note 4)	**13**	27
Total income tax expense in the income statement from continuing operations	**(56)**	(34)

The tax credit on amortisation was £16m (2015/16: £12m).

7. Income tax expense continued

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

	2017 £m	2016 £m
Profit before income tax	**264**	201
Share of (profit)/loss of equity accounted investment, net of tax	**(3)**	1
Profit before tax and share of (profit)/loss of equity accounted investment, net of tax	**261**	202
Income tax at the domestic corporation tax rate of 19.92% (2015/16: 20.00%)	**(52)**	(40)
Effect of additional taxes and tax rates in overseas jurisdictions	**(30)**	(15)
Additional items deductible for tax purposes	**18**	16
Non-deductible expenses	**(5)**	(12)
Non-taxable gains	**1**	3
Release of prior year provisions in relation to acquired businesses	**4**	11
Reimbursement under tax indemnity in relation to acquired businesses	**-**	3
Adjustment in respect of prior years	**11**	4
Effect of change in corporation tax rates	**(3)**	(4)
Income tax expense – total Group	**(56)**	(34)

The Group's effective tax rate, excluding amortisation, exceptional items and share of result from equity accounted investment was 22% (2015/16: 22%).

The Group's future tax charge could be affected by several factors including: tax reform in countries around the world, arising from the implementation of the OECD's Base Erosion and Profit Shifting actions and European Commission initiatives. In addition, corporate acquisitions and disposals and the resolution of any ongoing tax enquiries could also impact the future tax charge.

Included within the consolidated balance sheet at 30 April 2017 are current tax liabilities of £120m (30 April 2016: £109m), which includes a provision recognised primarily in relation to transfer pricing, based on management's interpretation of country specific tax legislation and the likely outcome of any ongoing enquiries. The resolution of any tax positions taken by the Group can take considerable time to conclude and judgement is required to predict the outcome.

The Finance Act 2016 included a 1% reduction in the main UK Corporation tax rate to 17% which was substantively enacted on 15 September 2016. Accordingly, the rate applied to UK deferred tax assets and liabilities is 17% (2015/16: 18%). There has been no further indication of additional changes to the rate of corporation tax from 17%.

Tax on other comprehensive income and equity

	Gross 2017 £m	Tax credit/ (charge) 2017 £m	Net 2017 £m	Gross 2016 £m	Tax credit/ (charge) 2016 £m	Net 2016 £m
Actuarial (loss)/gain on employee benefits	**(1)**	**(3)**	**(4)**	11	(5)	6
Foreign currency translation differences	**71**	**37**	**108**	49	4	53
Movements in cash flow hedges	**9**	**(2)**	**7**	(2)	–	(2)
Share of other comprehensive income of equity accounted investment	**1**	**-**	**1**	–	–	–
Other comprehensive income/(expense) for the year, net of tax	**80**	**32**	**112**	58	(1)	57
Issue of share capital	**13**	**-**	**13**	1	–	1
Employee share trust	**(6)**	**-**	**(6)**	(7)	–	(7)
Acquisition of subsidiary with non-controlling interests	**-**	**-**	**-**	4	–	4
Share-based payment expense	**10**	**(1)**	**9**	6	2	8
Dividends paid to Group shareholders	**(121)**	**-**	**(121)**	(108)	–	(108)
Other comprehensive (expense)/income and changes in equity	**(24)**	**31**	**(7)**	(46)	1	(45)

8. Earnings per share

Basic earnings per share from continuing operations

	2017	2016
Profit from continuing operations attributable to ordinary shareholders	**£209m**	£167m
Weighted average number of ordinary shares	**945m**	943m
Basic earnings per share	**22.1p**	17.7p

Diluted earnings per share from continuing operations

	2017	2016
Profit from continuing operations attributable to ordinary shareholders	**£209m**	£167m
Weighted average number of ordinary shares	**945m**	943m
Potentially dilutive shares issuable under share-based payment arrangements	**6m**	11m
Weighted average number of ordinary shares (diluted)	**951m**	954m
Diluted earnings per share	**22.0p**	17.5p

The number of shares excludes the weighted average number of the Company's own shares held as treasury shares during the year of 2m (2015/16: 1m).

Adjusted earnings per share from continuing operations

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 intangible assets, better explains the underlying performance of the Group. A reconciliation of basic to adjusted earnings per share is as follows:

	2017			2016		
	£m	**Basic - pence per share**	**Diluted - pence per share**	£m	Basic – pence per share	Diluted – pence per share
Basic earnings	**209**	**22.1p**	**22.0p**	167	17.7p	17.5p
Add back amortisation, after tax	**49**	**5.2p**	**5.1p**	39	4.2p	4.1p
Add back exceptional items, after tax	**49**	**5.2p**	**5.2p**	52	5.5p	5.4p
Adjusted earnings	**307**	**32.5p**	**32.3p**	258	27.4p	27.0p

9. Dividends proposed and paid

	2017		2016	
	Pence per share	**£m**	Pence per share	£m
2015/16 interim dividend – paid	**-**	**-**	4.0p	38
2015/16 final dividend – paid	**-**	**-**	8.8p	83
2016/17 interim dividend – paid	**4.6p**	**44**	–	–
2016/17 final dividend – proposed	**10.6p**	**100**	–	–

	2017 £m	2016 £m
Paid during the year	**121**	108

The interim dividend in respect of 2016/17 of 4.6 pence per share (£44m) was paid after the year end on 2 May 2017. The 2015/16 interim and final dividends were paid during the 2016/17 financial year. A final dividend in respect of 2016/17 of 10.6 pence per share (£100m) has been proposed by the Directors after the reporting date.

10. Intangible assets

	Goodwill £m	Software £m	Intellectual property £m	Customer related £m	Other £m	Total £m
Cost						
At 1 May 2016	710	50	24	483	66	1,333
Acquisitions	27	1	–	24	–	52
Additions	–	10	1	–	20	31
Adjustment related to business combinations in prior year	3	–	–	–	–	3
Disposals	–	(5)	–	–	–	(5)
Transfers	–	22	–	–	(22)	–
Currency translation	42	5	3	33	5	88
At 30 April 2017	**782**	**83**	**28**	**540**	**69**	**1,502**
Amortisation and impairment						
At 1 May 2016	(26)	(32)	(15)	(156)	(15)	(244)
Amortisation	–	(11)	(2)	(50)	(2)	(65)
Disposals	–	5	–	–	–	5
Currency translation	(1)	(4)	(2)	(12)	(1)	(20)
At 30 April 2017	**(27)**	**(42)**	**(19)**	**(218)**	**(18)**	**(324)**
Carrying amount						
At 1 May 2016	684	18	9	327	51	1,089
At 30 April 2017	**755**	**41**	**9**	**322**	**51**	**1,178**

	Goodwill £m	Software £m	Intellectual property £m	Customer related £m	Other £m	Total £m
Cost						
At 1 May 2015	588	38	22	340	48	1,036
Acquisitions	83	2	–	113	1	199
Additions	–	2	1	–	18	21
Adjustment related to business combinations in prior year	3	–	–	–	–	3
Disposals	–	(1)	–	–	–	(1)
Reclassification	–	7	1	–	(5)	3
Currency translation	36	2	–	30	4	72
At 30 April 2016	710	50	24	483	66	1,333
Amortisation and impairment						
At 1 May 2015	(25)	(25)	(13)	(104)	(14)	(181)
Amortisation	–	(6)	(2)	(43)	–	(51)
Disposals	–	1	–	–	–	1
Currency translation	(1)	(2)	–	(9)	(1)	(13)
At 30 April 2016	(26)	(32)	(15)	(156)	(15)	(244)
Carrying amount						
At 1 May 2015	563	13	9	236	34	855
At 30 April 2016	684	18	9	327	51	1,089

10. Intangible assets continued

Goodwill

The CGU groups below represent the lowest level at which goodwill is monitored for internal management purposes and are not larger than the operating segments determined in accordance with IFRS 8 *Operating Segments*. The carrying values of goodwill are split between the CGU groups as follows:

	2017 £m	2016 £m
UK	**167**	159
Western Europe	**182**	160
DCH and Northern Europe	**220**	197
Central Europe and Italy	**124**	121
Plastics	**62**	47
Total goodwill	**755**	684

Goodwill impairment tests – key assumptions and methodology

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill may be impaired. The recoverable amounts of the groups of CGUs are determined from value-in-use calculations. No impairment arose in the year ended 30 April 2017 as the recoverable amount of the groups of CGUs, based on value-in-use calculations, exceeded the carrying amounts.

The key assumptions in the value-in-use calculations are:

- the cash flow forecasts have been derived from the most recent Board approved budget for the year ending 30 April 2018 and are based upon past performance, known changes and expectations of current market conditions, taking into account the cyclical nature of the business;
- the sales volume and price assumptions underlying the cash flow forecasts are the Directors' estimates of likely future changes based upon historic performance and the current economic outlooks for the economies in which the Group operates. These are viewed as the key operating assumptions as they determine the Directors' approach to margin and cost maintenance;
- the cash flow forecasts for capital expenditure are based upon past experience and include the replacement capital expenditure required to generate the terminal cash flows;
- cash flows beyond the budgeted period (2019 and beyond) have been determined using a long-term growth rate specific to each of the CGU groups based upon external sources such as the International Monetary Fund's World Economic Outlook Database. This resulted in an average growth rate for the total Group of 1.5%; and
- the pre-tax adjusted discount rate is derived from the weighted average cost of capital ('WACC') for the Group of 9.5% (2015/16: 9.5%) , which is a basic WACC of 8.8% plus a blended country risk premium of 0.7%. The discount rate is a function of the cost of debt and equity. The cost of equity is largely based upon the risk free rate for 30 year German Bund yields (77% weighting) and 30 year UK gilts (23% weighting), adjusted for the relevant country market risk premium, ranging from 0% to 15.7%, which reflects the increased risk of investing in country specific equities and the relative volatilities of the equity of the Group compared to the market as a whole. This Group rate has been adjusted for the risks inherent in the countries in which the CGU group operates that are not reflected in the cash flow projections.

Goodwill impairment tests – sensitivities

The value-in-use is based upon anticipated discounted future cash flows and results in significant headroom across all CGU groups. Whilst the Directors believe the assumptions used are realistic, it is possible that a reduction in the headroom would occur if any of the above key assumptions were adversely changed. Factors which could cause an impairment are:

- significant underperformance relative to the forecast; and
- deteriorations in the economies in which the Group operates.

To support their assertions, the Directors have conducted sensitivity analyses to determine the impact that would result from the above situations. Key sensitivities tested included future growth and discount rates. In these cases, if estimates of future growth were reduced to 0% per annum, or if the estimated discount rates applied to the cash flows were increased by 1%, there would still be adequate headroom to support the carrying value of the assets.

Based on this analysis the Directors believe that a reasonably possible change in any of the key assumptions detailed above would not cause the carrying value of CGU groups to exceed their recoverable amounts. Therefore at 30 April 2017 no impairment charge is required against the carrying value of goodwill.

11. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Fixtures and fittings £m	Under construction £m	Total £m
Cost					
At 1 May 2016	693	2,013	56	157	2,919
Acquisitions	11	7	3	–	21
Additions	17	70	7	121	215
Adjustment relating to business combination in prior year	–	(3)	–	–	(3)
Disposals	(15)	(52)	(3)	(5)	(75)
Transfers	25	89	5	(119)	–
Currency translation	41	130	5	8	184
At 30 April 2017	**772**	**2,254**	**73**	**162**	**3,261**
Depreciation and impairment					
At 1 May 2016	(136)	(1,079)	(26)	–	(1,241)
Depreciation charge	(22)	(120)	(6)	–	(148)
Impairment	(2)	(1)	–	–	(3)
Disposals	14	50	2	–	66
Currency translation	(9)	(58)	(2)	–	(69)
At 30 April 2017	**(155)**	**(1,208)**	**(32)**	**–**	**(1,395)**
Carrying amount					
At 1 May 2016	557	934	30	157	1,678
At 30 April 2017	**617**	**1,046**	**41**	**162**	**1,866**

	Land and buildings £m	Plant and equipment £m	Fixtures and fittings £m	Under construction £m	Total £m
Cost					
At 1 May 2015	559	1,694	41	94	2,388
Acquisitions	80	114	4	7	205
Additions	14	82	4	120	220
Adjustment related to business combinations in prior year	(3)	–	–	–	(3)
Disposals	(16)	(74)	(2)	–	(92)
Transfers	18	47	4	(69)	–
Reclassification (to)/from held for sale	3	48	–	–	51
Reclassification	–	(3)	–	–	(3)
Currency translation	38	105	5	5	153
At 30 April 2016	693	2,013	56	157	2,919
Depreciation and impairment					
At 1 May 2015	(104)	(922)	(20)	–	(1,046)
Depreciation charge	(19)	(103)	(5)	–	(127)
Impairment	(4)	(15)	–	–	(19)
Disposals	3	49	1	–	53
Reclassification to/(from) held for sale	(3)	(33)	–	–	(36)
Currency translation	(9)	(55)	(2)	–	(66)
At 30 April 2016	(136)	(1,079)	(26)	–	(1,241)
Carrying amount					
At 1 May 2015	455	772	21	94	1,342
At 30 April 2016	557	934	30	157	1,678

The amounts above include land and buildings held under finance lease agreements. At 30 April 2017, the carrying amount of property, plant and equipment held under finance leases was £24m (30 April 2016: £21m). Assets under construction mainly relate to production machines and site improvements being constructed at various sites across the Group.

12. Equity accounted investment

	2017 £m	2016 £m
At 1 May	**4**	17
Disposal	**-**	(10)
Share of profit/(loss) of associate	**3**	(1)
Share of other comprehensive income of equity accounted investment	**1**	–
Currency translation	**1**	(2)
At 30 April	**9**	4

Principal equity accounted investment

	Nature of business	Principal country of operation	Ownership interest 2017	Ownership interest 2016
OJSC Rubezhansk Paper and Packaging Mill (Rubezhansk)	Paper and packaging	Ukraine	**49.6%**	49.6%

The Group accounts for its investment in Rubezhansk using the equity method as an associate because the Group has the ability to exercise significant influence over the investment due to the Group's equity holdings.

Summary of financial information of associate

The financial information below is for the Group's associate on a 100% basis for the year ended 31 December.

	2017 £m	2016 £m
Current assets	**26**	24
Non-current assets	**40**	37
Current liabilities	**(21)**	(20)
Non-current liabilities	**(17)**	(16)
Revenue	**108**	82
Profit/(loss) after tax	**6**	(2)
Other comprehensive income	**3**	–

13. Other investments

	2017 £m	2016 £m
Other investments	**3**	3
Total non-current investments	**3**	3

14. Inventories

	2017 £m	2016 £m
Raw materials and consumables	**219**	178
Work in progress	**24**	20
Finished goods	**163**	140
	406	338

Inventory provisions at 30 April 2017 were £28m (30 April 2016: £29m). Inventory write-offs in the year totalled £1m (2015/16: £4m).

15. Trade and other receivables

	2017 Non-current £m	2017 Current £m	2016 Non-current £m	2016 Current £m
Trade receivables	–	**628**	–	598
Provisions for bad and doubtful receivables	–	**(37)**	–	(33)
Prepayments and other receivables	**3**	**175**	3	131
	3	**766**	3	696

Trade receivables	Net carrying amount £m	Of which neither impaired nor past due £m	Of which past due but not impaired: 1 month or less £m	1-3 months £m	3-6 months £m	6-12 months £m	More than 12 months £m
At 30 April 2017	**591**	**478**	**72**	**25**	**7**	**6**	**3**
At 30 April 2016	565	479	55	19	5	4	3

Movement in bad and doubtful receivables allowance

	2017 £m	2016 £m
At 1 May	**(33)**	(26)
Uncollectible amounts written off	**3**	2
(Increase)/decrease in allowance recognised in the income statement	**(2)**	1
Acquisitions	**(3)**	(8)
Currency translation	**(2)**	(2)
At 30 April	**(37)**	(33)

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and diverse. Management believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful receivables.

16. Trade and other payables

	2017 Non-current £m	2017 Current £m	2016 Non-current £m	2016 Current £m
Trade payables	**–**	**1,012**	–	817
Non-trade payables and accrued expenses	**14**	**346**	8	301
	14	**1,358**	8	1,118

17. Net debt

	2017 £m	2016 £m
Non-current liabilities	**(1,144)**	(1,073)
Current liabilities	**(119)**	(185)
Derivative financial instruments	**8**	19
Net cash and cash equivalents	**123**	115
Other deposits	**40**	25
Net debt	**(1,092)**	(1,099)

The movement in net debt is as follows:

	At 1 May 2016 £m	Continuing operations cash flow £m	Acquisitions £m	Foreign exchange, fair value and non-cash movements £m	At 30 April 2017 £m
Cash and cash equivalents	134	(8)	6	7	**139**
Overdrafts	(19)	3	–	–	**(16)**
Net cash and cash equivalents	115	(5)	6	7	**123**
Other deposits	25	14	–	1	**40**
Interest-bearing loans and borrowings due – after one year	(1,058)	9	(3)	(81)	**(1,133)**
Interest-bearing loans and borrowings due – within one year	(180)	116	(9)	(42)	**(115)**
Finance leases	(20)	9	(2)	(2)	**(15)**
Derivative financial instruments					
– assets	25	(40)	–	29	**14**
– liabilities	(6)	9	–	(9)	**(6)**
	(1,214)	117	(14)	(104)	**(1,215)**
Net debt	**(1,099)**	**112**	**(8)**	**(97)**	**(1,092)**

Derivative financial instruments above relate to interest rate and cross-currency swaps used to hedge the Group's borrowings and the ratio of net debt to EBITDA. The difference between the amounts shown above and the total derivative financial instrument assets and liabilities in the Consolidated Statement of Financial Position relates to derivative financial instruments that hedge forecast foreign currency transactions and the Group's purchases of energy.

Non-cash movements relate to amortisation of fees incurrent on debt issuance.

Other deposits are included, as these short-term receivables have the characteristics of net debt.

18. Cash and cash equivalents

	2017 £m	2016 £m
Bank balances	**135**	131
Short-term deposits	**4**	3
Cash and cash equivalents (consolidated statement of financial position)	**139**	134
Bank overdrafts	**(16)**	(19)
Net cash and cash equivalents (consolidated statement of cash flows)	**123**	115

19. Interest-bearing loans and borrowings

	2017			2016		
	Current £m	Non-current £m	Total £m	Current £m	Non-current £m	Total £m
Bank and other loans[1]	**(100)**	**(94)**	**(194)**	(115)	(306)	(421)
Medium-term notes and other fixed-term debt						
$95m USD private placement 5.80% coupon August 2016[2]	**-**	**-**	**-**	(65)	–	(65)
€59m euro private placement shelf facility 4.40% coupon August 2018	**-**	**(50)**	**(50)**	–	(46)	(46)
€60m euro term loan floating EURIBOR + margin December 2018	**-**	**(51)**	**(51)**	–	–	–
€60m euro term loan floating EURIBOR + margin January 2019	**-**	**(51)**	**(51)**	–	–	–
€59m euro private placement shelf facility 4.83% coupon August 2020	**-**	**(50)**	**(50)**	–	(46)	(46)
$400m USD private placement 4.48% weighted average coupon August 2017-2022[3]	**(15)**	**(293)**	**(308)**	–	(272)	(272)
€150m euro term loan fixed rate July 2021	**-**	**(126)**	**(126)**	–	–	–
€500m euro medium term note 2.25% coupon September 2022	**-**	**(418)**	**(418)**	–	(388)	(388)
Finance lease liabilities	**(4)**	**(11)**	**(15)**	(5)	(15)	(20)
	(119)	**(1,144)**	**(1,263)**	(185)	(1,073)	(1,258)

1 Drawings under a short-term bank revolving credit facility and other bank loans.

2 Swapped to floating rate €17m based on six month EURIBOR plus a margin, and fixed rate £41m using cross-currency interest rate swaps.

3 Swapped to fixed rate £150m and fixed rate €174m using cross-currency interest rate swaps.

Borrowings are unsecured and, at 30 April 2017, all measured at amortised cost (at 30 April 2016 all borrowings were measured at amortised cost, except for £14m of note purchase agreements in a fair value hedge relationship).

The syndicated bank revolving credit facility (£800m) was extended in May 2015 under its one year extension option, taking maturity to 2020. Drawdowns under the facility bear interest at a margin over the applicable LIBOR or EURIBOR rate.

There have been no breaches of covenants during the year ended 30 April 2017 in relation to the above loans and borrowings.

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

	2017 £m	2016 £m
Expiring between two and five years	**705**	500

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19. Interest-bearing loans and borrowings continued

The repayment profile of the Group's borrowings, after taking into account the effect of cross-currency interest rate swaps, is as follows:

	2017				
	1 year or less £m	**1-2 years £m**	**2-5 years £m**	**More than 5 years £m**	**Total £m**
Interest-bearing loans and borrowings					
Fixed rate	**(19)**	**(54)**	**(281)**	**(627)**	**(981)**
Floating rate	**(100)**	**(101)**	**(81)**	**-**	**(282)**
Total interest-bearing loans and borrowings	**(119)**	**(155)**	**(362)**	**(627)**	**(1,263)**

	2016				
	1 year or less £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Interest-bearing loans and borrowings					
Fixed rate	(58)	(20)	(155)	(592)	(825)
Floating rate	(127)	(2)	(303)	(1)	(433)
Total interest-bearing loans and borrowings	(185)	(22)	(458)	(593)	(1,258)

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

	2017				
	Sterling £m	**Euro £m**	**US dollar £m**	**Other £m**	**Total £m**
Interest-bearing loans and borrowings					
Fixed rate	**(156)**	**(811)**	**-**	**(14)**	**(981)**
Floating rate	**(12)**	**(203)**	**(35)**	**(32)**	**(282)**
	(168)	**(1,014)**	**(35)**	**(46)**	**(1,263)**
Net cash and cash equivalents (including bank overdrafts)					
Floating rate	**15**	**80**	**3**	**25**	**123**
Net borrowings at 30 April 2017	**(153)**	**(934)**	**(32)**	**(21)**	**(1,140)**

	2016				
	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m
Interest-bearing loans and borrowings					
Fixed rate	(194)	(630)	–	(1)	(825)
Floating rate	(15)	(315)	(48)	(55)	(433)
	(209)	(945)	(48)	(56)	(1,258)
Net cash and cash equivalents (including bank overdrafts)					
Floating rate	–	93	3	19	115
Net borrowings at 30 April 2016	(209)	(852)	(45)	(37)	(1,143)

At 30 April 2017, 80% of the Group's interest-bearing loans and borrowings, after taking into account the effect of cross-currency swaps, were denominated in euros in order to hedge the underlying assets of the Group's European operations (30 April 2016: 75%). Interest rates on floating rate borrowings are based on London Interbank Offered Rate (LIBOR), Euro Interbank Offered Rate (EURIBOR) or base rates.

Finance lease liabilities

	2017			2016		
	Future minimum lease payments £m	**Interest £m**	**Present value of minimum lease payments £m**	Future minimum lease payments £m	Interest £m	Present value of minimum lease payments £m
Less than one year	**4**	**-**	**4**	5	–	5
Between one and five years	**10**	**-**	**10**	14	(1)	13
More than five years	**1**	**-**	**1**	2	–	2
Finance lease liabilities	**15**	**-**	**15**	21	(1)	20

20. Financial instruments

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

The derivative financial instruments set out in this note have been entered into in line with the Group's risk management objectives. The Group's treasury policy prohibits entering into speculative transactions.

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

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

	2017		2016	
	Carrying amount £m	**Fair value £m**	Carrying amount £m	Fair value £m
Financial assets				
Cash and cash equivalents	**139**	**139**	134	134
Available for sale – other investments	**3**	**3**	3	3
Loans and receivables	**769**	**769**	699	699
Derivative financial instruments	**32**	**32**	57	57
Total financial assets	**943**	**943**	893	893
Financial liabilities				
Trade and other payables	**(1,372)**	**(1,372)**	(1,126)	(1,126)
Bank and other loans	**(194)**	**(194)**	(421)	(421)
Medium-term notes and other fixed-term debt	**(1,054)**	**(1,088)**	(817)	(876)
Finance lease liabilities	**(15)**	**(15)**	(20)	(20)
Bank overdrafts	**(16)**	**(16)**	(19)	(19)
Derivative financial instruments	**(24)**	**(24)**	(56)	(56)
Total financial liabilities	**(2,675)**	**(2,709)**	(2,459)	(2,518)

The fair value is the amount for which an asset or liability could be exchanged or settled on an arm's-length basis. For financial instruments carried at fair value, market prices or rates are used to determine fair value where an active market exists. The Group uses forward prices for valuing forward foreign exchange and commodity contracts and uses valuation models with present value calculations based on market yield curves to value note purchase agreements, the medium-term note, cross-currency swaps and interest rate swaps. All derivative financial instruments are shown at fair value in the consolidated statement of financial position.

Under IAS 39 *Financial Instruments: Recognition and Measurement*, only the portions of the note purchase agreements which form part of an effective fair value hedge are carried at fair value in the consolidated statement of financial position. The majority of the Group's medium-term notes and other fixed-term debt are in effective cash flow and net investment hedges and are therefore held at amortised cost. The fair values of financial assets and liabilities which bear floating rates of interest are estimated to be equivalent to their carrying amounts.

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

All of the Group's financial instruments are Level 2 financial instruments in accordance with the fair value hierarchy, meaning although the instruments are not traded in an active market, inputs to fair value are observable for the asset and liability, either directly (i.e. quoted market prices) or indirectly (i.e. derived from prices).

20. Financial instruments continued

(b) Derivative financial instruments

The Group enters into derivative financial instruments, primarily interest rate, foreign exchange and commodity contracts, to manage the risks associated with the Group's underlying business activities and the financing of these activities. Derivatives designated as effective hedging instruments are carried at their fair value.

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

	Assets		Liabilities		Net	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Derivatives held to:						
Manage the interest rate and currency exposures on business activities, borrowings and net investments	**14**	25	**(6)**	(6)	**8**	19
Derivative financial instruments included in net debt	**14**	25	**(6)**	(6)	**8**	19
Derivatives held to hedge future transactions						
Energy costs	**18**	32	**(18)**	(50)	**-**	(18)
Total derivative financial instruments	**32**	57	**(24)**	(56)	**8**	1
Current	**13**	40	**(13)**	(47)	**-**	(7)
Non-current	**19**	17	**(11)**	(9)	**8**	8
	32	57	**(24)**	(56)	**8**	1

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

(i) Cash flow hedging reserve movements

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

	2017 £m	2016 £m
At 1 May	**(29)**	(27)
Unrealised fair value (loss)/gain on designated cash flow hedges		
Cross-currency interest rate swaps	**(9)**	4
Commodity contracts	**10**	(22)
Loss reclassified from equity to the income statement		
Cross-currency interest rate swaps	**2**	–
Commodity contracts	**4**	16
At 30 April	**(22)**	(29)

The amounts reclassified to the income statement from the cash flow hedging reserve during the year are reflected in the following items in the income statement:

	2017 £m	2016 £m
Cost of sales	**5**	18
Finance costs	**3**	–
Total loss reclassified from equity to the income statement during the year	**8**	18

(ii) Fair value hedges

At 30 April 2017, there were no fair value hedge relationships. At 30 April 2016, the Group held interest rate and foreign exchange swap contracts as fair value hedges of the interest rate and foreign exchange risk on fixed rate debt payable by the Group. The receive leg of the swap contracts was identical in all critical aspects to the terms of the underlying debt and therefore the hedging was treated as highly effective. The pre-tax loss on hedging derivative instruments taken to the income statement during the prior year was £1m, offset by a pre-tax gain on the fair value of the debt of £1m.

(iii) Hedges of net investments in foreign operations

The Group holds cross-currency interest rate swap contracts as hedges of long-term investments in foreign subsidiaries. The pre-tax loss on the hedges recognised in equity during the year was £11m (2015/16: loss of £21m). This loss is matched by a similar gain in equity on the retranslation of the hedged foreign subsidiary net assets resulting in a net gain of £nil (2015/16: net gain of £nil) treated as hedge ineffectiveness in the income statement.

20. Financial instruments continued

(d) Risk identification and risk management

(i) Capital management

The Group defines its managed capital as equity, as presented in the consolidated statement of financial position, and net debt (see note 17).

	2017 £m	2016 £m
Net debt	**1,092**	1,099
Total equity	**1,355**	1,140
Managed capital	**2,447**	2,239

There have been no changes to the components of managed capital during the year. Managed capital is different from capital employed (defined as property, plant and equipment, goodwill and intangible assets, working capital, capital debtors/creditors, provisions and assets/liabilities held for sale). Managed capital relates to our sources of funding, whereas return on average capital employed is our measure of the level of return being generated by the asset base.

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

The Group's overall treasury objectives are to ensure sufficient funds are available for the Group to carry out its strategy and to manage certain financial risks to which the Group is exposed, as described elsewhere in this note. The Group's treasury strategy is controlled through the Balance Sheet Committee which meets monthly and includes the Group Finance Director, the Group General Counsel and Company Secretary, the Group Financial Controller and the Group Director of Tax and Treasury. The Group Treasury function operates in accordance with policies and procedures approved by the Board and is controlled by the Group Director of Tax and Treasury. The function arranges funding for the Group, provides a service to operations and implements strategies for financial risk management.

(ii) Market risk

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

Interest rate risk

The Group is exposed to interest rate risk as borrowings are arranged at fixed interest rates exposing it to fair value risk, and at floating interest rates exposing it to future cash flow risk. The risk is managed by maintaining a mix of fixed and floating rate borrowings and by the use of interest rate swap contracts which modify the interest payable on the Group's underlying debt instruments. The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

At 30 April 2017, 78% of the Group's interest-bearing loans and borrowings were at fixed rates of interest (30 April 2016: 66%). The sensitivity analysis below shows the impact on profit and total equity of a 100 basis points rise in market interest rates (representing management's assessment of the reasonably possible change in interest rates) in all currencies in which the Group had variable-rate borrowings at 30 April 2017.

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

20. Financial instruments continued

(d) Risk identification and risk management continued

(ii) Market risk continued

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

	2017		2016	
	Impact on profit £m	**Impact on total equity £m**	Impact on profit £m	Impact on total equity £m
Increase in market interest rates of 100 basis points	**(3)**	**(3)**	(6)	(6)

Under interest rate swap contracts, the Group agrees to exchange a stream of interest payments calculated on agreed notional principal amounts. At 30 April 2017, losses of £21m (30 April 2016: losses of £13m) net of tax are deferred in equity in respect of cash flow hedges of interest rate risk. These will be reclassified to the income statement in the period in which the hedged item also affects the income statement, which will be during the period to 2022.

Foreign exchange risk

Foreign exchange risk on investments

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

Foreign exchange risk on borrowings

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

Foreign exchange risk on transactions

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

At 30 April 2017, losses net of tax deferred in equity in respect of foreign exchange cash flow hedges were £nil (30 April 2016: £nil).

The Group's main currency exposure is to the euro and the following significant exchange rates applied during the year:

	2017		2016	
	Average	**Closing**	Average	Closing
euro	**1.179**	**1.184**	1.340	1.272

The following sensitivity analysis shows the impact on the Group's results of a 10% strengthening and weakening in the sterling exchange rate against all other currencies representing management's assessment of the reasonably possible change in foreign exchange rates. The analysis is restricted to financial instruments denominated in a foreign currency and excludes the impact of financial instruments designated as net investment or fair value hedges.

Net investment and fair value hedges are excluded as the impact of the foreign exchange movements on these are offset by equal and opposite movements in the hedged items.

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

	2017		2016	
	Impact on profit £m	**Impact on total equity £m**	Impact on profit £m	Impact on total equity £m
10% strengthening of sterling	**–**	**24**	–	12
10% weakening of sterling	**–**	**(30)**	–	(15)

20. Financial instruments continued

(d) Risk identification and risk management continued

Commodity risk

The Group's main commodity exposures are to changes in gas and electricity prices. This commodity price risk is managed by a combination of physical supply agreements and derivative instruments. At 30 April 2017, no gains or losses net of tax are deferred in equity in respect of cash flow hedges in accordance with IAS 39 (30 April 2016: losses of £16m). Any gains or losses deferred in equity will be reclassified to the income statement in the period in which the hedged item also affects the income statement, which will occur within three years.

The following table details the Group's sensitivity to a 10% increase in these prices, which is management's assessment of the reasonably possible change, on average, over any given year. A decrease of 10% in these prices would produce an opposite effect on equity. As all of the Group's commodity financial instruments achieve hedge accounting under IAS 39, there is no impact on profit for either year.

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

	2017		2016	
	Impact on profit £m	**Impact on total equity £m**	Impact on profit £m	Impact on total equity £m
10% increase in electricity prices	**-**	**2**	–	1
10% increase in gas prices	**-**	**13**	–	11

(iii) Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will fail to perform or fail to pay amounts due, causing financial loss to the Group. In the current economic environment, the Group has placed increased emphasis on the management of credit risk. The carrying amount of financial assets at 30 April 2017 was £943m and is analysed in note 20(a). This represents the maximum credit risk exposure.

Credit risk on financial instruments held with financial institutions is assessed and managed by reference to the long-term credit ratings assigned to that counterparty by Standard & Poor's and Moody's credit rating agencies. There are no significant concentrations of credit risk.

See note 15 for information on credit risk with respect to trade receivables.

(iv) Liquidity risk

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

The Group manages its liquidity risk by maintaining a sufficient level of undrawn committed borrowing facilities. At 30 April 2017, the Group had £705m of undrawn committed borrowing facilities (30 April 2016: £500m). The Group mitigates its refinancing risk by raising its debt requirements from a number of different sources with a range of maturities.

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

		Contractual repayments		
At 30 April 2017	**Total £m**	**1 year or less £m**	**1-5 years £m**	**More than 5 years £m**
Non-derivative financial liabilities				
Trade and other payables	**1,372**	**1,358**	**14**	**-**
Bank and other loans	**197**	**100**	**97**	**-**
Medium-term notes and other fixed-term debt	**1,050**	**15**	**412**	**623**
Finance lease liabilities	**15**	**4**	**10**	**1**
Bank overdrafts	**16**	**16**	**-**	**-**
Interest payments on borrowings	**120**	**25**	**82**	**13**
Total non-derivative financial liabilities	**2,770**	**1,518**	**615**	**637**

20. Financial instruments continued

(d) Risk identification and risk management continued

(iv) Liquidity risk continued

At 30 April 2016	Contractual repayments Total £m	1 year or less £m	1–5 years £m	More than 5 years £m
Non-derivative financial liabilities				
Trade and other payables	1,126	1,118	8	–
Bank and other loans	425	115	310	–
Medium-term notes and other fixed-term debt	823	65	162	596
Finance lease liabilities	21	5	14	2
Bank overdrafts	19	19	–	–
Interest payments on borrowings	148	27	90	31
Total non-derivative financial liabilities	2,562	1,349	584	629

Refer to note 28 for an analysis of the Group's future operating lease payments and to note 29 for a summary of the Group's capital commitments.

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

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

At 30 April 2017	**Contractual payments/(receipts) Total £m**	**1 year or less £m**	**1–5 years £m**	**More than 5 years £m**
Derivative financial liabilities				
Energy derivatives	**–**	**–**	**–**	**–**
Interest rate and currency swaps:				
Payments	**492**	**74**	**86**	**332**
Receipts	**(502)**	**(74)**	**(90)**	**(338)**
Total net derivative financial (assets)/liabilities	**(10)**	**–**	**(4)**	**(6)**

At 30 April 2016	Contractual payments/(receipts) Total £m	1 year or less £m	1–5 years £m	More than 5 years £m
Derivative financial liabilities				
Energy derivatives	18	13	5	–
Interest rate and currency swaps:				
Payments	601	138	144	319
Receipts	(631)	(146)	(151)	(334)
Total net derivative financial (assets)/liabilities	(12)	5	(2)	(15)

21. Deferred tax assets and liabilities

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

	Property, plant and equipment and intangible assets		Employee benefits including pensions		Tax losses		Other		Total	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
At 1 May	**(158)**	(131)	**53**	54	**39**	23	**(17)**	(9)	**(83)**	(63)
Acquired	**(4)**	(28)	**-**	–	**-**	5	**-**	1	**(4)**	(22)
(Charge)/credit for the year	**10**	13	**(2)**	1	**14**	10	**-**	(3)	**22**	21
Recognised directly in equity	**-**	–	**(2)**	(4)	**8**	–	**16**	(7)	**22**	(11)
Currency translation	**(17)**	(12)	**2**	2	**2**	1	**2**	1	**(11)**	(8)
At 30 April	**(169)**	(158)	**51**	53	**63**	39	**1**	(17)	**(54)**	(83)

At 30 April 2017, deferred tax assets and liabilities were recognised for all taxable temporary differences:

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

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2017 £m	2016 £m
Deferred tax liabilities	**(133)**	(141)
Deferred tax assets	**79**	58
Net deferred tax	**(54)**	(83)

The deferred tax asset in respect of tax losses at 30 April 2017 includes an asset in the UK of £36m (30 April 2016: £28m). The asset is recognised based on management's expectation that the financing of an acquisition will result in additional interest income in the UK against which the losses will be fully offset leading to the recovery of the deferred tax asset over the next five years.

The Group has total unrecognised deferred tax assets relating to tax losses of £19m (30 April 2016: £9m). These losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise these benefits.

At 30 April 2016, no deferred tax liability was recognised on temporary differences of £276m relating to unremitted earnings of overseas subsidiaries as the Group was able to control the timing of the reversal of these temporary differences and it was probable that they would not reverse in the foreseeable future. The temporary differences at 30 April 2016 represented only the unremitted earnings of those overseas subsidiaries where remittance to the UK of those earnings would still result in a tax liability, principally as a result of dividend withholding taxes levied by the overseas jurisdiction in which those subsidiaries operated. There was no equivalent temporary difference at 30 April 2017 as legislation has been introduced removing the taxes on remittance of these earnings.

22. Provisions

	Restructuring £m	Other £m	Total £m
At 1 May 2016	22	19	41
Charged to income	26	3	29
Credited to income	–	(3)	(3)
Utilised	(35)	(6)	(41)
Reclassification	3	(2)	1
Currency translation	2	–	2
At 30 April 2017	**18**	**11**	**29**
Non-current	2	3	5
Current	16	8	24
	18	**11**	**29**

The restructuring provision includes amounts associated with the closures and restructuring costs described in note 4. Other provisions mainly relate to site restorations and provisions for vacant leaseholds. The timing of the utilisation of these provisions is uncertain, except where the associated costs are contractual, in which case the provision is utilised over the time period specified in the contract.

23. Capital and reserves

Share capital

	Number of shares			
	2017 millions	2016 millions	**2017 £m**	2016 £m
Ordinary equity shares of 10 pence each:				
Issued, allotted, called up and fully paid	**951**	945	**95**	94

During the year ended 30 April 2017, 6,478,392 ordinary shares of 10 pence each were issued as a result of exercises of employee share options. The net movements in share capital and share premium are disclosed in the consolidated statement of changes in equity.

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

Translation reserve

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

Hedging reserve

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

Share premium

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

Own shares

The reserve for the Company's own shares comprises the cost of the Company's shares held by the Group. The Group operates a General Employee Benefit Trust, which acquires shares in the Company that can be used to satisfy the requirements of the performance share plan and the share matching plan. At 30 April 2017, the Trust held 2.0m shares (30 April 2016: 1.6m shares). The market value of the shares at 30 April 2017 was £6.7m (30 April 2016: £4.4m). Dividends receivable on the shares owned by the Trust have been waived.

Non-controlling interests

The Group has various put options in relation to subsidiaries with non-controlling interests. The Group records a liability at the net present value of the expected future payments, with a corresponding entry against non-controlling interests in respect of the non-controlling shareholders' put option, measured at fair value. At the end of each period, the valuation of the liability is reassessed with any changes recorded within finance costs through the income statement and then transferred out of retained earnings into non-controlling interests.

24. Employee benefits

Balance sheet	Total 2017 £m	Total 2016 £m	UK 2017 £m	UK 2016 £m	Overseas 2017 £m	Overseas 2016 £m
Present value of post-retirement obligations	**(1,277)**	(1,142)	**(1,133)**	(1,006)	**(144)**	(136)
Fair value of plan assets						
Equities/multi-strategy	**294**	237	**281**	229	**13**	8
Debt instruments	**165**	137	**134**	124	**31**	13
Derivatives	**506**	427	**506**	427	**–**	–
Real estate	**3**	2	**–**	–	**3**	2
Cash and cash equivalents	**3**	24	**2**	3	**1**	21
Other	**128**	130	**128**	130	**–**	–
	1,099	957	**1,051**	913	**48**	44
Net post-retirement plan deficit	**(178)**	(185)	**(82)**	(93)	**(96)**	(92)
Other employee benefit liabilities	**(3)**	(3)	**–**	–	**(3)**	(3)
Total employee benefit deficit	**(181)**	(188)	**(82)**	(93)	**(99)**	(95)
Related deferred tax asset	**42**	43	**14**	17	**28**	26
Net employee benefit deficit	**(139)**	(145)	**(68)**	(76)	**(71)**	(69)

Employee benefit schemes

At 30 April 2017, the Group operated a number of employee benefit arrangements for the benefit of its employees throughout the world. The plans are provided through both defined benefit and defined contribution arrangements and their legal status and control vary depending on the conditions and practices in the countries concerned.

Pension scheme trustees and representatives of the Group work with those managing the employee benefit arrangements to monitor the effects on the arrangements of changes in financial markets and the impact of uncertainty in assumptions, and to develop strategies that could mitigate the risks to which these employee benefit schemes expose the Group.

UK schemes

The DS Smith Group Pension Scheme (the 'Group Scheme') is a UK funded final salary defined benefit scheme providing pensions and lump sum benefits to members and dependants. The Group Scheme closed to future accrual from 30 April 2011 with pensions calculated based on pensionable salaries up to the point of closure (or the date of leaving the Group Scheme, if earlier). The Group Scheme has a normal retirement age of 65 although some members are able to take their benefits earlier than this. Increases to pensions are affected by changes in the rate of inflation for the majority of members.

The Group Scheme is governed by a Trustee Company (DS Smith Pension Trustees Limited), which is comprised of a Board of Trustee Directors (the 'Trustee Board') and is independent of the Group. The Trustee Board is responsible for managing the operation, funding and investment strategy of the Group Scheme.

UK legislation requires the Trustee Board to carry out actuarial funding valuations at least every three years and to target full funding over an appropriate period of time, taking into account the current circumstances of the Group Scheme and the Group on a basis that prudently reflects the risks to which the Group Scheme is exposed (the 'Technical Provisions' basis). The most recent funding valuation was carried out as at 30 April 2016, following which a deficit recovery plan was agreed with the Trustee Board on 28 April 2017. The Group has agreed to increase existing cash contributions by 10% per annum commencing with the current year back-dated to the beginning of the year. The planned contribution for 2016/17 was, therefore, increased from £16m to £17.6m. The contribution for the year ended 30 April 2018 under the plan is £18.3m. The recovery plan is expected to be completed on or around November 2025.

The Trustee Board and the Group have in place a secondary Long-Term Funding Target (the 'LTFT'), in addition to the statutory funding requirement, the purpose of which is to achieve material additional security for the Group Scheme's members. The objective of the LTFT is for the Group Scheme to be funded by 30 April 2035 to a level that does not expect to rely on future contributions from the Group.

In March 2016, a new investment strategy was designed and introduced with the aim to significantly reduce risk whilst maintaining the existing level of expected return. To achieve this, the Group Scheme's actual exposure to equity assets was reduced and the revised strategy aims to more closely align movements in the Group Scheme's assets to that of its liabilities. To do this, the Scheme has looked to hedge its inflation and interest rate risk exposure and the majority of its inflation risk exposure on a Technical Provisions basis. Through the use of derivatives it has managed to maintain a similar level of overall return but with lower expected variability, despite the reduction in equity exposure. To help the Trustee Board to monitor, review and assess investment matters, the Investment and Funding Committee (the 'IFC'), which consists of representatives from the Trustee Board and the Group, meets on a quarterly basis throughout the year.

24. Employee benefits continued

UK schemes continued

The Group Scheme exposes the Group to risks, such as longevity risk, currency risk, inflation risk, interest rate risk and investment risk. As the Group Scheme's obligation is to provide lifetime pension benefits to members upon retirement, increases in life expectancy will result in an increase in the Group Scheme's liabilities. Other assumptions used to value the defined benefit obligation are also uncertain.

The largest defined contribution arrangement operated by the Group is in the UK. The UK defined contribution scheme is a trust-based arrangement offering members a range of investments. All assets are held independently from the Group. The Group also operates a small unfunded arrangement in the UK.

Overseas schemes

The countries where the Group operates the most significant defined benefit post-retirement arrangements are:

- France – various mandatory retirement indemnities, post-retirement medical plans and jubilee arrangements (benefits paid to employees after completion of a certain number of years of service) the majority of which are determined by the applicable Collective Bargaining Agreement;
- Italy – mandatory end-of-service lump sum benefits in respect of pre-2007 service;
- Germany – jubilee arrangements and non-contributory defined benefit pension schemes; and
- Netherlands – transitional arrangements on closure of defined benefit scheme.

In general, local trustees or similar bodies manage the post-retirement and medical plans in accordance with local regulations. Other employee benefits relate to pre-retirement benefits in Germany.

Overseas schemes expose the Group to risks such as longevity risk, currency risk, inflation risk, interest rate risk, investment risk, life expectancy risk and healthcare cost risk. Actions taken by the local regulator, or changes to legislation, could result in stronger local funding requirements for pension schemes, which could affect the Group's future cash flow.

Movements in the liability for employee benefit plans' obligations recognised in the consolidated statement of financial position

	2017 £m	2016 £m
Schemes' liabilities at 1 May	**(1,145)**	(1,202)
Acquisitions	**-**	(9)
Interest cost	**(36)**	(38)
Service cost recognised in the consolidated income statement	**(5)**	(6)
Member contributions	**(1)**	–
Settlement/curtailment	**-**	2
Pension payments	**48**	45
Unfunded benefits paid	**7**	7
Actuarial (losses)/gains – financial assumptions	**(217)**	46
Actuarial gains – experience	**56**	3
Actuarial gains – demographic	**22**	10
Currency translation	**(10)**	(8)
Reclassification	**1**	5
Schemes' liabilities at 30 April	**(1,280)**	(1,145)

24. Employee benefits continued

Movements in the fair value of employee benefit plans' assets recognised in the consolidated statement of financial position

	2017 £m	2016 £m
Schemes' assets at 1 May	**957**	1,002
Employer contributions	**17**	17
Member contributions	**1**	–
Interest income	**32**	33
Actuarial gains/(losses)	**138**	(48)
Pension payments	**(48)**	(45)
Currency translation	**2**	3
Reclassification	**–**	(5)
Schemes' assets at 30 April	**1,099**	957

Durations and expected payment profile

The following table provides information on the distribution of the timing of expected benefit payments for the Group Scheme:

At 30 April 2017	Within 5 years £m	6 to 10 years £m	11 to 20 years £m	21 to 30 years £m	31 to 40 years £m	41 to 50 years £m	Over 50 years £m
Projected benefit payments	**191**	**226**	**513**	**434**	**286**	**131**	**35**

The weighted average duration for the Group Scheme is 18 years.

The Group made agreed contributions of £16m to the Group Scheme in 2016/17 (2015/16: £16m). A charge over certain assets of the Group has been made as security for certain unfunded arrangements. The Group's current best estimate of contributions expected to be made to the Group Scheme in the year ending 30 April 2018 is approximately £20m.

Significant actuarial assumptions

Principal actuarial assumptions for the Group Scheme are as follows:

	2017	2016
Discount rate for scheme liabilities	**2.5%**	3.5%
Inflation	**2.2%**	1.8%
Pre-retirement pension increases	**2.2%**	1.8%
Future pension increases for pre 30 April 2005 service	**2.2%**	1.9%
Future pension increases for post 30 April 2005 service	**1.8%**	1.6%

For other overseas arrangements, the weighted average actuarial assumptions are a discount rate of 1.5% (30 April 2016: 1.5%) and an inflation rate of 1.8% (30 April 2016: 1.5%).

Assumptions regarding future mortality experience are set based on actuarial advice and in accordance with the relevant standard mortality tables in each country. For the Group Scheme at 30 April 2017, the mortality base table used is S2PA (year of birth), with CMI 2016 projections with a 1.25% per annum long-term rate of improvement used for future longevity improvement. At 30 April 2016 the mortality base table used was S1NA (year of birth) with a +1 year age rating, with CMI 2015 projections with a 1.25% per annum long-term rate of improvement used for future longevity improvement. As part of the Group Scheme actuarial valuation exercise the projected life expectancies were as follows:

	2017		2016	
	Male	**Female**	Male	Female
Life expectancy at age 65				
Member currently aged 65	**21.2**	**23.2**	21.3	23.7
Member currently aged 45	**22.1**	**25.0**	23.0	25.6

24. Employee benefits continued

Sensitivity analysis

The sensitivity of the liabilities in the Group Scheme to each significant actuarial assumption is summarised in the following table, showing the impact on the defined benefit obligation if each assumption is altered by the amount specified in isolation, whilst assuming that all other variables remain the same. In practice, this approach is not necessarily realistic since some assumptions are related. This sensitivity analysis applies to the defined benefit obligation only and not to the net defined benefit pension liability, the measurement of which depends on a number of factors including the fair value of plan assets.

	Increase in pension liability £m
0.5% decrease in discount rate	**(102)**
0.5% increase in inflation	**(77)**
1 year increase in life expectancy	**(39)**

Expense recognised in the consolidated income statement

	Total	
	2017 £m	2016 £m
Post-retirement benefits current service cost	**(5)**	(6)
Total service cost	**(5)**	(6)
Net interest cost on net pension liability	**(4)**	(5)
Pension Protection Fund levy	**(1)**	(1)
Employment benefit net finance expense	**(5)**	(6)
Total expense recognised in the Consolidated Income Statement	**(10)**	(12)

Items recognised in other comprehensive income/(expense)

Remeasurement of defined benefit obligation – effect of change in financial assumptions	**(139)**	59
Return on plan assets excluding amounts included in employment benefit net finance expense	**138**	(48)
Total (losses)/gains recognised in other comprehensive income/(expense)	**(1)**	11

25. Share-based payment expense

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

(i) A performance share plan (PSP). Awards under the PSP normally become exercisable after three years subject to remaining in service and the satisfaction of performance conditions measured over the three financial years commencing with the year of grant. Awards have been made under the PSP annually since 2008, originally based on the following performance measures, in the proportions shown below:

i. the Company's total shareholder return (TSR) compared to the constituents of the Industrial Goods and Services Supersector within the FTSE 250;

ii. average adjusted earnings per share (EPS); and

iii. average adjusted return on average capital employed (ROACE).

Awards between 2010 and 2014 are subject to three performance measures:

i. 50% of each award based on a TSR component;

ii. 25% of each award based on average adjusted EPS; and

iii. 25% of each award based on average adjusted ROACE.

Awards made since 2015 are subject to three performance measures:

i. 33.3% of each award based on a TSR component;

ii. 33.3% of each award based on average adjusted EPS; and

iii. 33.3% of each award based on average adjusted ROACE.

The 2013 award has vested, but has not yet been fully exercised.

(ii) A deferred share bonus plan (DSBP) is operated for Executive Directors and, from 2012/13, for senior executives. Shares awarded under the Plan will vest automatically if the Director or senior executive is still employed by the Company three years after the grant of the award.

The 2012 and 2013 awards have vested, but have not yet been fully exercised.

25. Share-based payment expense continued

(iii) A share matching plan (SMP) is operated for Executive Directors and senior executives with the first award made in 2012/13. The award will vest after three years subject to remaining in service and the satisfaction of performance conditions measured over the three financial years commencing with the year of grant. The performance conditions of the award are based 50% on average adjusted EPS and 50% on average adjusted ROACE. No further awards under this Plan will be made subsequent to the 2014/15 award granted in July 2014.

The 2012 award has vested, but has not yet been fully exercised.

(iv) A long-term incentive plan (LTIP) is operated for selected senior managers with the first award made in 2013/14. The award will vest after three years subject to remaining in service and the satisfaction of performance conditions measured over the three financial years commencing with the year of grant. The performance conditions of the award are based 50% on average adjusted EPS and 50% on average adjusted ROACE.

(v) An international sharesave plan was introduced in January 2014 with further invitations being made in January 2016 and January 2017. All employees of the Company and participating subsidiaries were eligible to participate in this plan. Under this HMRC approved plan, options are granted to participants who have contracted to save up to a maximum of £250 (or local currency equivalent) across all open invitations per month over a period of three years at a discount of up to 20% to the average closing mid-market price of a DS Smith Plc ordinary share on the three dealing days prior to invitation. Options cannot normally be exercised until a minimum of three years has elapsed. In common with most plans of this type there are no performance conditions applicable to options granted under this plan. The provisions of this plan are subject to minor country specific variances. A standard US stock purchase plan, which received shareholder approval at the 2014 AGM, was also introduced in January 2014 and subsequent invitations were made in 2016 and 2017. US employees of the Group are eligible to participate in this plan. Options are granted to participants who have contracted to save up to $405 per month over a period of two years at a discount of up to 15% to the average closing mid-market price of a DS Smith Plc ordinary share on the day before grant. Options cannot normally be exercised until a minimum of two years has elapsed.

Full details of the awards described in (i), (ii), (iii) and (v) are set out in the Remuneration Committee report on pages 64 to 79.

Options outstanding and exercisable under share arrangements at 30 April 2017 were:

	Options outstanding			Options exercisable		
	Number of shares	Option price range (p)	Weighted average remaining contract life (years)	Weighted average exercise price (p)	Number exercisable	Weighted average exercise price (p)
Performance share plan	5,468,154	Nil	1.1	Nil	262,744	Nil
Deferred Share Bonus Plan	1,480,650	Nil	1.0	Nil	123,016	Nil
Share Matching Plan	507,974	Nil	0.2	Nil	90,704	Nil
Sharesave Plan	9,134,794	269.0 – 333.0	2.1	314.1	1,297,896	269.0

	Options outstanding			Options exercisable		
	Value (£)	Option price range (p)	Weighted average remaining contract life (years)	Weighted average exercise price (p)	Value exercisable	Weighted average exercise price (p)
Long-term incentive plan	4,717,278	Nil	1.3	Nil	Nil	Nil

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

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

	Performance share plan		Deferred share bonus plan		Share matching plan		Sharesave plan		Long-term incentive plan	
2017	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options (£'000s)
At 1 May 2016	Nil	6,206	Nil	1,451	Nil	837	280.4	9,269	Nil	4,722
Granted	Nil	1,909	Nil	463	Nil	–	333.0	4,976	Nil	1,554
Exercised	Nil	(2,192)	Nil	(427)	Nil	(291)	269.1	(4,497)	Nil	(1,335)
Lapsed	Nil	(455)	Nil	(6)	Nil	(38)	288.8	(613)	Nil	(224)
At 30 April 2017	**Nil**	**5,468**	**Nil**	**1,481**	**Nil**	**508**	**314.1**	**9,135**	**Nil**	**4,717**
Exercisable at 30 April 2017	**Nil**	**263**	**Nil**	**123**	**Nil**	**91**	**269.0**	**1,298**	**Nil**	**-**

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25. Share-based payment expense continued

2016	Performance share plan Weighted average exercise price (p)	Performance share plan Options ('000s)	Deferred share bonus plan Weighted average exercise price (p)	Deferred share bonus plan Options ('000s)	Share matching plan Weighted average exercise price (p)	Share matching plan Options ('000s)	Sharesave plan Weighted average exercise price (p)	Sharesave plan Options ('000s)	Long-term incentive plan Weighted average exercise price (p)	Long-term incentive plan Options (£'000s)
At 1 May 2015	Nil	6,841	Nil	1,490	Nil	1,320	269.0	6,832	Nil	3,118
Granted	Nil	1,783	Nil	482	Nil	–	302.0	3,225	Nil	1,604
Exercised	Nil	(1,793)	Nil	(419)	Nil	(371)	269.0	(203)	Nil	–
Lapsed	Nil	(625)	Nil	(102)	Nil	(112)	270.5	(585)	Nil	–
At 30 April 2016	Nil	6,206	Nil	1,451	Nil	837	280.4	9,269	Nil	4,722
Exercisable at 30 April 2016	Nil	815	Nil	220	Nil	91	Nil	–	Nil	–

The average share price of the Company during the financial year was 409.6 pence (2015/16: 386.4 pence).

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

The fair value of the PSP award granted during the year, determined using the stochastic valuation model, was £6m. The significant inputs into the model were: a share price of 395.9p for the PSP at the grant date; the exercise prices shown above; an expected initial volatility of the share price of 26.7% and long-term volatility of 28.5%; the scheme life disclosed above; a risk-free interest rate of 0.39% for Executive Directors and 0.16% for all other participants, and an expected dividend yield of nil. The volatility of share price returns measured as the standard deviation of expected share price returns is based on statistical analysis of average weekly share prices from 1 January 1970.

The total charge for the year relating to share-based payments recognised as personnel expenses was £10m (2015/16: £6m).

26. Cash generated from operations

Continuing operations	**2017 £m**	2016 £m
Profit for the year	**208**	167
Adjustments for:		
Pre-tax integration costs and other exceptional items	**57**	92
Amortisation of intangible assets and acquisitions and disposals	**70**	37
Cash outflow for exceptional items	**(66)**	(77)
Depreciation	**148**	127
Profit on sale of non-current assets[1]	**(14)**	(12)
Share of (profit)/loss of equity accounted investment, net of tax	**(3)**	1
Employment benefit net finance expense	**5**	6
Share-based payment expense	**10**	6
Finance income	**(1)**	(1)
Finance costs	**51**	43
Other non-cash items	**9**	2
Income tax expense	**56**	34
Change in provisions	**(6)**	(18)
Change in employee benefits	**(19)**	(19)
Cash generation before working capital movement	**505**	388
Changes in:		
Inventories	**(49)**	(25)
Trade and other receivables	**10**	33
Trade and other payables	**163**	48
Working capital movement	**124**	56
Cash generated from continuing operations	**629**	444

1 Includes gains on the sale of surplus property assets of £7m (2015/16: £10m).

27. Reconciliation of net cash flow to movement in net debt

	2017 £m	2016 £m
Continuing operations		
Operating profit before amortisation and exceptional items	**443**	379
Depreciation	**148**	127
Adjusted EBITDA	**591**	506
Working capital movement	**124**	56
Change in provisions	**(6)**	(18)
Change in employee benefits	**(19)**	(19)
Other	**5**	(5)
Cash generated from operations before exceptional cash items	**695**	520
Capital expenditure	**(244)**	(229)
Proceeds from sale of property, plant and equipment and other investments	**18**	28
Tax paid	**(61)**	(49)
Net interest paid	**(45)**	(32)
Free cash flow	**363**	238
Cash outflow for exceptional items	**(66)**	(77)
Dividends paid	**(121)**	(108)
Acquisition of subsidiary businesses, net of cash and cash equivalents	**(71)**	(313)
Disposal of subsidiary and equity accounted businesses, net of cash and cash equivalents	**-**	21
Net cash flow	**105**	(239)
Proceeds from issue of share capital	**13**	1
Loans and borrowings acquired	**(14)**	(120)
Net movement on debt	**104**	(358)
Foreign exchange, fair value and other non-cash movements (note 17)	**(97)**	(90)
Net debt movement – continuing operations	**7**	(448)
Opening net debt	**(1,099)**	(651)
Closing net debt	**(1,092)**	(1,099)

28. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2017 £m	2016 £m
Less than one year	**27**	27
Between one and five years	**64**	53
More than five years	**39**	15
	130	95

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

29. Capital commitments and contingencies

At 30 April 2017, the Group had committed to incur capital expenditure of £18m (30 April 2016: £26m).

The Group is not subject to a material litigation, but has a number of contingent liabilities that arise in the ordinary course of business on behalf of trading subsidiaries including, inter alia, intellectual property disputes and regulatory enquiries in areas such as health and safety, environmental, and anti-trust. No losses are anticipated to arise on these contingent liabilities.

As a result of previous acquisitions, various contingent liabilities were identified and included within provisions, as required by IFRS 3 *Business Combinations.* Whilst it is difficult to reasonably estimate the ultimate outcome of these claims, the Directors' best estimate has been updated and included in the closing provision balance at 30 April 2017.

30. Acquisitions and disposals

(a) 2016/17 acquisitions and disposals

In the year ended 30 April 2017, the Group made various business acquisitions, which are not considered material to the Group individually or in aggregate.

These comprise the acquisition of two businesses specialising in point of sale and display product and services for in-store marketing (Creo in the UK, and Deku-Pack in Denmark), Parish (a US manufacturer and supplier of bag-in-box systems), Gopaca (a corrugated producer in Portugal) and P&I Display (a specialist corrugated display business in Portugal) for a total of £71m (net of cash and cash equivalents). Loans and borrowings acquired from these transactions were £14m.

(b) 2015/16 acquisitions and disposals

On 31 May 2015, the Group acquired the Duropack business, effected by the purchase of equity of the Duropack business for €305m on a cash, debt and, to the extent legally possible and commercially practicable, pension free basis.

On 31 July 2015, the Group acquired the corrugated activities of Grupo Lantero, including several operations in which DS Smith previously held an equity accounted minority. The acquisition was effected by the purchase of equity, and the total consideration, including the assumption of debt, was €190m.

In addition to the acquisitions detailed above, in the year ended 30 April 2016, the Group also made various other business acquisitions and disposals, which are not considered material to the Group individually or in aggregate. These include the disposal of StePac for US$31m, the acquisition of the Greek corrugated packaging business of Cukurova Group with a simultaneous sale of the Group's minority shareholding in Cukurova Group's Turkish corrugated paper and packaging entities to the Cukurova Group, the acquisition of the Milas packaging business of DasaMilas Ambalaj, and the acquisition of a specialist high-quality packaging producer, TRM Packaging, in the UK.

For various business combinations completed in the year ended 30 April 2016, certain fair values assigned to the net assets at the dates of acquisition were provisional and, in accordance with IFRS 3 *Business Combinations*, the Group has adjusted the fair values attributable to these acquisitions during the year ended 30 April 2017, resulting in a net increase in goodwill of £3m.

(c) Acquisition related costs

The Group incurred acquisition related costs of £7m (2015/16: £9m). In 2016/17 these primarily related to the acquisition of Creo, Deku-Pack, Gopaca, P&I Display and Parish, as well as other deal costs relating to reviewing potential acquisitions. These costs have been included in administrative expenses in the Consolidated Income Statement within exceptional items.

31. Related parties

Identity of related parties

In the normal course of business the Group undertakes a wide variety of transactions between its subsidiaries and equity accounted investment.

The key management personnel of the Company comprise the Chairman, Executive Directors and non-Executive Directors. The compensation of key management personnel can be found in the Remuneration Committee report. Certain key management also participate in the Group's share-based incentive programme (note 25). Included within the share-based payment expense is a charge of £2m (2015/16: £2m) relating to key management.

Transactions with pension trustees are disclosed in note 24.

Other related party transactions

	2017 £m	2016 £m
Sales to equity accounted investees	**–**	2
Purchases from equity accounted investees	**–**	1
Amounts due from equity accounted investees	**–**	–
Advances to non-controlling interest	**–**	2

32. Non-GAAP performance measures

The Group presents reported and adjusted financial information in order to provide shareholders with additional information to further understand the Group's operational performance and financial position.

Total reported financial information represents the Group's overall performance and financial position, but can contain significant unusual or non-operational items or involve calculations that may obscure understanding of the key trends and position. Certain key non-GAAP measures are used internally to evaluate business performance, as a key constituent of the Group's planning process, as well as comprising targets against which compensation is determined.

Certain non-GAAP performance measures can be, and are, reconciled to information presented in the financial statements. Other financial key performance measures are calculated using information which is not presented in the financial statements and is based on, for example, average twelve month balances or average exchange rates.

The key non-GAAP performance measures used by the Group and their calculation methods are as follows:

Adjusted operating profit

Adjusted operating profit is operating profit excluding amortisation and exceptional items. Exceptional items include business disposal gains and losses, restructuring and optimisation, acquisition related and integration costs and impairments.

A reconciliation between reported and adjusted operating profit is set out on the face of the consolidated income statement.

Operating profit before exceptional items

Operating profit before exceptional items is operating profit before exceptional items.

A reconciliation between operating profit and operating profit before exceptional items is set out on the face of the consolidated income statement.

Other similar profit measures before exceptional items are quoted, such as profit before income tax and exceptional items, and are directly derived from the consolidated income statement, from which they can be directly reconciled.

Return on sales

Return on sales is adjusted operating profit measured as a percentage of revenue.

Adjusted earnings per share

Adjusted earnings per share is basic earnings per share adjusted to exclude the post-tax effects of exceptional items and amortisation.

A reconciliation between basic and adjusted earnings per share is provided in note 8.

Return on average capital employed (ROACE)

ROACE is adjusted operating profit as a percentage of the average monthly capital employed over the previous 12 month period. Capital employed is the sum of property, plant and equipment, goodwill and intangible assets, working capital, capital debtors/creditors, provisions and assets/liabilities held for sale.

	Capital employed at 30 April 2017 £m	Currency and inter-month movements £m	Average capital employed for the year ended 30 April 2017 £m
Capital employed	2,796	182	**2,978**

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32. Non-GAAP performance measures continued

EBITDA

Earnings before interest, tax, depreciation and amortisation (EBITDA) is adjusted operating profit excluding depreciation. A reconciliation from adjusted operating profit to EBITDA is provided in note 27.

Net debt/EBITDA

Net debt/EBITDA is the ratio of net debt to EBITDA, calculated in accordance with the Group's banking covenant requirements. In calculating the ratio, net debt is stated at average rates as opposed to closing rates, and EBITDA is adjusted operating profit before depreciation from the previous 12 month period adjusted for the full year effect of acquisitions and disposals in the period.

	Reported basis £m	Currency and acquisition effects £m	Adjusted basis £m
At 30 April 2017			
Net debt (see note 17)	1,092	–	**1,092**
Year ended 30 April 2017			
EBITDA (see note 27)	591	6	**597**

Cash conversion

Cash conversion is free cash flow before tax, net interest, growth capex, pension payments and exceptional cash flows as a percentage of adjusted operating profit.

Free cash flow is set out in note 27.

Average working capital to revenue

Average working capital to revenue measures the level of investment the Group makes in working capital to conduct its operations. It is measured by comparing the monthly working capital balances for the previous 12 months as a percentage of revenue over the same period. Working capital is the sum of inventories, trade and other receivables, and trade and other payables.

Constant currency

The Group presents commentary on both reported and constant currency revenue and adjusted operating profit comparatives in order to explain the impact of exchange rates on the Group's key income statement captions. Constant currency comparatives recalculate the prior year revenue and adjusted operating profit as if they had been generated at the current year exchange rates. The table below shows the calculation:

Comparative year ended 30 April 2016	Reported basis £m	Currency effects £m	Constant currency basis £m
Revenue	4,066	432	**4,498**
Adjusted operating profit	379	43	**422**

33. Subsequent events

(a) Acquisition of Indevco Management Resources Inc.

On 28 June 2017, the Group entered into a conditional agreement to acquire an 80% interest in Indevco Management Resources Inc. (IMRI), the owner of Interstate Resources Inc. (Interstate) for $920m plus acquired cash and debt of $226m. Interstate is an integrated packaging and paper producer based on the East Coast of the USA.

The acquisition will be funded by the issue of $300m of shares in the Company, a placing on 29 June 2017 of shares in the Company with estimated proceeds of £280m, existing debt facilities, and new debt facilities of £400m agreed by the Company on 28 June 2017.

The acquisition is expected to complete by September 2017; completion is subject to certain conditions including:

– approval by the Company's shareholders; and
– waiting periods under applicable US competition laws having expired.

An initial accounting and fair value exercise will be conducted shortly after completion.

The following table summarises the estimated financial position of IMRI at 31 December 2016 and its profit for the year then ended:

	Carrying values at 31 December 2016 £m
Non-current assets	**324**
Current assets	**111**
Non-current liabilities	**(241)**
Current liabilities	**(44)**
Total identifiable net assets	**150**

	Results for year ended 31 December 2016 £m
Revenue	**456**
Operating costs	**(410)**
Operating profit	**46**
Net finance costs	**(9)**
Profit before tax	**37**
Income tax expense	**(10)**
Profit after tax	**27**

(b) Other subsequent events

On 31 May 2017, the Group purchased DPF Groupe, a specialist in multi-material packaging solutions and a corrugated producer in France. The acquisition of DPF Groupe is not material to the Group.

There are no further subsequent events after the reporting date which require disclosure.

34. DS Smith Group companies

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

Group companies are grouped by the countries in which they are incorporated or registered. Unless otherwise noted, the undertakings below are wholly owned and consolidated by DS Smith and the share capital held comprises ordinary or common shares which are held by Group subsidiaries. Principal companies are identified in orange.

Fully owned subsidiaries	Notes
Argentina	
Total Marketing Support Argentina SA	2
Australia	
Total Marketing Support Pacific Pty Ltd	3
Austria	
ARO Holding GmbH	4
DS Smith Austria Holdings GmbH	5
DS Smith Packaging Austria Beteiligungsverwaltungs GmbH	5
DS Smith Packaging Austria GmbH	6
DS Smith Packaging South East GmbH	5
Belgium	
D.W. Plastics NV	7
DS Smith Packaging Belgium NV	8
DS Smith Packaging Marketing NV	9
Bosnia & Herzegovina	
DS Smith Packaging BH d.o.o. Sarajevo	10
DS Smith Recycling Bosnia d.o.o.	11
Brazil	
Total Marketing Support Brazil Ltda	12
Bulgaria	
DS Smith Bulgaria S.A.	13
DS Smith Packaging Bulgaria Ltd	14
Rapak EAD	15
China	
DS Smith Shanghai Trading Ltd	16
TMS Shanghai Trading Ltd	17
Colombia	
Total Marketing Support Colombia S A S	18
Croatia	
Belišće Energetika d.o.o.	19
Bilokalnik-IPA d.d.	F, 20
DS Smith Belišće Croatia d.o.o.	19
DS Smith Plastics Karlovac d.o.o.	21
DS Smith Unijapapir Croatia d.o.o.	22
Duropack Karton d.o.o.	23
Czech Republic	
DS Smith Packaging Czech Republic s.r.o.	25
DS Smith Triss s.r.o.	26
Denmark	
DS Smith Display Emballageform ApS	27
DS Smith Display Holding ApS	27
DS Smith Display Hvidovre A/S	27
DS Smith Display Tastrup ApS	27
DS Smith DM Plast ApS	27
DS Smith Packaging Denmark A/S	27
DS Smith Vejle Print A/S	27
Egypt	
TMS Egypt LLC	28
Estonia	
DS Smith Packaging Estonia AS	29
Finland	
DS Smith Packaging Baltic Holding Oy	30
DS Smith Packaging Finland Oy	30
DS Smith Packaging Pakkausjaloste Oy	30
Eastpac Oy	30

	Notes
France	
DS Smith Chouanard SASU	46
DS Smith Ducaplast SASU	49
DS Smith France SAS	32
DS Smith Hêtre Blanc SNC	31
DS Smith Packaging Anjou SASU	31
DS Smith Packaging Atlantique SASU	31
DS Smith Packaging Auneuil SASU	31
DS Smith Packaging Bretagne SASU	52
DS Smith Packaging C.E.R.A. SASU	37
DS Smith Packaging Consumer SASU	31
DS Smith Packaging Contoire Hamel SAS	40
DS Smith Packaging Corrugated Services SASU	31
DS Smith Packaging Display and Services SASU	31
DS Smith Packaging Fegersheim SASU	35
DS Smith Packaging France SAS	31
DS Smith Packaging Kaypac SASU	53
DS Smith Packaging Larousse SASU	43
DS Smith Packaging Mehun – CIM SASU	42
DS Smith Packaging Nord-Est SASU	32
DS Smith Packaging Normandie Ondulé SASU	47
DS Smith Packaging Normandie SASU	44
DS Smith Packaging Premium SA	51
DS Smith Packaging Services SASU	34
DS Smith Packaging Sud Est SASU	50
DS Smith Packaging Sud Ouest SASU	51
DS Smith Packaging Systems SASU	33
DS Smith Packaging Velin SASU	48
DS Smith Packaging Vervins SASU	31
DS Smith Paper Kaysersberg SASU	38
DS Smith Plastics France SASU	39
DS Smith Recycling France SAS	36
DS Smith Rivatex SASU	41
Otor Lease SASU	31
Rowlandson France SASU	32
Tecnicartón France SAS	45
Germany	
Bretschneider Verpackungen GmbH	G, 55
Delta Packaging Services GmbH	62
DS Smith Hamburg Display GmbH	64
DS Smith Packaging Arenshausen Mivepa GmbH	58
DS Smith Packaging Arnstadt GmbH	54
DS Smith Packaging Beteiligungen GmbH	65
DS Smith Packaging Deutschland Stiftung	60
DS Smith Packaging Deutschland Stiftung & Co KG	65
DS Smith Paper Deutschland GmbH	63
DS Smith Pre-Press Services GmbH	61
DS Smith Recycling Deutschland GmbH	59
DS Smith Stange B.V. & Co. KG	65
DS Smith Transport Services GmbH	63
DS Smith Wirth Verpackungen GmbH	57
Rapak GmbH	56

	Notes
Gibraltar	
DS Smith Finco (IRE) Limited	66
Greece	
DS Smith Cretan Hellas S.A.	68
DS Smith Hellas S.A.	67
Hong Kong	
The Less Packaging Company (Asia) Limited	69
Hungary	
DS Smith Omikron Kft.	71
DS Smith Packaging Füzesabony Kft.	70
DS Smith Packaging Hungary Kft.	71
India	
DS Smith Products & Services India Private Limited	72
The Less Packaging Company (India) Private Limited	74
Total Marketing Support India Private Limited	73
Ireland	
David S. Smith (Ireland) Unlimited Company	75
DS Smith Packaging Ireland Limited	75
Italy	
DS Smith Holding Italia SpA	78
DS Smith Packaging Italia SpA	78
DS Smith Paper Italia Srl.	78
Italmaceri Srl	77
Toscana Ondulati SpA	C, 76
Japan	
Total Marketing Support Japan Ltd	79
Kazakhstan	
Total Marketing Support Kazakhstan	80
Latvia	
SIA DS Smith Packaging Latvia	81
Lithuania	
UAB DS Smith Packaging Lithuania	82
Luxembourg	
DS Smith (Luxembourg) S.à.r.l.	83
DS Smith Perch Luxembourg S.à.r.l.	83
DS Smith Re S.A.	83
Macedonia (the Former Yugoslav Republic of)	
DS Smith AD Skopje	E, 84
Malaysia	
Total Marketing Support (360) Malaysia Sdn. Bhd.	85
Mexico	
Total Marketing Support 360 Mexico S.A de C.V	86
Morocco	
DS Smith Maroc S.a. r.l.	87
Tecnicartón Tánger S.a.r.l. AU	88

34. DS Smith Group companies continued

Fully owned subsidiaries continued	Notes
Netherlands	
David S. Smith (Netherlands) B.V.	91
DS Smith (Holdings) B.V.	91
DS Smith Baars B.V.	59
DS Smith de Hoop Holding B.V.	91
DS Smith Finance B.V.	91
DS Smith Hellas Netherlands B.V.	90
DS Smith Italy B.V.	91
DS Smith Packaging Almelo B.V.	89
DS Smith Packaging Barneveld B.V.	92
DS Smith Packaging Belita B.V.	91
DS Smith Packaging Holding B.V.	91
DS Smith Packaging International B.V.	91
DS Smith Packaging Netherlands B.V.	90
DS Smith Recycling Benelux B.V.	91
DS Smith Recycling Holding B.V.	90
DS Smith Salm B.V.	91
DS Smith Tilburg C.V.	94
DS Smith Toppositie B.V.	91
New Zealand	
Rapak Asia Pacific Limited	95
Nigeria	
Total Marketing Support 360 Nigeria Limited	96
Pakistan	
TMS Pakistan (Private) Limited	97
Philippines	
Total Marketing Support Philippines	98
Poland	
DS Smith Packaging sp. z o.o.	99
DS Smith Polska sp. z o.o.	99
Portugal	
DS Smith Displays FFTM, Unipessoal Lda.	103
DS Smith Displays Opcao Actual, S.A.	101
DS Smith Displays P&I, S.A.	101
DS Smith Packaging Portugal, S.A.	102
Tecnicartón Portugal Unipessoal Lda	100
Romania	
DS Smith Bucharest S.R.L.	104
DS Smith Packaging Romania S.R.L.	105
Russia	
David S. Smith Vostok	108
Packaging Kuban CJSC	106
Total Marketing Support Moscow	107
Serbia	
DS Smith Inos Papir Servis d.o.o.	109
DS Smith Packaging d.o.o. Kruševac	110
Papir Servis DP d.o.o.	110
Slovakia	
DS Smith Packaging Slovensko s.r.o.	113
DS Smith Slovakia s.r.o.	112
DS Smith Turpak Obaly a.s.	B, 115
Slovenia	
DS Smith Packaging d.o.o. Rakek	116
DS Smith Slovenija d.o.o.	115
South Africa	
TMS 360 SA (PTY) Ltd	117
Spain	
Bertako S.L.U.	125
DS Smith Andorra S.A.	118
DS Smith Carton Plastico S.A.	123
DS Smith Packaging Alcala S.L.U.	121
DS Smith Packaging Cartogal S.A.	126
DS Smith Packaging Dicesa S.A.	D, 120
DS Smith Packaging Flak S.L.	122
DS Smith Packaging Galicia S.A.	127
DS Smith Packaging Holding S.L.U.	118
DS Smith Packaging Madrid S.L.	118
DS Smith Packaging Penedes S.A.U.	120
DS Smith Packaging TCT S.A.	118
P&I Displays & Packaging Spain S.L.	119
Tecnicartón, S.L.	124
Sweden	
DS Smith Packaging Sweden AB	128
DS Smith Packaging Sweden Holding AB	128
Switzerland	
DS Smith Packaging Switzerland AG	129
Thailand	
DS Smith Rapak (Thailand) Limited	130
Turkey	
DS Smith Ambalaj A.Ş.	131
Total Marketing Support Turkey Baskı Yönetimi Hizmetleri A.Ş.	132
Ukraine	
Total Marketing Support Ukraine	133
United Arab Emirates	
Total Marketing Support Middle East DMCC	135
UK	
A. A. Griggs and Company Limited	1
Abbey Corrugated Limited	1
Ashton Corrugated	1
Ashton Corrugated (Southern) Limited	1
Avonbank Paper Disposal Limited	1
Biber Paper Converting Limited	1
Calara Holding Limited	1
Conew Limited	1
Corrugated Products Limited	1
Creo Property Limited	1
Creo Retail Marketing Holdings Limited	1
Creo Retail Marketing Limited	1
D.W. Plastics (UK) Limited	1
David S Smith (Pension Contributions) Limited	1
David S. Smith Nominees Limited	1
DS Smith (UK) Limited	1
DS Smith Business Services Limited	1
DS Smith Corrugated Packaging Limited	1
DS Smith Display Holding Limited	1
DS Smith Dormant Eight Limited	1
DS Smith Dormant Five Limited	1
DS Smith Euro Finance Limited	1
DS Smith Finco Limited	A, 1
DS Smith Haddox Limited	1
DS Smith Holdings Limited	A, 1
DS Smith International Limited	1
DS Smith Italy Limited	1
DS Smith Logistics Limited	1
DS Smith Packaging Limited	1
DS Smith Paper Limited	1
DS Smith Pension Trustees Limited	1
DS Smith Perch Limited	1
DS Smith Plastics Limited	1
DS Smith Recycling UK Limited	1
DS Smith Saver Plus Trustees Limited	1
DS Smith Sudbrook Limited	1
DS Smith Supplementary Life Cover Scheme Limited	1
DS Smith Ukraine Limited	1
DSS Eastern Europe Limited	1
DSS Poznan Limited	1
DSSH No. 1 Limited	1
First4Boxes Limited	I, 1
Grovehurst Energy Limited	1
JDS Holding	1
Miljoint Limited	1
Multigraphics Holdings Limited	1
Multigraphics Limited	1
Multigraphics Services Limited	1
Pavidda Paper Limited	1
Priory Packaging Limited	1
rapak psi Limited	1
Reed & Smith Limited	1
SRP New Thames Limited	1
St. Regis Holdings plc	1
St. Regis International Limited	1
St. Regis Kemsley Limited	1
St. Regis Packaging (Scotland) Limited	136
St. Regis Paper Company Limited	1
The Brand Compliance Company Limited	1
The Less Packaging Company Limited	1
The Wansbrough Paper Company Limited	1
TheBannerPeople.Com Limited	1
Tillotsons Corrugated Cases Limited	1
TMS Global UK Limited	1
Total Marketing Support Global Limited	I, 1
Total Marketing Support Limited	1
Treforest Mill plc	1
TRM Packaging Limited	1
TRM Trustees Limited	1
United Shopper Marketing Limited	1
W. Rowlandson & Company Limited	1
Waddington & Duval Limited	1
USA	
David S. Smith (America), Inc.	141
David S. Smith (Holdings) America, Inc.	141
DS Smith Extrusion USA LLC	137
DS Smith USA Corporation	140
DSS Rapak, Inc.	141
Rapak, LLC	138
The Less Packaging Company, Inc.	139

Associate entities	Notes
Cyprus	
Aerozone Limited	I, 24
Netherlands	
Industriewater Eerbeek B.V.	K, 93
Stort Doonweg B.V.	I, 93
Serbia	
Papir Pet d.o.o.	I, 111
Ukraine	
Rubizhanskiy Kartonno-Tarniy Kombinat	J, 134

34. DS Smith Group companies continued

Ownership interest at 30 April 2017

A	Directly held by DS Smith Plc
B	98.89% ownership interest
C	92% ownership interest
D	80% ownership interest
E	78.22% ownership interest
F	75.9% ownership interest
G	51% ownership interest
H	50.1% ownership interest
I	50% ownership interest
J	49.6% ownership interest
K	37.5% ownership interest

Registered offices

1. 350 Euston Road, London, NW1 3AX, UK
2. Avenida Eduardo Madero 1020, 5th floor, Office "B", The City of Buenos Aires, Argentina
3. Foster Raffan, Level 6, 8 West Street, North Sydney NSW 2060, Australia
4. Brucknerstrasse 8, 1041, Wien, Austria
5. Friedrichstraße 10, 1010, Wien, Austria
6. Heidestrasse 15, 2433 Margarethen am Moos, Austria
7. Nijverheidsstraat 26, 3740 Bilzen, Belgium
8. New Orleansstraat 100 9000 Gent, Belgium
9. Corporate Village, Gebouw Gent, Da Vincilaan 2 BE – 1935 Zaventem, Belgium
10. Igmanska bb, Sarajevo, Vogošća, Bosnia and Herzegovina
11. Jovana Dučića br 25 A, Banja Luka, Bosnia and Herzegovina
12. Rua das Fiandeiras 677, Vila Olimpia , Sao Paulo, Brazil
13. Glavinitsa 4400, Bulgaria
14. Western Industrial Zone, BG-7200 Razgrad, Bulgaria
15. 3rd Floor, 45 Industrialna Str, Shumen 9700, Bulgaria
16. Room 05C, 3/F, No. 2 Building, Hongqiao Vanke Center, 988 Shenchang Road, Minhang district, 201107, Shanghai, China
17. R919, 9/F, No. 1788 West Nan Jin Rd, Jing An District, Shanghai, 200040, China
18. Calle 72 , 10-07 Oficina 401, Edificio Liberty Seguros, Bogotá, Colombia
19. Vijenac Salamona Henricha Gutmanna 30, Belišće, Croatia
20. Dravska bb, Koprivnica (Grad Koprivnica), Croatia
21. Kupljensko 75/b, 47220 Vojnic, Croatia
22. Lastovska 5, Zagreb, Croatia
23. Radnička cesta 22, Zagreb, Croatia
24. Julia House, 3 Themistocles Dervis Street, Nicosia, CY-1066, Cyprus
25. Teplická 109, Martiněves, 405 02 Jílové , Czech Republic
26. Zirovnicka 3124, 10600 Praha 10, Czech Republic
27. Åstrupvej 30, 8500 Grenaa, Denmark
28. Nile City Towers, North Tower, 22nd Floor, Cornish ElNil, Cairo, 11624, Egypt
29. Pae 24, 11415 Tallinn, Estonia
30. PL 426, 33101 Tampere, Finland
31. 1 Terrasse Bellini, 92800, Puteaux, France
32. 11 route Industrielle, F-68320, Kunheim, France
33. 12 rue Gay Lussac ZI Dijon Chenove, 21300, Chenove, France
34. 143 Avenue Charles de Gaulle , 92521, Neuilly sur Seine Cedex, France
35. 146 Route de Lyon, 67640, Fegersheim, France
36. 2 Rue Vincent Van Gogh, ZAC des Bords de Marne, 93360, Neuilly Plaisance, France
37. 6-8 Boulevard Monge, 69330, Meyzieu, Lyon, France
38. 75 Route de Lapoutroie, 68240, Kaysersberg, France
39. 77 Route de Lapoutroie, 68240, Kaysersberg, France
40. Contoire Hamel, 80500, Mondidier, France
41. Hotel d'Entreprise, Parc d'Activities Tournebride, 44118, La Chevroliere, France
42. Route de Marmagne, 18500, Mehun sur Yevre, France
43. Rue de la Deviniere, B.P. 7, 45510 FR, Tigy, France
44. Saint Amand, 50160, Torigni sur Vire, France
45. 27 Rue du Tennis, 25110, Baume les Dames, France
46. Usine de La Fosse, B.P. No 8, 45720, Coullons, France
47. ZAC Cabourg Village, 14390, Cabourg, France
48. ZI La Plaine – Eloyes, 88214, Remiremont, France
49. Zone d'entreprises de la Kruysstraete, B.P. 39, F-59470 Wormhout, France
50. Zone Industrielle du Pré de la Barre, 38440, St-Jean de Bournay, France
51. Zone Industrielle de Châteaubernard, 16102, Cognac, France
52. Zone Industrielle de Kevoasdoue, 29270, Carhaix, France
53. Zone Industrielle, Voiveselles Croisette, 88800, B P 37, Vittel, France
54. Bierweg 11, 99310 Arnstadt, Germany
55. Bretschneiderstr. 5, D-08309 Eibenstock, Germany
56. Dortmunder Strasse 6, 67823, Schwetzingen, Germany
57. Ersteiner Strasse 7-9, D79346 Endingen am Kaiserstuhl, Germany
58. Hauptstrasse 54, 65347 , Hattenheim, Germany
59. Kufsteiner Strasse 27, 83064 Raubling, Germany
60. Rollnerstrasse 14, D-90408 Nürnberg, Germany
61. Ruhrstrasse 3, 36043 Fulda, Germany
62. Siemensstrasse 8, 50259 Pulheim, Germany
63. Weichertstrasse 7, D-63741 Aschaffenburg, Germany
64. Wilhelm-Bergner, Str.11 e, 21509 Glinde, Germany
65. Zum Fliegerhorst 1312 – 1318, 63526 Erlensee, Germany
66. 10/8 International Commercial Centre, Casemates Square, Gibraltar
67. PO Box 1010, 57022 Sindos Industrial Area, Thessaloniki, Greece
68. PO Box 90, GR-72200 Ierapetra, Kriti, Greece
69. Units 1607-8, 16th Floor, Citicorp Centre, 17 Whitfield Road, Causeway Bay, Hong Kong
70. Duropack ut. 1, 3390 Füzesabony, Hungary
71. Záhony u. 7, HU-1031 Budapest, Hungary
72. 101-104 Banaji House, Flora Fountain, Fort, Mumbai – 40000, India
73. 2/F, Elegance Tower, Jasola District Centre, Old Mathura Road, New Delhi, 110025, India
74. A-5/30, Basement, Behind Oriental Bank of Commerce, Paschim Vihar, New Delhi, 110063 , India
75. 25/28 North Wall Quay, Dublin 1, Ireland
76. Capannori (Lu) Via del Fanuccio, 126 Cap, 55014 Fraz.Marlia, Italy
77. Strada Lanzo 237, cap 10148, Torino (TO), Italy
78. Viale Pasubio N.6, 20154 Milano, Italy
79. Oak Minami-Azabu Building 2F, 3-19-23 Minami-Azabu, Minato-ku, Tokyo, Japan
80. Abay Ave. 52, 8th floor, 801 office "Innova Tower" BC, Almaty, 050008, Kazakhstan
81. Hospitāļu iela 23-102 , Rīga LV-1013, Latvia
82. Savanoriu ave. 183, 02300 Vilnius, Lithuania
83. 8-10 Avenue de la Gare, L-1610 Luxembourg
84. Zenden Dzemail 1, Skopje 1000, Macedonia (the former Yugoslav Republic of)
85. Unit C-12-4, Level 12, Block C, Megan Avenue II, No. 12 Jalan Yap Kwan Seng, 50450 Kuala Lumpur, Wilayah Persekutuan, Malaysia
86. Av. Insurgentes Sur 1070, Piso 9, Col. Insurgentes San Borja, Del. Benito Juárez, Ciudad de México, C. P. 03100, Mexico
87. Centre d'affaires Nordami, Bureau 203, 2eme etage, lot 43A, Zone Franche d'exportation, 90 100 Tanger, Morocco
88. Tanger, Zone Franche d'Exportation , ILot 11, Lot 5, Morocco
89. Bedrijvenpark Twente 90, NL-7602 KD Almelo, Netherlands
90. Coldenhovenseweg 130, 6961 EH, Eerbeek, Netherlands

34. DS Smith Group companies continued

Registered offices continued

91. Harderwijkerweg 41, 6961 GH, Eerbeek, Netherlands
92. Hermesweg 2, 3771 ND, Barneveld, Netherlands
93. Kanaalweg 8 A, 6961 LW, Eerbeek, Netherlands
94. Wegastraat 2, 5015 BS, Tilburg, Netherlands
95. Building C1, The Gate, 373 Neilson Street, Onehunga, Auckland, New Zealand
96. TMF Administrative Services Nigeria Ltd, 43 Anthony Enahoro Street, Utako, Abuja, Nigeria
97. Level 5, Al Memar Tower, E-11/2, Islamabad, Pakistan
98. 25/F Philam Tower, 8767 Paseo de Roxas Avenue, Makati City, 1226, Philippines
99. Ul 17 Stycznia 45 D, 02-146 Warszawa, Poland
100. Águeda (Aveiro), Raso de Paredes 3754-209, Portugal
101. Edificio Opcao Actual, Parque Industrial de Oliveirinha, 3430 414 Carregal do Sal, Portugal
102. Rua Mestra Cecília do Simão, n.º 378 , 3885-593 Esmoriz, Ovar, Portugal
103. Via do Oriente, n.º 18, escritório 4, 1.º piso, Parque das Nações , 1990 514 Lisboa, Portugal
104. 24 Paleologu Street, 3rd District, Bucharesti, Romania
105. Calea Torontalului, DN6 kM. 7, Timisoara, Romania
106. 2 Gibridnaya Street, Timashevsk Town, Krasnodoar Region 352708, Russian Federation
107. Avrora Business Park, Sadovnicheskaya str., 82, bld. 2, 1150, Russian Federation
108. Office 9, 35/1 Dmitria Ulianova Street, Moscow 103031, Russian Federation
109. 11000 Beograd, Milorada Jovanovića 14, Serbia
110. 37000 Krusevac, Balkanska 72, Serbia
111. 44 Bulevar Vojvode Stepe, Novi Sad, Serbia
112. Dolné Hony 21/435, Nitra 949 01, Slovakia
113. Námestie baníkov 8/31, 048 01 Roznava, Slovakia
114. Robotnícka 1, Martin, 036 80, Slovakia
115. Cesta prvih borcev 51, 8280 Brestanica, Slovenia
116. Parizanska 7, 1381 Rakek, Slovenia
117. 40 Philamere Road, Glenmore, Durban 4001, South Africa
118. Avd. Del Sol 13, Torrejón de Ardoz, 28850 – Madrid, Spain
119. Avda. Doctor Arce 14, 28002 Madrid, Spain
120. Carretera B.P. 2151 confluencia carretera C15, Sant Pere de Riudevitlles, 08776, Barcelona, Spain
121. Carretera de Daganzo Km 3,450- Poligono Industrial La Peña, Naves F1 a F8, 28806, Alcala de Henares (Madrid), Spain
122. CL Sumoi 46-54 P.I., Clot de Moja, 08734 Olerdola, Barcelona, Spain
123. ctra. Madrid-Barcelona, Km. 28.300, Polig Ind, Fagober, Naves 6 y 7, 28802 Alcala de Henares, Madrid, Spain
124. Parque Industrial Juan Carlos I, C/ Canal Crespo, 13 Almussafes 46440 (Valencia), Spain
125. Poligono Areta, calle Atxutxate s/n, Huarte-Pamplona, Navarra, Spain
126. Polígono Industrial A Tomada, parcela 28-33, A Pobra do Caramiñal , 15949 A Coruña, Spain
127. Polígono Industrial O Pousadoiro 4, Parcela 1, 36617 Vilagarcía de Arousa, Pontevedra (Galicia), Spain
128. Box 733, 331 27 Varnamo, Sweden
129. Industriestrasse 11, 4665 Oftringen, Switzerland
130. 1/21 Moo5 Factory G26, TFD Industrial Estate, Tambon Tasa-arn, Amphoe Bangpakong, Chachoengsao Province, Thailand
131. Araptepe Selimpaşa Mah. 5007. Sk. No. 4 Silivri, Istanbul, Turkey
132. Goztepe Merdivenkoy Mah. Bora Sk. No. 1 Nida Kule Is Merkezi, Kat:7; Kadikoy, Istanbul, 34732, Turkey
133. 4-5 Floors, 25B,Sagaydachnogo str., Kiev, 04070, Ukraine
134. 67 Mendeleev str., Rubezhnoye, Lugansk Region, 93006, Ukraine
135. Unit No: I5-PF-39, Detached Retail I5, Plot No: JLT-PH1-RET-I5, Jumeirah Lakes Towers, Dubai, United Arab Emirates
136. Muir Road, Houstoun Industrial Estate, Livingston, West Lothian, EH54 5DR, UK
137. 1201 Windham Parkway, Suite D, Romeoville, Illinois, 60446, United States
138. 525 W. Monroe Street, Suite 1600, Chicago, Illinois, 60661, United States
139. 70 W. Madison St, Ste 5750, Chicago, Illinois, 60602, United States
140. 9 E. Loockerman Street, Dover, County of Kent, DE 19901, United States
141. c/o The Corporation Trust Company, The Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, United States

Parent Company statement of financial position

At 30 April 2017

	Note	2017 £m	2016 £m
Assets			
Non-current assets			
Intangible assets	3	**37**	20
Property, plant and equipment	4	**1**	1
Investments in subsidiaries	5	**1,833**	1,833
Deferred tax assets		**46**	39
Other receivables	6	**1,733**	1,278
Derivative financial instruments	9	**19**	17
Total non-current assets		**3,669**	3,188
Current assets			
Trade and other receivables	6	**504**	145
Derivative financial instruments	9	**13**	40
Total current assets		**517**	185
Total assets		**4,186**	3,373
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	8	**(1,004)**	(1,049)
Employee benefits	10	**(30)**	(33)
Other payables	7	**(406)**	(225)
Derivative financial instruments	9	**(11)**	(9)
Total non-current liabilities		**(1,451)**	(1,316)
Current liabilities			
Interest-bearing loans and borrowings	8	**(291)**	(293)
Trade and other payables	7	**(659)**	(414)
Income tax liabilities		**(6)**	(4)
Derivative financial instruments	9	**(13)**	(47)
Total current liabilities		**(969)**	(758)
Total liabilities		**(2,420)**	(2,074)
Net assets		**1,766**	1,299
Equity			
Issued capital	11	**95**	94
Share premium account	11	**728**	716
Reserves	11	**943**	489
Shareholders' equity		**1,766**	1,299

The Company made a profit for the year of £568m (2015/16: profit of £359m) including the recognition of intra-group dividends.

Approved by the Board of Directors of DS Smith Plc (company registered number 1377658) on 29 June 2017 and signed on its behalf by

M W Roberts
Director

A R T Marsh
Director

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

Parent Company statement of changes in equity

At 30 April 2017

	Share capital £m	Share premium £m	Hedging reserve £m	Own shares £m	Retained earnings £m	Total equity £m
At 1 May 2015[1]	**94**	**715**	**(27)**	**–**	**266**	**1,048**
Profit for the year	–	–	–	–	359	359
Actuarial gain on employee benefits	–	–	–	–	2	2
Cash flow hedge movements	–	–	(2)	–	–	(2)
Income tax on other comprehensive income	–	–	–	–	(2)	(2)
Total comprehensive (expense)/income	**–**	**–**	**(2)**	**–**	**359**	**357**
Issue of share capital	–	1	–	–	–	1
Employee share trust	–	–	–	(3)	(4)	(7)
Share-based payment expense (net of tax)	–	–	–	–	8	8
Dividends paid	–	–	–	–	(108)	(108)
Other changes in equity in the year	**–**	**1**	**–**	**(3)**	**(104)**	**(106)**
At 30 April 2016	**94**	**716**	**(29)**	**(3)**	**521**	**1,299**
Profit for the year	–	–	–	–	568	568
Actuarial loss on employee benefits	–	–	–	–	(2)	(2)
Cash flow hedge movements	–	–	9	–	–	9
Income tax on other comprehensive income	–	–	(2)	–	(1)	(3)
Total comprehensive income	**–**	**–**	**7**	**–**	**565**	**572**
Issue of share capital	1	12	–	–	–	13
Employee share trust	–	–	–	(1)	(5)	(6)
Share-based payment expense (net of tax)	–	–	–	–	9	9
Dividends paid	–	–	–	–	(121)	(121)
Other changes in equity in the year	**1**	**12**	**–**	**(1)**	**(117)**	**(105)**
At 30 April 2017	**95**	**728**	**(22)**	**(4)**	**969**	**1,766**

1 Restated on adoption of Financial Reporting Standard 101 (FRS 101) *Reduced Disclosure Framework*.

1. Principal accounting policies

(a) Basis of preparation

These financial statements of DS Smith Plc (the 'Company') have been prepared on the going concern basis and in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101) and the UK Companies Act.

The accounts are prepared under the historical cost convention.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own income statement or statement of comprehensive income.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

– statement of cash flows and related notes;
– a comparative period reconciliation for share capital;
– disclosures in respect of transactions with wholly owned subsidiaries;
– comparative period reconciliations for tangible fixed assets and intangible assets;
– disclosures in respect of capital management;
– the effects of new but not yet effective IFRSs; and
– disclosures in respect of Key Management Personnel.

As the Group financial statements include the equivalent disclosures, the Company has also taken advantage of the exemptions under FRS 101 available in respect of the following disclosures:

– IFRS 2 *Share-based Payment* in respect of Group settled share-based payments; and
– IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instruments*.

There are no new standards, amendments or interpretations that are applicable to the Company for the year ended 30 April 2017.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

(b) Foreign currencies

The Company's financial statements are presented in sterling, which is the Company's functional currency and presentation currency. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange at the date of the transaction, and retranslated at the rate of exchange ruling at the balance sheet date. Exchange differences arising on translation are taken to the income statement.

(c) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of each item, which range between three and five years.

(d) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each item of property, plant and equipment. Estimated useful lives of plant and equipment are between two and 30 years.

(e) Investments in subsidiaries

Investments in subsidiaries are valued at cost less provisions for impairment.

(f) Deferred taxation

Deferred tax is provided for using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

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

(g) Employee benefits

(i) Defined benefit schemes

The Company is the sponsoring employer for a UK funded, defined benefit scheme, the DS Smith Group Pension scheme (the 'Group Scheme').

The Group has in place a stated policy for allocating the net defined benefit cost relating to the Group Scheme to participating Group entities.

Accordingly, both the Company's statement of financial position and income statement reflect the Company's share of the net defined benefit liability and net defined benefit cost in respect of the Group scheme, allocated per the stated policy. Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

1. Principal accounting policies continued

(g) Employee benefits continued

(ii) Share-based payment transactions

The Company operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The fair value of the options granted is measured using a stochastic model, taking into account the terms and conditions upon which the options were granted. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable.

At each reporting date, the Company revises its estimate of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in profit and loss, and a corresponding adjustment to equity. Where applicable, the fair value of employee services received by subsidiary undertakings within the DS Smith Plc Group in exchange for options granted by the Company is recognised as an expense in the financial statements of the subsidiary by means of a recharge from the Company.

(h) Shares held by employee share trust

Shares held to satisfy options are accounted for in accordance with IAS 32 *Financial Instruments: Presentation* and Standards Interpretation Committee 12 *Consolidation of Special Purpose Entities (SIC 12)*. All differences between the purchase price of the shares held to satisfy options granted and the proceeds received for the shares, whether on exercise or lapse, are charged to reserves.

(i) Financial instruments

The Company uses derivative financial instruments, primarily interest rate, currency and commodity swaps, to manage interest rate, currency and commodity risks associated with the Group's underlying business activities and the financing of these activities. The Group has a policy not to, and does not, undertake any speculative activity in these instruments. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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

– fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; and
– cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

(j) Dividend income

Dividend income from subsidiary undertakings is recognised in the income statement when paid.

Financial statements

2. Employee information

The average number of employees employed by the Company during the year was 164 (2015/16: 159).

	2017 £m	2016 £m
Wages and salaries	**23**	21
Social security costs	**4**	4
Pension costs	**1**	1
Total	**28**	26

Note 25 to the consolidated financial statements sets out the disclosure information required for the Company's share-based payments.

3. Intangible assets

	Software £m	**Intangible assets under construction £m**	**Total £m**
Cost			
At 1 May 2016	4	17	21
Additions	6	14	20
Transfers	19	(19)	–
At 30 April 2017	29	12	41
Amortisation			
At 1 May 2016	(1)	–	(1)
Amortisation charge	(3)	–	(3)
At 30 April 2017	(4)	–	(4)
Carrying amount			
At 1 May 2016	3	17	20
At 30 April 2017	**25**	**12**	**37**

4. Property, plant and equipment

	Plant and equipment £m	Total £m
Cost		
At 1 May 2016	2	2
Additions	1	1
At 30 April 2017	3	3
Depreciation		
At 1 May 2016	(1)	(1)
Depreciation charge	(1)	(1)
At 30 April 2017	(2)	(2)
Carrying amount		
At 1 May 2016	1	1
At 30 April 2017	**1**	**1**

5. Investments in subsidiaries

	Shares in Group undertakings £m
At 30 April 2016	1,833
At 30 April 2017	**1,833**

The Company's principal trading subsidiary undertakings at 30 April 2017 are shown in note 34 to the consolidated financial statements.

6. Trade and other receivables

	2017		2016	
	Non-current £m	**Current £m**	Non-current £m	Current £m
Trade receivables	**–**	**–**	–	1
Amounts owed by subsidiary undertakings	**1,733**	**493**	1,278	126
Other receivables	**–**	**–**	–	7
Prepayments and accrued income	**–**	**11**	–	11
	1,733	**504**	1,278	145

7. Trade and other payables

	2017		2016	
	Non-current £m	**Current £m**	Non-current £m	Current £m
Trade payables	**–**	**20**	–	18
Amounts owed to subsidiary undertakings	**406**	**609**	225	370
Other tax and social security payables	**–**	**7**	–	7
Non-trade payables, accruals and deferred income	**–**	**23**	–	19
	406	**659**	225	414

Non-current amounts owed to subsidiaries include £404m (30 April 2016: £223m), which are subject to interest at rates based on LIBOR or EURIBOR, are unsecured, and are repayable between 2019 and 2025.

8. Interest-bearing loans and borrowings

	2017		2016	
	Non-current £m	**Current £m**	Non-current £m	Current £m
Bank loans and overdrafts	**91**	**276**	297	228
Medium-term notes and other fixed-term debt	**913**	**15**	752	65
	1,004	**291**	1,049	293

Disclosures in respect of the Group's interest-bearing loans and borrowings are provided in note 19 to the consolidated financial statements.

9. Derivative financial instruments

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

	Assets		Liabilities		Net	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Derivatives held to:						
Manage the interest rate and currency exposures on business activities, borrowings and net investments	**14**	25	**(6)**	(6)	**8**	19
Derivative financial instruments included in net debt	**14**	25	**(6)**	(6)	**8**	19
Derivatives held to hedge future transactions						
Energy costs	**18**	32	**(18)**	(50)	**-**	(18)
Total derivative financial instruments	**32**	57	**(24)**	(56)	**8**	1
Current	**13**	40	**(13)**	(47)	**-**	(7)
Non-current	**19**	17	**(11)**	(9)	**8**	8
	32	57	**(24)**	(56)	**8**	1

Disclosures in respect of the Group's derivative financial instruments are provided in note 20 to the consolidated financial statements.

10. Employee benefits

The Company participates in all of the Group's UK pension schemes. The accounting valuation is consistent with the Group valuation, as described in note 24 to the consolidated financial statements, where full disclosures relating to these schemes are given.

	2017 £m	2016 £m
Present value of funded obligations	**(1,126)**	(999)
Present value of unfunded obligations	**(7)**	(7)
Fair value of scheme assets	**1,051**	913
Total IAS 19 deficit, net	**(82)**	(93)
Allocated to other participating employers	**52**	60
Company's share of IAS 19 deficit, net	**(30)**	(33)

11. Share capital and reserves

Details of the Company's share capital are provided in note 23 to the consolidated financial statements. Movements in shareholders' equity are shown in the parent Company statement of changes in equity.

As at 30 April 2017, the Company had distributable reserves of £943m.

12. Cash and cash equivalents

Included within cash and cash equivalents is £nil (30 April 2016: £nil) restricted for use by the Company.

13. Contingent liabilities

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee. At 30 April 2017, these guarantees amounted to £5m (30 April 2016: £5m).

14. Related party disclosure

The Company has identified the Directors of the Company, its key management personnel and the UK pension scheme as related parties. Details of the relevant relationships with these related parties are disclosed in the Remuneration Committee report, and note 31 to the consolidated financial statements respectively.

15. Auditor's remuneration

Auditor's remuneration in respect of the Company is detailed in note 3 to the consolidated financial statements.

Five-year financial summary

Unaudited

Continuing operations	2013 £m[1]	2014 £m	2015 £m	2016 £m	**2017 £m**
Revenue	3,669	4,035	3,820	4,066	**4,781**
Operating profit[2]	249	307	335	379	**443**
Amortisation	(45)	(51)	(46)	(51)	**(65)**
Share of profit/(loss) of equity-accounted investment before exceptional items, net of tax	1	–	–	(1)	**3**
Net financing costs before exceptional items	(44)	(48)	(38)	(47)	**(55)**
Profit before taxation and exceptional items	161	208	251	280	**326**
Acquisitions and disposals	(69)	(46)	(4)	14	**(5)**
Other exceptional items	(10)	5	(47)	(93)	**(57)**
Profit before income tax	82	167	200	201	**264**
Adjusted earnings per share[2]	17.1p	21.4p	24.5p	27.4p	**32.5p**
Dividends per share	8.0p	10.0p	11.4p	12.8p	**15.2p**
Adjusted return on sales[2]	6.8%	7.6%	8.8%	9.3%	**9.3%**
Adjusted return on average capital employed[2,3,4]	12.2%	13.0%	14.6%	15.4%	**14.9%**

1 Restated for IAS 19 *Employee Benefits (Revised 2011).*

2 Before amortisation and exceptional items.

3 Adjusted return on average capital employed is defined as operating profit before amortisation and exceptional items divided by average capital employed.

4 Average capital employed is the average monthly capital employed for the last 12 months. Capital employed is made up of property, plant and equipment, goodwill and intangible assets, working capital, capital debtors/creditors, provisions and assets/liabilities held for sale. The definition of capital employed is different from the definition of managed capital as defined in note 20 to the consolidated financial statements, which consists of equity as presented in the consolidated statement of financial position, plus net debt.

Shareholder information

Financial diary

5 September 2017	Annual General Meeting
5 October 2017	Ex-dividend date for final dividend
1 November 2017	Payment of final dividend
7 December 2017*	Announcement of half-year results for the six months ended 31 October 2017
5 April 2018*	Ex-dividend date for interim dividend
1 May 2018*	Payment of interim dividend
28 June 2018*	Announcement of full year results for the year ended 30 April 2018

* Provisional date

Company website

The Company's website at www.dssmith.com contains the latest information for shareholders, including press releases and an updated financial diary. E-mail alerts of the latest news, press releases and financial reports about DS Smith Plc may be obtained by registering for the e-mail 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. To access this service, telephone +44 (0) 9058 171 690. For call charges, please check with your provider as costs may vary. 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.

Registrars

Please contact the Registrars at the above right address to advise of a change of address or for any enquiries relating to dividend payments, lost share certificates or other share registration matters. The Registrars provide 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 Registrars.

Dividends

Shareholders who wish to have their dividends paid directly into a bank or building society account should contact the Registrars. In addition, the Registrars are now able to pay dividends in 90 foreign currencies. This service enables the payment of your dividends directly into your bank account in your home currency. For international payments, a charge is deducted from each dividend payment to cover the costs involved. Please contact the Registrars to request further information.

Share dealing services

The Registrars offer a real-time telephone and internet dealing service for the UK. Further details including terms and rates can be obtained by logging on to the website at www.shareview.co.uk/dealing or by calling 0345 603 7037. Lines are open between 8am and 4.30pm, UK time, Monday to Friday.

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Registrars queries

Information on how to manage your shareholdings can be found at https://help.shareview.co.uk. The pages at this web address provide answers to commonly asked questions regarding shareholder registration, links to downloadable forms and guidance notes. If your question is not answered by the information provided, you can send your enquiry via secure e-mail from these pages. You will be asked to complete a structured form and to provide your shareholder reference, name and address. You will also need to provide your e-mail address if this is how you would like to receive your response. In the UK you can telephone 0371 384 2197. Lines are open 8.30am to 5.30pm Monday to Friday. For call charges, please check with your provider as costs may vary. For overseas, telephone +44 (0) 121 415 7047.

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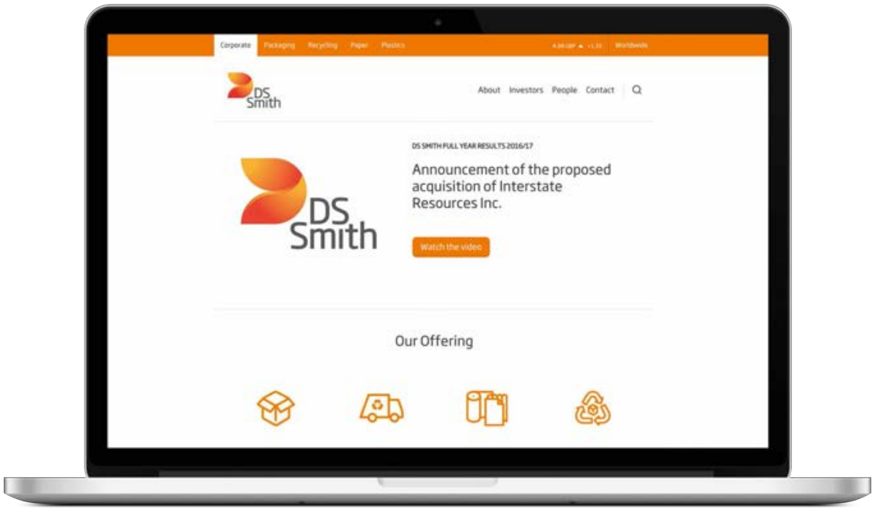

Online communications

Results and presentations, investor and shareholder information are available in the investors section of our website:

www.dssmith.com/investors

Annual reports

Current and archived annual reports are available in the investors section of our website:

www.dssmith.com/investors/annual-reports

People

DS Smith is made up of a team of c. 26,000 employees across 37 countries. More information about our people and career opportunities is available in the people section of our website:

www.dssmith.com/people

Sustainability

DS Smith publishes a separate sustainability report. The report describes the environmental, social and economic perspectives of DS Smith's sustainability initiatives, with additional information available on our website:

www.dssmith.com/company/sustainability

DS Smith worldwide

Find out more about our global divisions and the countries in which we operate and get in touch with us:

www.dssmith.com/contact/locations

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