



Redefining packaging for a changing world

Annual report
& accounts 2019

The Power of Less®



Contents

Strategic report

2	DS Smith at a glance
6	Chairman's statement
8	The evolving market landscape
12	Our business model
15	Our differentiators
18	Group Chief Executive's interview
20	Continuing our growth
23	Our strategy
24	Our strategy – customers
26	Our strategy – people
30	Our strategy – sustainability
36	Our strategy – financial
38	Operating review
43	Financial review
49	Principal risks and viability statement

Governance

56	Introduction to corporate governance
58	Board of Directors
60	Leadership and engagement
63	Effectiveness
64	Accountability
65	Audit Committee report
69	Nomination Committee report
72	Remuneration Committee report
94	Directors' report
97	Directors' responsibilities

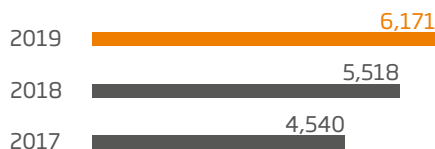
Financial statements

98	Independent Auditor's report
106	Consolidated income statement
107	Consolidated statement of comprehensive income
108	Consolidated statement of financial position
109	Consolidated statement of changes in equity
110	Consolidated statement of cash flows
111	Notes to the consolidated financial statements
162	Parent Company statement of financial position
163	Parent Company statement of changes in equity
164	Notes to the parent Company financial statements
168	Five-year financial summary
169	Shareholder information

Highlights

Revenue (£m)¹

£6,171m



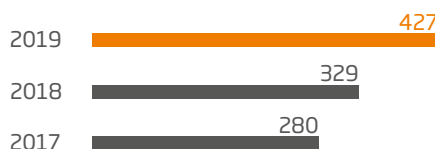
Return on sales (%)^{1,2}

10.2%



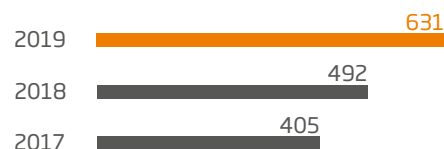
Operating profit (£m)

£427m



Adjusted operating profit (£m)²

£631m



Earnings per share (p)

19.7p



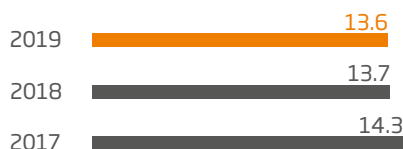
Adjusted earnings per share (p)²

33.3p



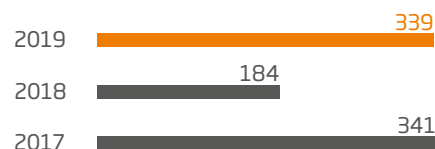
ROACE²

13.6%



Free cash flow²

£339m



2.4%

Like-for-like corrugated box volume growth³

23%

Reduction in accident frequency rate

6.1%

Like-for-like reduction in CO₂e per tonne

c. 17 billion

Boxes manufactured

1. Comparatives restated for the adoption of IFRS 15 *Revenue from Contracts with Customers*
 2. Continuing operations, before adjusting items and amortisation. These are all non-GAAP performance measures – see note 33 to the financial statements
 3. Excludes Europac

Welcome



"In this report we set out what we have achieved in the year 2018/19, but more importantly why we are well set up for the years ahead."



Over the last 12 months we have seen significant change. With the digital world accelerating changes in how people live and work, and the huge drive for a more sustainable society, our customers and stakeholders are asking new questions of us. These questions are what DS Smith thrives on.

We have grown substantially, with the acquisition of Europac in Iberia and France and the full integration of Interstate Resources in the US. These acquisitions have given us a higher quality supply base; simply put, the right assets in the right places. We also took the decision to sell our Plastics division, in order to focus purely on our fibre based model.

In addition to the significant corporate activity and positive performance of the acquired businesses, our underlying business has also grown well. We have continued to win awards for our packaging innovation, and our safety statistics have improved once again, for the tenth year in a row.

In this report we set out what we have achieved in the year 2018/19, but more importantly why we are well set up for the years ahead. We explain the underlying growth drivers for the corrugated industry, and why DS Smith is in an excellent position to take advantage of those opportunities. As a company we take pride in understanding the world around us and how we can make a positive impact for everyone that has a stake in our company – we are redefining packaging for a changing world.

MILES ROBERTS
Group Chief Executive

DS Smith at a glance

Redefining packaging for a changing world

Our Purpose

Our Purpose is 'Redefining packaging for a changing world'. It is our reason for being. It is why we exist. It captures the value we bring to all our stakeholder groups and the wider world. We always keep an eye on the future, as we are operating in a changing world. Towns, cities and entire populations are rapidly transforming. The growth in digital technology is revolutionising the way we shop and live.

We increasingly expect to purchase products tailored for us, whenever we want them, wherever we want them, delivered to us in a way that fits our busy lifestyles. We want more choice and convenience, but with less impact on the world around us.

This presents huge opportunities for all of us, but also requires new ways of thinking. How do we deliver more products, without more vehicles making our cities more congested? How do we deliver more to people's homes, without filling them with excess packaging? How can companies adapt to changing shopping habits, while running their operations smoothly and efficiently? How can we make products available across borders, while ensuring consistency everywhere, every time?

Redefining packaging for a changing world

We are different because we see the opportunity for packaging to play a powerful role in the world around us. We help our customers respond to changing shopping habits with sustainable packaging solutions that our society needs.

We deliver our Purpose by: Developing the right strategies

We tackle big challenges in their entirety rather than just one part to find the answers that would otherwise be out of reach. From design to production and supply to recycling, we offer our customers a joined-up solution that is sustainable for all.

Thinking differently

We take a flexible approach to the solutions we create and operate where our customers need us. Our people thrive on finding innovative ways to help customers sell more, reduce costs, and manage risk and complexity in their supply chains.

Innovating together

Our experts work closely with customers to understand their needs. Together, we find ways to take advantage of today's opportunities to powerfully deliver products.

Putting sustainability at the heart

We can make, use, collect and recycle cardboard packaging within 14 days. We are ambitious in using innovation to tackle some of the world's most complex sustainability challenges. Our circular business model is a great contributor to the circular economy. It is a sustainable way of doing business for DS Smith, our customers and the planet by protecting resources and reducing waste.

Our stakeholders

Our strategy is designed to balance the requirements of all our stakeholders, so that we are delivering for all.

Our people

We employ over 31,000 people across 37 countries worldwide, speaking 28 languages.

Our customers

Our customer base is largely fast moving consumer goods (FMCG) companies who produce goods typically sold in supermarkets. We make corrugated packaging for some of the largest global food brands. We also make packaging for industrial customers, such as pharmaceutical companies, and we sell some of our paper and recycling to third parties too.



Our strategy

To be the leading supplier of sustainable packaging solutions. Our strategy is balanced across our four key stakeholders of customers, employees, communities and investors.



To delight our customers

- Delivering on all our commitments
- Further improving our quality standards
- Driving innovation on a multinational basis

Read more on page 24



To realise the potential of our people

- Ensuring the safety of all
- Creating an environment that fosters pride in our people and where they can give their best
- Building individual and organisational capability

Read more on page 26



To lead the way in sustainability

- Putting sustainability at the heart of the business
- Growing our recycling platform
- Delivering against our range of long-term sustainability targets

Read more on page 30



To double our size and profitability

- Winning market share
- Growing with our customers
- Expanding our footprint through greenfield sites and acquisitions
- Building a resilient and sustainable business model

Read more on page 36

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.

Find out more at dssmith.com/people

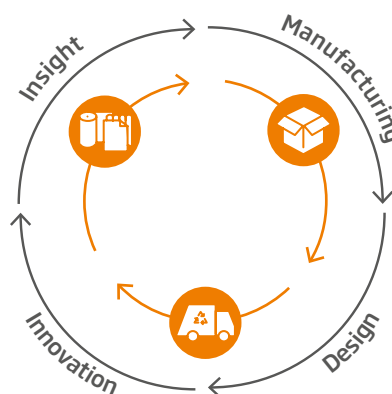
Our business model

Find out more on page 12

What we use

- Our people and values
- Financial capital
- Manufacturing and other physical assets
- Stakeholder relationships and our brand
- Intellectual capital
- Natural resources

What we do – supported by our values



What we create

For our business

A supplier who customers want to work with, and returns to our equity and debt providers

For our people

Opportunity, supportive culture, and a share in the future of the Group

For our communities

Leadership, and supporting local charities

Our investors

DS Smith is listed on the London Stock Exchange. We are owned by a wide range of investors in the UK, Europe, the US and beyond, including pension funds, insurance groups, sovereign wealth funds and private investors.

Local communities and non-governmental organisations

DS Smith engages with those communities it touches, ranging from local initiatives such as sponsoring local educational projects, to larger initiatives such as our global partnership with the Ellen MacArthur Foundation. We engage in detailed consultation with governments to promote efficient fibre recycling and the acceleration of the circular economy.

Our suppliers

We have approximately 40,000 suppliers, ranging from small suppliers of goods and services, to large paper manufacturers from whom we source substantial volumes of paper for our corrugated board. Our established supplier standards set out ways of working and the high standards we expect of our suppliers, for example, in relation to our obligations under the anti-modern slavery law.



DS Smith at a glance (continued)

Our business



Packaging

We are a leading international packaging company, delivering innovative products and the highest quality service across Europe and North America. Our product portfolio includes packaging for consumer products, e-commerce, promotion, transit and industrial packaging, providing solutions for each market requirement.

We partner with customers to provide innovative packaging solutions. Not only do we help specify packaging solutions to generate more sales, but we do so while ensuring lower cost and managing risk, resulting in a step change in our customers' performance.

We complement our product range with consultancy services on supply chain optimisation and creative design. Corrugated packaging is fully sustainable and made from recycled and recyclable material,

which means the packaging we produce helps our customers to 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 significant effect of transport cost.

c. 24,800
employees

c. 8.5 billion
m² corrugated board sold
in 2018/19



Paper

We are a leading international manufacturer of corrugated case material (CCM), which is the paper used for conversion into corrugated board. We also manufacture some specialist paper grades such as plasterboard liner. We operate a paper sourcing platform that is central to the decisions around 'make, buy, sell' for the paper grades required by our packaging business.

Paper is readily transportable and is traded globally.

We operate 14 CCM paper mills, 12 in Europe and two in the US. Of those, two are kraftliner (virgin paper) mills (one in the US, one in Europe) and the remainder are principally dedicated to the production of recycled CCM (testliner). We also have two small mills in Europe producing specialist paper grades. Fibre for our testliner is principally sourced from our own recycling operations.

c. 3,600
employees

3.5 million
tonnes CCM sold
in 2018/19



Recycling

We provide integrated recycling and waste management services, ranging from simple recycling collections through to full recycling and waste management solutions.

We are Europe's largest cardboard and paper recycler, collecting c. five million tonnes annually. We are also one of the leading full service recycling and waste management companies in Europe.

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

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

c. 1,000
employees

c. 5 million
tonnes fibre sourced
in 2018/19

Plastics

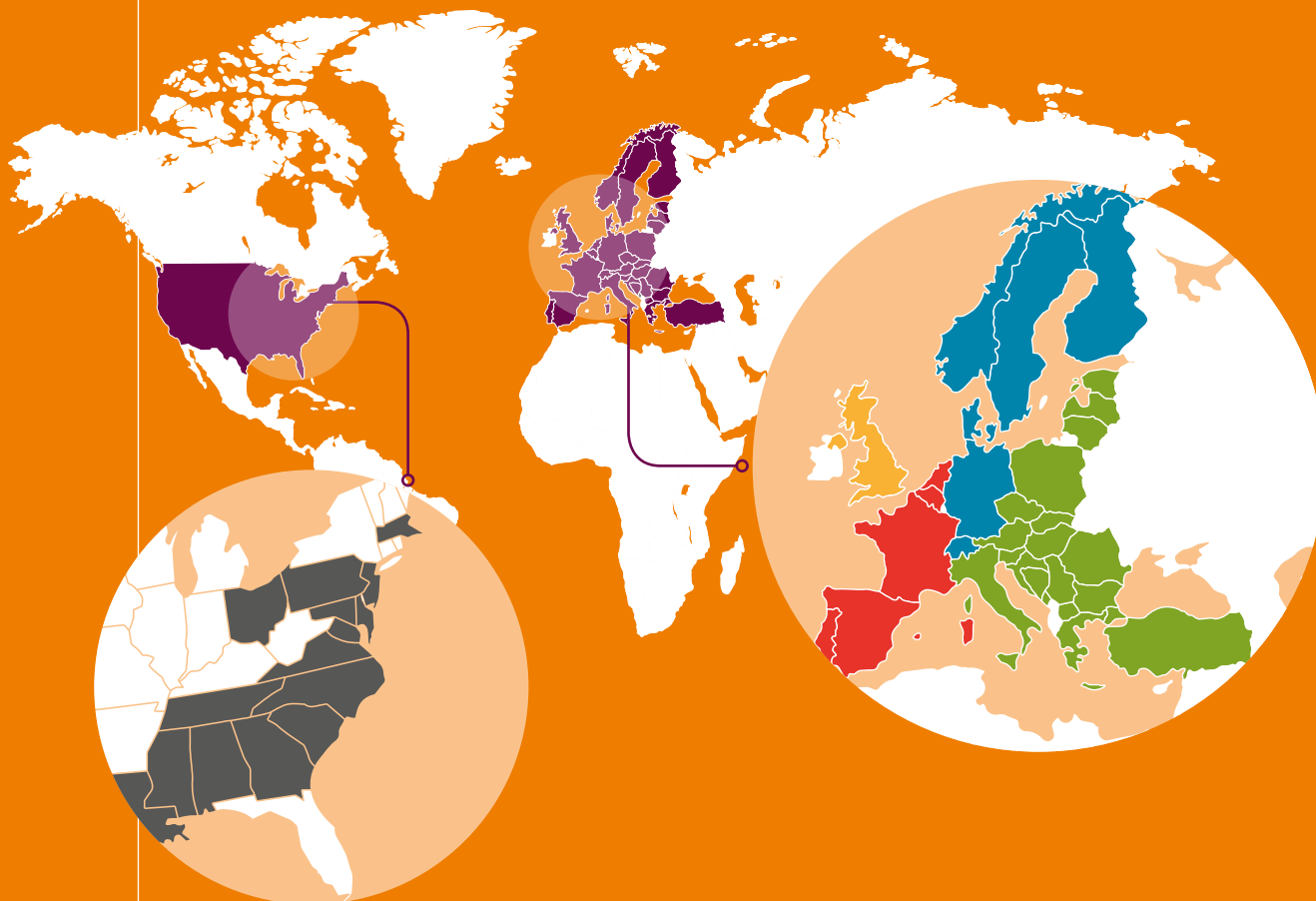
We specialise in plastic packaging that is reusable and recyclable. Our Plastics business comprises flexible packaging and dispensing solutions, extruded and injection moulded products and foam products. We work with many of the world's leading companies in a diverse range of industries and markets. The Plastics business has c. 2,000 employees.

In June 2018, it was announced that the DS Smith Plastics business was under strategic review, and in March 2019 it was announced that agreement has been reached to sell this business. This disposal is expected to be completed during the second half of the calendar year 2019.



Where we operate

Our corrugated packaging business operates in five geographic segments, four in Europe and one in North America. Recycling and paper form an integrated part of our global supply chain operations.



UK

£1,134m
2018/19 revenue
c. 4,900 employees
United Kingdom

Western Europe

£1,739m
2018/19 revenue
c. 8,900 employees
Belgium, France, Netherlands,
Portugal and Spain

DCH and Northern Europe

£1,076m
2018/19 revenue
c. 5,000 employees
Denmark, Finland, Germany,
Norway, Sweden and Switzerland

Central Europe and Italy

£1,583m
2018/19 revenue
c. 8,800 employees
Austria, Bosnia-Herzegovina,
Bulgaria, Croatia, Czechia, Estonia,
Greece, Hungary, Italy, Latvia,
Lithuania, North Macedonia,
Poland, Romania, Serbia, Slovakia,
Slovenia and Turkey

North America

£639m
2018/19 revenue
c. 1,800 employees
United States

37
countries
worldwide

9
Impact Centres

36
PackRight
Centres

28
different
languages

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.

A year of substantial progress



2018/19 has been a year of substantial progress for DS Smith.

It has been our first full year of ownership of Interstate Resources – the US business we bought in 2017 – and we are really pleased with its progress as it delivers substantially ahead of our expectations. We also took another important step in enhancing our footprint and asset base in Europe with the acquisition of Europac, a large packaging and paper business in Iberia and France. Thirdly, we took the decision to focus solely on corrugated packaging and agreed the disposal of our Plastics business. Overall, we are confident that these steps put us in a strong position both strategically and financially.

Performance

At the same time as this significant level of corporate activity, our existing business has continued to perform well, despite the macro-economic conditions we are seeing. Organic corrugated box volume growth of 2.4 per cent is once again in excess of market growth, continuing evidence of our customer-led offering, driving market share gains. The consistency of our volume growth is due to our emphasis on packaging for the resilient sector of fast-moving consumer goods (FMCG) products, i.e. the type of products that are sold in supermarkets, day-in, day-out. The structural growth drivers of the business, including the requirement for more sustainable packaging, e-commerce packaging, and responses to changing retail trends, are expected to continue to drive growth.

We have once again delivered a strong set of financial results, as set out in the operating review on pages 38 to 42, with a positive contribution from both organic growth and acquisitions. Our margin is now at the top of the target range, and your Board believes that there is scope for further improvement. As such, we have decided to raise the medium-term target to 10-12 per cent, reflecting our medium-term expectations. Our return on average capital employed (ROACE) this year is 13.6 per cent, around the middle of our range. That result includes the Interstate Resources acquisition in 2017 and Europac since it was acquired in January 2019. This overall result reflects a strong performance from the business, including the expected dilution of ROACE from these acquisitions, which the management team is tasked to improve over time.

Alongside our financial performance, we have put further focus on building our culture through the launch of our corporate Purpose, 'Redefining packaging for a changing world'. Our global partnership with the Ellen MacArthur Foundation is one way we are developing our commitment to the circular economy.

Acquisition of Europac

In June 2018 we announced the acquisition of Europac, partially funded by a rights issue. The rights issue was overwhelmingly supported by our investors, large and small, and I would like to sincerely thank you for your confidence in,

"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."



and commitment to, us. As a Board we are well aware of the trust placed in us as custodians of your capital. After clearing the necessary legal and regulatory hurdles, the acquisition completed in January 2019 and I would like to extend my welcome to all those new colleagues who joined us as part of that business. The integration work continues well and at pace, and we are very pleased with progress to date. I look forward to reporting back next year once the business has been owned by us for a full year.

The Board

This year has seen some changes in the Board. I am delighted to welcome Rupert Soames and David Robbie as new non-Executive Directors. Both bring a wealth of experience from their respective careers and will enhance the quality of the discussion and challenge around the Board table. At the same time, Jonathan Nicholls, our Senior Independent Director, has announced his intention to retire from the Board at the time of our AGM in September 2019. I would like to thank Jonathan for his exemplary contribution and commitment to the Board and the Company during his tenure, a period in which the Company has delivered consistent growth, created sustained value for shareholders and entered the FTSE 100. The Board wishes Jonathan continued success in the future.

Following Jonathan's retirement, Rupert Soames will be appointed Senior Independent Director while David Robbie will become Chair of the Audit Committee.

Delivering sustainable value

Since May 2010, under current leadership, the business has delivered significant 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 454

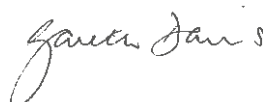
per cent, considerably out-stripping the FTSE 100 at 88 per cent and the FTSE 250 at 144 per cent over the same period. 2018/19 was another year of strong operational and financial progress for the business, with 8 per cent adjusted EPS growth, building on the momentum seen in recent years in which DS Smith delivered EPS growth of 23 per cent compound annual growth rate over the last nine years. It is nevertheless the case that the DS Smith share price has been disappointing since mid-autumn 2018, similar to many other stocks, particularly in our sector, which means that our recent share price performance is not as strong as it has historically been. While the stock market is driven by a variety of influences, both long and short term, we will continue to do what we always do – lead and operate the business to the best of our abilities, for its long-term sustainable success.

Dividend

For the year 2018/19, the Board recommends a final dividend of 11.0 pence, giving a total dividend for the year of 16.2 pence which is in line with our policy of dividend cover of 2.0 to 2.5 times earnings and an increase of 13 per cent compared to the prior year.

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. A huge amount has been achieved in the year with strategic developments while our core business has continued to show its strength. The Board has great confidence in the future.



GARETH DAVIS
Chairman

The growth opportunity

DS Smith is operating in a market expected to grow due to structural drivers of sustainability, e-commerce and retail change.

DS Smith is very well positioned to capitalise on this growth opportunity due to our scale, innovation, and our partnership approach with customers to deliver end-to-end solutions.

Organic growth

- **Structural industry growth drivers**
 - E-commerce growth
 - Retail channel proliferation
 - Plastic substitution and sustainability focus
- **DS Smith in pole position to capitalise**
 - Scale across Europe and into the US
 - Investment in innovation
 - End-to-end packaging solutions
 - Partnership approach

Our priorities

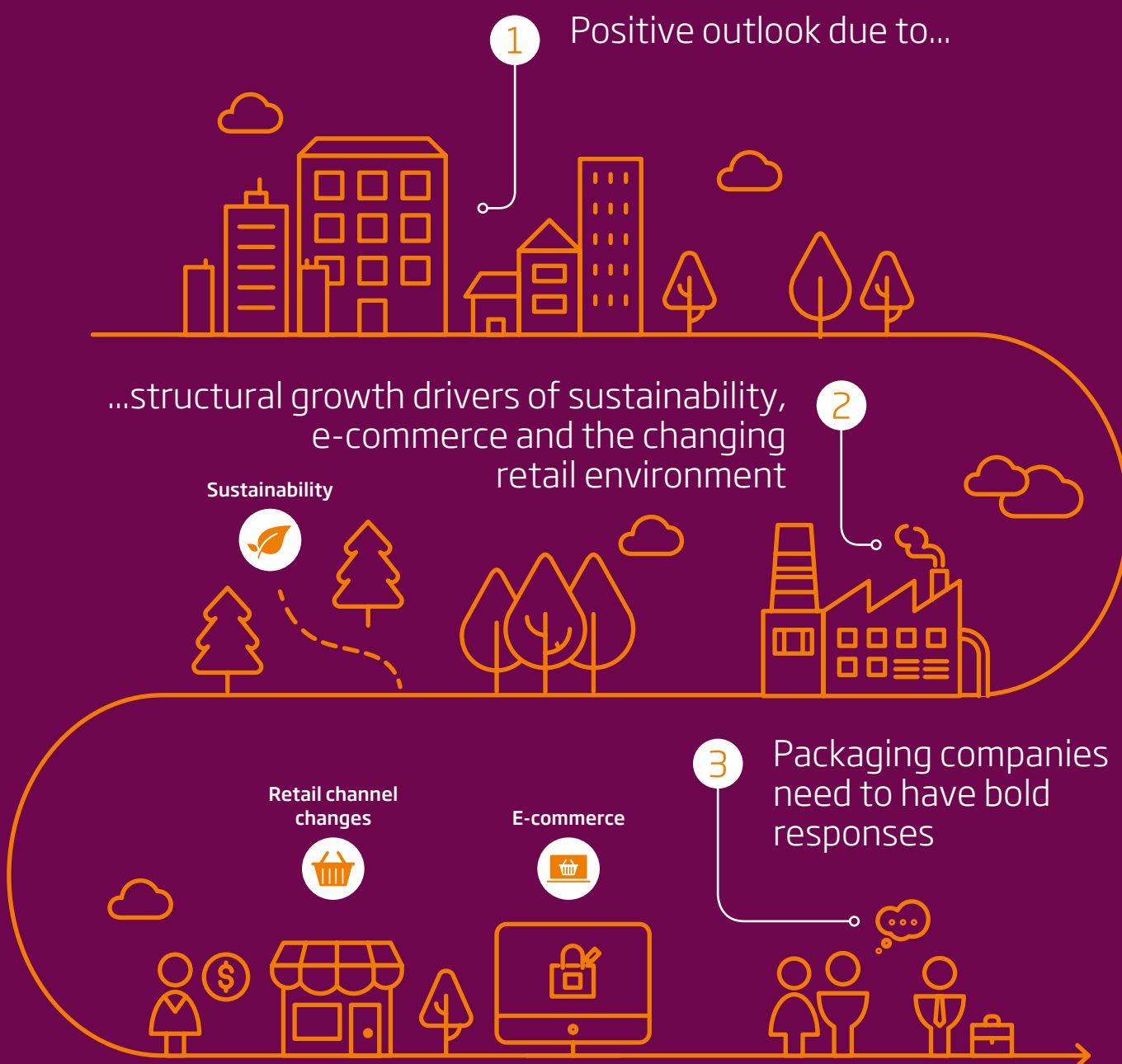
- **Primary focus:**
 - Continuing to deliver from Interstate Resources
 - Integrating Europac
 - Cost focus and cash generation
- **Medium-term** – sustainable further customer-led opportunities in Europe and the US

The evolving market landscape



Positioned to capture the opportunity

There are three key drivers for growth in corrugated packaging: e-commerce, sustainability and retail changes.



The evolving market landscape (continued)

1 Corrugated industry expected to show structural growth over the medium-term

Since the year 2000, the global corrugated market has nearly doubled, and now sits at 244 billion metres squared per annum, with a value of c. \$320 billion. Growth over the last five years (2012-2017) has been good in the US, and strong in Europe (see figure 1).

2 E-commerce, plastic substitution and changes in the retail environment will accelerate corrugated packaging growth

The global packaging market is undergoing fundamental change, impacting volumes and the value of corrugated packaging. Brand owners are looking for more connectivity with consumers, sustainable packaging and on-shelf differentiation. Retailers are responding to the changes in retail environment by seeking to optimise their supply chains and store lay-out, shelf allocation and pricing. They have also been increasingly clear in their expectations that packaging needs to be sustainable to meet their own environmental targets. Packaging is also playing its part in addressing some of the logistics challenges from e-commerce, reducing freight weight and counterfeiting control. The net effect of this significant growth driver is that we fully expect growth in corrugated packaging to continue to exceed GDP growth over the medium-term (see figure 2).

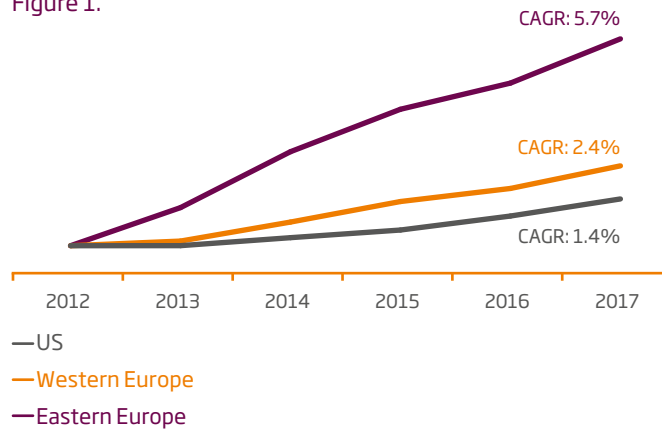
Sustainable packaging

Due to the rise of e-commerce, packaging is becoming more prevalent in homes and is growing in the conscience of consumers. Where products are over-packaged or delivered in materials that are non-recyclable, this is leading to strong criticism and active public debate. Plastics are perceived to be the least sustainable form of packaging and are the subject of constant media attention around the world. Governments are responding with more stringent policy, including in the European Union where all plastic must be fully recyclable by 2030. Brands, retailers and food producers are in turn responding with their own targets e.g. Iceland supermarket's pledge to go plastic free in its own label goods by 2023.

Consistent growth in Europe and the US over last five years

Regional corrugated market growth 2012-2017

Figure 1.



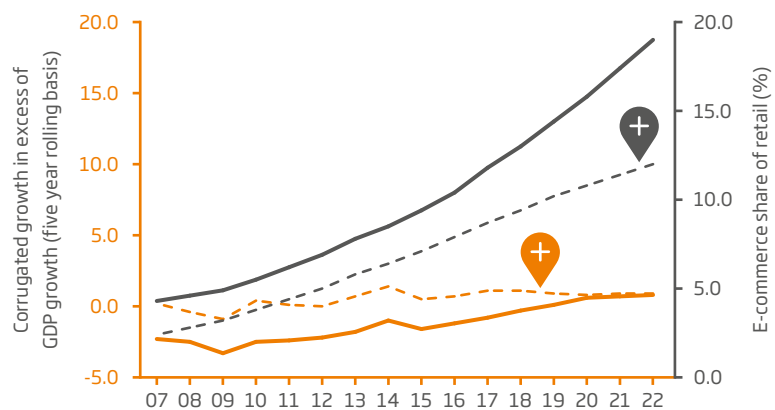
Looking ahead, both the European and US markets are expected to move into a growth phase ahead of GDP, due to the rise in e-commerce, plastic substitution, and retail channel changes.

Source: DS Smith, based on IMF, ICCA, Euromonitor and PIRA

Growth expected to be above GDP growth in next three years

European and US corrugated packaging market 2007-2022 growth projection

Figure 2.



— US: Corrugated growth in excess of GDP growth (five year rolling basis)

— US: E-commerce share of retail

-- Europe: Corrugated growth in excess of GDP growth (five year rolling basis)

-- Europe: E-commerce share of retail

+ E-commerce boosting corrugated packaging volumes with over 12 per cent of retail spend allocated to online purchases in 2022

+ Single use plastics starting to be replaced by sustainable products

Source: DS Smith, based on IMF, ICCA, Euromonitor and PIRA

Corrugated packaging is the obvious natural substitute for plastic packaging, being 100 per cent recyclable and with the highest recycling rate of any packaging material (86 per cent recycling rate in Europe, versus 42 per cent for plastic: source Eurostat). DS Smith has analysed the whole supply chain to identify where corrugated can be used instead of plastics. There are many immediate opportunities to accelerate this transition, e.g. the use of single-use trays in chiller cabinets. Other options are in development to generate further momentum behind the pace of change.

Overall, we estimate a potential increase in the size of the corrugated market in Europe and the US of 0.4 per cent per annum to c. \$700 million, due to plastic substitution from 2018-2022. More broadly, we estimate the total opportunity from substitution of plastics by fibre-based packaging to be as high as £5.7 billion.

E-commerce

E-commerce is growing fast and high quality packaging is an essential element of this supply chain. By 2022, it is expected to amount to 12 per cent of retail in Western Europe and 19 per cent in the US. In China, the rate is expected to be up to 29 per cent, clearly showing the scale of opportunity. Changing demographics, the penetration of fast broadband and improving delivery infrastructure are all contributing to this growth. This is expected to drive corrugated packaging – the growth rate of corrugated packaging is expected to be nearly five times greater, at 14 per cent, than that of traditional packaging. At the moment, a product fulfilled by e-commerce requires approximately 50 per cent more corrugated packaging than fulfilment via the traditional retail channel, due to the need for protection, single-product shipments and direct delivery. This creates logistical challenges for customers and retailers, and in some cases criticism from consumers, which puts us in a unique position to develop solutions.

The use of lighter weight packaging and smart design will reduce the volumes of corrugated packaging required per pack and reinforce its value in the supply chain. Overall, we estimate a potential increase in the size of the corrugated market in Europe and the US due to the growth of e-commerce of 0.3 per cent per annum from 2018-2022, which equates to an additional \$500 million per annum.

Changes in the retail environment

Retail channels are changing with the continued decline of traditional supermarkets and rise in discount and convenience stores, coupled with the rapid growth of the e-commerce channel. Considerable inefficiency is common as products are unpacked and re-packed during the supply chain, so that the product is in the correct type of packaging for the final retail format.



Furthermore, many fast moving consumer goods (FMCG) producers are now selling direct to consumers, rather than via a retailer, which is a completely different way of working for them. The growth rates are impossible to ignore – for example, Mondelez reported that its net revenues from direct e-commerce increased by over 40 per cent in 2018.

The aim of many brand owners is for 'omni-channel' packaging that can work in all formats, reducing both complexity and cost. That packaging needs to be specifically designed and is expected to grow the corrugated market by 0.1 per cent per annum (2018-2022), contributing to structural growth.

③ Packaging companies need to have smart and bold responses

We are developing smart, bold solutions to solve these challenges in order to add value for our customers. Our key differentiators are scale, innovation, end-to-end solutions and our partnership approach, as set out in the coming pages. This helps us deliver packaging that helps customers achieve:



More sales

Increasing 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 business model

To be the leader in sustainable packaging

Inputs

Our people and values

We employ over 31,000 people around the world and they are the heart of our business. We have a passion for developing our colleagues so that they can realise their potential wherever they are in the organisation. Our engagement programme and values are a guide to how we operate and all new colleagues embrace this way of working. We maintain a close and constructive relationship with our European Works Council with whom we share a comprehensive employee charter.

Our Company Purpose is 'Redefining packaging for a changing world' and guides our business strategy as well as our engagement with all stakeholders including customers, suppliers and the communities where we operate.

Financial capital

We are funded by a combination of shareholder equity, debt raised and cash flow generated by our operations. Our approach to capital allocation is driven by returns on capital, with all investments expected to achieve our target range in the medium-term.

Manufacturing and other physical assets

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

Stakeholder relationships and our brand

Our stakeholders include colleagues, customers, capital providers, suppliers, communities, governments and regulators.

The DS Smith brand is applied consistently across all of our divisions and markets and brings together our Purpose, values, customer proposition and digital assets.

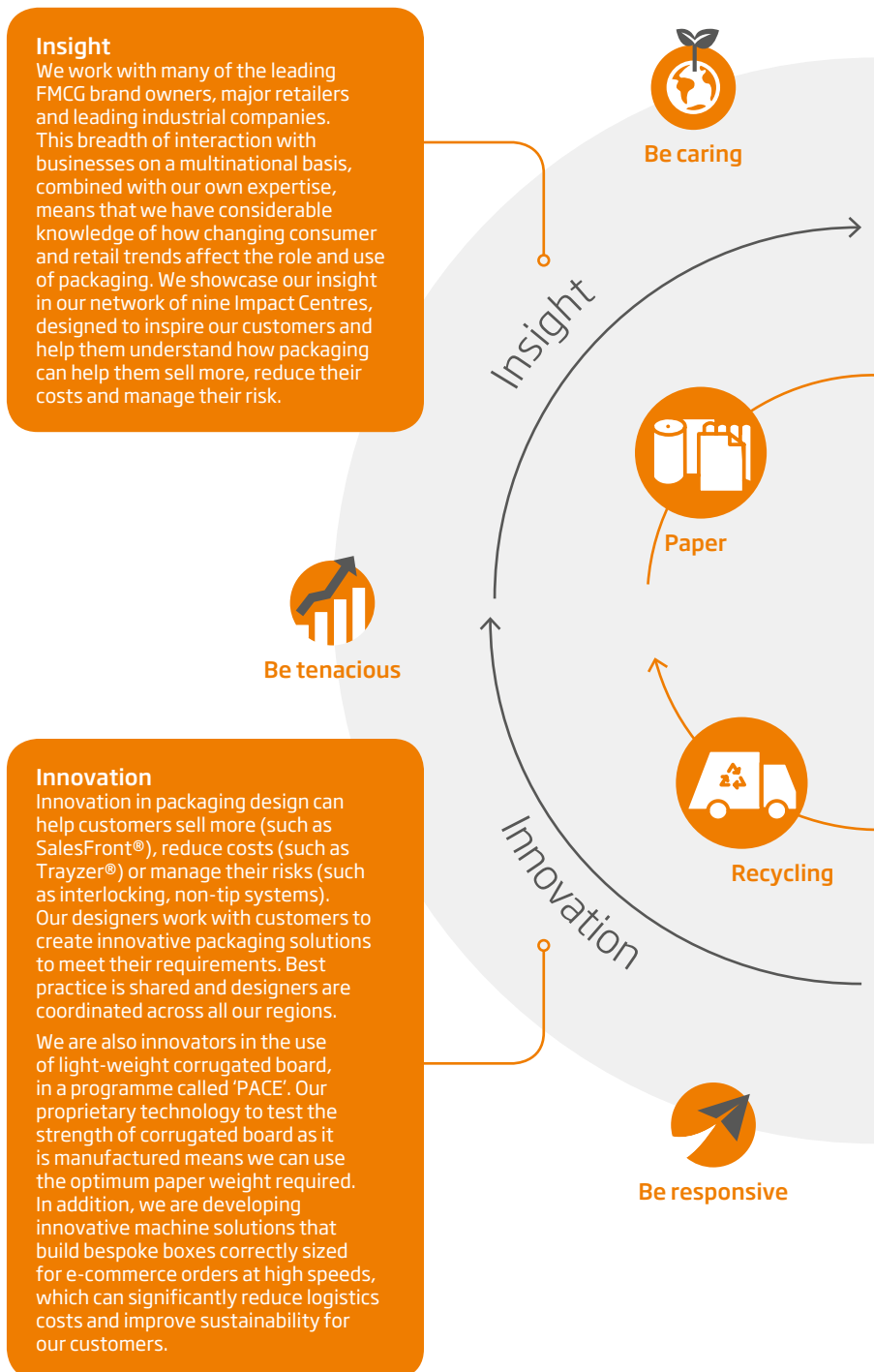
Intellectual capital

As a leader in this industry we have substantial business know-how which is used throughout the Group. We have c. 700 designers and have registered many patents for packaging design and innovation including our unique Made2fit technology.

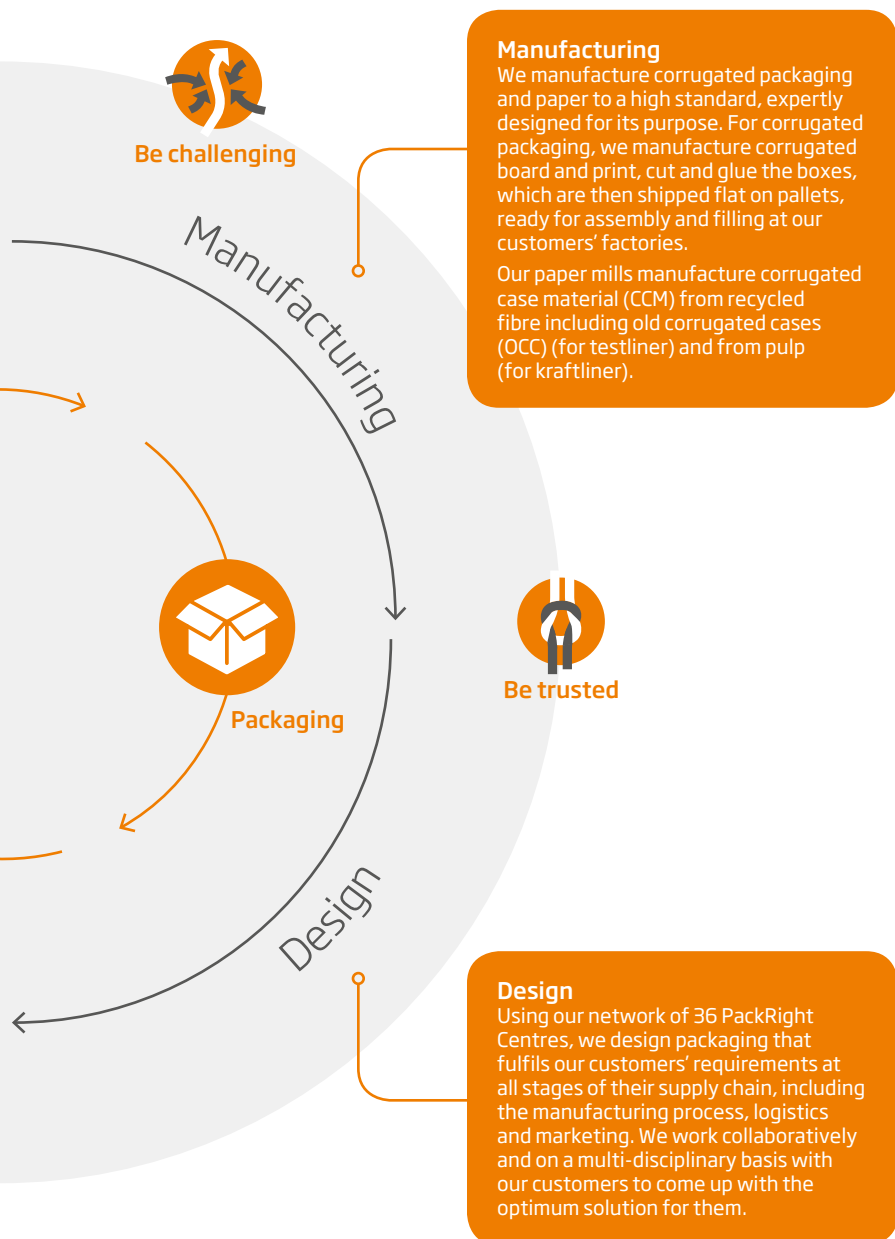
Natural resources

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. This paper is then converted into corrugated board, which is then made into packaging. We also source pulp from newly harvested trees, including from our own forestry assets to provide pulp for our kraft mills. The paper-making process requires substantial amounts of water, so sites are typically situated close to a natural water source and we use and treat water responsibly.

→ What we do to create long-term value



→ What we create



We show here some of the non-financial impacts of the business. Please refer to the table on page 95 to see how we comply with the Non-Financial Reporting Directive requirements.

For our business

- **Packaging that adds value**
We help our customers to sell more products, reduce costs through increased efficiency across their supply chains, and achieve their sustainability goals.
- **A packaging partner that customers want to work with**
We grow our market share by delivering on our commitments to customers.
- **Returns to our equity and debt providers**
Compound average annual dividend growth since 2010 of 21 per cent. The Group's debt is investment grade credit rated and we are committed to maintaining that rating.

For our people

- **Safety**
We have once again improved our safety performance and strive to improve it further under our vision of zero harm.
- **Opportunity**
We encourage the identification of development needs and opportunities to build capability and develop strong talent pipelines at all levels in the organisation.

For our communities

- **Leadership** in solving sustainability problems, e.g. coffee cup recycling.
- **Support for local charities** through the DS Smith Charitable Foundation. £266,000 was directly donated in 2018/19 to a combination of large and small charities and our colleagues are supported in contributing their time to improving the communities we serve.
- **Global partnership** with the Ellen MacArthur Foundation, to accelerate our circular economy focus.

Our 'short paper' strategy

It is our strategy to be 'short paper', i.e. a net buyer of paper, in Europe, and to be balanced in North America. DS Smith is approximately 80 per cent integrated in Europe and over 100 per cent in North America.

How we meet the challenge



Our differentiators

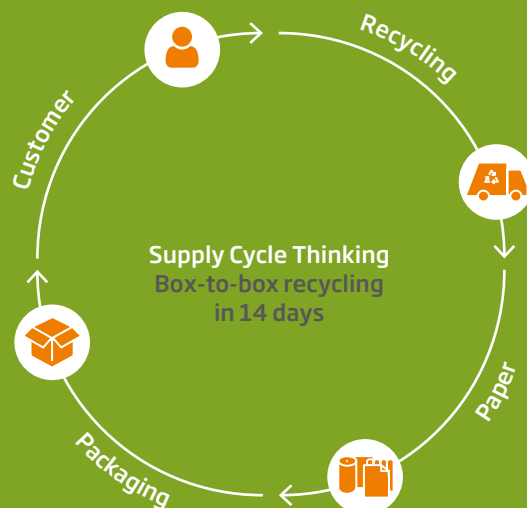
DS Smith is positioned to benefit from the key drivers for change in our industry – sustainability, e-commerce and retail channel changes.

Our response is a combination of our scale, across Europe and in North America, of our innovation, and of the way we interact with customers, offering end-to-end solutions and working in partnership. These elements interlink to result in an offering to customers that is hard for many competitors to replicate and which is highly attractive to customers.



Sustainability is at our heart

Our operations are sustainable to the core. Fibre is collected from retailers, converted into paper and then into packaging, and delivered back to a retailer, all within 14 days. We collected c. five million tonnes of fibre in 2018/19. By having our own fibre collection and sourcing operations, we have control of this essential input for our business.



Our differentiators (continued)

Scale

Our packaging and paper operations cover 37 countries giving the widest coverage of any packaging company across Europe. We have over 31,000 employees and over 200 manufacturing sites, including our growing operations in the US.

The breadth of our offering matters because it matches our customers' requirements. Our large customers are multinational, and want a multinational, consistent approach to their packaging. For example, our top 20 customers are served by us in an average of 14 countries, and 40 per cent of all customers are served in more than one country.

This is part of a trend for a partnership approach. Customers looking for a partnership with their suppliers need to work with fewer, more sophisticated suppliers.

Innovation

DS Smith is a leader in packaging innovation, with c. 700 designers and innovators. We operate a system where innovation and know-how is shared though our network of nine Impact Centres and 36 PackRight Centres,

backed up by designers who operate directly within our manufacturing sites. Impact Centres are our innovation hubs, while PackRight Centres are where innovation is put into practice in conjunction with customers.

Innovation is developed by DS Smith and then applied across our very wide customer base. Two examples of where innovation is driving growth are performance packaging, and solutions for e-commerce.

Performance packaging is a different way of selling packaging and of engaging with customers. At the centre is the understanding that customers want packaging that will deliver a certain performance, for example box strength to support a given product. DS Smith will contractually agree and guarantee the appropriate performance. Using proprietary technology, we measure the board strength throughout the corrugated board and box making process in order to optimise the use of fibre. As such, we then deliver cost, efficiency and carbon savings for our customers. For example, our customer Orkla Foods, adopted our performance packaging programme to assist in meeting its sustainability targets, resulting in a ten per cent reduction in packaging weight.

Solutions for e-commerce

E-commerce presents many issues for packaging, including:

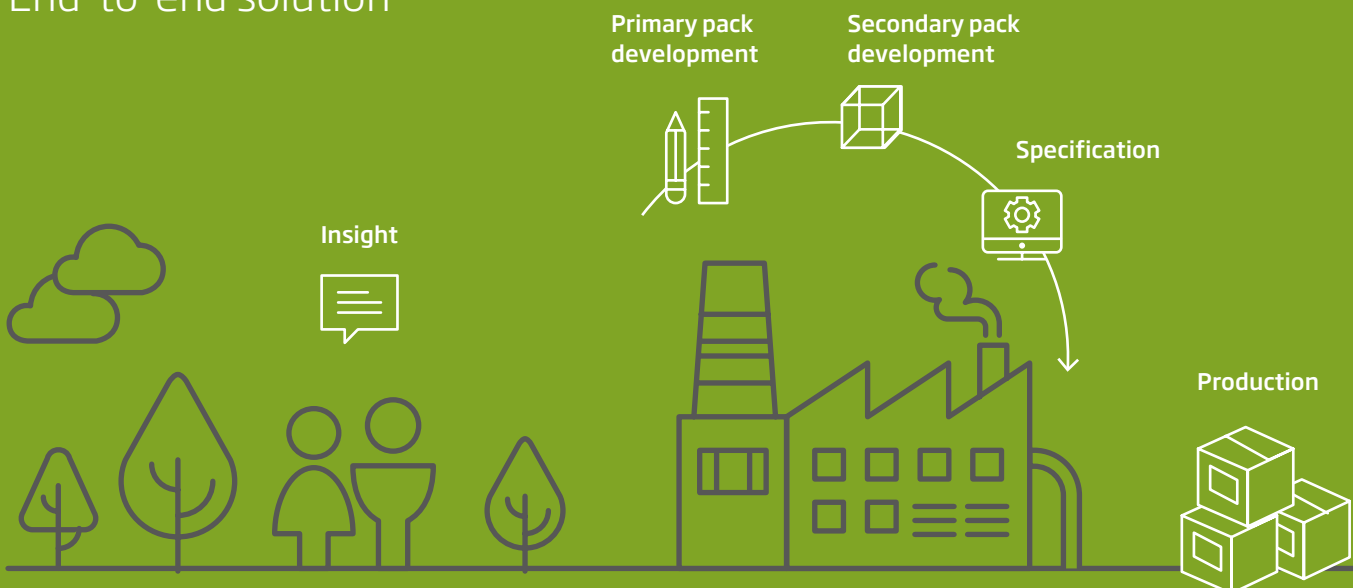
- Damage
- Product returns
- Packing speed
- Void space in packaging
- Customer attitudes to packaging/sustainability
- Brand support
- Personalisation

We estimate that there is ten times the chance of product damage in the home delivery route versus the traditional supply chain to a store.

Innovation has led to our DISCS™ (Drop, Impact, Shock, Crush, Shake) machine, which simulates the home delivery environment and sets a standard for packaging solutions. This allows us to create high-performing e-commerce packaging solutions which ensure our customers' products are received by their customers in optimal condition. This dramatically improves the design cycle time for such packaging.

The question of void space – the amount of empty space in an e-commerce package – is important because of the cost of shipping void space as well as the

End-to-end solution



potential impact on damage and customer acceptance. DS Smith has Made2Fit solutions that create bespoke boxes correctly sized for e-commerce orders. These operate manually for small e-commerce customers, and we have developed higher speed mechanised solutions for large customers.

Innovation is not restricted to e-commerce. An example of innovation that works in traditional retail includes SalesFront®, a system which propels product to the front of a display pack.

Partnership approach

As a result of working closely with our customers, bringing them innovative ideas and working to improve the efficiency of their whole supply chains with sophisticated packaging, we have a deep understanding of our customers. Many customers have worked with DS Smith for several decades, and we seek to further develop those relationships, e.g. expanding our scope of work with a given customer to new brands and categories. As a demonstration of this success, we have increased our estimated share of corrugated packaging spend from our top 20 customers by 14 per cent over the last three years.

End-to-end solutions

Many everyday products, for example a bottle of shampoo, a carton of yoghurt or a pack of cereal, pass through a complex supply chain. Packaging is essential throughout the journey to reduce costs and increase efficiency, and at the final stage to assist in the sale of the product.

The customer designs a new consumer product, for example a new shampoo variant, in response to their own marketing **insight** and commences **primary pack development** for their new product.

Secondary pack development is sometimes left until late in the process and DS Smith will get involved at this point to design packaging that helps the customer sell more, reduce costs and minimise risks.

The pack **specification** is developed by DS Smith to maximise the efficiency of the product journey through the supply chain, by minimising transit costs, repacking requirements and pallet movements.

Packaging **production** is on a just-in-time basis for the product, allowing for changes in packaging if required to tie into a retailer's promotion.

DS Smith **guarantees** the **quality** of its packaging to optimise the **efficiency** on packing lines.

At the **retailer distribution centre** good packaging with appropriate labelling is essential to ensure that the product is correctly identified amongst thousands of other items and sent to the correct retailer.

After **store delivery**, the packaged product must be moved by hand from the back of store to the shelves. The average proportion of in-stock products at the back of store is 98 per cent, dropping to 90-93 per cent on-shelf, meaning that some product is not making it onto the shelves. Clear packaging can help store workers find the product they need in the back-of-store environment.

Great packaging can help with **merchandising** to sell product. Retail-ready packaging is based around the '5 Easys' (easy to identify, open, shelf, shop and recycle). Check out dssmith.com and search for retail-ready packaging for the latest examples of our work with customers.



Q&A: Looking to the future



"Our corporate Purpose is used to guide our actions and bring employees together with a sense of common endeavour."

MILES ROBERTS
Group Chief Executive

Q. Your corporate Purpose is 'Redefining packaging for a changing world'. How is this used in the business?

Our corporate Purpose is used to guide our actions and bring colleagues together with a sense of common endeavour. The Purpose, and the actions that flow from it, are embedded in our business planning cycle. They help us drive innovation through key growth drivers. The engagement around the Purpose has helped to galvanise our workforce. It has also provided an impetus for us to increasingly open the business up to our local communities.

Q. You talk about the challenges of a changing world. What are these challenges and how are you meeting them?

The consumer world is changing significantly as shopping moves online, requiring packaging that suits the delivery supply chain and presents customers with a great unboxing experience when they receive their products. The shift online is also presenting conventional retailers with a challenge, as retail becomes more of an experience, requiring further in-store theatre to attract and engage consumers. Lastly, consumers are becoming far more concerned about the sustainability of the products they buy and the packaging that they come in.

We are addressing these issues with specific

solutions. In e-commerce, one of the biggest challenges for retailers is the issue of 'void space', i.e. using large boxes for small products, with filler for the void space. It is annoying for consumers and expensive for retailers as distribution costs are inflated, plus there is increased risk of damage in transit. We have solutions that can substantially reduce this problem by fitting the packaging to the product – just one example of the leadership we are demonstrating.

As one of Europe's largest recyclers of paper, we want to help to find solutions to recycling problems. We have run pilot projects on recycling coffee cups and concluded that our UK paper mill, Kemsley, could potentially recycle all the coffee cups used in the UK. The challenge however is for those cups to reach us, segregated and uncontaminated.

Q. What is DS Smith doing to put sustainability at the heart of the organisation?

This year we have made good progress against our targets. For example, we have reduced our CO₂e per tonne by six per cent. In May 2019 we announced our global partnership programme with the Ellen MacArthur Foundation to accelerate our circular economy drive and support innovation across major sustainability challenges, including recycling and carbon-efficiency in e-commerce. The partnership will see DS Smith conduct two pilot programmes aimed at radically reviewing the

positive impact it can have on its supply chain. Initial areas of focus include a pilot to collaboratively innovate on packaging design in support of our 'Plastics Revolution' work stream, as well as a city pilot to map and develop an urban recycling service for recyclable packaging.

Our increased engagement on the circular economy makes particular sense now that we will be a fibre-based packaging business only, with the disposal of the Plastics business expected to complete in the second half of the calendar year 2019.

In addition, we will take a proactive role in investing over £1 million from our existing Charitable Foundation. The fund focuses on supporting sustainability or education-focused community initiatives around the world. This programme aims to kickstart local projects across our global footprint and support innovative new programmes that will make a real difference to the communities in which we operate.

Q. It has been another year of substantial growth for DS Smith – what has been achieved?

The business has grown substantially. This has been from organic growth, with volumes growing in all our geographic regions, and from acquisitions. The organic growth has been ahead of the market growth of corrugated packaging, due to the differentiation we have in the market and our attractive offering to customers. The growth is also driven by the full contribution from Interstate Resources (compared to eight months inclusion in the prior year) and the completion of our acquisition of Europac, which joined DS Smith in January 2019.

The DS Smith strategy is to be a net buyer of paper. While the last three acquisitions have increased the amount of paper we make, we remain short paper and our strategy is unchanged. The acquired assets include high quality and scarce paper types, so we now have improved security of supply, with the right assets in the right places. We are now reviewing some non-core paper assets, consistent with our short paper strategy.

Q. What happens to DS Smith when economic times are uncertain?

DS Smith has resilient corrugated box volumes. Approximately 70 per cent of our corrugated packaging is made for fast moving consumer goods (FMCG) products. FMCG products are consumer staples, typically bought frequently, such as foodstuffs, beverages, home cleaning

products and toiletries. As such, overall, volumes are generally stable and show consistent growth, which is why it is a resilient customer group to serve. In addition to that, there are structural growth drivers such as e-commerce and plastic substitution, which mean that we expect the market for corrugated packaging to grow faster than it has done historically. We are investing in these areas in order to provide leadership and achieve greater market share gains.

Our proposition to customers is built on three simple statements – we aim to provide packaging that helps them sell more, while reducing their costs and managing their risks. We are aware that packaging is a cost, so we expect pricing pressure from our customers. By focusing on how our packaging can add value to our customers through these three steps, we aim to be part of the solution when customers are seeking to increase their own efficiency. For example, we can engineer packaging to reduce transportation costs overall, which would deliver a saving to a customer and potentially higher volumes of packaging for DS Smith.

Q. Why are you raising your margin targets?

Packaging is increasingly a value-adding product for our customers. This has been a key driver for our margin over many years – in 2010 the margin was 5.7 per cent, and has increased to 10.2 per cent. That is a combination of packaging being increasingly high value and the scale benefits of being a larger group. In particular, the last two major acquisitions (Interstate Resources in 2017 and Europac in 2019) both have material synergy opportunities and are structurally high quality, higher margin businesses. Once they are fully integrated, we expect that to boost Group margin overall too.

Q. What should shareholders expect for the coming year?

Having undertaken two large acquisitions in the past two years, we are now, for a period, consolidating those and focusing on cost management and cash generation from the business. We are also focused on completing the agreed sale of the Plastics division, in order to reduce the balance sheet gearing, in line with our medium-term target. At the same time, we continue to expand organically, for example we are working on a new packaging site in Indiana, which is expected to be completed towards the end of the calendar year 2019. Integration work on Europac in Spain, Portugal and France is ongoing and at great pace, and I am delighted with the initial progress made. In summary, another year of delivery.

Continuing our growth

Expanding our geographic footprint

The year 2018/19 has seen significant development in the footprint of DS Smith, as we have integrated Interstate Resources, our North America business, and acquired Europac in Iberia and France.



"Our North America business is now fully integrated within DS Smith and is winning business due to our collaborative approach."

North America

Q&A with Jim Morgan, President and Chief Executive, North America Packaging and Paper division

Q. What has been the customer reaction to the acquisition of Interstate Resources by DS Smith?

The reason DS Smith acquired Interstate Resources was the customer pull for DS Smith's expertise and innovation in corrugated packaging. The US market has a growing demand for retail-ready packaging, which is well established in Europe and in which DS Smith has recognised leadership. Of DS Smith's top 20 European customers, 17 also have significant operations in the US, so the opportunity to expand those relationships was clear.

Since the acquisition, we have been delighted by the customer reaction. We are now over a year in and seeing great progress. We have gained new contracts with European customers, such as RB and Unilever, improved our global relationship with L'Oréal, who we had worked with in both organisations, and we have also increased our work with existing US customers such as John Deere and Mountaire Farms.

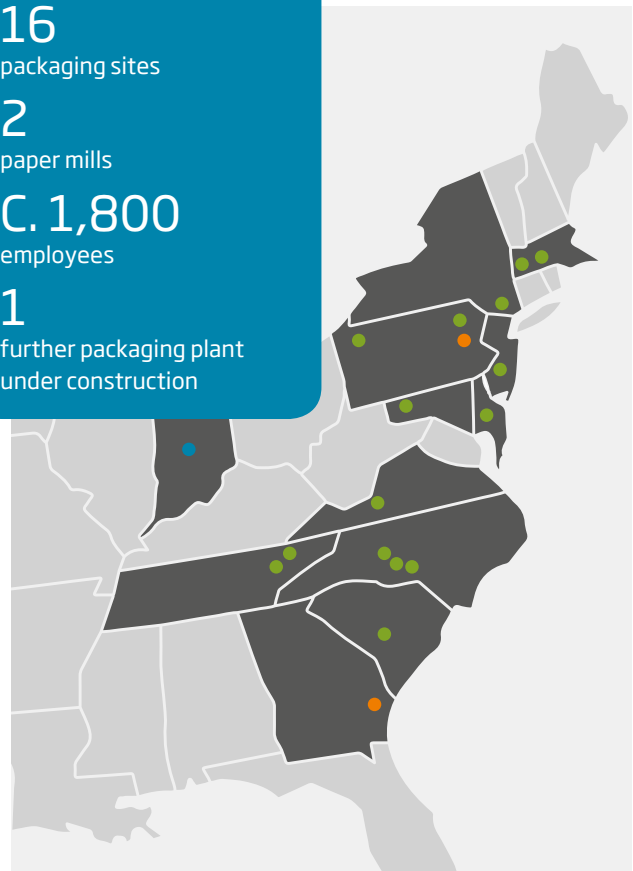
Our North America operations

16
packaging sites

2
paper mills

C. 1,800
employees

1
further packaging plant under construction



Key:

- Paper mills
- Packaging sites
- Packaging site under construction

Q. How is integration and synergy delivery going?

DS Smith has a methodical and well tested process for integrating new businesses, which has been used in the US. Approximately 50 initial workstreams were established, with both DS Smith and Interstate Resources employees making up our programme delivery office. Through those workstreams, taking a 'best of both' approach, we have improved health and safety, improved customer service and improved the operational efficiency of the paper mills and the major packaging sites. The integration work was then transferred over to the North America business after around six months, allowing the integration experts to focus on the next challenge.

As a result of the successful integration, synergy targets have been raised in relation to this acquisition, starting with an expectation of \$25 million cost savings by the end of the third full financial year, and now expected to be \$40 million of which we have delivered \$33 million by the end of 2018/19.

Q. What next?

The success of the past year and the positive reaction from customers means that we need more packaging capacity in the US. We are, therefore, building a new state-of-the-art packaging manufacturing site in Indiana, which should be operational by the end of the calendar year 2019. You can follow the progress of the build on the DS Smith website and social media. We have combined expertise from both our European and US colleagues to achieve this build in an ambitious timeframe. At the same time we continue to work collaboratively with colleagues in Europe to deliver the benefits to customers from innovation.

Europac: further consolidation in Europe

Rationale for the acquisition

The Europac business, across Iberia and France, is an exceptional opportunity to enhance our customer offering in a key growth region. We have the opportunity to develop the packaging assets, which have historically underperformed their potential, while strengthening our global supply chain with the addition of paper assets, in particular, a kraftliner mill in Portugal. We identified synergy opportunities of €50 million by 2021/22 at the time of announcement, delivered from a combination of operational efficiencies, supply chain optimisation, procurement and the removal of central costs.

Integration and synergy delivery

The same team that delivered the initial integration of Interstate Resources are working on the Europac integration. They have experience stretching back to the acquisition of SCA Packaging in 2012, so the integration process is very well established.

Integration work with Europac has been delivered at pace, with clear new organisational structures in place from the outset and quick decision making on key roles. In May 2019 we conducted our initial 'acid test' examination of performance versus our initial acquisition synergies and we are pleased with progress. As a result, cost synergies (to be realised by April 2022) are expected now to be €70 million, an increase of €20 million compared to initial estimates.

Our expanded operations in Iberia and France

13

additional packaging sites

3

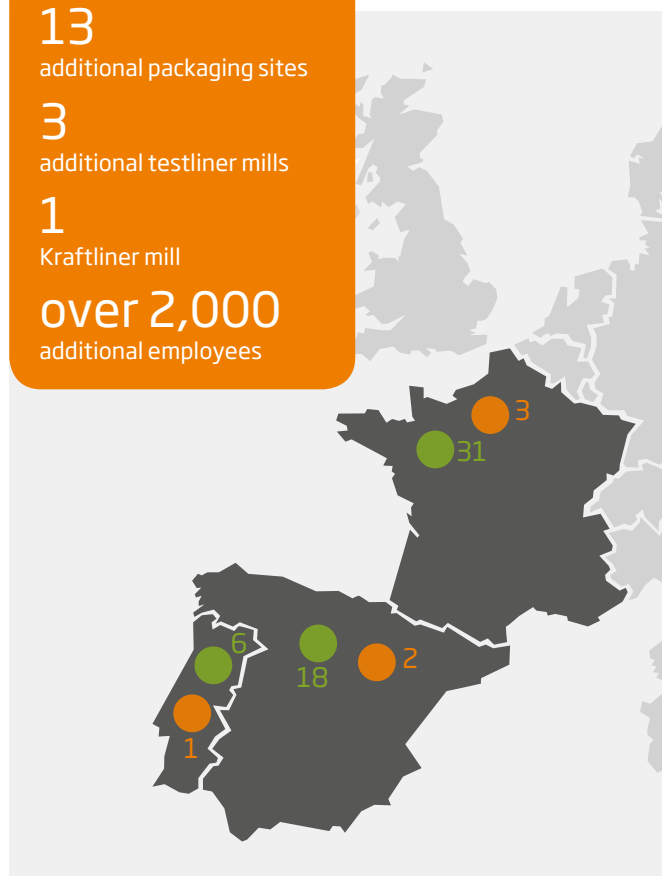
additional testliner mills

1

Kraftliner mill

over 2,000

additional employees



Key:

- Total number of paper mills
- Total number of packaging sites

How we will
continue
our growth



Our strategy

Our strategy is to be the leader in sustainable packaging

We will get there by balancing the requirements of our four key stakeholders – customers, employees, communities and investors.

To deliver our strategy we aim:



To delight our customers

- Delivering on our commitments for quality and service
- Using our end-to-end solutions to create value-added packaging

Read more on page 24



To realise the potential of our people

- Ensuring the safety of all
- Creating an environment that people are proud of and where they can give their best
- Building individual and organisational capability

Read more on page 26



To lead the way in sustainability

- Putting sustainability at the heart of our business
- Growing our recycling platform
- Delivering against our range of long-term sustainability targets

Read more on page 30



To double our size and profitability

- Winning market share
- Growing with our customers
- Maximising the opportunity from acquired businesses
- Building a resilient and sustainable business model

Read more on page 36

Our strategy

To delight our customers

We aim to delight our customer by offering great service, quality and innovation. We do this by delivering on our commitments and driving innovation that can help our customers sell more, reduce their costs and manage their risks.



Our recycling and paper customers

Our recycling customers range from small retailers and recycle resellers up to large national retailers and other businesses. We offer a full recycling service, taking away recyclable waste material and working with our customers to maximise the efficiency of their recycle collection.

Our paper operations sell our papers to third party corrugated businesses in addition to our own corrugated operations, where it makes financial and operational sense to do so.

We do this by

- Delivering on our commitments for quality and service
- Investing in innovation
- Using our end-to-end solutions to create value-adding packaging

Our performance

In 2018/19 we delivered:

- Volume growth ahead of market growth
- Five new PackRight Centres
- Renewal of exclusive long-term contract with Mondelez for all its European corrugated packaging
- Improved service and quality
- The initial integration of new colleagues from Europac, to bring our customer offering together

In 2019/20 we will:

- Continue to roll out PackRight Centres to support our new regions
- Integrate the sales and marketing approach for the legacy Europac packaging assets
- Continue to focus on and improve our service levels

Our KPI

On-time, in-full delivery

Definition

The proportion of our orders that are delivered on-time, in-full across all our businesses

Why this is a KPI

Packaging is an essential part of an efficient supply chain. Therefore, delivery of an order as specified is an essential part of being a trusted partner to our customers.

2018/19 performance

In the year 2018/19 we made another positive move towards our overall target of 97 per cent. We continue to strive for higher service levels, and expect to make continued progress as we bring recently acquired businesses up to the same standard as longer held operations. At the same time, we have continued to make substantial progress in our product quality (measured by defects-parts-per-million), which improved by 21 per cent.

2019 target: 97%



Our packaging customer profile

Our customer base is 70 per cent fast moving consumer goods (FMCG) and food, with an additional 10 per cent other consumer products and the remainder industrial. This compares to the market in Europe which is c. 55 per cent FMCG. As such we have greater than average exposure to FMCG in the corrugated industry. This is important to our business model for a number of reasons:

1. **Food and drink grows consistently.** FMCG products are the core products sold in supermarkets and used every day, and as such are high volume with consumption tending to grow with GDP. This compares to products such as cars where customers have discretion about whether to spend. That means we can have confidence in the demand for the packaging we make.
2. **FMCG customers are demanding.** FMCG customers demand high quality, innovative, value-adding packaging. We invest in innovation and insight to meet this customer need, and have the capability to do so because of our scale.
3. **FMCG customers build brands.** The products in our stores change frequently, and so does the packaging. That means we have the opportunity to engage with customers to come up with something new, and keep the packaging updated.
4. **FMCG customers want value.** Value is delivered through our end-to-end approach, ensuring that packaging is optimised at every step of the supply chain.
5. **FMCG customers need a multinational solution.** They need a packaging supplier whose geographic footprint matches their own.

DS Smith is exceptional in having the scale, expertise and commitment to innovation to support our customer needs.

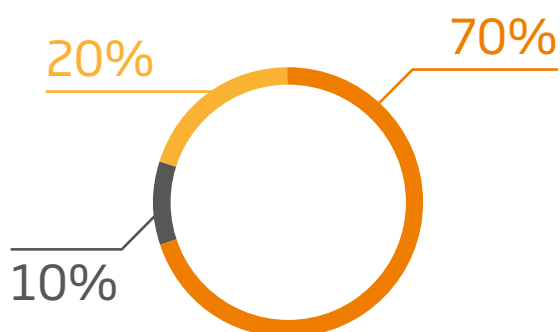
DS Smith is delighted to be providing the packaging for Unilever's innovative e-commerce male grooming business, Dollar Shave Club.

Unilever needed a packaging partner to take its Dollar Shave Club brand to the next level in the US, Canada, Australia and Europe. While the Dollar Shave Club brand is principally a US business, DS Smith was invited to pitch based on the strength of our relationship with Unilever in Europe. We produced a range of innovative designs, taking into account both the practical and visual aspects of the packaging, the functionality of packing and ease of opening. This resulted in a pack with printing inside and out, strongly supportive of the brand proposition. We are delighted to be delivering 100 per cent of its requirements for this packaging, globally.



DS Smith has a higher proportion of FMCG customers than the market average

Our corrugated packaging customers by volume



● FMCG and food

- Grocery
- Home and personal care
- Beverages
- Tobacco
- Agriculture

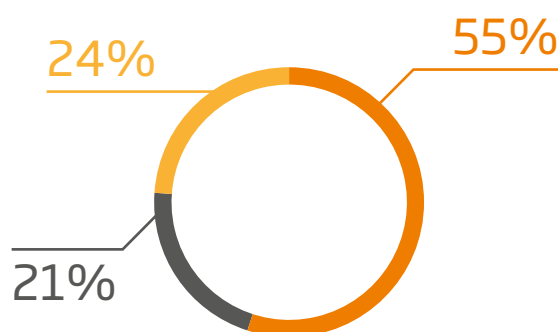
● Other consumer related products

- Pharmaceutical
- Electronics

● Other industrial

- Machinery
- Chemicals
- Construction
- Automotive

European industry average corrugated packaging by volume



Our strategy

To realise the potential of our people

Having a modern, diverse, motivated and engaged workforce where everyone is given the opportunity to realise their potential is fundamental to our business success. We want to 'Redefine packaging for a changing world' and are passionate about working together to create an even better place to work for our colleagues and a successful business that consistently innovates and delights our customers.

Ensuring the safety of all

We are never complacent about health and safety and this year we reflected on our health and safety strategy, with the aim to reinforce a culture and ambition of zero accidents.

Vision Zero

Under the banner of 'Vision Zero' our strategy covers four key areas (leadership, engagement, systems/processes and culture), setting overall goals, activities and KPIs to monitor implementation and effectiveness.

One of our strategic goals this year was a commitment regarding our site managers and ensuring their participation on our bespoke health and safety Leadership On-Boarding Programme. Fifteen sessions, in seven different languages have taken place with 170 site managers participating. As a result of this programme and other initiatives, we saw a significant improvement in positive employee survey responses regarding their manager's behaviour and commitment to health and safety.

Other initiatives included our Group-wide auditing programme; creating and deploying new technical health and safety minimum standards and introducing a new pro-active KPI – our health and safety engagement rate. This measures the number of near misses/safety observations per person – hence our people's engagement with seeing and raising health and safety standards.

This commitment and drive has resulted in us achieving all our annual Vision Zero goal KPIs and consequently a 23 per cent reduction in our Lost Time Accidents, with 265 sites achieving zero accidents.

We do this by

- Ensuring the safety of all
- Creating an environment that people are proud of and where they can give their best
- Building individual and organisational capabilities

Our performance

In 2018/19 we delivered:

- 23 per cent like-for-like reduction in accident frequency rate
- Launch of company Purpose to our colleagues
- Integration of over 2,000 employees following Europac acquisition
- Signed revised five-year voluntary agreement with our European Works Council

In 2019/20 we will:

- Deploy a global front line management health and safety leadership programme
- Develop Group-wide action plan following engagement survey
- Launch second Global Leadership cohort
- Continue to digitise core people processes
- Build consistent capability across our first line managers

Our KPIs

Accident frequency rate (AFR)

Definition

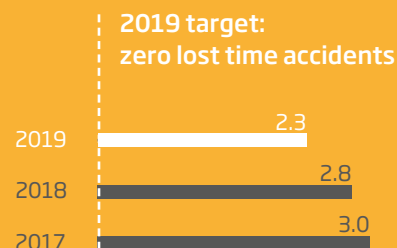
The number of lost time accidents (LTAs) per million hours worked.

Why this is a KPI

We have a strong focus on individual ownership and we believe that by engaging our people to contribute to a safe working environment and culture, everyone can influence a reduction in our accident frequency rate.

2018/19 performance

We believe that a healthy and safe working environment and culture is the cornerstone of any responsible, sustainable and profitable business. As such, we are pleased with our reduction in both LTAs and AFR.



Health and safety key performance indicators	2017/18		Variance vs. pro forma
	2018/19	Reported	Pro forma ³
Total LTAs ¹	112	126	146
AFR ²	2.3	2.8	3.0

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
3. Pro forma data based on inclusion of the businesses acquired, included in 2018/19 and not in the reported 2017/18 figures

This year a tragic accident in our Tallin plant, that resulted in the fatality of a colleague, has overshadowed our health and safety achievements. Incidents such as these starkly demonstrate the critical importance of following our robust health and safety practices, training and compliance. Our thoughts are with the family, colleagues and friends of the deceased as we support them through this difficult period.

In 2019/20, our aim is to continue the journey towards sustainable world-class performance and again we are raising our standards and expectations. For example, pro-active KPIs designed to achieve zero harm will be included in the criteria to receive one of our new range of annual health and safety certificates.

There will also be a focus on front line manager ownership and accountability and creating and deploying programmes to support their progress in health and safety leadership. Additionally, we will be introducing cross auditing to calibrate our current processes; implementing our cultural tool and continuing our focus on employee engagement and awareness.

Enabling our managers

Having strong managers that drive performance through people is a core pillar of our strategy. Our Group Values and Leadership Competencies set the behavioural code of conduct for managers. In order to support our enlarged business we have launched nine Management Standards to provide clarity of expectations and consistency of management practices across the Group. These standards are anchored into communications to focus managers on the key skills required to deliver projects and line management responsibilities.

Going forward, to ensure managers consistently measure themselves against these standards, they will be asked to self-assess themselves as part of their annual performance review and incorporate improving their management skills into their annual objectives.

In addition, we have recently completed an in-depth training needs analysis of our first line manager population resulting in a consistent suite of training for this population from fundamental skills training to role specific training – we will roll-out this training to our population of 3,000 first line managers throughout 2019/20.

Developing leadership talent

We plan for the future and ensure that we have a strong pipeline of senior leadership talent through our Global Leadership programme. Our first cohort of 21 senior managers embarked on the new programme designed in partnership with Oxford University's Saïd Business School in June 2018. The programme focuses on leading for competitive advantage,

Launch of our new company Purpose: 'Redefining packaging for a changing world'

We are a large, growing international company, and with that comes increased expectations from stakeholders; including our customers, colleagues and the communities where we operate. We felt it was important to be able to clearly communicate our Purpose to all stakeholders. This is essentially 'our story': where we have come from, what we are capable of delivering and how it sets us apart from the competition in today's changing world.

Co-creation

Our people and our customers define who we are and how we think about ourselves. We created our Purpose through a series of focus groups with colleagues and customers so their views on our business and the opportunity for us to grow ran deeply through our story.

Engagement activity

Our Purpose, 'Redefining packaging for a changing world', was introduced to every employee at the beginning of 2019 through a programme of company-wide meetings and events. Each colleague had the opportunity to hear more about the Purpose and how they could activate the drivers of the story every day at DS Smith.

Teams were then encouraged to take part in challenges, competitions and team blogs that communicated their relationship with the Purpose. Once employees had gained an initial understanding of what DS Smith's Purpose meant, we then shared this with local communities where we operate. This saw many office and factory teams build relationships with local schools by providing and delivering sustainability lesson plans. Our Children's Community Poster Challenge also encouraged hundreds of children to draw their vision of a cleaner and more responsible environment. We were proud to receive so many inspiring entries from 23 different countries. Our Purpose has only just begun and we will all work together – employees, customers and communities – in our mission to 'Redefine packaging for a changing world'.

Quotes from our employees following the launch:

"The story is so well told and the human element makes it highly engaging and easy to relate to. We are starting to properly integrate as a company and that's very motivating."

"Putting together our box for the Purpose, the poster challenge and delivering the Sustainability lesson was not only great fun but filled me with pride."

What is next

We now plan to share our Purpose with our customers and establish ourselves as a leader in sustainability and innovation. This is just the beginning – throughout 2019/20 we will embed our Purpose in everything we do so that every colleague, no matter where they work, feels proud of the role they play in helping us to 'Redefine packaging for a changing world'.

Our strategy

To realise the potential of our people (continued)

growth, innovation and what it takes to lead in a FTSE 100 company. The feedback has been exceptional with one delegate commenting:

"It is truly a wonderful experience to be a participant in such a uniquely designed leadership programme that helps to stretch the mind, through integrative assignments and experiences and creative stories about strategic options for the future."

Due to the success of the inaugural cohort we have extended the programme for a second cohort of 22 of our senior leaders who started the programme in March 2019.

Creating strength and depth in our talent pipeline is key and we are now focusing on developing the next level of managers identified as of high potential. A new mid-level leaders' programme will be launched in the autumn of 2019.

Engagement survey

We are pleased to say that 81 per cent of our colleagues took part in our first ever entirely online survey – making it our biggest survey so far.

Every two years we ask all our employees to tell us how they feel about working at DS Smith. The thoughts and views of our people are extremely valuable if we are to continue our journey to 'Redefine packaging for a changing world'.



Integrations

Setting high expectations and the foundation of a healthy and safe culture right at the start of our integration process is vital, and our strategy has proven to be highly effective. We have seen vast improvements in our European sites that have integrated into the business over the last few years, and we are now seeing exceptional progress in our North America Packaging and Paper division, where they have reduced LTAs from 20 (not included within the 2017/18 figures above) to eight during 2018/19.

Compared to our survey results in 2016 we saw increases in our health and safety and leadership scores and we are also improving our customer focus. However, our overall engagement scores remained flat and teams are now busy using the online action planning tool to focus our efforts, share good practice and working together to make a difference.

European Works Council

The purpose of our European Works Council (EWC) is to bring together employee representatives from the different European countries where we operate. During EWC meetings, EWC representatives are informed and consulted by Group management on issues of concern to the Company's employees. The aim of the EWC is to engage employees across Europe through an effective information and consultation process that is primarily focused on business decisions which affect the workforce and impact on the interests of employees. We worked closely with the 43 EWC members to review and revise our joint voluntary agreement to create a simpler EWC model that is more closely aligned to our business. It has the flexibility to adapt as we continue to grow to meet the changing needs of our customers. This revised voluntary agreement will last five years.

Andy Speak, Group HR Director said:

"We firmly believe that our new EWC model and the revised agreement sets the new industry standard. I'd like to thank all the EWC representatives for their efforts in ensuring our people, no matter where they work, have a voice. This agreement protects our employees and the Company and is considered one of the best in Europe."

In addition, due to the nature of our business, coupled with the climate of certain countries where we operate, we have established a Heat Stress at Work protocol in partnership with the EWC where heat stress hazards are assessed and managed appropriately.

Creating a modern, diverse and inclusive culture

2018 UK Gender Pay Gap Reporting

We believe anyone can and should be able to realise their full potential without experiencing inequality and unfairness on any grounds. Therefore, we welcome the legal UK reporting requirement which brings sharper focus to gender pay and the need to improve national gender equality.

At DS Smith, we choose to report not only on the UK legal entities where headcount is above 250, but on the UK total figures to provide a comprehensive view. This year the mean gender pay gap was 10.2 per cent whilst the median gender pay gap was 10.3 per cent. You can find our detailed UK gender pay gap report on dssmith.com by searching 'gender pay gap report'. This explains the reasons for the gap and information on programmes we have in place to help close the gap and create a modern, diverse inclusive culture which is core to our values and Purpose. However, the UK only represents a small proportion of our total workforce and our policies and practices are applied globally.

Diversity of executive team

To fulfil our purpose of 'Redefining packaging for a changing world', we not only need a diverse workforce to innovate and deliver for our customers, we also need our people to reflect the diversity of our customers. Our gender split as at 30 April 2019 is outlined in the table below:

Gender Diversity

Board of Directors – Total: 9

Male: 7 Female: 2

Senior management – Total: 145

Male: 104 Female: 41

All employees – Total: 31,355

Male: 24,404 Female: 6,951

We acknowledge that in order to create meaningful change this diversity needs to be role modelled at the highest level of our organisation. It is with this intent that we voluntarily take part in the Hampton-Alexander Review (the Review) which sets out recommendations for FTSE 350 companies to improve the representation of women both on their executive committees and the direct reports to those committees.

DS Smith has three committees that together comprise our executive committee, being the Group Operating Committee, Strategy Committee and the Health, Safety, Environment and Sustainability Committee, as described on page 61.

The Review has set a target of 33 per cent women's representation on FTSE 350 boards by 2020. The 2018 report was published in November 2018 and represents the women on our Board and executive committee as of 30 June 2018. Our position at that date is outlined below:

Ranking in industry sector (manufacturing)	1st
Overall FTSE 100 ranking	53rd
Women on plc Board	28.6%*
Female executive committee and direct reports	24%**

*Compared to FTSE 100 average of 30.2%

**Compared to FTSE 100 average of 27%

We continue to track our progress towards building a diverse and inclusive workforce.

Building individual and organisational capability

We continue to look at ways to grow our business, skills, knowledge and experience through acquisition with a 'stronger together' ethos at the heart.

Interstate Resources, which we acquired in August 2017, is now known as our North America Packaging and Paper division. The integration of the business has been excellent as demonstrated by our raising of synergy targets and fantastic employee engagement.

Our purchase of Europac Group, a leading Western European manufacturer of paper and packaging, completed in January 2019 saw us welcome a further 2,300 colleagues to the DS Smith family.



The leadership teams of both businesses spent significant time engaging with each other and aligning on the integration roadmap before unveiling this to the wider Europac team at a 'Stronger Together' conference at the time the transaction completed. The event was hosted by representatives from both leadership teams who shared how the two businesses really were 'stronger together'. Integration is going extremely well, and again follows our proven template which includes work streams to ensure our new colleagues are quickly introduced into DS Smith's standard human resources processes and to ensure knowledge and best practices can be quickly transferred around the enlarged team.

This is a significant period of change for both DS Smith and former Europac colleagues as the two organisations are brought together. We are acutely aware of the need to support people through this change and the human resources community have access to a standard set of tools that they use to support the business to introduce these changes.

Digital-first approach

In order to lead our industry and serve our customers to the highest standards, we need highly efficient ways of working and a digital-first approach to all we do. This includes how we proactively manage talent and realise the potential of our people.

Workday investment

Earlier this year we introduced a new digital platform, Workday, to a group of employees to support them through the annual talent management process; including performance development reviews, objective setting and career conversations. Managers have full visibility of their team's performance and individuals can manage their development programme in a similar way to their own social media channels.

Since its launch, Workday has been positively received by the business with plans in place to simplify more of our core people processes. These new ways of working will give us one view of everybody's performance and career aspirations so we can support all personal development in a consistent way that build on the huge success of our first entirely digital engagement survey.

Our strategy

To lead the way in sustainability



We aim to lead the way in sustainability by balancing the needs of our business, our environment and our people.



Packaging has never been more relevant

Packaging helps to prevent waste: wasted food through spoilage, wasted products due to damage and wasted time and space in logistics and transport. Packaging protects resources and makes supply chains more efficient. In a changing and increasingly resource-constrained world with ever more waste-conscious consumers, the right packaging has a key role to play.

Packaging facilitates a more circular global economy. Recycled, recyclable corrugated packaging is a shining example of a circular economic system with an established recycling infrastructure maintaining value in and use of recycled raw materials, again and again.

Packaging must play a role in tackling systemic sustainability challenges. From ocean plastics and climate change to biodiversity loss, every business in every industry can and must play a role in finding solutions to global environmental issues. Innovative new applications for fibre-based packaging can help to address the plastics issue. Transport emissions, now the UK's biggest carbon emitter, can be reduced in e-commerce supply chains using smart packaging solutions. Optimised quality recycling of corrugated packaging reduces the need for virgin fibre inputs.

Packaging must help to protect and build brands. Branding and sustainability have become ever closer entwined – no brands are immune to the consumer impact of operating unsustainably. As traditional advertising is in decline, packaging is an increasingly vital chance for consumers to engage with brands, making the use of sustainable packaging essential.

In a changing world, packaging must do more than protect products, keep food and drink fresher for longer and minimise supply chain and product waste. Packaging must do all of this, sustainably.

Putting sustainability at the heart

Through our circular business model, we put sustainability at the heart of our products and services and deliver packaging solutions and recycling services that meet the evolving requirements of supply chains, customers and consumers.

Our network of packaging strategists, supported by our innovative Impact and PackRight Centres, are designing packaging that not only protects products and the resources invested, but makes logistics more efficient, reduces supply chain environmental impacts, replaces plastics and reduces food waste.

Our primary raw material – fibre – is a renewable biomaterial sourced from either recycling streams or from sustainably managed forests. Timber fibre, recyclable both in theory and in practice, is capable of being recycled up to 25 times.

Across our operations we are reducing our environmental impact through investment in innovative energy reduction technologies, switching to cleaner fuel, turning waste streams into resources and managing our water impact. Our Recycling division plays a key role in this, managing c. five million tonnes of waste materials per annum, some of which are a key feedstock for our network of paper mills. The net effect is that we are involved in the recycling of a considerably higher tonnage of material than we manufacture.

To further explore how we manage sustainability issues in more detail please see our Sustainability Report 2019.

Our approach and performance

At DS Smith, our approach to sustainability is focused on the three pillars of our business, our environment and our people. We have a number of ambitious targets under each pillar to focus our activities in the areas where we can have the greatest impact.

We do this by

- Putting sustainability at the heart of our business
- Growing our recycling platform
- Delivering against our range of long-term sustainability targets

Our performance

In 2018¹ we delivered:

- 6.1 per cent like for like reduction in CO₂e per tonne of production
- Our target to ensure 100 per cent of our sites hold chain of custody certification
- 97 per cent of the papers used in our business are recycled or chain of custody certified
- An improved or maintained strong performance in key sustainability benchmarks

In 2019¹ we will:

- Continue to deliver against our nine long-term sustainability targets
- Begin delivery of key circular economy programmes in partnership with the Ellen MacArthur Foundation
- Further develop our reporting against the TCFD² recommendations

Our sustainability KPIs

Aim

Reduce our CO₂e per tonne of production by 30% by 2030

Definition

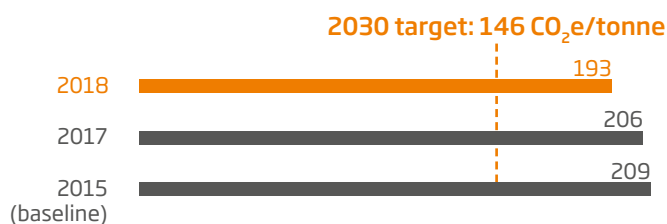
Our total CO₂e emissions including all direct (Scope 1) and indirect emissions from energy consumption (Scope 2) divided by our production volumes in tonnes.

Why this is a KPI

As a manufacturing business, including a network of energy intensive paper mills, we monitor, measure and manage our carbon emissions to ensure that we meet relevant legal requirements and reduce our emissions to limit the effects of climate change.

2018 Performance¹

Our performance in the past year is due to a continued investment in energy efficiency improvements. This has been supported by the ongoing roll out of the ISO 50001 energy management system certification across our manufacturing sites.



Ellen MacArthur Foundation – Global Partner

We are proud to report that we have recently signed an agreement with the Ellen MacArthur Foundation (EMF) to become a Global Partner. EMF is an organisation at the forefront of the acceleration towards a circular economy and our strategic partnership will support innovation across the business and will help us to lead the way in sustainability. Our partnership will also enable us to further embed circular economy thinking into our business, through training, awareness and new ways of working.

Aim

100% sites hold chain of custody certification

Definition

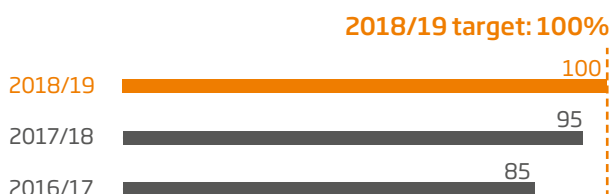
All sites that trade or manufacture timber-derivative products to hold a relevant chain of custody certification (e.g. FSC, PEFC, SFI).

Why this is a KPI

Chain of custody schemes are widely recognised as a key mechanism in ensuring and demonstrating to consumers the sustainable sourcing of a wide range of commodities including pulp and paper.

2018/19 Performance

In the year we achieved this target, with 100 per cent of relevant sites now holding a chain of custody certification.



1. Environmental sustainability data is reported on a calendar year basis
2. Taskforce on Climate-related Financial Disclosures

Our strategy

To lead the way in sustainability (continued)

Our sustainability approach, strategy, focus and targets



Our business

Creating shared value through responsible recycling, paper and packaging.



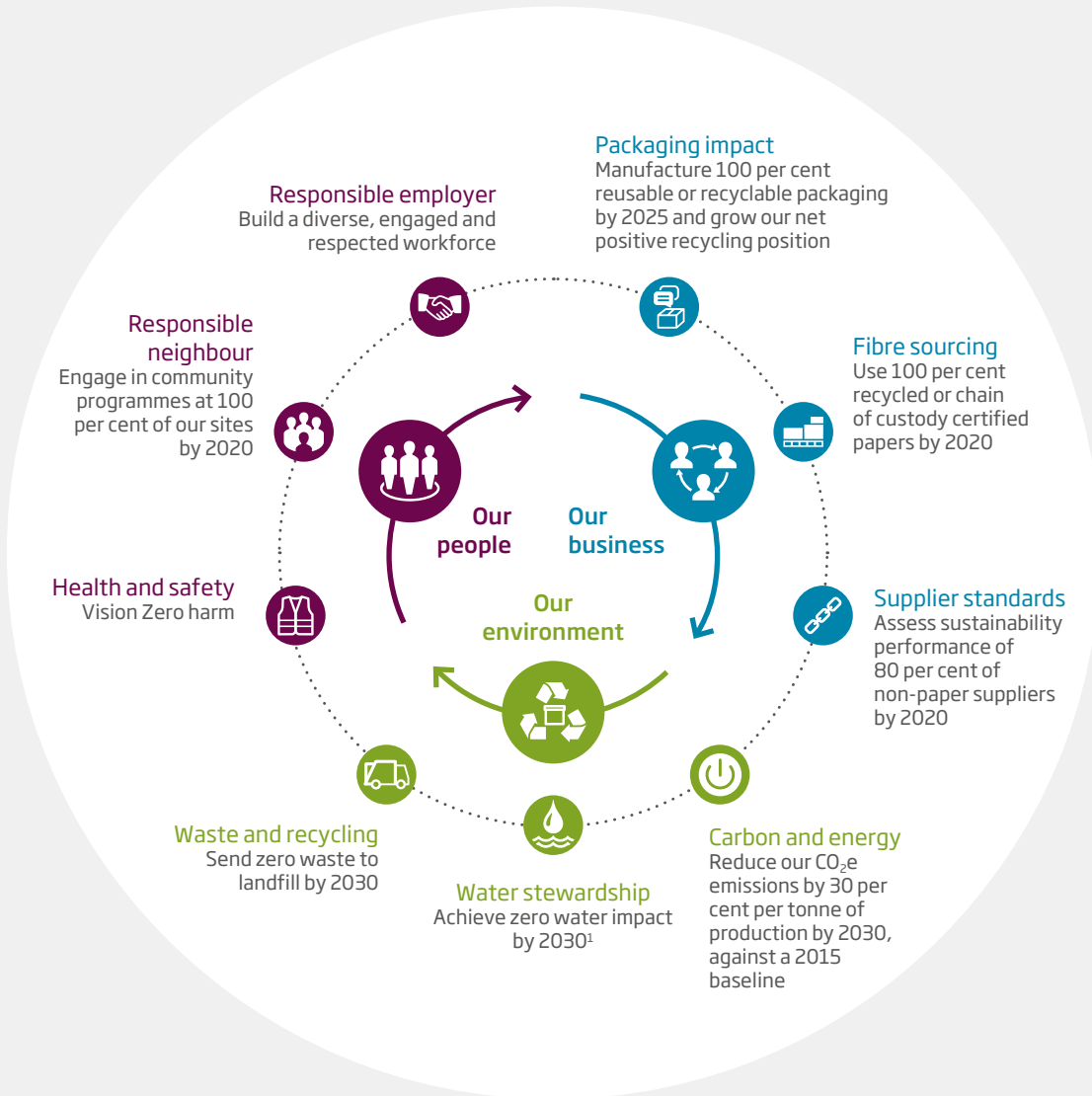
Our environment

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



Our people

Ensuring the safety, wellbeing and development of colleagues and contributing to our communities.



1. To include water quality, water stress improvements and water efficiency

Performance

We launched our nine ambitious sustainability targets in last year's annual report and accounts. We are pleased to share a progress report in each area below.

Packaging impact

In the past year, work towards our packaging impact target has focused on definitions and data. We are leading industry conversations to help to determine consistent, accurate and authentic definitions. Alongside this we have conducted a data collection pilot at several of our manufacturing sites around the world, which we will roll-out across our footprint over the next year.

This will support our collaborative and strategic partnership with the Ellen MacArthur Foundation. We plan to focus on finding innovative solutions to packaging recyclability challenges that we identify and continue to help our customers replace single-use plastics with recyclable fibre-based alternatives.

We also have an ambition to grow our net positive recycling position. We are proud of the fact that not only do we manufacture predominantly recyclable packaging but we also play an active role in that recycling through our Recycling division. Our ambition is to continue to be involved in the recycling of more material than we place on the market. This means that we will continue to play a net positive role in the circular corrugated system.

Fibre sourcing

We have had significant success in this area in the past year. We have achieved our target of 100 per cent of our production sites holding a recognised chain of custody certificate (i.e. FSC, PEFC or SFI). We are also making excellent progress towards our 2020 target with 97 per cent of the papers used either recycled, FSC certified or certified through the controlled wood system.

Supplier standards

Given the size and complexity of our supply chains, we have focused on assessing suppliers' sustainability performance on a risk basis to progress this long-term target. We have begun with those that we perceive to be of high risk or critical to our business operations. We have engaged leading supplier ratings agency EcoVadis, which supports our supplier assessments. Our Global Supplier Standards and Global Supplier Requirements are also becoming embedded in our new supplier onboarding processes.

Carbon and energy

On a like-for-like basis, our net carbon figures for 2018 fell by 5.1 per cent on 2017 values, with emissions relative to production falling by 6.1 per cent. As reported in the previous year, our carbon reductions relative to production need to be seen in the context of our focus on lighter, higher performance papers and packaging.

It is of note that increased manufacture of lighter, higher performance packaging has a negative impact on carbon emissions relative to production tonnage. This is because required energy inputs do not change in direct correlation with the grammage of paper outputs. In this context the year's reduction is an excellent achievement.

We remain in a positive position against our long-term target to reduce our CO₂e emissions per tonne of production by 30 per cent, with our carbon intensity 7.5 per cent lower against a 2015 baseline. We are also including our North American Packaging and Paper (NAPP) division in our reporting for the first time. This has a significant impact on absolute carbon figures, but only a small negative impact on our carbon emissions relative to production. NAPP is now in scope for all our sustainability targets and will be a clear focus in the year ahead.

Waste and recycling

Our Packaging division's focus on eliminating waste has borne fruit over the past year, with an 18 per cent reduction in the tonnage of waste sent to landfill.

However, as our Paper division accounts for roughly 90 per cent of our total waste to landfill, we have not yet made the progress towards our 2030 zero waste to landfill ambition that we would have liked. Our strategic priorities remain in place to support the delivery of this target. Restrictions on exporting recycled materials have had an impact on waste management operations across Europe, as has been widely reported. Recognising that waste challenges are often best addressed locally our focus next year is to create paper mill specific zero waste to landfill roadmaps to complement the roadmap of strategic projects.

Inclusion of our NAPP division has a significant impact on our net and relative landfill figures. This is due to both the on-site landfill at our paper mill in Riceboro, Georgia and the relatively limited recycling infrastructure in North America in comparison to Northern Europe. Activity is ongoing to develop a long-term plan for our NAPP division to achieve our 2030 zero waste to landfill target.

Water stewardship

As reported last year, a focus on water reduction is challenging because reducing water use has a negative impact on the amount of energy consumed in our paper mills, negating any potential positive environmental impact. We are instead focusing on three areas that we believe will deliver net environmental benefits. They are water quality, water efficiency and water stress.

Over the past year, we have undertaken a detailed mapping exercise to identify any operational sites that are in current or potential future areas of water stress. Relevant sites are now required to create and maintain a water stress mitigation plan, which will be completed in the coming year. With regards to our water efficiency target, 40 per cent of our paper mills are already operating to our water use benchmark set and we continue to focus on our global footprint.

Health and safety, responsible employer and responsible neighbour

For information on the year's health and safety performance and our ongoing work to be an ever more responsible employer and neighbour please see pages 26-27.

Our strategy

To lead the way in sustainability (continued)

Sustainability governance

Risks arising from sustainability issues are considered by the Board as being among the key risks to the Group's operations. To manage and mitigate such risks adequately and effectively, we have put in place policies and procedures for existing and emerging sustainability issues. These policies are periodically reviewed and updated, with action plans communicated to the heads of each business unit.

The Board receives regular reports on performance. The Group Chief Executive is responsible for addressing sustainability-related issues. The Health, Safety, Environment and Sustainability Committee meets monthly. In addition, the Sustainability Steering Group, chaired by the Group General Counsel and Company Secretary, oversees the process for addressing sustainability-related issues and sets and monitors internal targets and strategies to ensure sustainability-related risks and opportunities are appropriately managed. Residual issues are brought to the Board. DS Smith is committed to conducting business in a socially and environmentally responsible manner.

DS Smith subscribes to several 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.

For more information on our policies, procedures and performance in any of these areas please see our Sustainability Report 2019.

Data

KPI	Unit of measure	2015 (baseline)	2017 (with acquisition)	2018 (with acquisition)	2018 (like-for-like)	2018 vs 2017 % (with acquisition)	2018 vs 2017 % (like-for-like)
Scope 1	kt CO ₂ e	1,678	1,660	1,750	1,604	5.4%	-3.4%
Scope 2	kt CO ₂ e	355	352	527	385	49.7%	9.5%
Emissions from energy exports	kt CO ₂ e	348	317	381	381	20.1%	20.1%
Total CO ₂ e (net energy export)	kt CO ₂ e	1,686	1,695	1,897	1,609	11.9%	-5.1%
Energy exported	GWh	962	892	905	861	1.4%	-3.5%
Total production	kt nsp	8,059	8,234	9,734	8,325	18.2%	1.1%
Waste to landfill	kt	87	118	210	164	77.6%	39.1%
CO ₂ e per tonne of production	kg CO ₂ e/tonne nsp	209	206	195	193	-5.4%	-6.1%
Energy consumption*	GWh	-	8,667	10,947	9,396	26.3%	8.4%

* UK data: 25 per cent for energy consumption and 28 per cent for carbon emissions

Methodology

1. Based on data from 248 in-scope sites.
2. Figures from all years are based on data from sites we owned for the entirety of that year. The 2018 data is based on sites we have owned since 1 January 2018.
3. 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; finished wood products from our timber business and boxes and sheets sold to third parties from our Packaging sites and other types of packaging production from these sites.
4. DS Smith collects and reports environmental data in accordance with the guidelines of the Global Reporting Initiative and the Greenhouse Gas Protocol (GHGP), to the extent that this is practicable.
5. The CO₂ and CO₂e emissions were calculated using the UK DECC 2017 factors for all fuels.
6. Where available, we use the emissions factor for bought electricity from the supplier of energy to our business (Scope 2 Market Value). If this figure is not reported, the country's emissions factor from the IEA is used instead (Scope 2 Location Value). Emissions from national grids use the AIB Residual Grid Emissions Factors for those European countries for which they are available, otherwise they use the previous location emissions factors from the International Energy Agency (IEA) 2017 v1.03 (AR5 Applied).
7. The CHP that supplies our Witzzenhausen paper mill with steam is fired predominantly by refuse-derived fuels. The emissions factor for this site has been estimated as 32.77 kg/MWh of CO₂e.
8. The CHP that supplies our Belišće paper mill and corrugator with steam and electricity is fired by a combination of natural gas and flare gas. The emissions factor for flare gas is estimated to be 240 kg/MWh of CO₂e.
9. The waste figures relate to waste generated by our operations; they do not include waste that is collected from external sources for recycling.
10. Where water effluent figures are available from meters and invoices, they are used here, otherwise they are calculated to be 50 per cent of the water abstracted and brought on-site.

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: total energy consumption; total energy exported; Scope 1 and 2 greenhouse gas (GHG) emissions; raw material usage; water consumption; total water effluent; landfill waste; discharge to air and water; and total production, for calendar year 2018. 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 methodology, limitations and exclusions can be found on the DS Smith website at <https://www.dssmith.com/company/sustainability/our-environment/performance>

Taskforce on Climate-related Financial Disclosures (TCFD)

DS Smith supports the recommendations of the Financial Stability Board's TCFD and in last year's report committed to disclosing relevant information. The table below summarises our progress, with reference to other pages in this report and other sources.

	Disclosure	Reference
Governance		
Describe the Board's oversight of climate-related risks and opportunities.	Annual report and accounts 2019	p 34, 54
Describe management's role in assessing and managing climate-related risks and opportunities.	Annual report and accounts 2019	p 34
Strategy		
Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long-term.	Website article on climate risks CDP Climate Change	Website Website
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Website article on climate risks CDP Climate Change	Website Website
Describe the potential impact of different scenarios, including a 2°C scenario, on the organisation's businesses, strategy, and financial planning.	–	–
Risks and opportunities		
Describe the organisation's processes for identifying and assessing climate-related risks.	Website article on climate risks	Website
Describe the organisation's processes for managing climate-related risks.	–	–
Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Annual report and accounts 2019 Sustainability Report	p 49 Sustainability Report
Metrics and targets		
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	–	–
Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	CDP Climate Change Sustainability Report	Website Sustainability Report
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Annual report and accounts 2019	p 31

This year we have focused on establishing governance of climate risks and identifying and assessing their impact on our business. Our key identified risks are projected increases in carbon emissions costs and customer behaviour. Next year we will publish financial impact figures for climate risks, based on several climate change scenarios, and report on plans to mitigate these risks.

More details about our approach to TCFD and climate risk are available on our website and in our Sustainability Report 2019.

Our strategy

To double our size and profitability

We aim to double our size and profitability by growing through organic market share gains, investing behind growing areas of the corrugated packaging market and making acquisitions.

We do this by

- Winning market share
- Growing with our customers
- Maximising the opportunities from acquired businesses
- Building a resilient and sustainable business model

Our performance

In 2018/19 we delivered:

- 2.4 per cent like-for-like corrugated box volume growth
- 12 per cent revenue growth (constant currency)
- 28 per cent adjusted operating profit growth (constant currency)
- 35 per cent increase in profit before tax
- A strengthened European packaging operation with the acquisition of Europac, a packaging and paper business in Portugal, Spain and France
- An integrated North America packaging operation

In 2019/20 we will:

- Continue to drive growth through organic investment
- Integrate Europac
- Maximise efficiency of operations and procurement



Our KPIs

Like-for-like corrugated box volume growth

Definition

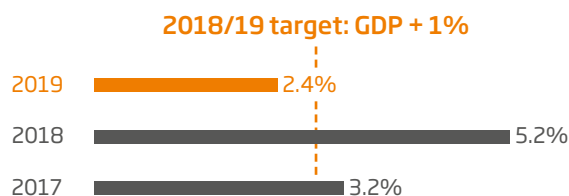
Like-for-like volume of corrugated box products sold (excluding the effect of acquisitions and disposals) measured by area.

Why this is a KPI

We target volume growth above GDP because we expect to win market share by delivering value to our customers across their supply chain on a multinational basis. We invest in areas that we expect to grow ahead of GDP, such as e-commerce packaging and display packaging.

2019 Performance

In 2019 our corrugated box volumes grew 2.4 per cent, slightly behind the target of GDP + 1 per cent (being 2.9 per cent), ahead of corrugated market growth.



Further information on the calculation of financial KPIs and other non-GAAP performance measures is given in note 33 to the financial statements

Return on sales

Definition

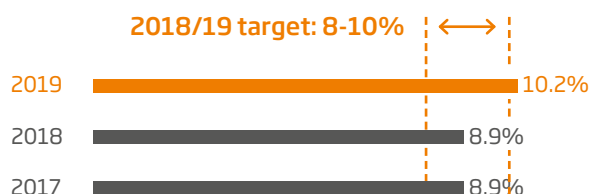
Earnings before interest, tax, amortisation and adjusting items as a percentage of revenue.

Why this is a KPI

The margin we achieve is a reflection of the value we deliver to our customers and our ability to charge for that value. It is also driven by our scale. A higher return on sales makes the profit more resilient to adverse effects.

2019 Performance

In 2019 we achieved a return on sales of 10.2 per cent above the top of our target range. This performance is due to our drive for more value-added packaging and the benefit of the inclusion for a full year of our North America business, which has a higher margin on average. The Board has decided to amend the target to 10-12 per cent for the coming financial year as discussed further on page 40.



Net debt/EBITDA

Definition

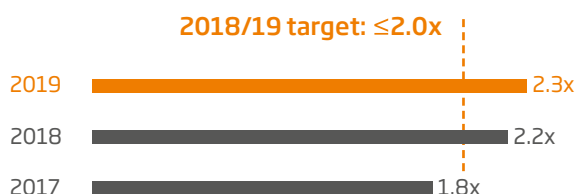
Net debt calculated at average FX rates for the year, over earnings before interest, tax, depreciation, amortisation and adjusting items for the preceding 12 month period adjusted for acquisitions and disposals made during the financial year.

Why this is a KPI

Net debt/EBITDA is a key measure of balance sheet strength and financial stability.

2019 Performance

Net debt/EBITDA at 30 April 2019 is 2.3 times. The increase in Group leverage is due principally to acquisitions in the year of £1,702 million, partially offset by cash flow in the period and proceeds of equity issued of £1,006 million. In March 2019, we announced the agreement to dispose of the Plastics business for c. £400 million net proceeds. That disposal is expected to take place in the second half of the calendar year 2019.



Adjusted return on average capital employed (ROACE)

Definition

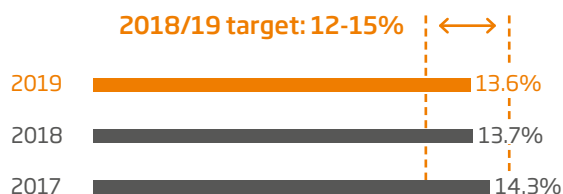
Earnings before interest, tax, amortisation and adjusting items as a percentage of average capital employed, including goodwill, over the prior 12 month period.

Why this is a KPI

Our target ROACE of 12-15 per cent, to be delivered throughout the economic cycle, is above our cost of capital. ROACE is a key measure of financial success and sustainability of returns and reflects the returns available for investment in the business and for the servicing of debt and equity. All investments and acquisitions are assessed with reference to this target.

2019 Performance

In 2019 we achieved a ROACE of 13.6 per cent, around the middle of our target range. This includes the acquisition of Interstate Resources, which was acquired by the Group in 2017 and for which this year is the first full year of ownership, and Europac, which was acquired on 22 January 2019.



Cash conversion

Definition

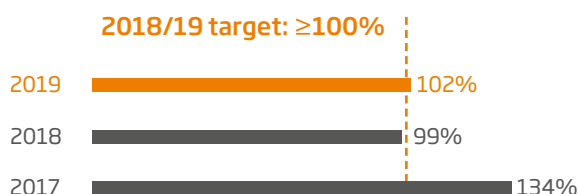
Free cash flow before tax, net interest, growth capex, pension payments and adjusting items as a percentage of earnings before interest, tax, amortisation and adjusting items. Free cash flow is the net movement on debt before cash outflow for adjusting items, dividends paid, acquisition and disposal of subsidiary businesses (including borrowings acquired) and proceeds from issue of share capital.

Why this is a KPI

We focus on cash conversion as part of our wider focus on capital management and maintaining a prudent balance sheet. Working capital is a key focus within the business in order that all capital is employed where it can best deliver returns for the business.

2019 Performance

Cash conversion is in line with our target of 100 per cent or greater.



Operating review

Summary

2018/19 has been another year of good delivery from DS Smith, with substantial progress developing our strategic position in Europe along with further organic growth. We have delivered record return on sales margins of 10.2 per cent alongside continued market share gains and return on capital of 13.6 per cent, in the middle of our target range. We also made the significant acquisition of Europac, which was announced in June 2018 and completed in January 2019. Europac represented an exceptional scale opportunity to enhance our customer offer in Iberia, a key packaging growth region, and strengthen our global supply platform, in particular with the addition of a strategically important kraftliner mill to our assets. Initial integration work has been excellent and I am pleased to announce that we are now able to increase our initial cost synergy target for this acquisition, from €50 million per annum to €70 million per annum, by the end of 2021/22. Our North America operations, comprising Interstate Resources (acquired in August 2017), along with Corrugated Container Corporation (acquired in May 2018), have continued to perform ahead of plan with \$33 million of the target \$40 million cost synergies now achieved. We have also agreed the disposal of our Plastics business for c. £400 million (net), with completion expected by the end of this calendar year.

The success of these acquisitions means that we are now able to look at how we best optimise our paper assets so that we maintain the optimum balance between paper and packaging manufacturing, consistent with our short paper strategy, as well as leveraging further efficiency across the Group.

Strong organic growth

Organic corrugated box volumes have grown 2.4 per cent across the year (excluding Europac), reflecting a strong H1 period and a lower growth rate through H2, due to some weakness in export-led markets, including Germany, as well as some capacity constraints in North America. Once again, all regions have reported growth, with particularly strong regional volumes in the UK and in Central Europe and Italy. Growth once again has been particularly strong from our multinational customers, particularly FMCG, e-commerce and shelf-ready packaging. We have been particularly focused on achieving sales price increases to reflect increasing input costs, resulting in a record return on sales achieved in the year. Our focus is on corrugated packaging, where we see continued market growth, and to be differentiated to succeed in that market. The core market growth drivers of e-commerce, plastic substitution and retail changes are more relevant than ever. In particular, public awareness of the importance of alternatives to plastic packaging has increased substantially over the past 12 months and we have corrugated packaging alternatives that are currently marketed to take advantage of this opportunity. Our differentiators of scale, innovation, end-to-end solutions and partnership approach continue to resonate with customers as we help them to increase their sales, reduce their costs and manage their risks.

For the full year, revenue growth of 12 per cent on a constant currency basis was due to organic growth, the contribution from Europac (which was owned for just over three months of the period) and the incremental four month contribution from Interstate Resources (which was acquired part way through the prior year). Organic growth was driven principally by increases in sales price reflecting rises in underlying costs, plus a contribution from volume growth in corrugated boxes, partially offset by reduced volume in external recycling and paper sales reflecting greater matching of our paper manufacturing with the requirements of our packaging operations.

Adjusted operating profit (continuing operations) increased by 28 per cent on a constant currency basis to £631 million (2017/18: £492 million). This was driven by the significant contribution from acquisitions, including just over three months from Europac, the full year effect of ownership of Interstate Resources, and synergies delivered from the North America business, together with strong organic profit growth. Volume growth together with increases in the sales price due to the lagged pass-through of paper price rises, principally in calendar 2018, offset in part by rising costs, contributed 8.8 per cent growth (£46 million) compared to the prior year. Operating profit increased 29 per cent on a constant currency basis to £427 million.

Adjusted earnings per share for continuing operations increased by 8 per cent on a constant currency basis to 33.3 pence (2017/18: 30.7 pence). Including the earnings per share contribution from discontinued operations i.e. the Plastics division, of 1.7 pence, total adjusted earnings per share was 35.0 pence. This result builds on nine years of consistently strong growth, with the nine year compound annual growth rate for adjusted EPS being 23 per cent. Earnings per share for continued operations decreased by 8 per cent to 19.7 pence per share, reflecting the benefit of profit growth offset by the increase in number of shares in issue.

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 and having taken into account the future financing requirements of the Group. For the year 2018/19, in accordance with our dividend policy, the Board recommends a final dividend of 11.0 pence per share, which will be paid to all shares on the record date. This, combined with the 2018/19 interim dividend of 5.2 pence, makes a total dividend for the year of 16.2 pence (2017/18: 14.4 pence).

Developing the business

The year 2018/19 has been one of substantial strategic progress. It has been the first full year of ownership of our North America business Interstate Resources, we have acquired Europac in Iberia, and we have also agreed the disposal of our Plastics business. These steps together mean that DS Smith will be a fibre-based packaging focused, strategically aligned and financially strengthened business.

Our North America business has performed well ahead of our initial expectations. Integration work has continued through the year such that the majority of the upgraded cost synergy target of \$40 million has been achieved, well ahead of schedule. Meanwhile, the customer reaction to our packaging continues to be very good, with a number of customer wins from large multinational groups that we had previously served only in Europe. Our success means that we are now expanding our packaging operations in the region with a new greenfield site in Indiana, substantially increasing our capacity in the region. That site is expected to begin production towards the end of calendar 2019. A one-off impact on divisional profitability of £15 million is expected in 2019/20 relating to start-up losses from this new site.

Europac was acquired on 22 January 2019 and integration work is going very well, with the management team established and positive engagement from employees. We are now announcing an increase to our estimate of cost synergies from Europac from €50 million to €70 million, due to additional synergies from head office cost reductions and paper optimisation.

Optimisation programme in paper

DS Smith has grown substantially over the past nine years with a unique footprint of European capability and operations, and this presents an opportunity to optimise our paper operations.

Our paper assets are managed to support our packaging operations, for example, producing specific paper grades required for our performance packaging, particularly in regions where external supply is scarce. The strategy of DS Smith has consistently been to be 'short' paper, i.e. a net buyer of paper in the market, in order to maintain the consistency of our profitability. The recent acquisitions have resulted in a much improved network of high quality paper mills (in addition to our packaging operations) both geographically and from a product perspective. We have added mills in key locations where there is a shortage of specialist grades, such as the lightweight paper mill of EcoPaper, and significant kraftliner production through the acquisition of Europac. We now plan to optimise our footprint and capability. Taking into account the full operational run-rate of Europac, DS Smith has an annual external corrugated case material (CCM) requirement of around 800 thousand tonnes in Europe. This is equivalent to c. 20 per cent of our total paper requirement, and as such we are c. 80 per cent integrated. Taking into account future growth in packaging, we expect to reduce integration towards 60 per cent in Europe, in the medium-term. In the US, our strategy has always been to have full security of supply given the differences in market structure in that region. At present we are 'long' c. 275 thousand tonnes CCM per annum in the US and expect to bring this to a balanced position as we continue to build the packaging side of our business, including the new site in Indiana currently under construction.

Our medium-term targets and key performance indicators

We measure our performance according to both our financial and non-financial medium-term targets and key performance indicators.

As set out above, like-for-like corrugated box volumes grew by 2.4 per cent (excluding Europac). This was modestly lower than 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 1.9 per cent (source: Eurostat). All regions have again recorded volume growth in the year, with a particularly strong contribution from the UK and Central Europe and Italy regions. Towards the end of the year we have seen some weakness, particularly in industrial customers in export-led markets including Germany, reflecting wider macroeconomic conditions. In addition, the North America business was capacity constrained. Underlying the regional performances has been the strong 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 increased 120 basis points to 10.2 per cent (2017/18: 8.9 per cent), above the top of our target range of 8 to 10 per cent, reflecting our strong commercial offering and the benefit of the sales price increases, partially offset by increased overall input costs.

Adjusted return on average capital employed (ROACE) is 13.6 per cent (2017/18: 13.7 per cent), around the middle of our medium-term target range of 12 to 15 per cent and significantly above our cost of capital, despite the recent significant acquisitions of Interstate Resources in North America and of Europac in Europe, and the exclusion of our plastic packaging business (now discontinued), all of which has a dilutive impact on this ratio. This result reflects a continuous 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 capex, which has been closely managed as shown by the year-on-year reduction despite the increased size of the business. ROACE is our primary financial measure of success, and is measured and calculated on a monthly basis.

Net debt as at 30 April 2019 was £2,277 million (30 April 2018: £1,680 million) reflecting the significant acquisitions made in the period of £1,702 million (including debt assumed of £204 million including deposits), less the issue of new equity of £1,006 million net. Cash generated from operations before adjusting items of £774 million was used to invest in net capex of £289 million which included £17 million in relation to Europac, a reduction from £312 million in 2017/18, reflecting our focus on cash management, while still including substantial growth capex. Cash flow for adjusting items of £93 million primarily related to the acquisition and integration of the new businesses.

Operating review (continued)

Net debt/EBITDA (calculated in accordance with our banking covenant requirements) is 2.3 times (2017/18: 2.2 times). This reflects the acquisitions made as well as ongoing tight cash management and control throughout the business and is 0.2 times lower than anticipated at the time of the 2018 rights issue. This ratio excludes the cash required to fulfil the Interstate Resources put option which, if exercised, would take reported leverage to c. 2.5 times. On a pro forma basis, taking into account the disposal of the Plastics business for £400 million (net) and remedy disposals of c. £54 million (as discussed in the financial review), and the relevant adjustment to EBITDA, net debt/EBITDA at 30 April 2019 would have been under 2.0 times. The Group remains fully committed to its investment grade credit rating.

During the year, the Group generated free cash flow of £339 million (2017/18: £184 million), an improvement of 84 per cent. Cash conversion, as defined in our financial KPIs (note 33) was 102 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 once again to report improvements 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 23 per cent from 3.0 to 2.3, reflecting our ongoing commitment to best practice in health and safety. The prior year figure of 3.0 is based on the full inclusion of Interstate Resources on a like-for-like basis. We are proud to report that 265 sites achieved our target of zero accidents this year and we continue to strive for zero accidents for the Group as a whole. We did, however, have a tragic accident in our Tallinn plant in the year that resulted in the fatality of a colleague, which overshadows all our performance improvements. Our thoughts are with the family, colleagues and friends of the deceased as we support them.

The Group has a challenging target for customer service of 97 per cent on-time, in-full deliveries. In the year we achieved 95 per cent, a further year on year improvement but still below our target. While there has been improvement, 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 challenge ourselves to meet the demanding standards our customers expect.

One key 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 year 2018,

compared to calendar year 2017, on a restated basis to reflect acquisitions, our CO₂ equivalent emissions, relative to production, has reduced by 6 per cent, a good step towards our overall goal of 30 per cent reduction (compared to 2015) by 2030. We have also become a global partner of the Ellen MacArthur Foundation, a leading environmental charity focused on sustainability, in line with our corporate purpose.

Upgrading our medium-term margin targets

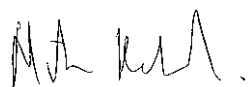
DS Smith has reported a record return on sales margin in 2018/19 of 10.2 per cent, ahead of our medium-term financial KPI of 8-10 per cent. We expect margin to continue to grow in the medium-term due to our value-adding customer proposition, the benefit of contribution from NAPP and Europac, and from a continuous focus on cost and efficiency. As a result, the Board intends to increase the medium-term target for return on sales up to 10-12 per cent.

Outlook

The underlying drivers of demand for sustainable corrugated packaging and our differentiated offering give us confidence in ongoing volume and market share growth. We saw some volume weakness in certain export-led markets, including Germany, but we expect this to improve during the current year. While volatility in the macro-economic environment and input costs remains, our focus on pricing discipline, operating efficiencies and cash flows supports our expectations of further good progress in the coming year.

Statement of approval

This strategic report, including pages 1 to 55, was approved by a duly authorised Committee of the Board of Directors on 12 June 2019 and signed on its behalf by



MILES ROBERTS

Group Chief Executive

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

The operating review below includes discussion of adjusted operating profit which excludes amortisation and adjusting items. Note 33 includes discussion on non-GAAP performance measures.

Group

£m	Year ended 30 April 2019	Year ended 30 April 2018	Change – reported	Change – constant currency
Revenue	6,171	5,518	12%	12%
Adjusted operating profit ¹	631	492	+28%	+28%
Operating profit	427	329	+30%	+29%

Good organic volume growth and contribution from acquired businesses, partially offset by input cost increases, led to higher revenue and operating profit. Revenue increased by 12 per cent to £6,171 million and operating profit by 29 per cent to £427 million.

UK

£m	Year ended 30 April 2019	Year ended 30 April 2018	Change
Revenue	1,134	1,088	+4%
Adjusted operating profit ¹	121	109	+11%
Return on sales ¹ – %	10.7	10.0	+70bps

Our UK corrugated packaging business has performed very well despite the uncertain political and economic backdrop. Overall volumes were very good, driven by both FMCG and e-commerce. Revenue increased reflecting volume gains and price recovery, with the additional revenue dropping through to profit, leading to a 11 per cent increase in adjusted operating profit and a 70 basis points increase in margin.

The Group has considered and planned for the potential impact of Brexit on our business. The UK operations utilise paper manufactured at our Kemsley mill in Kent, UK, in addition to paper from other mills on continental Europe. We also import some other input materials such as starch. The substantial majority of our packaging product is distributed to customers in the UK with our Kemsley mill exporting an element of its production to continental Europe. We have also made plans for contingency levels of spare parts and other essential items for continuous running. As such, while not immune from disruption that might occur in the event of a disorderly Brexit, including the impact of changes in order patterns from customers, we expect disruption to our own operations to be relatively contained.

DCH and Northern Europe

£m	Year ended 30 April 2019	Year ended 30 April 2018	Change – reported	Change – constant currency
Revenue	1,076	1,106	(3%)	(2%)
Adjusted operating profit ¹	100	90	+11%	+12%
Return on sales ¹ – %	9.3	8.1	+120bps	+120bps

Volumes have grown modestly across the region, driven by very good volume growth in Northern Europe, offset by a contraction in Germany and Switzerland due to a focus on price discipline and difficult market conditions. These tough trading conditions related to packaging for export-led industrial customers in Germany, particularly in the second half of 2018/19, where a wider economic slow-down has been seen. Revenues fell 2 per cent due to a reduction in external volumes from paper and recycling and, in addition, reduced pricing from recycling, partially offset by sales price recovery in packaging.

Adjusted operating profit increased by 12 per cent, reflecting the contribution from our paper manufacturing operations in the region. Consequently, return on sales increased to the upper end of our target range at 9.3 per cent.

Western Europe

£m	Year ended 30 April 2019	Year ended 30 April 2018	Change – reported	Change – constant currency
Revenue	1,739	1,476	+18%	+18%
Adjusted operating profit ¹	139	102	+36%	+36%
Return on sales ¹ – %	8.0	6.9	+110bps	+110bps

The Western Europe division has seen like-for-like volume growth ahead of market growth in the period, although volume growth was behind the Group average. While volume growth in France was impacted somewhat by the periods of civil disruption in the country, this was partially offset by good growth in Iberia and very good growth in the Benelux region. The growth in revenue was largely driven by the inclusion of Europac for just over three months, having been acquired on 22 January 2019, in addition to the increase in sales price from recovery of historic paper price rises. The increase in adjusted operating profit relates to the inclusion of Europac as described above and good recovery of operating costs through pricing from the underlying business. Return on sales increased significantly by 110 basis points, broadly in line with the Group margin increase, to 8.0 per cent.

1. Adjusted to exclude amortisation and adjusting items

Operating review (continued)

Central Europe and Italy

£m	Year ended 30 April 2019	Year ended 30 April 2018	Change - reported	Change - constant currency
Revenue	1,583	1,462	+8%	+9%
Adjusted operating profit ¹	165	129	+28%	+29%
Return on sales ¹ – %	10.4	8.8	+160bps	+150bps

Volumes in this region have again been good, slightly ahead of Group growth, with performance in Italy particularly pleasing. Revenue growth of 9 per cent was driven in approximately equal parts due to the inclusion of EcoPaper and EcoPack, and from organic growth in packaging, particularly sales price. EcoPack and EcoPaper were acquired on 6 March 2018 and hence this year was the first full year of inclusion and represented an incremental ten months contribution.

Adjusted operating profit increased 29 per cent, reflecting a small contribution from the acquired businesses and organic growth from the benefit of drop-through from volume and sales price increases. As a result, return on sales increased by 150 basis points.

North America

£m	Year ended 30 April 2019	Year ended 30 April 2018	Change - reported	Change - constant currency
Revenue	639	386	+66%	+59%
Adjusted operating profit ¹	106	62	+71%	+63%
Return on sales ¹ – %	16.6	16.1	+50bps	+40bps

The performance of the North America Packaging and Paper division has been very good once again, with margins considerably above that of the Group. Corrugated box volumes have continued to grow, though have been constrained to some degree by our available capacity. We are, at present, part way through the construction of a new packaging site in Indiana which will address this issue, and which is expected to be operational by the end of calendar 2019. Revenue grew 59 per cent principally driven by the incremental four months contribution from the Interstate Resources business, acquired in late August 2017, and from Corrugated Container Corporation, acquired in May 2018. Increases in sales price also contributed to revenue growth. Adjusted operating profit for the division grew by 63 per cent, reflecting both the incremental contribution from the acquired businesses and the benefit of synergies (\$23 million) from the Interstate Resources acquisition. Combined with the synergies delivered in 2017/18, this brings the total synergies to \$33 million, close to the total of \$40 million targeted, substantially earlier than planned.

Non-GAAP performance measures

The Group uses certain key non-GAAP measures in order to provide a balanced and comparable view of the Group's overall performance and position, eliminating amortisation and unusual or non-operational items that may obscure understanding of the key trends and performance. These measures are used both internally and externally to evaluate business performance, as a key constituent of the Group's planning process, they are applied in the Group's financial and debt covenants, as well as establishing the targets against which compensation is determined. Amortisation relates primarily to customer contracts and relationships arising from business combinations – significant costs are incurred in maintaining, developing and increasing these, costs which are charged in determining adjusted profit; exclusion of amortisation remedies the double count which would otherwise occur. Unusual or non-operational items include business disposals, restructuring and optimisation, acquisition related and integration costs, and impairments, and are referred to as adjusting items.

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

Note 33 of the consolidated financial statements explains further the use of non-GAAP performance measures and provides reconciliations as appropriate to information stemming directly from the financial statements.

Where a non-GAAP measure is referred to in the review, the equivalent measure stemming directly from the financial statements (if available and appropriate) is also referred to.

1. Adjusted to exclude amortisation and adjusting items

Financial review

Delivering strong financial performance



“The Group performed strongly in 2018/19, with good organic volume and revenue growth, reflecting the recovery of input costs in box prices and growth from acquisitions.”

ADRIAN MARSH

Group Finance Director

Overview

The Group performed strongly in 2018/19, with good organic volume and revenue growth, reflecting the recovery of input costs in box prices and growth from acquisitions. As usual the benefits of Group procurement, ongoing efficiency programmes and prior year capital investments compensated for other input cost headwinds. In the year we acquired Papeles y Cartones de Europa, S.A. (Europac), a leading western European integrated packaging business. Through this important acquisition DS Smith has strengthened its position in having the widest reach in Europe of any packaging group and, as a result, is perfectly placed to offer a complete pan-European solution to all of our customers. In addition, the acquisition of Interstate Resources and the creation of our North American Packaging and Paper business in the previous year has allowed us to now deliver our solutions to our customers that operate in both continents.

The Group continues to perform well against the targets that the Board has set for its financial key performance indicators, as well as being confident that it will achieve all of its medium-term financial measures:

- Revenue up 12 per cent on a constant currency and reported basis at £6,171 million (2017/18: £5,518 million)
- Adjusted operating profit before adjusting items and amortisation up 28 per cent on a constant currency and on a reported basis at £631 million (2017/18: £492¹ million)

- Operating profit at £427 million is up 30 per cent (2017/18: £329¹ million)
- Organic corrugated box volume growth² of 2.4 per cent (2017/18: 5.2 per cent)
- Adjusted return on sales³ of 10.2 per cent (2017/18: 8.9¹ per cent)
- Adjusted return on average capital employed³ of 13.6 per cent (2017/18: 13.7¹ per cent)
- Net debt/EBITDA of 2.3 times (2017/18: 2.2 times)

Unless otherwise stated, the following commentary relates to the continuing operations of the Group. Comparatives have been restated for the adoption of IFRS 15 *Revenue from Contracts with Customers*, the effect of the bonus element of the rights issue during the year, and the classification of the Plastics business as a discontinued operation.

Trading results

Group revenue increased to £6,171 million (2017/18: £5,518 million), a growth of 12 per cent on a reported basis, reflecting volume and sales price growth and the impact of acquisitions partly offset by a negative currency translation effect. Corrugated box volume growth was lower than expected in the second half of the year driven largely by overall economic slowdown in Germany resulting in the target, of GDP +1 per cent, at 2.9 per cent not being achieved. Revenue growth reflected the sales price increases that took place to recover the significant paper price increases seen last year and in the first half of this year. The euro accounted for 56 per cent of Group revenue and the slight weakening of the euro and other European currencies against sterling during the year represented the majority of the £21 million of negative currency impact. On a constant currency

Financial review (continued)

basis, revenue increased by 12 per cent, including organic growth of £190 million.

Operating profit of £427 million increased from the prior year (2017/18: £329 million) following our initiatives to recover the impact of higher paper prices, partially offset by higher adjusting items of £90 million (2017/18: £73 million) and higher amortisation of £114 million (2017/18: £90 million) driven by the significant acquisitions made in the last two years.

Adjusted operating profit rose by 28 per cent on a reported basis to £631 million (2017/18: £492 million), with currency having a small positive impact of £1 million. Growth on a constant currency basis was also 28 per cent, benefiting from a £40 million impact from the acquisition of Europac in the financial year and a £32 million impact from the acquisitions of Interstate Resources in the US and EcoPack and EcoPaper in Romania in the previous financial year. These acquisitions are all contributing significant synergies and are on track to deliver or outperform their targets. These strong results are testament to the Group's experience in the effective integration of, and support for, acquired businesses.

The profit drop-through from higher box volumes (£27 million) and the benefit of higher pricing and sales mix (£174 million) was offset in part by lower other volumes (£20 million) and higher input costs (£115 million). Input costs were substantially higher than in the prior year, reflecting significant increases in paper prices, which are the largest single component of input costs, and general inflationary pressures on other costs with large impacts coming from energy and distribution costs. The commercial finance function within the Group continues to work closely with sales teams to ensure that increased paper prices are recovered through pass through mechanisms to our customers, and packaging strategists work with our customers to mitigate these impacts through performance packaging and innovation. The Group looks to mitigate the impact of other input costs through improvements in efficiency and procurement initiatives. Towards the end of the 2018 calendar year we started to see paper prices falling which has broadly continued each month until April 2019. This will result in a time lag similar to that which is experienced when paper prices rise albeit this will be beneficial until the price reductions are fully passed on to customers or paper prices start to rise again.

Depreciation increased by £32 million in the year on a reported basis mainly from the acquisition of Europac and Interstate Resources and previous capital investments. The increase in amortisation for the year from £90 million in 2017/18 to £114 million in 2018/19 was driven primarily by intangible assets recognised through the acquisition of Europac and Interstate Resources. Amortisation in the year ahead is expected to be £140 million.

Group margins continue to benefit from both operational leverage and continuous focus on cost and efficiency, which mitigated increases in other direct material costs, resulting in a growth in adjusted return on sales to 10.2 per cent (2017/18: 8.9 per cent). In 2015 the return on sales target range was increased to 8-10 per cent and performance this year has exceeded this upgraded target. Consequently, the Board has again decided to raise the medium-term margin target to 10-12 per cent.

The return on average capital employed for the year was 13.6 per cent (2017/18: 13.7 per cent), which is well within the target set by the Board of 12-15 per cent, 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 2017/18 and partially by acquisitions made in 2018/19.

	2018/19	2017/18 (restated) ¹
	£m	£m
Income statement		
Revenue	6,171	5,518
Adjusted operating profit ³	631	492
Adjusted return on sales ³	10.2%	8.9%
Net financing costs	(71)	(62)
Share of profit of equity accounted investments, net of tax	9	5
Adjusted profit before tax ³	569	435
Adjusted income tax expense ³	(127)	(92)
Adjusted earnings ³	442	343
Profit from discontinued operations	12	22
Basic adjusted earnings per share ³	33.3p	30.7p
Profit for the year attributable to owners of the parent (including discontinued operations)	274	259
Basic earnings per share	19.7p	21.2p

1. Comparatives have been restated for the adoption of IFRS 15 *Revenue from Contracts with Customers*, the rights issues during the year, and the classification of the Plastics business as a discontinued operation
2. Excludes Europac
3. Adjusted to exclude amortisation and adjusting items

Adjusting items

Adjusting items before tax, financing costs and share of results of associates were £90 million (2017/18: £73 million).

Acquisition related costs of £32 million (2017/18: £28 million) were the largest element of adjusting items in 2018/19 driven by the costs of Europac which accounted for £22 million of the total. They comprise professional advisory and legal fees, and directly attributable staff costs related to acquisition activity during the year as well as transactions which have either not yet concluded or been shelved. Integration costs of £27 million related to both current and prior year acquisitions. Restructuring costs of £3 million relate to the completion of projects started in the previous year.

On 26 October 2018, the High Court issued a judgement with respect to the equalisation between men and women of guaranteed minimum pension (GMP) benefits accrued between 1990 and 1997, in order to comply with sex discrimination legislation. An adjustment for the UK defined benefit scheme of £8 million has been charged to the income statement as an adjusting item. The estimate is based on broad assumptions about the scheme's characteristics and represents a reduction from £15 million estimated at the half year based on data available at the time.

Other adjusting items of £20 million (2017/18: £16 million) principally relate to significant multi-year European centralisation and optimisation projects, including the development of a Group-wide financial enterprise resource planning (ERP) solution, shared service centres and major IT integration projects. These projects arise primarily as a

consequence of the Group's acquisition activities, where the existing ERP, general IT systems and infrastructure are limited. The total costs of individual projects are significant and tend to be incurred over more than one financial period although most of the projects which incurred expenditure in this year have now come to an end.

Finance costs adjusting items of £15 million (2017/18: £12 million) relate to financing costs incurred in the acquisition of Europac of £7 million, with the remainder relating to the unwind of the discount on the redemption liability related to the purchase of Interstate Resources.

Adjusting items in the new financial year are expected to be c. £76 million.

Interest, tax and earnings per share

Net financing costs were £86 million (2017/18: £74 million). Net financing costs before adjusting items were £71 million, up £9 million from the prior year. The increase from the prior year was primarily due to the acquisitions of Europac and Interstate Resources. Interest costs include a charge of £3 million (2017/18: £2 million) to reflect the additional finance cost which would be incurred if the Interstate Resources put option had been exercised. Adjusting financing costs of £15 million (2017/18: £12 million) include the unwind of the discount on the put option liability recognised on the acquisition of Interstate Resources, and debt bridge financing costs associated with the acquisition of Europac. The employment benefit net finance expense was £2 million (2017/18: £4 million).

The share of the profit of equity accounted investments was £9 million (2017/18: £5 million).

Profit before tax was higher at £350 million (2017/18: £260 million), due to flow through of higher operating profit and improved share of results of associates, partially offset by higher amortisation and higher finance costs. Adjusted profit before tax of £569 million (2017/18: £435 million) was higher due to the growth in adjusted operating profit.

The tax charge of £88 million was £65 million higher than the prior year primarily due to higher adjusted profits and the recognition in the prior year of a reduction in tax liabilities as a result of major tax reform in the US (tax credit £37 million). The Group's effective tax rate on adjusted profit, excluding amortisation, adjusting items and associates was 22.8 per cent (2017/18: 21.5 per cent). The tax credit on adjusting items was £14 million (2017/18: £13 million).

In addition, there was a net tax adjusting charge of £1 million, comprising a release of a provision of £32 million in respect of a tax dispute in connection with a business closure prior to the Group ownership of SCA Packaging, offset by a provision of £33 million which represents the maximum potential tax exposure which could arise in connection with the recent decision by the EU Commission on State Aid in relation to the UK Controlled Foreign Company regime.

On 25 April 2019, the EU Commission released its final decision which concluded that, up until 31 December 2018, the UK Controlled Foreign Company legislation partially represents State Aid.

There is significant uncertainty surrounding the quantum of additional tax exposure due to a number of different factors which are likely to impact the overall State Aid collection process. To date, no formal guidance has been issued by the UK Government in relation to its likely approach to identifying and recovering any State Aid. The potential additional liability ranges from nil to £33 million depending upon the method of calculation. In view of the significant level of uncertainty and the potentially broad range of outcomes, the Group has recognised a provision for the maximum potential exposure of £33 million, which includes an estimate of £2 million for interest on overdue tax.

Profit for the year from discontinued operations was £12 million (2017/18: £22 million).

Reported profit after tax, amortisation and adjusting items was £274 million (2017/18: £259 million).

Basic earnings per share were 19.7 pence (2017/18: 21.2 pence). Adjusted earnings per share from continuing operations were 33.3 pence (2017/18: 30.7 pence), an increase of 8 per cent on a reported basis and on a constant currency basis, driven by the growth in operating profit. Earnings per share were impacted in the period by the equity rights issue on 25 July 2018 which raised c. £1 billion of funds for the Europac acquisition that completed on 22 January 2019, in addition to the equity raise and equity issues to the vendors of both Interstate Resources and EcoPack and EcoPaper in the previous year.

Dividend

The proposed final dividend is 11.0 pence (2017/18: 9.8 pence), which will be paid on 1 November 2019 to ordinary shareholders on the register at close of business on 4 October 2019. As at 30 April 2019, the Company had distributable reserves of £1,459 million (30 April 2018: £1,651 million).

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.

This year the Group made another significant strategic step with the acquisition of Papeles y Cartones de Europa, S.A. (Europac) on 22 January 2019. Europac is a highly complementary, vertically integrated packaging business with a strategically important kraftliner mill in Portugal giving us for the first time capacity to supply an element of our kraft paper needs in Europe. Europac has a diversified customer portfolio with strong customer relationships and FMCG orientation. In the year ended 30 April 2019 Europac contributed revenue of £191 million and adjusted operating profit before amortisation and adjusting items of £40 million. The total consideration of £1,460 million plus debt acquired, including deposits, of £200 million was funded in part by an equity rights issue. The fair value exercise is ongoing and values presented are provisional.

On 31 May 2018 the Group acquired Corrugated Container Corporation and integrated it into its existing North America Packaging and Paper business.

In the prior year the Group acquired an 80 per cent holding in Interstate Resources in the US on 25 August 2017, EcoPack and EcoPaper in Romania on 6 March 2018 and also the two box plants of the DPF Groupe in France.

Financial review (continued)

On 8 March 2019, the Group announced an agreement to sell its Plastics business for an enterprise value of \$585 million (approximately £450 million). We expect net cash proceeds after taxation, transaction adjustments and expenses of approximately £400 million. This sale represents an important step in the Group's continued progress as a leader in sustainable packaging and accelerates the programme of deleveraging, alongside organic cash flow. The sale is expected to result in a substantial adjusting gain and be marginally EPS dilutive. The effective date for the sale is 1 November 2018, with completion expected in the second half of this calendar year following customary closing conditions including regulatory approvals, which are proceeding as expected.

On 16 April 2019, the Group also reached agreement for the proposed sale of two packaging businesses in North Western France and Portugal for €63 million (£54 million). The sales are to fulfil the commitment made to the European Commission in relation to the clearance of the Group's acquisition of Europac, which completed on 22 January 2019. Completion of these sales is subject to customary closing conditions including works council consultation and regulatory approvals and are expected to take place in the first quarter of the new financial year.

The cash proceeds of these disposals are expected to be used to reduce the financial gearing of the Group, in line with its medium-term target of net debt/EBITDA at or below 2.0 times.

Cash flow

Closing net debt of £2,277 million (30 April 2018: £1,680 million) has increased year-on-year with outflows on strategic acquisitions and borrowings acquired more than offsetting higher cash inflows from operating activities. Working capital outflows of £12 million, including a reduction in underlying trade receivables of £32 million and trade receivables acquired with Europac of £41 million, represent an underlying working capital inflow of £70 million offset by the planned reduction in factored trade receivables.

Capital expenditure net of asset disposals decreased to £289 million in the year (2017/18: £312 million) inclusive of £17 million related to Europac. 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 67 per cent of expenditure. Proceeds from the disposal of property, plant and equipment were £14 million (2017/18: £16 million), resulting in profits of £4 million (2017/18: £1 million). Net capital expenditure in the year ahead is expected to be £370 million. This will include the investment in a greenfield box plant in Indiana and £85 million for Europac.

Net interest payments of £61 million were £20 million higher than the prior year principally driven by interest on the Euro Medium Term Notes (EMTN) issued in July 2017 being payable annually. Amortisation of debt issue costs and other finance costs accounts for the majority of the difference between cash interest paid and finance costs in the income statement.

Cash costs of adjusting items amounted to £93 million, representing the cash investment in acquisition costs, restructuring and infrastructure. Acquisition of subsidiary businesses, net of cash and cash equivalents (but before

acquired debt), totalled £1,498 million in the year. No businesses were disposed of in 2018/19.

During the year dividends of £187 million, representing the 2017/18 interim dividend and final dividend, were paid.

Cash generated from operations before adjusting cash items was £774 million, £169 million higher than the prior year. The net cash outflow of £1,445 million (2017/18: £670 million) reflects significantly higher acquisition costs in the year.

Loans and borrowings from acquired businesses were £204 million. Net proceeds from the issue of share capital were £1,006 million in the year, primarily due to an equity rights issue on 25 July 2018 which raised funds for the Europac acquisition. Foreign exchange, fair value and other non-cash movements decreased net debt by £49 million.

Cash flow	2018/19 £m	2017/18 (restated) ¹ £m
Cash generated from operations before adjusting cash items	774	605
Capital expenditure (net of disposal of fixed assets)	(289)	(312)
Tax paid	(85)	(68)
Net interest paid	(61)	(41)
Free cash flow	339	184
Cash outflow for adjusting items	(93)	(78)
Dividends	(187)	(157)
Acquisitions of businesses	(1,498)	(615)
Other	(6)	(4)
Net cash flow	(1,445)	(670)
Issue of share capital	1,006	283
Loans and borrowings acquired	(204)	(204)
Other movements	49	(15)
Net debt movement – continued operations	(594)	(606)
Net debt movement – discontinued operations	(3)	18
Opening net debt	(1,680)	(1,092)
Closing net debt	(2,277)	(1,680)

Statement of financial position

Shareholders' funds have increased to £3,111 million at 30 April 2019, an increase of £1,002 million over the reported position of the prior year. The improvement in shareholders' funds is principally due to profit attributable to shareholders of £274 million (2017/18: £259 million) and the issue of share capital of £1,006 million (2017/18: £576 million) partly offset by actuarial losses on employee benefits of £62 million (2017/18: £57 million gain) and the dividend payments of £187 million (2017/18: £157 million). Equity attributable to non-controlling interests was £1 million (30 April 2018: £1 million).

The net debt to adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) ratio, calculated in accordance with the Group's debt covenants, was 2.3 times at 30 April 2019, slightly up from 2.2 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. This calculation excludes the Interstate Resources put option which, if exercised, would increase leverage to c. 2.5 times.

The Group has announced the sale of the Plastics business for \$585 million, and the Europac acquisition related remedy disposals for €63 million. The cash receipts from these disposals will reduce net debt by c. £450 million and the net debt to EBITDA ratio to under 2.0 times. Sold receivables are not treated as debt by the Group's lending banks and are, therefore, not included in financial indebtedness from a covenant perspective.

The covenant calculations also exclude from the income statement adjusting items and any interest arising from the defined benefit pension schemes. At 30 April 2019, the Group had substantial headroom under its covenants. The Group has an investment grade credit rating from Standard and Poor's of BBB- which takes into account all of the items excluded from covenant calculations and working capital.

Statement of financial position	2018/19 £m	2017/18 £m
Intangible assets	3,211	2,043
Property, plant and equipment	2,993	2,396
Inventories	584	543
Trade and other receivables	923	870
Cash and cash equivalents	382	297
Assets held for sale	237	–
Other	189	180
Total assets	8,519	6,329
Bank overdrafts	(129)	(29)
Borrowings	(2,625)	(1,973)
Trade and other payables	(1,871)	(1,719)
Provisions	(33)	(20)
Employee benefits	(170)	(106)
Liabilities classified as held for sale	(93)	–
Other	(486)	(372)
Total liabilities	(5,407)	(4,219)
Net assets	3,112	2,110
Net debt	2,277	1,680
Net debt to EBITDA ratio	2.3x	2.2x

Energy costs

Energy is a significant cost for the Group and gas, electricity and other fuel costs totalled £327 million in the year, including £63 million related to recent acquisitions (2017/18: £246 million). Capital invested in combined heat and power facilities, 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 financial covenants and 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 2019, the Group's committed borrowing facilities totalled c. £3.6 billion of which c. £1.1 billion were undrawn. Undrawn committed borrowing facilities are held to provide protection against any refinancing risk on maturing facilities, the exercise of the Interstate put option or deterioration in working capital balances. These committed borrowing facilities do not include £538 million of three year committed factoring lines which allow the without recourse sale of receivables described below. The Group's committed borrowing facilities at 30 April 2019 had a weighted average maturity of 4.6 years (30 April 2018: 4.4 years). The Group's total gross borrowings at 30 April 2019 were £2,625 million (30 April 2018: £1,973 million).

On 29 November 2018 the Group signed a £1.4 billion five year (up to seven years including extension options) revolving credit facility (RCF) with our banking group to replace our existing £800 million RCF and to ensure liquidity for the five to seven years following the Europac acquisition. In March 2019, the Group signed a €44 million seven year term loan which benefits from material subsidies as a result of its use to finance environmentally beneficial capital expenditure projects in Germany. During the year, the Group inherited €336 million of committed debt facilities when it acquired Europac. This principally consists of a €261 million syndicated bank facility, split between term loan and RCF. The remaining €75 million are bilateral term loans. In addition to this committed funding, the Group has also maintained the Europac €200 million Spanish Commercial Paper programme which offers the Group access to short term financing at attractive interest rates.

The Group has for many years sold without recourse certain trade receivables and on realisation the trade receivable is de-recognised and proceeds are presented within operating cash flows. These arrangements have systematically reduced early payment discounts and have thus provided the Group with more economic alternatives. The facilities available are generally committed for three years and are not relied upon by the Group for liquidity.

There has been an underlying reduction in factoring balances of £82 million to £483 million, partly offset by additional arrangements acquired with Europac of £42 million, resulting in a 30 April 2019 balance of £525 million. The reduction of £82 million reflects a planned programme to bring the prior year balance of £559 million to under £500 million and has been achieved through more efficient management of working capital in general and receivables in particular, as the Group seeks to optimise its working capital profile through non-financial arrangement initiatives.

Financial review (continued)

Committed facilities and debt at 30 April 2019

Facility	Currency	Committed funds million	Maturity	£ million equivalent
Syndicated bank RCF	GBP	1,400	2023	1,400
EMTN	EUR	1,250	2022-24	1,078
EMTN	GBP	250	2029	250
Term loan facilities	EUR	254	2021-25	219
Private placement	EUR	59	2020	51
Private placement	USD	380	2019-22	286 ¹
Former Europac:				
Syndicated bank RCF	EUR	130	2024	112
Syndicated term loan	EUR	131	2020-24	113
Term loan facilities	EUR	75	2019-22	65
Total				3,574

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 2019, 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 weighted average cost of capital of 8.8 per cent plus a blended country risk premium of 0.7 per cent. In addition, testing is undertaken when there is an indication of impairment. No impairments were identified as a result of the testing.

The net book value of goodwill and other intangibles at 30 April 2019 was £3,211 million (30 April 2018: £2,043 million) with the increase a result of the acquisitions of Europac and Corrugated Container Corporation in the year.

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 two 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 2019 were £1,102 million and the gross liabilities at 30 April 2019 were £1,272 million, resulting in the recognition of a gross balance sheet deficit of £170 million (30 April 2018: £106 million). The net deficit was £133 million (30 April 2018: £80 million) after taking into account deferred tax assets of £37 million (30 April 2018: £26 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 agreed to increase existing annual cash contributions under the deficit recovery plan by 10 per cent per annum commencing with 2016/17. The recovery plan is expected to be completed on or around November 2025. The 2019 triennial valuation has commenced.

The total cash contributions paid into the Group pension schemes were £20 million in 2018/19 (2017/18: £25 million), principally comprising £19 million (2017/18: £20 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 increase in the gross balance sheet deficit of £64 million is principally attributable to a decrease in discount rates, an increase in inflation assumptions in the main UK scheme and the GMP adjustment detailed above.

IFRS 16

On implementation of IFRS 16 *Leases* there will be a material increase in lease liabilities, along with a corresponding increase in right of use assets within property, plant and equipment. The Group's most significant leases relate to property and production equipment and the undiscounted commitments under non-cancellable operating leases in accordance with IAS 17 *Leases* total £259 million at 30 April 2019 (30 April 2018: £209 million).

The Group will adopt the modified retrospective approach using practical expedients available, with a cumulative adjustment to equity at 1 May 2019, and as such will not restate comparatives. The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 *Determining Whether an Arrangement Contains a Lease* will continue to apply to those leases entered or modified before 1 May 2019. On transition, the Group will measure all right-of-use assets at the amount of the lease liability on adoption. The adoption of IFRS 16 is expected to have the following impact on the Group's results:

Property, plant and equipment	Increase	c. £235m
Net debt	Increase	c. £235m
EBITDA	Increase	c. £75m
Profit before tax	Decrease	c. £5m
Net debt to EBITDA	Increase	Negligible
Return on average capital employed	Decrease	30 bps

Discontinued operations and disposal group held for sale

The Plastics business has been classified as 'held for sale' and treated as a discontinued operation following Board approval, prior to the period-end, to explore a potential sale of the business.

The consolidated income statement has been restated to present the Plastics business as a discontinued operation. The consolidated statement of financial position presents the discontinued assets and liabilities as 'assets held for sale' and 'liabilities held for sale' respectively. The consolidated statement of cash flows has also been restated, presenting a single amount of net cash flow from discontinued operations.



ADRIAN MARSH
Group Finance Director

Principal risks

Making risk management work

Our priority is to ensure that DS Smith has a common understanding of risk management practices across all its businesses so as to inform strategic decision making and realise the potential opportunities for growth and development.

Members of the Board, Audit Committee and Group Operating Committee (GOC) maintain a high level of engagement on all aspects of the Group's approach to risk management. This positive 'tone from the top' is reflected well across the Group functions and divisions. There is a continuing emphasis on strengthening the relationship between our strategic priorities set out in the corporate plan and day-to-day risk management activities, whether this is by tracking risks in monthly divisional trading reports or through robust due diligence on acquisitions and new commercial ventures.

2018/19 was a year where our disciplined approach to balancing risks against identified opportunities resulted in changes to our business and risk profile, as shown by our purchase of Europac and the agreement to dispose of our Plastics division. Both these transactions enable us to remain on our strategic path despite the growth of external risks and changing geographical spread of our internal risks. We continue to make sure our internal risks are supported with appropriate levels of investment and we have added to our risk management system of governance with two management committees.

Our framework for managing risks

Risk management is undertaken at all levels within the Group to support its growth and performance aspirations. One of our key principles is the effective management of those risks that give the Group a competitive advantage, where the Group has the scale, scope and capability to help realise benefits related to its value proposition to its customers and stakeholders. This risk strategy and the setting of objectives is executed by the GOC with assurance and oversight from the Audit Committee and Board.

The Board sets out the Group's risk appetite annually, based on the level of risk it is willing to accept in pursuit of corporate targets. The Group's defined risk appetite is the translation of its corporate plan strategies into explicit statements on the level of risk it is willing to take.

Our GOC, management committees and specialist Group functions provide guidance to the businesses on how to better integrate risk management processes into day-to-day activities. We do this through the use and effective communication of relevant information, reporting and embedding them throughout our organisation's culture, capabilities and practices to foster better decision-making.

Report on our principal risks

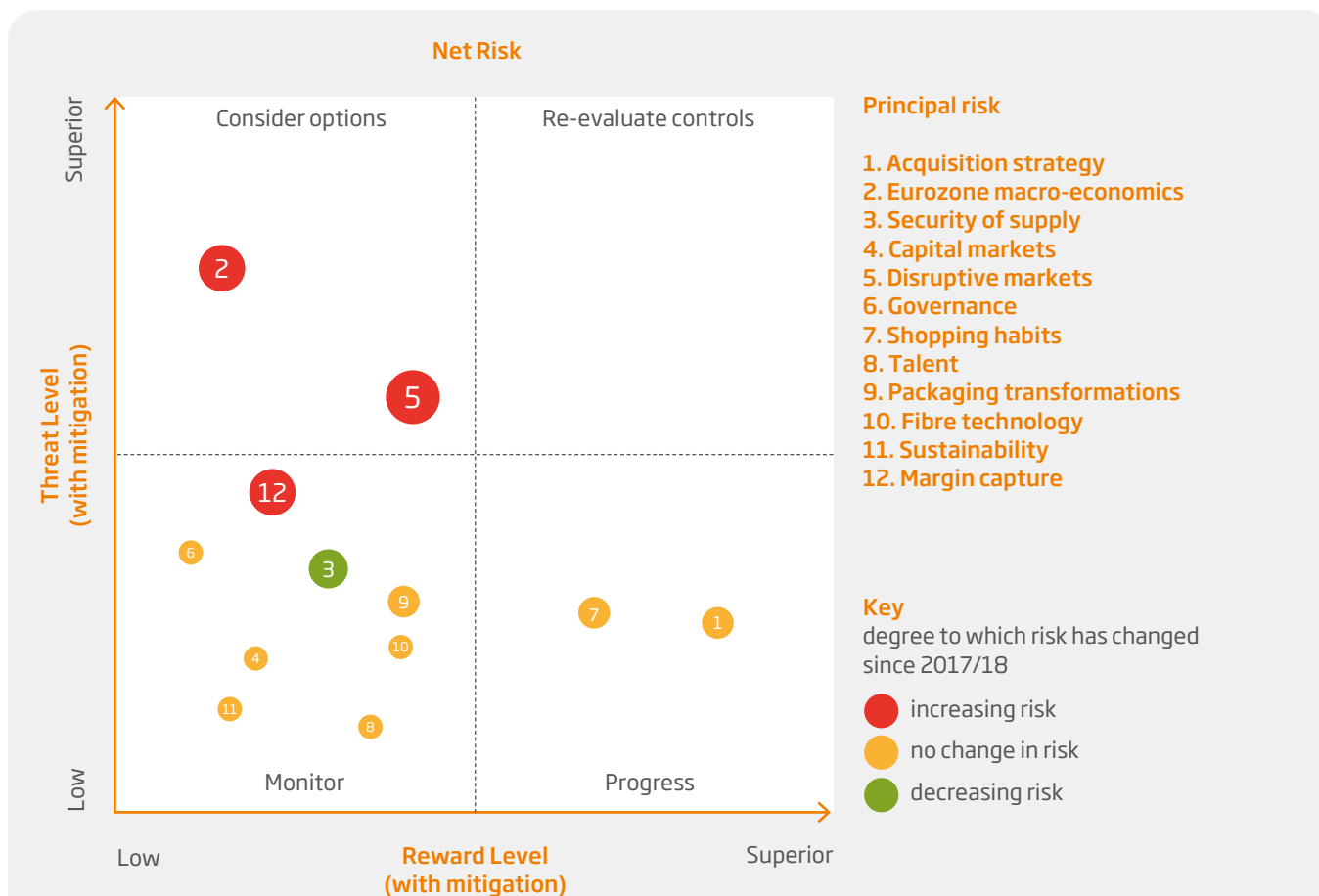
The details of our principal risks and uncertainties and the key mitigating activities put in place to address them can be found on pages 52 to 55 and a summary is shown in the table overleaf. The principal risks are the ones that may have the greatest impact on our Corporate Plan and they have been discussed at Audit Committee meetings during 2018/19.

Our Group continues to be exposed to a wide range of political, market, cyber and macro-economic risks in addition to the principal risks listed in this report. These other risks are monitored as part of our standard operating processes to ensure that appropriate mitigations are in place as part of regular management reviews. When considered appropriate these reviews are supplemented by 'deep dives' in targeted risk areas. This year the Group focused on its cyber exposures across its network and industrial control systems, assessed cyber mitigation plans against current investments and priorities set out in its cyber security strategy and plans. Whilst our capacity to influence many of these external risks is often limited, our reviews and 'deep dives' on specific external risks enable us to maintain effective mitigation strategies within our business model that can quickly flex and adapt to a changing world.

Emerging risks reporting

In addition to considering current principal risks, our established risk reporting process was adapted in 2018 with the development of an emerging risk report to supplement existing reviews. One area of focus, highlighted by this first report, is where our plans and business model design might not support a wider societal purpose. This was reflected by the emerging risk of water imbalances (demand with availability) in some areas of our operations due to changing weather patterns and a project to build water stress plans at relevant paper and packaging sites is underway. Whilst none of the reported emerging risks were promoted to our principal risk list, we remain mindful of the pace and potential impact that such risks might have on our Group strategy in the future. We will continue to embed this reporting process into our standard risk reporting procedures.

Principal risks (continued)



Our principal risks

Risk assessment summary

The principal risks have been updated to reflect our strategic priorities as well as the level of progress in managing them.

Risks redefined

- Process change risk has been changed to a risk of failing to capture our margin targets.
- Digital technology risk has been changed to a risk that we fail to drive packaging transformations through technology advances.
- Consolidation risk has been amended to reflect the unpredictable nature of disruptive and emerging markets.

Key influences

- **Macro-economic and political environments** in Europe and the broader world economies continue to be uppermost in our minds given the international nature of our supply chain and the competitive nature of the markets within which we operate. Despite the natural hedges we have built through acquisitions and investments, these risks will continue to evolve given future scenarios with the US and China, Brexit and other developments in international trading rules.

Increasing areas of focus

- Whilst there are disruptive threats from **competitor behaviours**, including investments they may make in containerboard capacity, our plans take into account these potential impacts through asset management and footprint realignment, including our **acquisition strategy**.
- Our ability to **secure the right level of integrated paper supply** remains a priority and effective management of this risk is a key part of our planning, which will be further enhanced by extending our network following the full integration of our Europac assets.

Alert to signs of change

- Whilst we continue to see many opportunities to adapt to changing consumer behaviours and the growth in multi-channel distribution, we remain alert to the risk that **consumer shopping habits** may differ from our expectations.
- We continue to see the risk that **new fibre technology** adopted by others could have a material effect on our key production processes and costs and our investments in paper innovation aim to utilise the positive effects of identifying and adopting new fibre technologies.

Viability statement

Context

The Group's strategy and key differentiators are detailed on pages 23 to 37 and pages 15 to 17, and our risk management framework is described on pages 49 to 50. Understanding of our business model, our strategy and our principal risks is a key element in the assessment of the Group's prospects, as well as the formal consideration of viability.

The Group's Corporate Plan cycle is the primary annual strategic and financial planning activity through which the Board assesses the prospects of the Group. This comprises preparation of detailed financial forecasts and objectives for the three-year period covered by the Plan, together with a detailed explanation of the key assumptions and considerations embedded in the plan, the most important of which are paper prices, foreign exchange rates and packaging volume growth. The three-year period was chosen considering the speed and degree of change possible in the key assumptions influencing the Group, as well as the speed of evolution in the footprint of the Group, which limits the Directors' ability to predict beyond this period reliably. The Corporate Plan process is led by the Group Chief Executive, the Group Finance Director and the Head of Strategy, in conjunction with divisional management. The Board goes through a detailed review of the Corporate Plan at their December Board meeting.

The finalised Corporate Plan forms the backbone of the Group's strategy and a measure against which performance is assessed. Trading performance is reviewed in the context of Corporate Plan objectives on a monthly basis by the senior management team and by the Board when it meets.

Assessment of longer-term viability

In accordance with the 2016 UK Corporate Governance Code, the Directors have assessed the viability of the Group over a three-year period to 30 April 2022, which is a longer period than the 12 month outlook required in adopting the going concern basis of accounting.

During the year, the Group reassessed that the three-year time period was considered appropriate given the time scale of the Group's planning and investment cycle, the evolution of the Group over the last three years, and the medium-term nature of our multinational customer relationships.

The Directors confirm that they have performed a robust assessment of the principal risks facing the Group as detailed on pages 52 to 55, 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 52 to 55 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 significant increase in input costs, a prolonged downturn in paper price, significant adverse foreign exchange movements, significant drops in packaging volumes and annually recurring and debt funded spend on bolt-on acquisitions.



















The Group has significant financial resources including committed and uncommitted banking and debt facilities, detailed in note 19. In assessing the Group's viability, the Directors have assumed that the existing banking and debt facilities will remain in place or mature as intended.

The Directors have also considered mitigating actions available to the Group to respond to the stress scenarios such as restrictions on capital investment, further cost reduction opportunities and restricting dividend growth. The Directors have assumed that these mitigating actions can be applied on a timely basis and at insignificant or no cost.

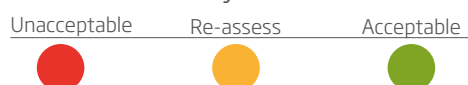
Confirmation of viability

Based on the 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.

Principal risks (continued)

Principal risks	Gross impact	Net impact	Link to strategy	Risk tolerance	Threats
1. Acquisition strategy Our growth strategy is designed to create better value through economies of scale and by adding new products and services to our supply cycle network.			To double our size and profitability		<ul style="list-style-type: none"> Our acquisition growth does not support our pan-European and FMCG customers as they seek to develop a more global supply chain. Acquisitions fail to address key areas of vulnerability in our integrated business model and in particular do not address security of supply through adequate integration.
2. Eurozone and macro-economic markets Exposure to multiple political and economic factors could impact consumer disposable income and/or the level of industrial activity.			To double our size and profitability		<ul style="list-style-type: none"> Weak consumer demand may slow down growth in the Eurozone (France, Germany and Italy). Adverse exchange rate positions may create unpredictable pressures on pricing for our key commodities. The UK's exit from the EU might require unprecedented adjustments to our business model that we may not have foreseen.
3. Paper supply Large fluctuations in the demand and supply dynamics of fibre and the economic consequences of this can affect our long-term position as a net purchaser of paper from third party suppliers.			To double our size and profitability		<ul style="list-style-type: none"> Our short paper supply strategy may leave the Group over-exposed to the threat of significant commodity price volatility. Unanticipated and prolonged price increases of specific paper grades sourced externally, which are required to meet the demands of the Packaging division's Performance Assurance Consistency Environmental project.
4. Capital markets and liquidity Political, economic and credit impacts may have an adverse effect on our growth financing.			To double our size and profitability		<ul style="list-style-type: none"> Continued uncertainty about how the UK's exit from the EU might be implemented. Failure to meet funding needs on favourable debt terms. Unplanned decreases and/or changes in sources of finance.
5. Disruptive markets Market consolidation and disruptive behaviours in our markets weakens our position and bargaining power.			To double our size and profitability		<ul style="list-style-type: none"> Our weaker competitive position in some markets may decrease sales volumes and margins. Competitors may succeed in imitating our integration model and challenge our supply cycle business model. We may face a 'perfect storm' scenario where customers, suppliers and competitors dominate.
6. Governance Non-compliance with local laws or regulations may damage our corporate reputation and subject the Group to significant financial penalties.			To delight our customers		<ul style="list-style-type: none"> Direct intervention due to anti-trust laws. Cultural differences in newly acquired businesses may challenge the Group's business ethics. Greater constraints on handling food due to contamination risk may require significant changes to product design and manufacturing.

Net risk tolerance key



Risk impact key

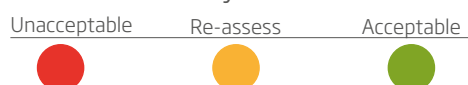


Opportunities	Management controls	Board reviews
<ul style="list-style-type: none"> • We could succeed in entering new key markets and targeting growth areas. • We continue to maintain a positive track record across small and large transactions. 	<ul style="list-style-type: none"> • We have a diverse acquisition strategy which includes bolt-on transactions. • Through the Group Strategy Committee, our divisions have clear targeted investments in key markets and geographies (including the US). 	<ul style="list-style-type: none"> • Updates from the Group Chief Executive on progress on the acquisition strategy were reported at each Board meeting. • Specific M&A activity reviews were held at least quarterly. • The Board received detailed updates on the Europac transaction and integration process.
<ul style="list-style-type: none"> • Opportunities to reposition our business model outside of our traditional markets. • Opportunities to re-adjust sources of supply. • Opportunities to prioritise cost optimisation and efficiency improvements across all divisions and Group functions. 	<ul style="list-style-type: none"> • Management teams continue to lead projects based on cost optimisation and operational efficiency. • We continue to invest and actively manage in a strategy to address any long-term Eurozone currency imbalances by managing impacts of short-term slower-growth markets in higher-growth geographies. 	<ul style="list-style-type: none"> • At each Board meeting the Group Chief Executive and Group Finance Director presented reviews and forecasts on the impact of the macro-economic environment. • Regular discussion in Group Chief Executive reports on Brexit and implications.
<ul style="list-style-type: none"> • Improving supply chain performance by challenging our closed-loop and paper strategy. • Accessing additional recycled paper material outside of the UK. • Improvements in our internal supply of kraft paper from the Europac acquisition. 	<ul style="list-style-type: none"> • Effective integration and review of all recycled paper/kraft paper across all geographies managed by our Paper division. • Management oversight on the development of supply chain optimisations. • Progress reporting of innovation activities including the use of mixed paper in our mills, fibre mining technologies and extraction of clean fibre. 	<ul style="list-style-type: none"> • The Board regularly discussed M&A opportunities with specific focus on security of supply.
<ul style="list-style-type: none"> • Securing access to suitable sources of debt capital through effective active management of our core banking partners. 	<ul style="list-style-type: none"> • The Group has access to bank funding from its revolving credit facility, maturing in 2023. • Additional funding is available from other three-year facilities. • We have extended maturities on our debt by raising longer dated debt in the bond markets. • History of successful equity issuance. 	<ul style="list-style-type: none"> • The Audit Committee regularly reviewed liquidity schedules, exchange rates, cash flows and covenant headroom. • The Group Finance Director regularly updated the Board on finance options, including Euro-financing and debt financing arrangements.
<ul style="list-style-type: none"> • Exploring a broader footprint for our packaging business. • Assessing attractiveness of emerging markets, given their growing populations, economies and increased demand for branded consumer goods. 	<ul style="list-style-type: none"> • Maintaining strategic project management to respond to new containerboard capacities and a changing geography of packaging customers. • Regular reviews and updates to evaluate the scope and scale of our recycling footprint. • Active project management focused on cost optimisation and footprint improvements. 	<ul style="list-style-type: none"> • The Group Finance Director provided the Board with regular updates on market and competitor activity.
<ul style="list-style-type: none"> • An opportunity to demonstrate a standard of ethics and behaviour well above expectations of all stakeholders. • Enhanced collaboration with stakeholders to monitor the implications of change in the regulatory landscape. 	<ul style="list-style-type: none"> • Creation of the Group Compliance Committee to oversee a broad range of compliance subjects. • Regular assessment of compliance risks between sustainability and government and community affairs team. • Manage oversight of our Vision Zero linking health and safety to all business activities. 	<ul style="list-style-type: none"> • The Audit Committee regularly reviewed results of the internal control reports. • The Board received an internal corporate governance update at almost every meeting. • The Audit Committee received regular reports on ethics and compliance.

Principal risks (continued)

Principal risks	Gross impact	Net impact	Link to strategy	Risk tolerance	Threats
7. Changes in shopping habits Our investments in innovative packaging fail to match expected growth in consumer spending.	↔	↔	To double our size and profitability		<ul style="list-style-type: none"> Our customers may reject our e-commerce proposition. We may not be quick enough to adapt to changes in use of substitute products. Innovation may not be a sufficient driver of change for traditional single-use and recyclable packaging so as to broaden our offering in existing markets.
8. Talent barriers Despite our commitment we may fail to retain, engage and develop a productive workforce and to develop key talent.	↔	↔	To realise the potential of our people		<ul style="list-style-type: none"> Weaknesses in our organisation fail to drive innovation, manage change and engage our workforce. We do not harness agile working practices across our internal talent pool.
9. Packaging transformations Inability to integrate our digital printing technology and to integrate our innovations to drive further integration between customer products and the 'Internet of Things'.	↗	↔	To delight our customers		<ul style="list-style-type: none"> Our inability to anticipate the shift in consumer buying habits influenced by digital technologies. Our inability to adopt technology quickly enough to maintain innovative growth for our packaging business. Cyber-risk hinders the integrity of our business systems.
10. Changes in fibre technology We may fail to exploit major developments in fibre usage or substitution.	↔	↔	To double our size and profitability		<ul style="list-style-type: none"> Our inability to adapt to rapid technological changes in new fibre recovery, fibre/paper technology or packaging material technology. Our failure to manage a material decline in fibre quality, and leakage of fibre to other applications.
11. Sustainability We may under deliver the required level of transparency, clarity and commitment to sustainability.	↗	↔	To lead the way in sustainability		<ul style="list-style-type: none"> Inability to manage energy demand needs within our sustainability targets. Shift in recycling behaviour and consumer demand may hinder our competitive edge. Inability to reach and adequately disclose a higher standard/target as part of a DS Smith promise or as required by customers or regulators.
12. Margin capture We may fail to develop a comprehensive and sustainable approach to manage our net profit margins driven by the variability of input costs with output prices.	↗	↗	To double our size and profitability		<ul style="list-style-type: none"> Inability to create added value by mismanaging input costs with over commitments and an under-priced ceiling on products and services. Failure of strategic process change or critical system implementation failure.

Net risk tolerance key



Risk impact key



Opportunities	Management controls	Board reviews
<ul style="list-style-type: none"> Identifying early signs of growth opportunities by actively engaging with our customers and stakeholders. Exploring new opportunities in the packaging business by active engagement with customers on alternative paper packaging solutions. 	<ul style="list-style-type: none"> Fully resourcing an internal organisation to grow and develop the e-commerce segment. Managing 'front end' supply chain services with fast moving consumer goods, industrial, heavy-duty and display markets. Evaluations of our business model focused on strategic segments including end-to-end services. 	<ul style="list-style-type: none"> Board updates with innovation presentations. Board considered customer shopping habits as part of Group strategy review.
<ul style="list-style-type: none"> Developing employee centred mobile processes by using global IT systems to ensure effective use of skills and resources. 	<ul style="list-style-type: none"> Succession planning, international job rotation and talent pipeline. Managing our critical talent recruitment programme across our packaging academies. Implementation of DS Smith Management Standards enhancing how people are managed and developed. 	<ul style="list-style-type: none"> The Nomination Committee regularly reviewed Board succession planning and talent management. The Group Chief Executive and the senior human resources team updated the Board and the Nomination Committee on senior management and talent management programmes.
<ul style="list-style-type: none"> Enhancing our e-commerce and digital technology competencies. Adding value by focusing on IT eco-systems and a digital strategy to support long-term customer partnerships. 	<ul style="list-style-type: none"> Sales and marketing organisation operates alongside 'material related' innovation teams. Continued investments in digital printers, automation (including robotics) and machine innovations. 	<ul style="list-style-type: none"> The Board reviewed packaging transformation risks as part of the Corporate Plan process. Cyber security assessment report (based on international standards). IT network management and security review External advisory guidance on key cyber risks
<ul style="list-style-type: none"> Exploring the use of virgin fibre in a sustainable manner, including production of kraft substitute and kraft top products. Continuing opportunity to develop our integrated innovation strategy. 	<ul style="list-style-type: none"> Additional investments in research and development of fibre recovery, pulping, paper making and performance packaging. Improving the management of maximisation of fibre efficiency. Regular business assessments of investments in fibre recovery and stock preparations. 	<ul style="list-style-type: none"> The Board regularly discussed the security of supply of existing materials as part of M&A updates.
<ul style="list-style-type: none"> New insights by creating a capex programme designed to enable continued progress on key sustainability targets. Listening to our stakeholders and encouraging wider engagement. 	<ul style="list-style-type: none"> Continued disclosure of our sustainability data to provide visibility and assurance to our stakeholders. Further investment to improve management capabilities in sustainability operations. Internal sustainability KPIs to track measures important to our key stakeholders were set. 	<ul style="list-style-type: none"> The Board received updates on Group sustainability performance. The Board received updates on the Kemsley power project.
<ul style="list-style-type: none"> Ability to enhance the effectiveness of fibre and other efficiency programmes. Ability to build a distinct discipline around the themes of materials, machines, digital and supply chain. 	<ul style="list-style-type: none"> Management and investments in commercial functions designed to improve value growth. Improved project management approach to process change initiatives. Specific management reviews of product and account management. 	<ul style="list-style-type: none"> The Group Chief Executive and Group Finance Director presented the Board with regular updates.

Chairman's introduction



“As a Board we all recognise that with increased success comes increased scrutiny. I speak for all the Board when I say we are committed to the highest ethical standards.”

GARETH DAVIS
Chairman



Introduction

Once again DS Smith has had a year of considerable success. We have acquired the Europac group with its packaging and paper businesses in Iberia and France. We continue to make good progress with the integration of that and of the previous year's acquisition of the Interstate Resources group, and we have built on the Interstate Resources purchase with the acquisition of Corrugated Container Corporation, further developing our packaging capacity in North America. We have signed an agreement to dispose of our Plastics division, which is an important step in our continued progress as a leader in sustainable packaging and accelerates our programme of deleveraging, alongside organic cash flow.

As a Board we all recognise that with increased success comes increased scrutiny. I speak for all the Board when I say we are committed to the highest ethical standards. These apply to the way in which we engage with each other, our customers, employees, shareholders, suppliers, communities and other stakeholders. Our reputation as a Group is founded on always meeting these high standards. Continuing to foster the right culture at DS Smith is critical to our success.

It is a time of change for our Board composition, as described below, and I look forward to working with our new Board colleagues, who I am sure will both continue the excellent work of their predecessors and bring their own skills and experience to bear on the opportunities and challenges ahead of us. Jonathan Nicholls has led the engagement with our shareholders about succession planning for the Chairman's role and that is described later in this report.

UK Corporate Governance Code

Your Board understands that good corporate governance is an important element in helping to build a successful business in a sustainable manner. During the year we have discussed how the various changes in regulations and societal expectations are most appropriately taken into account in how we as a Board, and DS Smith as an organisation, operate.

While the regulatory requirement in this annual report is for us to describe our compliance with the 2016 UK Corporate Governance Code (2016 Code), we have also initiated a number of workstreams in relation to areas of focus and development under the 2018 edition of the UK Corporate Governance Code (2018 Code) that applies to us for our financial year starting 1 May 2019. Progress on these workstreams is explained in the applicable sections of this governance section of the annual report.

Board leadership and company purpose

The 2018 Code provides that a board should establish a company's purpose and values as well as its strategy and that its directors should lead by example and promote the desired culture. One of the Group-wide workstreams this year (described in more detail on page 27) has been to unpack, in a wide variety of ways, what our Purpose means in practice. 'Redefining packaging for a changing world', our Group Purpose, was on the front cover of the 2018 Annual Report last year, but our Purpose is so much more than words on a document issued once a year and the Board has been keenly interested in hearing, and seeing, how our Purpose is being brought to life throughout the Group. We know that at DS Smith we have a unique way of doing things that means we are well-placed to deliver the changes the industry needs. We work

closely with our customers to develop the right strategies and to truly innovate together. We challenge ourselves to think differently and keep sustainability at the heart of everything we do.

The 2018 Code highlights the importance of effective engagement with shareholders and stakeholders. The Group's key stakeholders and their differing perspectives are identified and taken into account, not only as part of the Board's annual strategy and corporate planning discussions, but also in our project assessments and in our other Board conversations. These discussions, assessments and conversations focus not only on delivering increased value for shareholders, but also assess the impacts of our decisions and strategies on the Group's wider stakeholders. The Board recognises the importance of regular, open and constructive dialogue with shareholders and other stakeholders and this has long been a key aspect of our culture and of our decision making. More information about how we engage with our stakeholders as part of our Board activities is set out on page 62 and how we do so as a Group is highlighted on pages 2 and 3.

Board composition, succession planning and evaluation

Last year Ian Griffiths stepped down as a non-Executive Director with effect from 28 June 2018. This year Rupert Soames joined the Board with effect from 1 March 2019 and David Robbie joined with effect from 11 April 2019. Jonathan Nicholls is retiring from the Board at the conclusion of our 2019 AGM and at this time Rupert Soames will become Senior Independent Director and David Robbie will become Chairman of the Audit Committee. I would like to take this opportunity to thank Jonathan for his immense contribution to the Board and its Committees during his time as a Director.

Succession planning is a regular topic for discussion; although the outcome of these discussions is only visible from time to time when new appointments are made. For each appointment

we are looking to appoint an outstanding candidate, with a diverse range of experience, to maximise Board effectiveness. When we think about diversity we recognise that diversity can take many forms, including diversity of gender, social and ethnic backgrounds, and of cognitive and personal strengths, and that diversity at Board-level and throughout the Company is a valuable strength.

This year we built on the output from the externally facilitated review of the Board and its Committees that was undertaken in 2018 and assessed both how fully we have integrated suggestions from that review into our ongoing processes and how the Board and its Committees have contributed to the overall effectiveness of the Group. Details of this evaluation process and its identified actions are set out on page 63.

Corporate governance is a term which has expanded beyond the original definition used in the 1992 Cadbury Code of being "the system by which companies are directed and controlled". In the most recent set of OECD Principles of Corporate Governance the purpose of corporate governance is stated as being "to help build an environment of trust, transparency and accountability necessary for fostering long-term investment, financial stability and business integrity, thereby supporting stronger growth and more inclusive societies".

The Board is firmly aware of the ever-increasing importance of corporate governance as it is now more widely defined and of its own obligations in this area. We are confident that we can meet the exacting standards that are set both by our stakeholders and by ourselves and I look forward to meeting these challenges and the exciting times ahead.

GARETH DAVIS

Chairman

12 June 2019

Compliance Statement

The Board is committed to strong governance and during the year the Company has complied with all the provisions of the 2016 UK Corporate Governance Code published by the Financial Reporting Council and available at www.frc.org.uk. This report outlines how we have applied the 2016 Code's main principles. The requirements of the 2018 Code overlap with, but are not the same as, those of the 2016 Code and compliance with the 2018 Code will be reported on in next year's Annual Report.

Leadership

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

From page 60

Effectiveness

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

From page 63

Accountability

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

From page 64

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.

From page 72

Relations with shareholders

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

From page 62

Board of Directors



Gareth Davis
Chairman

Key strength:

- Wealth of international experience
- Exceptional experience as a chairman

External appointments:

- Gareth is currently Chairman of Ferguson plc (formerly Wolseley plc)

Gareth was appointed to the Board on 1 June 2010 as a non-Executive Director and became the Chairman of the Board on 4 January 2012. He has been Chairman of the Nomination Committee since January 2012. In May 2019 it was announced that Gareth's term as Chairman has been extended to 3 January 2021 and he is expected to retire from the Board in January 2021.

Gareth is currently Chairman of Ferguson plc. It has been announced that he is stepping down from their Board in January 2020. Previously he was Group Chief Executive of Imperial Tobacco Group PLC from its incorporation in 1996 until May 2010. From September 2010 until April 2018 he was Chairman of William Hill PLC.

Gareth's wealth of international experience combined with his extensive experience of chairing boards of listed companies means that his skills and experience contribute to the Board's practical understanding of good governance in action.



Miles Roberts
Group Chief Executive

Key strength:

- Clear strategic mindset
- Strong leadership skills

External appointments:

- Miles is a non-executive director of Aggreko plc

Miles was appointed to the Board on 4 May 2010 as Group Chief Executive. Following his engineering degree at Bristol University he became a chartered accountant and brings to the Board extensive financial and operational experience. He was previously Chief Executive of McBride plc, having originally joined as its Group Finance Director. He was Senior Independent Director of Poundland Group plc until September 2016.

Miles' strong leadership skills combined with his clear strategic mindset, rooted in the practicality of his engineering and accountancy training, means that his skills and experience contribute to the Board's clear strategic vision.



Adrian Marsh
Group Finance Director

Key strength:

- Strong financial expertise within an international context
- Wealth of finance experience in large listed multinationals

External appointments:

- Adrian is a non-executive director of John Wood Group PLC

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

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

Adrian's depth of experience in a range of financial roles in large listed multinationals means that his skills and experience contribute to the Board's understanding of all aspects of the financial implications of both the routine and project aspects of the Group's operations.



Chris Britton
Non-Executive Director

Key strength:

- Strong background in general management and marketing
- Extensive experience of serving on large listed company boards

External appointments:

- Chris is Chairman of Collective, a private equity company
- He is also Chairman of Dr Gerard, a private equity company

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

Previously a non-Executive Director for Alliance Boots GmbH for six years and CEO of the Findus Group, Chris has also held executive board positions as the President of the Baby Division of Royal Numico until its acquisition by Danone in 2007. He worked for Diageo for 20 years in various marketing and general management positions, including his final role as Global Marketing Director.

Chris' background in marketing and general management roles in a variety of industries and corporate structures means that his skills and experience contribute to the Board's development of strategic proposals and wider awareness of a range of stakeholder and other perspectives.



Jonathan Nicholls
Senior Independent Director

Key strength:

- Extensive experience serving on boards
- Significant external commercial experience

External appointments:

- Jonathan is Chairman of Shaftesbury Plc
- He is also Chairman of Ibstock plc

Jonathan was appointed to the Board on 1 December 2009 as a non-Executive Director. He was appointed Senior Independent Director in 2012 and became Chairman of the Audit Committee in 2010. It was announced in April 2019 that Jonathan will retire from the Board with effect from the conclusion of the AGM on 3 September 2019.

He was previously Group Finance Director of Hanson Plc and, most recently, Group Finance Director of Old Mutual Plc.

Jonathan's background in a range of financial roles when in executive roles, as broadened through a variety of non-executive roles, means that his skills and experience contribute to the Board's understanding of the commercial context in which the Group operates.

Principal Board Committees key:



Remuneration Committee



Nomination Committee



Audit Committee



Chair



Kathleen O'Donovan
Non-Executive Director

Key strength:

- Extensive global experience of executive and non-executive roles
- M&A and restructuring experience

External appointments:

- Chair of the Invensys pension scheme

Kathleen O'Donovan was appointed to the Board as a non-Executive Director on 5 December 2012. Kathleen was appointed Chairman of the Remuneration Committee in 2013. She was Senior Independent Director for ARM Holdings plc until December 2015 and chaired their Audit Committee. Kathleen was also previously a non-Executive Director of Trinity Mirror plc, Prudential plc, EMI Group plc, O2 plc and Senior Independent Director of Great Portland Estates plc. She served as a Director on the Court of the Bank of England from 1998 to 2004 and was Chief Financial Officer of BTR plc (subsequently renamed Invensys plc) from 1991 to 2002.

Kathleen's extensive global experience serving on boards, combined with her M&A and restructuring experience, means that her skills and experience contribute to the full range of matters that come to the Board for consideration.



David Robbie
Non-Executive Director

Key strength:

- Strong financial and corporate finance experience
- International and strategic mindset

External appointments:

- David is a non-executive director of FirstGroup PLC

David was appointed to the Board as a non-Executive Director on 11 April 2019. It was announced in April 2019 that David will become Chairman of the Audit Committee, following Jonathan Nicholls' retirement at the conclusion of the 2019 AGM.

He was previously Finance Director of can-maker Rexam PLC, before its £4.3 billion acquisition by the NYSE listed, Ball Corporation in 2016. Prior to his role at Rexam, David served in senior finance roles at BTR plc before becoming Group Finance Director at CMG plc in 2000 and then Chief Financial Officer at Royal P&O Nedlloyd N.V. in 2004. He served as a Non-Executive Director of the BBC between 2006 and 2010 and as Chairman of their Audit Committee. David qualified as a chartered accountant at KPMG.

David's strong financial and corporate finance experience combined with his international and strategic mindset means that his skills and experience will add depth to the Board's discussions in these areas.



Louise Smalley
Non-Executive Director

Key strength:

- Strong HR experience
- Extensive knowledge of people management, rewards and remuneration schemes

External appointments:

- Louise is Group Human Resources Director and an executive director of Whitbread PLC

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

She has held a number of key HR roles at Whitbread PLC. She previously worked as an HR professional in the oil industry, with BP and Esso Petroleum.

Louise's experience as a currently serving executive director combined with her extensive knowledge of people management and associated HR topics means that her skill and experience contribute to the Board's focus on the importance of enabling everyone who works for the Group to realise their potential.



Rupert Soames OBE
Non-Executive Director

Key strength:

- Wealth of international operational experience
- Hands on experience of the UK plc environment

External appointments:

- Rupert is Group Chief Executive Officer at Serco Group plc

Rupert was appointed to the Board on 1 March 2019 as a non-Executive Director. It was announced in April 2019 that Rupert will become Senior Independent Director, following Jonathan Nicholls' retirement at the conclusion of the 2019 AGM.

He was previously Chief Executive at Aggreko plc and Chief Executive of Misy plc Banking and Securities Division. Until July 2016 Rupert was also Senior Independent Director of Electrocomponents plc and a member of its Remuneration, Nomination and Audit Committees.

Rupert's hands on experience of the UK plc environment combined with the wealth of his international operational experience means that his skills and experience contribute to the Board's international outlook, embedded in a clear-sighted view of operational realities in today's world.



Iain Simm
Group General Counsel and Company Secretary

Key strength:

- Legal expertise
- Wealth of experience in assisting boards with legal and governance matters

External appointments:

- None

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

Previously, he has held General Counsel and Company Secretary roles with BBA Aviation plc and P&O Ports Ltd. He undertook his legal training with Slaughter and May and worked for a number of years in their corporate and commercial department.

Leadership and engagement

Role and responsibilities of the Board and its principal committees

The Board

The Board is collectively responsible for the long-term success of the Group and for ensuring leadership within a framework of effective controls. The key roles of the Board are:

- Setting the strategic direction of the Group

- Overseeing implementation of the strategy by ensuring that the Group is suitably resourced to achieve its strategic aspirations
- Providing entrepreneurial leadership within a framework of prudent and effective controls which enables risk to be assessed and managed
- Ensuring that the necessary financial and human resources are in place for the Group to meet its objectives
- Setting the Group's values.

Chairman

- Primarily responsible for overall operation, leadership and governance of the Board
- Leads the Board, sets the agenda and promotes a culture of open debate between Executive and non-Executive Directors
- Regularly meets with the Group Chief Executive and other senior management to stay informed
- Ensures effective communication with our shareholders.

Senior Independent Director

- Provides a sounding board to the Chairman and appraises their performance
- Acts as intermediary for other Directors, if needed
- Available to respond to shareholder concerns if contact through the normal channels is inappropriate.

Group Chief Executive

- Responsible for executive management of the Group as a whole
- Delivers strategic and commercial objectives within the Board's stated risk appetite
- Builds positive relationships with all the Group's stakeholders.

Non-Executive Directors

- Constructively challenge and help develop proposals on strategy
- Scrutinise the performance of management
- Monitor the reporting of performance.

Board and Board Committee meetings attendance

	Board	Nomination Committee	Audit Committee	Remuneration Committee	Annual General Meeting
Total number of meetings in 2018/19	7	4	4	5	1
Executive Directors					
Miles Roberts	7/7	4/4	n/a	n/a	1
Adrian Marsh	7/7	n/a	n/a	n/a	1
Non-Executive Directors					
Gareth Davis	7/7	4/4	n/a	5/5	1
Chris Britton	6/7	4/4	4/4	5/5	1
Ian Griffiths - retired from the Board on 28 June 2018	0/1	n/a	0/1	0/1	n/a
Jonathan Nicholls	7/7	4/4	4/4	4/5	1
Kathleen O'Donovan	7/7	4/4	4/4	5/5	1
David Robbie - joined the Board on 11 April 2019	1/1	n/a	1/1	1/1	n/a
Louise Smalley	6/7	4/4	4/4	3/5	1
Rupert Soames - joined the Board on 1 March 2019	2/2	1/1	1/1	2/2	n/a

In addition to the seven scheduled Board meetings, five ad hoc Board meetings were 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. Chris Britton

and Louise Smalley were unable to attend one Board meeting and Jonathan Nicholls was unable to attend one and Louise Smalley two Remuneration Committee meetings due to prior business commitments. Chris Britton was unable to attend three, Kathleen O'Donovan two and David Robbie one of the ad hoc Board meetings that were scheduled at short notice.

Board's principal committees

Audit Committee

- Monitors the integrity of the Group's reporting process and financial management, its accounting processes and audits (internal and external)
- Ensures that risks are carefully identified and assessed and that sound systems of risk management and internal control are in place
- Oversees fraud prevention arrangements and reports received under the 'Speak Up!' policy.

For more information see page 65

Remuneration Committee

- Recommends the policy for the remuneration of the Chairman, the Executive Directors, the Company Secretary and senior executives, in alignment with the Group's reward principles
- Reviews workforce remuneration and related policies and alignment of incentives and rewards with culture, to help inform setting of Directors' remuneration policy
- Considers the business strategy of the Group and how the remuneration policy reflects and supports that strategy.

For more information see page 72

Nomination Committee

- Reviews the structure, size and composition of the Board and its committees
- Identifies and recommends suitable candidates to be appointed to the Board and reviews the wider senior management talent pool
- Considers wider elements of succession planning below Board level, including diversity.

For more information see page 69

Board standing sub-committees

In addition to the three principal committees of the Board there are four further standing sub-committees of the Board.

Disclosure Committee

which oversees the Company's compliance with its disclosure obligations.

US Sub Committee

which oversees the strategic direction of business in the US together with any associated risks or opportunities in the business.

General Purposes Committee

which facilitates efficient operational management decision-making in relation to day-to-day financing and administrative matters.

Share Schemes Committee

which facilitates administrative matters in relation to the Group's share schemes.

Management committees

Three management committees, chaired by the Chief Executive, and the Group Compliance Committee also support the work of the Board and its principal committees.

Group Health, Safety, Environment and Sustainability Committee

Meets monthly

Oversees the management processes, targets and strategies designed to manage health and safety and environmental and social risks and opportunities, to ensure compliance with the Group's health and safety and environmental and social responsibilities and commitments.

Group Operating Committee

Meets monthly

Considers Group-wide initiatives and priorities. Reviews the implementation of operational plans. Reviews changes to policies and procedures and facilitates the discussion of the development of new projects.

Group Strategy Committee

Meets monthly

Plans the business strategy implementation as approved by the Board and set out by 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 by the Board.

Group Compliance Committee

Meets quarterly

Oversees compliance with all legal, regulatory and organisational requirements including the effective interface between the financial, legal, risk and internal audit functions, reporting back to both the Group Operating Committee and the Audit Committee.

Leadership and engagement (continued)

Board activities and stakeholder engagement

During the course of the past year, the Board has, in addition to the regular cycle of annual reporting and corporate planning processes, focused on two strategic projects: the acquisition of Europac and the disposal of the Plastics division. In assessing the strategic options that were considered before deciding to focus on these two projects, the Board took into account a range of aspects, including the impact on employees, suppliers, customers, and local communities, as well as the importance to our shareholders of delivering on our vision of being the leading supplier of sustainable packaging solutions and of doing this in a way that creates sustainable value.

The Board recognises the importance of regular, open and constructive dialogue with shareholders, not only ahead of the AGM, but throughout the year. The Group's Investor Relations team coordinates ongoing communication with shareholders and analysts. The Board receives regular updates on the views of the Group's shareholders.

Jonathan Nicholls, as Senior Independent Director, led the engagement with shareholders when we consulted them as Gareth Davis' length of service to the Board neared nine years. Our shareholders agreed with the Board's view that Gareth's independence, respected position with UK investors and above all the strength of his leadership of the DS Smith Board and knowledge of the Company are essential as the Company integrates its Europac and Interstate Resources acquisitions, maintains its focus on driving strong cash generation and delivers against its long-standing strategic priorities. Therefore, as previously announced, it has been agreed with Gareth that he will continue as Chairman until 3 January 2021, providing continuity through a period of structured change for the Board. He will stand for re-election at the 2019 AGM and a recruitment process to appoint his successor as Chairman will be started at the appropriate time. The Board notes that this means that Gareth will have served as Chairman for nine years, having originally joined the Board in June 2010 as a non-Executive Director, and that under the 2018 Code, particularly where a chair was a non-executive director on appointment it is permitted to extend the chair's time on the Board beyond nine years to facilitate effective succession planning of the Board.

Kathleen O'Donovan, as Chairman of the Remuneration Committee, leads the engagement with shareholders when we have remuneration matters to discuss; such as our approach to awards in the context of the Group's recent significant corporate activity.

The Remuneration Committee has also been undertaking important work, described on page 73 onwards, in relation to our culture and reward principles, ensuring that these are also in alignment with our values as a Group. From this shared understanding our conversation with our workforce is being developed further. This will include making good use of the already well-established European Works Council structure and will be reported on regularly to both the Remuneration Committee and to the Board. Review of the outcomes from the employee engagement surveys are already part of the regular schedule of reporting to the Board.

Complementing the regular briefings from operational and functional management about Group-specific matters (such as a report from our Corporate Affairs Director on progress made during the year on our programme of wider engagement in the community and the report to each Board meeting on health and safety and sustainability), the Board also has a programme of briefings from the Group's external advisers on a range of topics. This enables current and future plans to be set in the wider context of the broader environment. This covers not just topics currently visible, but emerging areas of interest and concern across a diverse range of fields. It includes, for example, cyber security, which the Board discussed with the benefit of a presentation from a leading specialist at its meeting in March 2019, and an update briefing on optimising the design of packaging for our customers' needs given to the Board in April 2019.

Board site visits are an important way in which Board members can engage both with our employees and our customers and suppliers, hearing at first hand how our Group Purpose of redefining packaging for a changing world is being put into practice. In January 2019 our Board visited our Packaging manufacturing site at Fordham in the UK, and toured the Impact Centre there. Later in 2019 the Board will be visiting one of our paper mills and updating, from an operational perspective, their knowledge of the supply engine side of our business. Non-Executive Directors can also visit sites individually and earlier in 2018 the Chairman joined Miles Roberts and senior management in spending time with employees at our Arlington office and in the Reading mill in Pennsylvania.

Effectiveness

Board effectiveness review

Formal evaluation is a valuable tool for improvement, particularly when used iteratively as part of a structured process to build, year by year, on the assessments of prior years.

Following on from last year's external evaluation, this year we have undertaken an internal evaluation of the Board, its Committees and Directors.

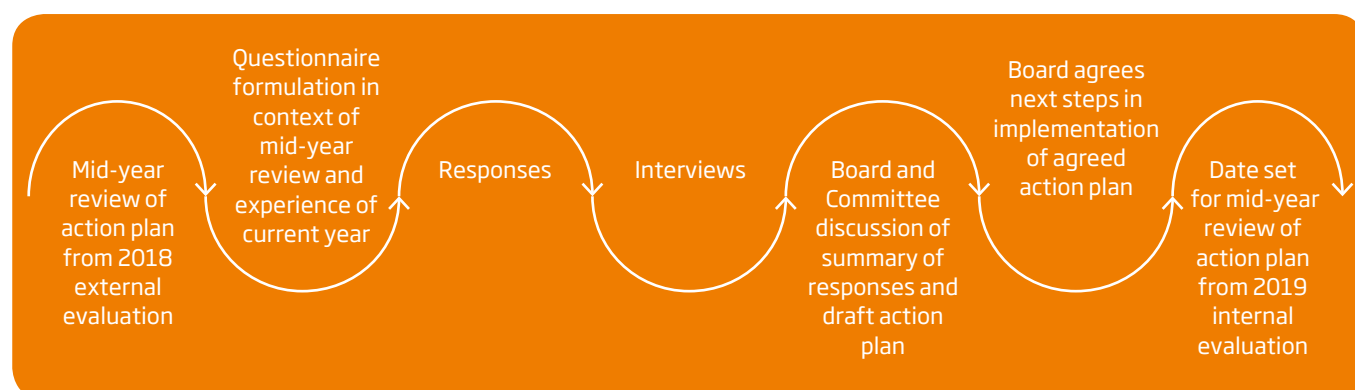
Part way through the 2018/19 year we reviewed the action plan that had been agreed as part of the 2018 external evaluation and looked at how fully we had addressed those actions. The Chairman and the Group Company Secretary then prepared a questionnaire that was informed by the Board's assessment of their progress on the 2018 action plan and of areas that still needed focus. Responses from each of the Directors to that questionnaire were used by the Chairman in the private meetings that he had with each Director to discuss more fully their responses to the questionnaire and related topics. In addition Jonathan Nicholls, as Senior Independent Director, reviewed the feedback from all Directors on the Chairman's performance and subsequently met and discussed this with the Chairman.

Taking into account both the responses to the questionnaires, and the various subsequent discussions, an action plan for the coming year was developed. A draft of this action plan was discussed by the Board at its April 2019 meeting. That was then updated, finalised and approved. Once again progress against the finalised plan will be assessed mid-year.

In summary the Board agreed a number of actions arising from the 2019 Board evaluation. These included:

- Wider engagement with our customers and communities
- A more formal structure to the forward agenda planning of the Board and of the Nomination and Audit Committees
- A wider range of topics to be considered for Directors' training
- Additional topical briefings to be added to the forward agenda plans
- Some practicalities of meeting process improvement.

As with every high performing board, the Directors will continue to watch for areas of improvement, not just when Board evaluation is a formal agenda item at a Board meeting.



Accountability

Risk management and internal control

The Board has overall responsibility for (and retains accountability for) establishing and maintaining the Group's systems of risk management and internal control (including financial, operational and compliance controls) and for reviewing their effectiveness. 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. These procedures are in line with Financial Reporting Council guidance and have been in place throughout the financial year being reported on and up to the date of the approval of these financial statements.

Risk management

Our risk management framework and processes 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, including through the formation of the Group Compliance Committee 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, including its emerging risks reporting, and its management and mitigation of each principal risk is set out in the principal risks section on pages 49 to 55, which also includes the Group's viability statement on page 51.

Internal control

The Board determines the objectives and broad policies of the Group. The Board meets regularly and there is a schedule of matters which are required to be brought to it for decision. The Board 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
- The 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
- 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 function's activities are supported and complemented by Group governance and compliance teams. These teams both broaden and deepen the coverage of governance and compliance assurance for the Group.

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.

Board procedures

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.

The Board has procedures in place to ensure that its powers to authorise conflicts are operated effectively. These procedures were followed throughout the year ended 30 April 2019 and to the date of this report.

Audit Committee report

The Audit Committee supports the Board in its oversight of the control framework across the Group.



“The Audit Committee’s role is central to bringing together the Group’s risk management activities and control environment to ensure the integrity of financial reporting and maintaining a strong risk focused culture.”

JONATHAN NICHOLLS
Chairman of Audit Committee



Dear shareholders

Our principal objectives as an Audit Committee are:

- To monitor the integrity of the Group’s reporting process and financial management
- To ensure that risks are carefully identified and assessed and that sound systems of risk management and internal control are in place.

Our role

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

The Audit 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, as well as the continued progress of the Group’s optimisation projects. The Audit Committee has also overseen the transition of the lead external Audit partner, completed following Ian Waller leaving the role after the 2017/18 year end.

Our key responsibilities

As a Committee we have delegated authority from the Board to focus on a number of 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 supply of non-audit services
- Initiating and supervising a competitive tender process for the external audit when next required
- The resourcing, plans 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 2016 UK Corporate Governance Code (2016 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.

Audit Committee report (continued)

Membership and operation of the Committee

Member	Since
Jonathan Nicholls (Chair)	2009
Chris Britton	2013
Kathleen O'Donovan	2012
David Robbie	2019
Louise Smalley	2014
Rupert Soames	2019

Ian Griffiths retired from the Board and its committees on 28 June 2018

During the year, the Audit Committee met four times and met privately with the external Auditor after each meeting. Details of individual Directors' attendance can be found on page 60. In addition to the Audit Committee members, the Chairman, the Group Chief Executive, the Group Finance Director, the Group Financial Controller and representatives from the external Auditor and Internal Audit attended parts of these meetings by invitation. The Group General Counsel and Company Secretary acts as Secretary to the Committee.

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 (Chairman of the Committee), David Robbie (Chairman of the Committee with effect from 3 September 2019) and the other members of the Audit Committee have both current and relevant financial experience (as set out on pages 58 and 59) and that the Audit Committee, as a whole, has competence relevant to the sector (namely manufacturing) in which the Company operates.

The Chairman of the Audit Committee held separate individual 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.

Risk management and internal control

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 regular meetings with senior management.

The Audit Committee considered the risk management activities during the year (with discussion including due diligence, management of cultural risk in the integration phase after a new acquisition and brand reputation issues), 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 matters raised through 'Speak Up!', the Group's confidential reporting channel, and any related investigations. The Board notes that the 2018 Code specifies that reports arising from such confidential reporting channels should either be reviewed by the Board or an explanation given. The Board continues to be of the view that the most appropriate forum to monitor the 'Speak Up!' reports is the Audit Committee, because representatives from both Group Internal Audit and the external Auditor attend the Audit Committee meetings (but do not attend the Board meetings). The Internal and external Auditors are able to contribute their perspectives, which is a valuable part of the review process. Internal Audit also provide specialist support where such assurance is considered necessary.

The Committee approved the Group's annual Internal Audit plan, which was primarily risk-based, focusing on the assurance of core processes and projects, as well as overseeing internal compliance activities. During the year, the Committee received regular reports summarising findings from the Internal Audit reviews performed, action plans to address any areas highlighted for improvement and activity summaries from internal compliance teams. The Committee keeps under review the effectiveness of the Internal Audit function, both as it assesses the content and delivery of the regularly received reviews, action plans and activity summaries and when the performance of the Internal Audit function is evaluated as part of the annual cycle, and remains satisfied that the quality, experience and expertise of the function is appropriate for the business.

The Audit Committee is satisfied that the Group's executive compensation arrangements do not prejudice robust controls and good stewardship.

Significant matters considered

Issue	Review and conclusion
Classification and presentation of adjusting items	<p>The Group has continued its programmes to evolve and optimise the operational footprint and the support infrastructure. These programmes are primarily in response to recent acquisition activity. The costs of these programmes, together with other elements of income and cost (including acquisition costs, integration costs, impairments and gains or losses on business disposals), are classified as adjusting items 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.</p> <p>The Audit Committee has reviewed the appropriateness of the income and costs both included in and excluded from adjusting 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 and the Audit Committee has been involved in discussions to confirm that management policy on these items remains appropriate, in particular considering the significant regulator focus on Alternative Performance Measures. The external Auditor reports on these matters at the half and full year. The Audit Committee is satisfied that the resulting presentation and disclosure is appropriate.</p>
Taxation	<p>The focus by the Committee on taxation during the year considered the high current level of fiscal authority activity, ongoing tax enquiries and disputes, and the Group's expansion into new markets. This was in the context of the Group's overall tax strategy, and, in particular the EU Commission investigation into and decision on potential State Aid in the UK. Taxation represents a significant cost to the business in both 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 charge, the appropriateness of and movement in tax provisions recognised (including the recognition and provision in respect of the potential exposure as a result of the EU Commission decision on State Aid) and the risks associated with them. The Audit Committee is satisfied that the amounts recognised and the disclosure provided is appropriate.</p>

Other activities of the Committee

The 2016 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. This included Committee members being consulted at various stages during the drafting process and giving input to the planning process, as well as having the opportunity to review the annual report as a whole and discuss, prior to the June Audit Committee meeting, any areas requiring additional clarity or better balance in the messaging.

The Committee reviewed the updated wording of the Group's longer-term viability statement, set out on page 51. To do this, the Committee ensured that the model used for scenario and sensitivity testing aligned clearly with the principal risks of the Group, and Committee members 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 Committee also reviewed the going concern statement, set out on page 94.

In order to help the Committee continue to meet its responsibilities, training and briefing sessions are organised during the Committee meetings. During 2018/19, such sessions included a briefing on the impact of new accounting standards, briefings on evolving corporate governance expectations and an update on strategy to address legal developments such as those around anti-bribery and corruption. The Committee also considered those aspects of this year's Board effectiveness review that related to its activities.

External Auditor Effectiveness

The Audit Committee is able to monitor the effectiveness of the external Auditor both through direct assessment and through recurring activities. The performance of the external Auditor is evaluated as part of the annual cycle. The Audit Committee reviews the qualifications, expertise and resources of the external Auditor and determines annually with the external Auditor their independence, objectivity and effectiveness.

The Audit Committee Chairman meets with the lead engagement partner regularly and individual committee members are encouraged to, and do, meet privately with the external Auditor.

Independence and objectivity

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

The policy on the supply of non-audit services by the external Auditor is as follows: The Group should not employ the external Auditor to provide non-audit services where either the nature of the work or the extent of such services might impair their 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.

Audit Committee report (continued)

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 2018/19 should not exceed 70 per cent of the annual Group audit fee without prior formal approval by the Audit Committee. During 2018/19, total non-audit fees paid to the external Auditor of £1.6 million were 46 per cent of the annual Group audit fee (2017/18: £1.5 million: 48 per cent): see note 3. The increase over the previous year was primarily due to the work performed in connection with the acquisition of Europac and the rights issue. In addition, £9 million was paid to other accounting firms for non-audit work, including £0.8 million for work relating to internal audit. Deloitte did provide services to Europac, including internal audit and financial system development work, which ceased as a result of the Group's acquisition of Europac.

The EU Audit Regulation and the FRC's Revised Ethical Standard of June 2016 mean that, with effect from the Group's 2020/21 year, a cap on the ratio of non-audit fees to audit fees paid to the Auditor of 70 per cent applies, which will further restrict the non-audit services permitted.

The Audit Committee receives written confirmation from the external Auditor in relation 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. Deloitte also confirmed that no non-audit services prohibited by the FRC's Revised Ethical Standard were provided to the Group or parent Company.

On the basis of the Committee's own review, approval requirements in the non-audit services policy, and the external Auditor's confirmations, the Audit Committee is satisfied with Deloitte's independence and effectiveness.

Auditor's fee and appointment process

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 ten 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 rotated after the 2017/18 year end. Nicola Mitchell is now the lead audit partner. She shadowed Ian through the 2017/18 year end process to ensure a smooth handover.

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 is now in force, 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 confirms that the Company has complied with the provisions of the Competition & Markets Authority Order with regards to external audit tendering and audit responsibilities throughout its financial year ended 30 April 2019.

Looking forward

As well as the regular cycle of matters that the Committee schedules for consideration each year, we are planning over the next 12 months to:

- Monitor adjusting items and policy
- Continue to monitor the integration of Europac into our systems
- Continue to monitor legislative and regulatory changes that may impact the work of the Committee
- Consider the impact of proposed audit industry changes
- Consider a wider range of topics for Committee training.

JONATHAN NICHOLLS

Chairman of Audit Committee

12 June 2019

Nomination Committee report

The Nomination Committee supports the Board in executive and non-executive succession planning.



“Succession and diversity at Board and senior management levels continue to be key aspects of our agenda as a committee.”

GARETH DAVIS

Chairman of Nomination Committee



Dear shareholders

Our principal objectives as a Nomination Committee are:

- To make sure the Board comprises individuals with the necessary skills, knowledge and experience to lead the Company
- To ensure that it is effective in discharging its responsibilities and overseeing appropriately all matters relating to corporate governance.

Our key responsibilities

As a Committee we have delegated authority from the Board to focus on Board and Committee composition and succession planning. In discharging those key responsibilities in relation to succession planning we also consider ways to:

- Improve diversity in the pipeline for senior management roles
- Further strengthen the senior management team.

As Chairman of this Committee I report to the Board on the outcome of our meetings.

Our year under review

Succession and diversity at Board and senior management levels continue to be key aspects of our agenda as a Committee. Our priorities over the year were:

- To scope out the key skills, experience, characteristics and requirements for two new non-Executive Directors, following Ian Griffiths' decision to step down from the Board

in June 2018. Rupert Soames was appointed with effect from 1 March 2019 and David Robbie with effect from 11 April 2019

- To keep under review succession planning at the Executive Director level and support succession planning at senior management levels
- To keep under review our leadership needs, both executive and non-executive, with a view to ensuring the continued ability of DS Smith to compete effectively in the marketplace
- To monitor the Group's progress towards increasing the relative number of women in senior management positions.

Membership and operation of the Committee

Member	Since
Gareth Davis (Chair)	2010
Chris Britton	2013
Jonathan Nicholls	2009
Kathleen O'Donovan	2012
Miles Roberts	2010
David Robbie	2019
Louise Smalley	2014
Rupert Soames	2019

Ian Griffiths retired from the Board and its committees on 28 June 2018

During the year, the Committee held four formal meetings and there were regular updates between formal meetings. Details of individual Directors' attendance can be found on page 60. The Group General Counsel and Company Secretary acts as Secretary to the Committee.

Nomination Committee report (continued)

Succession planning, induction, training and development

The process for the appointments of Rupert Soames and David Robbie as new non-Executive Directors began with inviting a number of recruitment firms to participate in a selection process, focusing on a series of key questions in order to identify the appropriate consultants to support our search for new non-Executive Directors. Russell Reynolds Associates (RRA) were selected in that process. Apart from assisting with recruitment, RRA has no other connection to the Company.

A role specification was agreed and provided to RRA, who then put forward a shortlist of candidates for review by the Committee. The shortlisted candidates were interviewed by a number of the Executive and non-Executive Directors and the Committee made a recommendation to the Board. When making decisions on new appointments, Board members consider the skills, experience and knowledge already represented on the Board and the benefits of diversity, in all its forms including gender and ethnicity.

Upon appointment to the Board, Directors undertake an induction programme, receiving a broad range of information about the Group tailored to their previous experience. This includes information on the operational performance and business of the Group and details of Group strategy, corporate governance and Board procedures. Rupert Soames and David Robbie are each undertaking an induction programme tailored to them, including visits to our sites (at Kemsley and Fordham in the UK and to sites in the US) to support their understanding of the operational aspects of our businesses.

Assisted by the Group Company Secretary, I have responsibility for these induction programmes, and also for the Board's training and professional development. Directors have been given training and presentations during the course of the year on topics such as cyber security and the UK Corporate Governance Code to keep their knowledge current and enhance their experience. In January 2019 the Board also visited our manufacturing site at Fordham in the UK, and toured the Impact Centre which we use to demonstrate to customers how best packaging practice could be adapted to the realities of their environment. The Board approved the recent appointment of Adrian Marsh to the Board of John Wood Group PLC (which operates in a different industrial sector from the Group), recognising that the wider perspective that Miles Roberts and Adrian Marsh gain from their respective non-executive roles enhances their contributions as Executive Directors in our Board meetings.

During 2017/18 the Nomination Committee reviewed the contingency plan for unexpected departures and the Group Chief Executive's succession plan. The plan envisages the role being filled by either internal or external candidates and at our September 2018 meeting the Committee looked again at those plans and was briefed by the Group HR Director on the talent review recently undertaken in relation to the Group's top 120

management positions and associated leadership development programme being held at Oxford's Saïd Business School.

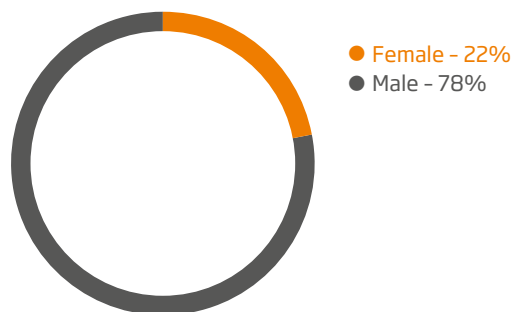
During 2019 Jonathan Nicholls, as Senior Independent Director, led the consultation with shareholders as my length of service to the Board neared nine years and more information about this can be found on page 62. The Senior Independent Director would chair the Nomination Committee when the Committee is considering matters relating to the succession planning for the role of Chairman.

Diversity

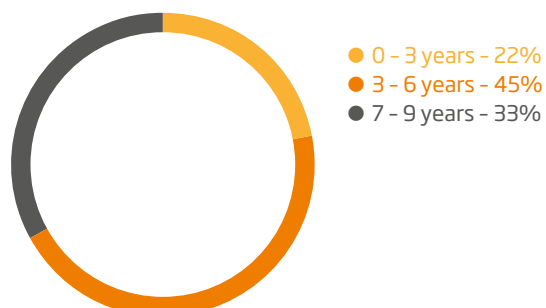
DS Smith acknowledges the importance of diversity of thought, skills and experience to the effective functioning of the Board and the wider organisation. This diversity may arise from any number of sources, including differences in age, gender, ethnicity, disability, sexual orientation, cultural background and religious belief. Our Directors have experience of a wide range of industries and backgrounds, including FMCG, consumer products and financial services, as well as complex organisations with a global reach.

The Board diversity policy (most recently reviewed by the Board in April 2019) is a policy which acknowledges the importance of diversity and includes an explicit requirement to take into account diversity when considering appointments to the Board. The Board recognises that some challenges in achieving diversity arise from social contexts with impacts not limited to the DS Smith Group, but the Board remains committed to ensuring that women have an equal chance with men of developing their careers within our business.

Board gender diversity at 30 April 2019



Board tenure at 30 April 2019



Following the recent Board appointments of David Robbie and Rupert Soames, before Jonathan Nicholls' retirement at the 2019 AGM, 22 per cent of our Board members are women. Before those two recent appointments it was 28 per cent and following Jonathan's retirement that figure will be 25 per cent. We are aware of the Hampton-Alexander Review's target of that figure to be 33 per cent by end of 2020, as well as the Parker Review recommendation that each FTSE 100 Board should have at least one director of colour by 2021.

Our most recently published UK gender pay gap report is available on our website. As a Board we have looked at any factors that might lead to a gender pay gap across the Group. Through our internal initiatives, DS Smith has been exploring the creation of a programme which aims to bring talented women back into the workplace after a career break and to increase the number of women in management roles. We know that two of the driving factors for the gap we have are the relative lack of women in senior management positions and also that we currently struggle to attract women to work the night shifts that command an increased salary. For us at DS Smith, it is all about merit. Anyone can, and should be able to, realise their full potential in DS Smith without experiencing inequality or unfairness on any grounds.

Independence and re-election of Directors

Biographical details of each Director, including their other directorships, their skills and experience, can be found on pages 58 and 59.

The Nomination Committee this year considered the then current term of appointment to the Board of Chris Britton, Jonathan Nicholls and Kathleen O'Donovan, bearing in mind the 2016 Code provision that any term beyond six years should be subject to particularly rigorous review and should take into account the need for progressive refreshing of the Board. The Committee reviewed their commitment and contribution to the Board and its Committees, as well as the balance of their skills, knowledge and experience with those of the other Directors. (Directors do not participate in any debate or decision about their own re-appointment.) The Committee recommended to the Board that each of their respective letters of appointment should be renewed, in each case for a further year. The expiry date of the current term of each of the non-Executive Directors is set out on page 90. With the appointment of Rupert Soames and David Robbie, Jonathan Nicholls will step down as a Director from the conclusion of the Company's AGM in September 2019. As such Jonathan will not be standing for re-election. His independence was however assessed by the Board at the end of his nine-year term in December 2018, with the Board agreeing that he remained independent in character and judgement and that, in that time of change for our Board composition, it was valuable for his retirement from the Board to be after the initial induction of the two forthcoming Board appointments and following the completion of the first full-year audit led by our new lead audit partner.

Information about this year's evaluation of the Board and its Committees and the Directors and the resultant action plan can be found on page 63. In addition to those evaluations, an assessment of the criteria set out in the 2016 Code is undertaken in relation to independence and the Committee reviews the time commitment of non-Executive Directors to assess whether each has sufficient time to discharge their duties.

Following these evaluations and assessments, the Committee has concluded that all Directors proposed for re-election continue to be effective members of the Board and that each non-Executive Director remains independent. Therefore, the Board is proposing the elections and re-elections of the Directors as set out in the 2019 Notice of Annual General Meeting.

Looking forward

As well as the regular cycle of matters that the Committee schedules for consideration each year, we are planning over the next 12 months to:

- Continue to monitor legislative and regulatory changes that may impact the work of the Committee
- Consider a wider range of topics for Committee training.

GARETH DAVIS

Chairman of Nomination Committee

12 June 2019

Remuneration Committee report



“Our purpose as a Remuneration Committee is to have a reward package that supports our vision as a Group and to ensure the rewards are performance-based and encourage long-term shareholder value creation.”

KATHLEEN O'DONOVAN

Chairman of Remuneration Committee



Dear shareholders

Introduction

On behalf of the Board, I am pleased to present the Directors' remuneration report for the year ended 30 April 2019, which sets out our implementation of the remuneration policy that was approved by shareholders at the Annual General Meeting (AGM) in September 2017. My letter on pages 72 to 75, summary on page 76 and 77 and the annual report on remuneration on pages 81 to 93 will be presented for approval by an advisory vote at our AGM on 3 September 2019.

Our purpose as a Remuneration Committee is to have a reward package that supports our vision as a Group and to ensure the rewards are performance-based and encourage long-term shareholder value creation.

Our achievements

You can read about the achievements of our business during 2018/19 in more detail in the strategic report starting on page 1. Some key achievements are summarised below:

- Record return on sales of 10.2%
- Adjusted operating profit of £631 million, an increase of 28%
- Adjusted return on average capital employed (ROACE) of 13.6%, around the middle of our medium-term operating target range of 12 - 15%

- Adjusted earnings per share (EPS) increased 8%
- Total shareholder return (TSR) 454% since May 2010 (and 898% since May 2009)
- Our progress as a leader in sustainable packaging has accelerated. We have:
 - Acquired Europac, a leading integrated packaging business in Iberia and France, which provides us with an exceptional scale opportunity in a key packaging growth region
 - Built on the acquisition of Interstate Resources, by acquiring Corrugated Container Corporation and further developing our paper and packaging capacity in North America
 - Reached agreement to sell, subject to regulatory approvals, the Plastics division
- 23% reduction in accident frequency rate
- 100% of our sites that trade or manufacture timber-derivative products now hold a relevant chain of custody certification
- Constructive engagement with our European Works Council continued.

The 2018/19 incentive outcomes reflect this performance picture with the Committee determining that 74% of the maximum annual bonus opportunity should pay out and 52% of the maximum Performance Share Plan (PSP) award should vest for both the Executive Directors. The detail of that is set out in this report.

Key responsibilities of the Remuneration Committee

We discharge a number of key responsibilities:

- Designing the remuneration policy
- Implementing the remuneration policy
- Ensuring the competitiveness of reward, within an appropriate governance framework
- Designing the incentive plans
- Setting incentive targets and determining award levels
- Overseeing all share awards across the Group.

Each of these responsibilities impacts the other. As a Committee we are very conscious of the importance of the wider context in which we operate in discharging these responsibilities.

Our year under review

As part of our annual decision-making cycle as a Remuneration Committee, we consider how the business has performed and look at forecasts for the year to come. We consider the feedback from both the employee survey and pulse surveys on how employees feel about the quality of the Group's leadership. This includes whether the leadership team continues to demonstrate living our values, how we measure employee performance and whether employees believe we have the right approach to reward. We review guidance from the government and investor bodies and take a holistic view of market practices. We consider whether our remuneration framework continues to motivate our leaders to achieve the Group's strategic objectives and we ensure that all our decisions are taken with consideration of pay conditions across the Group.

We endeavour to provide the proper incentives, suitably aligned, for sustainable high performance from the executive team and we will continue to report on this in a transparent way.

As part of developing our understanding of the remuneration-related policies that apply to the wider Group's workforce, we have had a series of briefing sessions to further enhance our knowledge of the broader approach to reward being taken across the Group.

This year we reviewed the Group Reward Framework (our approach to setting salary and incentive levels), the Group's design principles for the annual bonus plans and the Group's approach to managing employees exiting the business.

In addition to the above activities during the year, and the Committee's discussion of the relevant aspects of this year's Board effectiveness review, the key decisions taken were:

- Reviewing the salaries of the Group Chief Executive and Group Finance Director and the next layer of management, taking into account increases for the wider workforce
- Setting the 2019/20 annual bonus targets
- Setting the performance criteria for PSP awards granted to the Executive Directors and other senior managers
- Measuring performance criteria for incentive awards that are vesting in July 2019
- Considering the impact of acquisitions and disposals on incentive plans and reflecting the appropriate adjustment to ensure like for like performance comparison
- Considering the ongoing approach to ensuring compliance with the updated UK Corporate Governance Code that will apply from the 2019/20 financial year.

Our culture and reward principles

A requirement of the UK Corporate Governance Code that applies to us with effect from 1 May 2019 is for the Board to ensure that workforce policies and practices are consistent with the Group's values and support its long-term success. This involves the Board assessing and monitoring culture, a key part of which is how the Group chooses to invest in and reward its workforce.

In response to this, the Committee has endorsed a set of reward principles which are intended to underpin both our corporate purpose of redefining packaging for a changing world and our desired culture. Current policies and future decision making will be matched against these reward principles to drive our continuous improvement in this area.

As part of good practice for any reputable company we apply the following baseline principles when setting reward across the organisation:

- Competitiveness in the local market to enable DS Smith to attract and retain the right level of talent
- Simple to understand
- Affordable and sustainable
- In line with legal, regulatory and governance requirements.

Moreover, to differentiate our employee value proposition and reinforce our strong DS Smith culture, we have developed the following DS Smith reward principles.

Remuneration Committee report (continued)

DS Smith's reward principles

- 1 We support a culture of meritocracy where our people are encouraged to reach their potential and are clear on what they need to do to succeed. For salaried employees, reward should be differentiated using our Group salary and incentive ranges for entry, established and high performers. Where pay is determined through collective bargaining and there is less scope to differentiate by individual, the highest performers should be rewarded through development, promotion and other recognition opportunities.
- 2 We strive to have consistent policies and practices at a local level and transparency in our benefits offering and policies.
- 3 Incentives are designed to reward collective rather than individual effort to support our one DS Smith culture. For senior managers, this is Group financial performance but for middle managers and frontline employees, performance measures can be the key value drivers that the individuals are able to influence directly such as cost, quality and service.
- 4 All employees should have the opportunity to share in the success of the Group.
- 5 Share ownership is fundamental at senior levels and desirable across the Group.
- 6 The Group respects the need for employees to make their own choices around what they value, although there are certain reward components linked to health and wellbeing where the Group may decide it is appropriate to set a minimum Group standard.
- 7 Our pension offering should be competitive with the local market where this is a benefit valued by employees.
- 8 When determining rewards, demonstration of an individual's behaviours in line with the Group's values (be caring, be challenging, be trusted, be responsive and be tenacious) are considered alongside the results achieved.
- 9 In managed exits people should be treated fairly in line with the Group's values and with dignity, but failure should not be rewarded.

We believe that by developing reward policies and practices which are aligned to these principles we will drive a desired reward culture which will serve to underpin the values of DS Smith and relevant elements of our culture. Some of the strongest intersections between values, culture and reward are illustrated in the tables below.

DS Smith values					
Desired reward culture	Be caring	Be challenging	Be trusted	Be responsive	Be tenacious
Supporting people to reach their potential	●	●	●		
Fair and ethical	●		●		
Stronger together		●	●	●	●
Sharing success	●		●		
Affordable and sustainable		●		●	●

Relevant elements of DS Smith culture					
Desired reward culture	Meritocratic	Health & safety focused	Results driven	Simple, efficient and effective	Behaviours as important as results
Supporting people to reach their potential	●	●			●
Fair and ethical	●	●			●
Stronger together			●	●	●
Sharing success	●		●		
Affordable and sustainable			●	●	

Employee voice in the boardroom

Use of existing European Works Council (EWC) structure

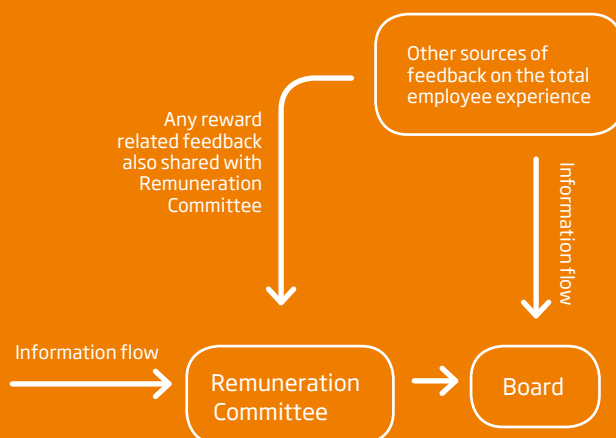


- Include a reward session at quarterly EWC Chairman meetings led by the Group HR Director and the Group Head of Reward
- Invite EWC representative to speak twice a year at Remuneration Committee meeting

Run reward focus sessions at site level



- Sessions led by Group reward
- Particular focus on regions not covered by the EWC



Our conversation with our workforce

A further requirement of the UK Corporate Governance Code that applies to us with effect from 1 May 2019 is for the Board to ensure effective engagement with, and encourage participation from, its shareholders and stakeholders. A key part of this is to set up a communication channel with the workforce in order to hear the 'employee voice' in the boardroom.

The diagram above sets out the approach the Company will be taking to collate ideas and hear any concerns from the workforce around reward. We will make good use of the already well-established European Works Council structure as well as establishing reward focus sessions at site level. This will be supplemented with any reward-related feedback collated on the total employee experience from other sources such as the engagement survey, Town Hall meetings, management site visits and social media.

Looking forward

As well as the regular annual cycle of matters that the Committee schedules for consideration, we are planning over the next 12 months to build on the programme of briefing sessions already begun and to:

- Review the Group's shareholding guidelines and how this operates in relation to our senior managers
- Develop our understanding of the remuneration-related policies that apply to the wider Group's workforce. This will include a review of:
 - The take-up rates and savings rates across the Group of our all employee share plans

- Bonus and incentive plans (including commission plans) across the Group
- The operation of Group benefits, such as pensions and the company car policy, across the Group.

Our conversation with our shareholders

The Committee values highly the contribution that shareholder views have on the process of formulating policy decisions. Shareholder views, whether directly or indirectly expressed, together with relevant guidance and emerging trends, are borne in mind when reviewing reward design and outcomes. As work begins later in 2019 on reviewing the remuneration policy as part of the regular three-yearly review cycle, we will be looking in particular at pension alignment and post-employment shareholding provisions. During 2019 the Committee actively sought views from our larger shareholders regarding our methodology for reflecting the significant recent corporate activity by the Group.

As Committee Chairman, I attended the 2018 AGM and was available to answer any questions shareholders had on remuneration matters. I look forward to meeting shareholders at our next AGM later this year and I continue to be available to engage with shareholders, as they so wish, on remuneration matters.

KATHLEEN O'DONOVAN

Chairman of Remuneration Committee

12 June 2019

Remuneration at a glance

Single total figure of remuneration for 2018/19 (£'000s) (Audited)

Miles Roberts



- Fixed pay (including benefits and pensions)
- Annual bonus
- PSP

Adrian Marsh



	Total £'000		Increase/(decrease)
	2018/19	2017/18	
Miles Roberts	£3,017	£4,220	(29)%
Adrian Marsh	£1,553	£2,229	(30)%

For more information on how this is calculated see page 81.

2018/19 performance related outcomes

Vesting as a % of maximum

	2018/19 annual bonus	2016/17 PSP vesting in 2019/20
Miles Roberts	74%	52%
Adrian Marsh	74%	52%

Salary and shareholdings

2019/20 salary increases with effect from 1 August 2019 are set out on page 82.

Percentage of salary each Executive Director holds in shares is set out on page 89.

There are no other changes to Executive Directors' reward proposed during 2019/20.

2019/20 application

The table below sets out a summary of how the remuneration policy will apply during 2019/20.

Remuneration element	Application of the remuneration policy
Base salary	<ul style="list-style-type: none"> Salaries will be increased by 2.5% (broadly in line with the average increase for the UK workforce as a whole of 2.6%) on 1 August 2019 as follows: <ul style="list-style-type: none"> Group Chief Executive £782,300; and Group Finance Director £491,600.
Annual bonus	<ul style="list-style-type: none"> No changes to maximum award levels of: <ul style="list-style-type: none"> 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), with the shares vesting after three years. The performance measures for 2019/20 will remain at 50% adjusted EBTA and 50% adjusted ROACE.
Performance Share Plan (PSP)	<ul style="list-style-type: none"> No changes to maximum award levels of: <ul style="list-style-type: none"> Group Chief Executive 225%; and Group Finance Director 175%. The performance measures for 2019/20 will remain as adjusted EPS, adjusted ROACE and relative TSR with equal weighting. Two-year post-vesting holding period applies, resulting in a total five-year period from grant.
Pension	<ul style="list-style-type: none"> No changes to contribution or cash alternative rates of: <ul style="list-style-type: none"> Group Chief Executive 30%; and Group Finance Director 20%.
Shareholding guidelines	<ul style="list-style-type: none"> Shareholding target remains at 225% of salary for the Group Chief Executive and 175% for the Group Finance Director. Actual holding (valued at 30 April 2019 share price) was 1,084% and 427% respectively.

Illustration of the application in 2019/20 of the remuneration policy

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 total remuneration of the Executive Directors for maximum, target and minimum performance in 2019/20 is presented in the charts below. These figures are indicative as future share prices and future dividends are not known at present.

Miles Roberts

Adrian Marsh

Maximum (fixed remuneration plus maximum annual bonus opportunity plus 100% vesting of performance shares and share price appreciation of 50%) £'000s



Target (fixed remuneration plus half of maximum annual bonus opportunity plus 25% vesting at threshold of performance shares) £'000s



Minimum (fixed remuneration only, i.e. latest known salary, benefits and pension) £'000s



Remuneration policy

(approved in 2017)

Set out below are the key elements of our Directors' remuneration policy applicable from 5 September 2017 when the policy was approved by shareholders at the AGM by 723,226,697 (96.96%) voting in favour and 22,523,083 voting against (3.02%), with 48,147,507 votes withheld, being votes that are not recognised as a vote in law. The full policy can be found in the 2016/17 annual report at <https://www.dssmith.com/investors/annual-reports/archive>. As part of the regular three-yearly cycle, during 2019/20 this remuneration policy will be reviewed in the context of the business strategy and the evolving expectations of our shareholders and stakeholders, including in areas such as pension alignment and post-employment shareholding. The refreshed remuneration policy will be put to a binding vote of shareholders at the AGM to be held in 2020.

Current 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: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • 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.

* Unaudited

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.	<p>Awards of nil-cost options are made annually with vesting dependent on the achievement of performance conditions over the three subsequent years.</p> <p>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 purposes).</p> <p>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.</p> <p>Vesting of awards would normally be based on:</p> <ol style="list-style-type: none"> 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 key financial measures of performance (such as, but not limited to, earnings per share, and return on average capital employed). <p>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.</p> <p>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, error in calculation, or if there is serious misconduct.</p>	<p>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.</p> <p>Actual award levels to Executive Directors are set out in the annual report on remuneration.</p> <p>25% of the relevant part of the award will vest for achieving threshold performance, increasing to full vesting for the achievement of maximum performance.</p>
All Employee Share Plan Encourages long-term shareholding in the Company.	<p>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.</p>	<p>Consistent with prevailing HMRC limits, currently £500 per month (or local currency equivalent) for the SAYE plan.</p>
Pension To remain competitive in the marketplace and provide income in retirement.	<p>Executive Directors can elect to:</p> <ul style="list-style-type: none"> participate in the Group's registered defined contribution plan (DC Plan); or receive a salary supplement; or a combination of the above. 	<p>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.</p>
Share ownership guidelines To further align the interests of executives with those of shareholders.	<p>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.</p> <p>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.</p>	<p>None</p>

Remuneration policy (continued)

Element, purpose and link to strategy	Operation and performance metrics	Maximum opportunity
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 £1,000,000 by Articles of Association.

In summary: key objectives of our remuneration 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
- Seeks to avoid creating excessive risks in the achievement of performance targets.

Our remuneration policy is:

- Specifically built around our strategy
- Aligned to the Group's values
- Designed to allow us to recruit and retain high calibre leaders who can deliver operational excellence
- Designed to encourage the right behaviours to deliver long-term and sustainable growth.

Our decisions as a Remuneration Committee are taken in this context.

Annual report on remuneration

The tables below show how we have applied the current remuneration policy during 2018/19. They disclose all the elements of remuneration received by the Directors during the year. Full details of the policy can be found in our 2016/17 annual report available on our website and a summary is included in this annual report.

Deloitte LLP has audited, as required by the applicable regulations, those tables labelled as audited.

Single total figure of remuneration for each Director (audited)

	Salary £'000		Benefits ¹ £'000		Annual bonus ² £'000		Long-term incentives £'000		Pensions ⁵ £'000		Total 2018/19 £'000	Total 2017/18 £'000
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19 ³	2017/18 ⁴	2018/19	2017/18		
Executive Directors												
Group Chief Executive												
Miles Roberts	758	737	22	22	1,121	1,296	889	1,944	227	221	3,017	4,220
Group Finance Director												
Adrian Marsh	476	463	19	19	528	611	435	1,043	95	93	1,553	2,229
Total	1,234	1,200	41	41	1,649	1,907	1,324	2,987	322	314	4,570	6,449

1. Taxable benefits in 2017/18 and 2018/19 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.
2. The annual bonus is paid 50% in cash and 50% in deferred shares as described in the policy table on page 78.
3. The value of long-term incentives for 2018/19 represents the estimated value of the 2016/17 PSP award using the average share price for the last three months of the year of 346.3p (the performance period for this award being the three years ending 30 April 2019).
4. The long-term incentives for 2017/18 were valued in the 2017/18 annual report using the average share price for the last three months of that financial year. This has been restated to reflect the bonus element inherent in the rights issue which took place on 9 July 2018 and the share price on the actual vesting date of 24 July 2018. This also impacts the total figure for 2017/18.
5. In lieu of membership of the defined contribution scheme Miles Roberts receives an annual pension allowance of 30% of base salary and Adrian Marsh receives an annual pension allowance of 20% of base salary. The annual pension allowances are not pensionable and are not considered to be salary for the purpose of calculating any bonus payment. The current remuneration policy is that future appointments to the Board would have a maximum of no more than 25% of base salary paid in relation to pension. This is one of the areas of remuneration policy that will be reviewed later in 2019/20 as part of the regular three-yearly review cycle.

	Fees £'000		Total ⁴ 2018/19 £'000	Total ⁴ 2017/18 £'000
	2018/19	2017/18		
Non-Executive Directors				
Chairman				
Gareth Davis	276	269	276	269
Chris Britton	59	57	59	57
Ian Griffiths ¹	9	57	9	57
Jonathan Nicholls	79	75	79	75
Kathleen O'Donovan	71	68	71	68
David Robbie ²	3	-	3	-
Louise Smalley	59	57	59	57
Rupert Soames ³	10	-	10	-
Total	566	583	566	583

1. Ian Griffiths stepped down from the Board with effect from 28 June 2018.
2. David Robbie joined the Board with effect from 11 April 2019.
3. Rupert Soames joined the Board with effect from 1 March 2019.
4. Non-Executive Directors received no taxable benefits, annual bonus, long-term incentives or pension payments during 2018/19 or 2017/18.

Annual report on remuneration (continued)

Fixed pay

Basic salary (audited)

	Salaries effective from			Received in 2018/19 (£)
	1 August 2017 (£)	1 August 2018 (£)	1 August 2019 ¹ (£)	
Miles Roberts	741,000	763,250	782,300	757,688
Adrian Marsh	465,600	479,600	491,600	476,100

When considering salaries the Committee takes account of a number of factors, with particular focus on the general level of salary increases awarded throughout the Group. For the UK workforce as a whole the 2019 salary review was on average 2.6%. Where relevant, the Committee also considers external market data on salary and total remuneration. When considering the Executive Directors' salary increase for 2019, the Committee also looked at the data for the peer group of FTSE 51-150 companies (excluding Financial Services companies). It chose that comparator group as one that (in line with the remuneration policy) reflected a similar size and complexity of business and of geographical spread as well as the domicile of the Executive Directors. The Committee applies judgement when considering such data. The Executive Directors' salary increase from the 2019 review (to take effect from 1 August 2019) is 2.5% (3% for 2018).

Fees for non-Executive Directors and the Chairman (audited)

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

	Base fee effective from			Received in 2018/19 (£)
	1 August 2017 (£)	1 August 2018 (£)	1 August 2019 ¹ (£)	
Gareth Davis	270,300	278,400	285,400	276,375
Chris Britton	57,300	59,000	60,500	58,575
Ian Griffiths ²	57,300	n/a	n/a	9,183
Jonathan Nicholls ³	57,300	59,000	60,500	78,950
Kathleen O'Donovan ⁴	57,300	59,000	60,500	71,450
David Robbie ⁵	n/a	59,000	60,500	3,177
Louise Smalley	57,300	59,000	60,500	58,575
Rupert Soames ⁶	n/a	59,000	60,500	9,833

1. The increase in non-Executive Director fee and Chairman's fee with effect from 1 August 2019 will be 2.5% (3% in 2018). Also with effect from 1 August 2019 the Chairman of the Audit Committee and of the Remuneration Committee will each receive a fee of £15,000 and the Senior Independent Director will receive a fee of £10,000 per annum.
2. Ian Griffiths stepped down from the Board on 28 June 2018.
3. The amount received in 2018/19 includes payment in respect of Senior Independent Director fee of £7,500 per annum and Chairman of the Audit Committee fee of £13,500 from 1 August 2018 (£11,000 from 1 August 2017).
4. The amount received in 2018/19 includes payment in respect of Chairman of the Remuneration Committee fee of £13,500 from 1 August 2018 (£11,000 from 1 August 2017).
5. David Robbie joined the Board with effect from 11 April 2019.
6. Rupert Soames joined the Board with effect from 1 March 2019.

Variable pay

The Committee believes it is important that a significant portion of the Executive Directors' package is performance-related and that the performance conditions support the delivery of the Group's strategy and the long-term sustainable success of the Company. The remuneration policy encourages long-term performance by setting challenging targets linked to sustainable growth for the variable pay, which consists of the annual bonus and the longer-term PSP. The Remuneration Committee can use discretion to adjust retrospectively the targets, for example after a substantial restructuring, and would normally discuss this with its larger shareholders. Alternatively adjustments to published outturns may be appropriate for significant events or changes in the Company's asset base that were not envisaged when the targets were originally set, to ensure that the performance conditions achieve their original purpose. Full disclosure of this would be given in the remuneration report. The Remuneration Committee has the discretion to override formulaic outcomes in order to ensure that outcomes reflect true underlying business performance.

Performance measures

An explanation of the performance measures for the annual bonus and PSP is set out below.

Adjusted earnings per share (EPS) applicable to the PSP

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 DS Smith Plc. 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 prior to vesting.

Adjusted return on average capital employed (ROACE) applicable to the PSP and annual bonus

ROACE is disclosed in the Company's annual report and accounts. It is defined as earnings before interest, tax, amortisation and adjusting items as a percentage of average capital employed, including goodwill, over the prior 12 month period. This is a measure of the efficiency and profitability of the Company's assets and investments.

Total shareholder return (TSR) applicable to the PSP

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 350 or FTSE 250 Index 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 before tax and amortisation (EBTA) applicable to annual bonus

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 PSP is measured over three years with targets based on the average of the three financial years prior to vesting.

The performance period for the annual bonus is measured over one year.

Annual bonus

Bonus earned in 2018/19

The Executive Directors' targets for the 2018/19 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 2019. Achievement is calculated on a straight-line basis between threshold and target and between target and maximum. Adjusted EBTA and adjusted ROACE have equal weighting as annual bonus performance measures.

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

Targets (audited)

Financial measure	Threshold 0% of maximum	Target 50% of maximum ¹	Maximum	Achieved
Adjusted EBTA	£508.5 m	£535.3 m	£562.1 m	£561.4 m
Adjusted ROACE	13.9%	14.6%	15.3%	14.6%

Outcomes (audited)

	Miles Roberts	Adrian Marsh
Adjusted EBTA (as a proportion of the maximum opportunity)	49/50	49/50
Adjusted ROACE (as a proportion of the maximum opportunity)	25/50	25/50
Total (as a proportion of the maximum opportunity)	74/100	74/100
Maximum bonus opportunity as a % of salary	200%	150%
Value of bonus paid in cash	£560,689	£264,236
Value of bonus deferred into shares	£560,689	£264,236
Overall award level ²	£1,121,378	£528,472

1. The figures for threshold and maximum are calculated by reference to 5% either side of the Target.

2. The annual bonus for the financial year 2018/19 will be paid 50% in cash and 50% in deferred shares with a vesting period of three years. 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 and not serving notice.

Annual report on remuneration (continued)

Performance is assessed on a constant currency and consistent basis and, therefore, the actual published results are restated for bonus purposes using budgeted exchange rates and reflect the impact of unbudgeted acquisitions and a disposal. The policy applied to unbudgeted acquisitions is to take into account only the upside or downside in earnings versus the acquisition business plan for the period after acquisition. This ensures that management are only rewarded (or penalised) for business performance above (or below) the acquisition business plan which supported the acquisition price. This approach gives effectively the same result as adjusting the bonus target range to build in the acquisition plan. The policy applied to unbudgeted disposals is to ensure the actual performance is measured against budget for the period up to disposal.

For 2018/19 the published EBTA result was £560.1 million (being operating profit before amortisation, adjusting items and pension equalisation of £631 million less net financing costs of £71 million). This published result excludes the Plastics division as a discontinued operation and, therefore, an adjustment has been made of £41.5 million to add back the Plastics division. This has the effect of holding management accountable for the £7 million shortfall in performance against the budget target for the period up to the reference date of disposal. The published EBTA result includes the unbudgeted actual post-acquisition performance of Europac and, therefore, an adjustment of £38.2 million in relation to the acquisition business plan for Europac has been made. This has the impact of holding management accountable for the £4 million upside of performance over the business plan. Finally, the favourable currency impact of £2.0 million has also been removed. These adjustments result in a bonusable outcome for EBTA of £561.4 million.

The headline ROACE of 13.6% (being £631.4 million EBITA divided by £4,652.0 million average capital employed) excludes the Plastics division as a discontinued operation and therefore an adjustment of 0.4% has been made to add back the Plastics division (EBITA of £40.6 million and average capital employed of £158.0 million). As a non-core business, Plastics has a low invested asset base (with a higher proportion of fully depreciated assets) and a mature operating profit, but lower growth potential within the Group. Adjusting for acquisition business plans including Europac increases ROACE by 0.6%. (EBITA of £40.4 million and average capital employed of £483.4 million). The favourable currency impact had limited impact on ROACE. The resulting 14.6% ROACE is the bonusable outcome.

The above means the bonus outcome reflects the true underlying performance, i.e. for performing above the budget for a business owned at the beginning of the year and performing above the business plan for a business acquired during the year.

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 the Group's objectives. Maximum bonus opportunity for 2018/19 is shown above for the Executive Directors and is generally between 60% and 110% for the other senior executives.

Implementation for 2019/20

The annual bonus for 2019/20 will remain in line with the remuneration policy and with a maximum opportunity of 200% of salary for the Group Chief Executive and 150% for the Group Finance Director.

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

In the event of an unbudgeted acquisition or disposal in the year, the Committee will assess how the financial performance of the acquired or disposed of company should be treated.

In the opinion of the Committee, the annual bonus measures and targets for 2019/20 are commercially sensitive and accordingly are not disclosed prospectively. These will be disclosed next year in the Directors' remuneration report, so that achievement against those targets will be visible, in retrospect.

Performance Share Plan (PSP)

Overview of the Performance Share Plan

The PSP operates as a long-term incentive plan for approximately the top 150 senior managers in the Group, with awards vesting after three years, and held for a further two years by the Executive Directors.

The awards have three performance measures which are three-year average adjusted EPS, three-year average adjusted ROACE and relative TSR. These have equal weighting.

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

The relative TSR vesting scale is median to upper quartile performance, with nothing vesting below median performance. 25% of the award vests for achieving threshold performance, increasing on a straight-line basis to full vesting for maximum performance.

The TSR comparator group for the 2016/17 award is the FTSE 250 Industrial Goods and Services Supersector and for the 2017/18 and 2018/19 awards it is the FTSE 350 Industrial Goods and Services Supersector (as previously reported).

Impact of corporate activity on EPS and ROACE target ranges and on outstanding awards

Over the last 24 months, the business has had four significant events aligned to our stated strategy which were the £1.1 billion acquisition of Interstate in August 2017, the £1.7 billion acquisition of Europac in January 2019, the rights issue to fund Europac in July 2018 and the announced \$585 million disposal of the Plastics division effective 1 November 2018.

The relative TSR performance measure is unaffected by these events. The only impact on the EPS is the requirement of IAS 33 to build in the effect of the bonus element of 7.4753% inherent in the rights issue into historical EPS outturns and the targets. As disclosed in the 2018/19 half-year results for the six months to 31 October 2018, the historical EPS results have already been restated to reflect the bonus element of the rights issue, so the corresponding PSP targets require the same adjustment to bring them into line. In addition, any unvested (and any vested but unexercised) nil-cost options at the date of the rights issue were also adjusted for the bonus element inherent in the rights issue.

The PSP three-year ROACE targets for the 2016, 2017 and 2018 plans were originally set with reference to the asset base at that time before some or all of these transactions occurred. In order to maintain a like-for-like comparison of performance outcomes to targets, either the outcomes needed to be adjusted to exclude the impacts of large transactions or the targets needed to be adjusted to include the impact of the transactions.

The Remuneration Committee took the decision to adjust the ROACE targets which had the effect of building in the dilutive impact of the Interstate Resources and Europac acquisitions and the Plastics division disposal, in one go. This was felt to provide more clarity than adopting the alternative approach of adjusting the outturns as each plan vested in turn over the next three years.

The resulting target ranges for EPS and ROACE are set out in the audited table below.

PSP plan	EPS range		ROACE range	
	Original	Restated ¹	Original	Restated ²
2016/17	30.1p-34.3p	28.0p-31.9p	14.5%-15.7%	13.7%-14.9%
2017/18	34.2p-39.1p	31.8p-36.4p	14.5%-15.7%	12.8%-14.0%
2018/19	38.4p-43.9p	35.7p-40.8p	14.5%-15.7%	12.3%-13.5%

1. Calculated as the original range divided by 1.074753 to make the necessary adjustment in line with IAS 33 for the bonus element inherent in the rights issue which took place in July 2018. The historical EPS results have been restated in the same way.
2. The adjustment recognises the initial dilution and holds management accountable for delivering future improvements as set out in the business cases which supported the Class 1 circulars for the acquisitions.

The ROACE impact for the Interstate Resources and Europac businesses is caused by the respective entry ROACEs for these businesses being 9.4% and 8.2% compared to the existing Group ROACE of 14.9% in 2016/17. The goodwill arising from the purchase price is reflected in the average capital employed of the acquired business, which serves to dilute ROACE at the point of entry. The Group is, of course, dedicated to raising these ROACEs over time and in accordance with the acquisition business cases. However, the 2016-2018 PSP awards did not include these acquisitions in their targets. The adjustment, which builds in the acquisition business cases, serves to do two things: i) recognise the initial dilution and ii) hold management accountable for future improvements as set out in the acquisition business cases which supported the respective Class 1 circulars. The overall impact increases from 2016 to 2018, as more years in the performance period applicable to the relevant PSP award are impacted by the dilutive ROACE of the acquisitions.

The disposal of the Plastics division will also impact the ROACE targets. As a non-core business, Plastics has a low invested asset base (with a higher proportion of fully depreciated assets) and a mature operating profit, but lower growth potential within the Group. This has led to a ROACE effect in the region of 35% at the point of disposal, and the restated target, therefore, reflects the impact of the disposal of this division.

The revised ROACE target ranges are viewed by the Committee as being at least as stretching as the original ones, with the aim that management are fairly rewarded for their contribution to the business results and long-term sustainability of the Group.

2016/17 awards vesting in 2019/20 based on performance in the three-year period to 2018/19

The PSP award granted on 1 July 2016 is based on performance over the three years to 30 April 2019. The 2016/17 PSP awards were based on equal weighting of EPS, ROACE and TSR performance conditions. The EPS, ROACE and TSR performance targets and actual performance against the restated targets are set out in the table overleaf.

Annual report on remuneration (continued)

EPS, ROACE and TSR performance targets for 2016/17 awards (vesting in 2019/20) (audited)

	Weighting	Restated ² threshold (25% vests)	Restated ² maximum (100% vests)	Outcome ³	Vesting (% of maximum)
Three-year average EPS	One third	28.0p	31.9p	32.5p	100%
Three-year average ROACE	One third	13.7%	14.9%	14.2%	56%
Relative TSR ¹	One third	Median	Upper quartile	Below median	0%
Overall					52%

1. Measured against the FTSE 250 Industrial Goods and Services Supersector.
2. The target EPS and ROACE ranges have been restated as explained on page 85.
3. For the three-year average, the 2016/17 and 2017/18 EPS results have been restated for the bonus element inherent in the rights issue, as explained on page 85, and the 2018/19 EPS and ROACE results include the Plastics division up to 1 November 2018.

Resulting vesting levels for 2016/17 PSP awards (vesting in 2019/20) (audited)

Executive Director	Award	Number of shares at grant	Adjusted for rights issue factor	Number of shares to vest ¹	Number of shares to lapse	Dividend equivalents	Total number of shares	Estimated value ² (£'000)
Miles Roberts	PSP	415,876	446,233	232,041	214,192	24,781	256,822	889
Adrian Marsh	PSP	203,199	218,031	113,376	104,655	12,108	125,484	435

1. These shares are subject to a two-year holding period from the vesting date.
2. The estimated value of the shares vesting on the third anniversary of grant on 1 July 2019 and the dividend equivalents is based on the average share price during the three months to 30 April 2019 (346.3 pence).

Value of 2016/17 PSP awards (vesting in 2019/20) (audited)

	PSP original award value ¹ (£'000)	PSP award depreciation ² (£'000)	Dividend equivalents ³ (£'000)	Total value (£'000)
Miles Roberts	821	(18)	86	889
Adrian Marsh	401	(8)	42	435

1. Calculated as the number of shares from the original award vesting (as restated for the bonus element inherent in the rights issue) multiplied by the grant price (based on the average share price for the three trading days preceding the award) of 354.0p.
2. Calculated as the number of shares vesting multiplied by the difference between 354.0p (see footnote above) and the average share price during the three months to April 2019 of 346.3p.
3. Calculated as the number of dividend equivalent shares vesting multiplied by the average share price during the three months to April 2019 of 346.3p.

Deferred share bonus plan (DSBP) awards vesting in 2019

The DSBP award vesting in 2019 relates to the deferral into shares of half of the bonus paid in July 2016 in relation to the financial year 2015/16. The number of shares vesting in 2019 under the DSBP award granted on 1 July 2016 when adjusted for the rights issue is 156,676 for Miles Roberts and 73,818 for Adrian Marsh. Details of those awards and the single total figure of remuneration that included them were set out in the remuneration report for 2015/16. Dividend equivalents for the DSBP award also accrued during the three-year vesting period. Those dividend equivalents will be paid in cash shortly after the award vests on 1 July 2019, the third anniversary of grant of the award. Miles Roberts will receive a gross payment of £65,701 and Adrian Marsh will receive one of £30,955, subject to tax and statutory deductions. This is expected to be the last year when dividend equivalents will be paid in cash under the DSBP, as a change to the DSBP rules in 2017 introduced the flexibility of dividend equivalents being paid in shares and the Remuneration Committee determined that paying dividend equivalents in shares, rather than cash, would be the standard policy applied after that rule change.

PSP and DSBP awards granted in 2018/19 vesting in 2021/22 (audited)

The PSP awards made in 2018 in respect of 2018/19 were in line with remuneration policy and, as reported in last year's remuneration report, were:

- 225% of salary for the Group Chief Executive and 175% of salary for the Group Finance Director.
- Any shares that vest under the PSP awards must be retained for a further two years before they can be sold (a total of five years from original grant).
- The PSP awards were granted as nil-cost options and were subject to three performance measures: three-year average adjusted EPS, three-year average adjusted ROACE and relative TSR, with equal weighting on each element.

The DSBP awards made in 2018 relate to the deferral into shares of half of the bonus paid in July 2018 in relation to the bonus award included in the single total figure of remuneration for 2017/18. They were granted as nil-cost options and are not subject to performance conditions, but are subject to continued employment.

Executive Director	Award	Number of options granted under award on 22 Jun 18	Face value of award at time of grant (£)	Number of options under award adjusted for rights issue factor 30 Apr 19
Miles Roberts	PSP	318,499	1,667,247	341,748
	DSBP	123,812	648,119	132,849
Adrian Marsh	PSP	155,653	814,797	167,015
	DSBP	58,345	305,419	62,603

The awards were made on 22 June 2018. The face value in the above table is calculated using 523.47 pence which was the average price of a DS Smith share for the three trading days preceding the award and the price used in the calculation of the number of options awarded. 25% of the PSP award vests for achieving threshold performance, increasing on a straight-line basis to full vesting for maximum performance. The applicable performance period for these PSP awards ends on 30 April 2021.

The EPS and ROACE targets for the 2018/19 PSP awards are set out on page 85 and the relative TSR target for the 2018/19 PSP award is the same as it was for the 2016/17 award set out on page 86, but is measured against the FTSE 350 Industrial Goods and Services Supersector.

PSP awards granted in 2019/20 vesting in 2022/23

The PSP awards to be made in 2019 in respect of 2019/20 will remain in line with the remuneration policy and in line with the award levels in 2018/19 as set out on page 86, namely 225% of salary for the Group Chief Executive and 175% of salary for the Group Finance Director. The Committee reflected on whether it was appropriate to apply the same percentage of salary in calculating the PSP award in 2019 as in prior years, given the decline in share price since the PSP award in 2018. The Committee noted the historical fluctuations in the share price, the band within which the share price had moved in the past and the fact that there was a difference between volatility over the near term (which might bring accidental windfalls unsupported by underlying performance) and steady growth over the longer-term (which would be supported by underlying performance and would align with the expectations of longer-term shareholders). The Committee also noted that macroeconomic conditions and paper prices played a part in share price fluctuations, as did market sentiment, all of which were factors that, through the cycle of a five-year period from original grant until the end of the vesting and holding period, would have varying impacts, both up and down. Therefore, balancing all these considerations in the round, the Committee concluded that it was appropriate to continue to apply the same percentage of salary to the grant of the 2019 PSP award.

An average adjusted EPS/ROACE for the three years of the performance period will be calculated and compared to the targets below. 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 targets for the 2019/20 PSP award will be:

% vesting as a proportion	3-year average adjusted EPS One third ¹	3-year average adjusted ROACE One third ²	Relative TSR One third ³
100%	42.0p	13.6%	Upper quartile
Between 25% and 100%	37.4 - 42.0p	12.4 - 13.6%	Between median and upper quartile
25%	37.4p	12.4%	Median

Awards vest on a straight-line basis between threshold and maximum performance. The target ranges take into account the Interstate and Europac acquisitions and the conditional disposal of the Plastics division.

1. 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. Assuming steady growth, this will require the Company to achieve an average compound annual growth in EPS over the three-year period of between 5% and 11%. The 2018/19 baseline includes the Plastics division up to 1 November 2018 and incorporates the recent change to IFRS 16 *Leases*.
2. Three-year average adjusted ROACE over the forthcoming three financial years, commencing with the financial year in which the award is made.
3. The comparator group for measurement of relative TSR will be the FTSE 350 Industrial Goods and Services Supersector, as it was in 2018/19 and 2017/18.

Annual report on remuneration (continued)

Outstanding PSP and DSBP share awards during 2018/19 and as at 30 April 2019 (audited)

The table below sets out details of Executive Directors' outstanding share awards, both under the Performance Share Plan and the Deferred Share Bonus Plan during the year under review. Unvested awards will vest in future years subject to performance and/or continued service. Vested awards will expire if not exercised before the relevant expiry date.

Continued service. Vested awards will expire if not exercised before the relevant expiry date.											Vesting date (if any performance conditions applicable are met)	Expiry date
	Award date	Awards held at 30 April 2018	Granted	Number of options under award adjusted for rights issue	Dividend equivalents	Exercised/ vested ¹	Lapsed/ forfeited	Grant price for award (p) ²	Market price on date of exercise (p)	Awards held at 30 April 2019		
Miles Roberts												
PSP	30 Jul 14	375,700	-	403,124	-	403,124	-	267.5	484.5	-	30 Jul 17	30 Jul 24
PSP	24 Jul 15	356,214	-	382,216	32,568	388,028	26,756	384.6	484.5	-	24 Jul 18	24 Jul 25
PSP	1 Jul 16	415,876	-	446,233	-	-	-	379.8	-	446,233	1 Jul 19	1 Jul 26
PSP	18 Jul 17	335,619	-	360,117	-	-	-	484.7	-	360,117	18 Jul 20	18 Jul 27
PSP	22 Jun 18	-	318,499	341,748	-	-	-	523.47	-	341,748	22 Jun 21	22 Jun 28
DSBP	24 Jul 15	156,734	-	168,174	-	168,174	-	384.6	484.5	-	24 Jul 18	24 Jul 25
DSBP	1 Jul 16	146,018	-	156,676	-	-	-	379.8	-	156,676	1 Jul 19	1 Jul 26
DSBP	18 Jul 17	67,123	-	72,022	-	-	-	484.7	-	72,022	18 Jul 20	18 Jul 27
DSBP	22 Jun 18	-	123,812	132,849	-	-	-	523.47	-	132,849	22 Jun 21	22 Jun 28
											1,509,645	
Adrian Marsh												
PSP	24 Jul 15	191,107	-	205,057	17,472	208,175	14,354	384.6	491.6	-	24 Jul 18	24 Jul 25
PSP	1 Jul 16	203,199	-	218,031	-	-	-	379.8	-	218,031	1 Jul 19	1 Jul 26
PSP	18 Jul 17	164,006	-	175,977	-	-	-	484.7	-	175,977	18 Jul 20	18 Jul 27
PSP	22 Jun 18	-	155,653	167,015	-	-	-	523.47	-	167,015	22 Jun 21	22 Jun 28
DSBP	24 Jul 15	72,074	-	77,335	-	77,335	-	384.6	491.6	-	24 Jul 18	24 Jul 25
DSBP	1 Jul 16	68,797	-	73,818	-	-	-	379.8	-	73,818	1 Jul 19	1 Jul 26
DSBP	18 Jul 17	31,629	-	33,937	-	-	-	484.7	-	33,937	18 Jul 20	18 Jul 27
DSBP	22 Jun 18	-	58,345	62,603	-	-	-	523.47	-	62,603	22 Jun 21	22 Jun 28
											731,381	

1. This includes the 2015/16 awards which vested during 2018/19 and vested awards which were exercised during 2018/19. Neither Miles Roberts nor Adrian Marsh as at 30 April 2019 held any vested but unexercised awards.
2. The figure in this column is the average price of a DS Smith share for the three trading days preceding the award and is the price used in the calculation of the number of options originally awarded.

It is currently intended that any ordinary shares required to fulfil entitlements under the DSBP will be provided by Computershare Trustees (Jersey) Limited in its capacity as trustee of the employee benefit trust (the Trust), which buys shares to do so. The Trust may also be used to fulfil certain entitlements under the PSP and the all employee sharesave plans or those may be fulfilled by newly-issued shares.

All employee share plans (audited)

Our all employee sharesave plans (SAYE) are a way of aligning our employees' interests with those of our long-term shareholders. Our commitment is to deliver an equal opportunity for all of our employees 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, in the UK, is an HMRC tax-advantaged plan. Participants contract to save up to the equivalent of £250 per month over a period of three years (two years in the US). The current maximum permitted monthly saving of the equivalent of £250 is set by the Company. Under the applicable plan rules (and our remuneration policy) the monthly maximum could be increased in the future to up to the equivalent of £500 per month. 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 higher of the mid-market average price on the day before invitation and the mid-market average on the day before grant in the US). In common with most plans of this type, there are no performance conditions applicable to options granted under the SAYE.

Executive Director	Options held at 30 April 2018	Options exercised during the year	Options lapsed during the year	Market price on date of exercise (p)	Options (after adjusted for rights issue) held at 30 April 2019 ¹	Exercise price (after adjusted for rights issue)(p)	Date from which exercisable	Expiry date
Miles Roberts	2,702	-	-	-	2,899 ¹	310.35	1 Apr 20	30 Sep 20
Adrian Marsh	2,702	-	-	-	2,899 ¹	310.35	1 Apr 20	30 Sep 20

1. The number of options has been adjusted for the bonus element inherent in the rights issue.

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. Directors' shareholdings (including those of their connected persons) are summarised in the following audited table:

Name of Director	Total shareholding as at 30 April 2018	Total shareholding as at 30 April 2019	Unvested only subject to continued employment ¹	Shareholding required (% salary/fee)	Shareholding at 30 April 2019 (% salary/fee) ²	Requirement met
Executive Directors						
Miles Roberts	1,651,589	1,989,927	327,736	225%	1,084%	Yes
Adrian Marsh	221,893	416,555	156,796	175%	427%	Yes
Non-Executive Directors						
Gareth Davis	106,900	136,054	-	50%	174%	Yes
Chris Britton	10,550	13,427	-	50%	81%	Yes
Jonathan Nicholls	109,307	154,118	-	50%	688%	Yes
Kathleen O'Donovan	10,471	13,326	-	50%	66%	Yes
David Robbie ³	n/a	20,000	-	50%	121%	Yes
Louise Smalley	14,615	18,600	-	50%	113%	Yes
Rupert Soames ³	n/a	28,800	-	50%	174%	Yes

- Includes the 2016/17, 2017/18 and 2018/19 deferred bonus shares and the 2016/17 PSP award, which is due to vest on 1 July 2019 and is not subject to any further performance conditions. A reduction to the gross award levels of 47% has been applied for the expected level of tax and social security deductions that will ultimately be due on these shares.
- Based on the salary/fee as at 1 August 2018 (or on appointment in the case of David Robbie and Rupert Soames) and a share price of 357.0 pence (being the closing price on 30 April 2019) multiplied by the current year shareholding and interests in shares which count towards the shareholding requirement.
- David Robbie joined the Board with effect from 11 April 2019 and Rupert Soames joined the Board with effect from 1 March 2019, so neither have yet been on the Board for two years.

The 2017/18 and 2018/19 PSP awards are unvested and remain subject to performance conditions so are not included in the above table as they do not count towards the shareholding requirement. Nil-cost options which have vested but have yet to be exercised are considered to count towards the shareholding requirement, other than any such shares that correspond to the estimated tax and national insurance contributions. However neither Miles Roberts nor Adrian Marsh as at 30 April 2019 held any such vested but unexercised awards.

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

Annual report on remuneration (continued)

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 is a non-executive director of Aggreko plc and retained fees of £61,000 for the year ended 30 April 2019. (£61,000 for the year ended 30 April 2018.) Adrian Marsh was appointed as a non-executive director of John Wood Group PLC with effect from 10 May 2019. He did not receive any fees for any remunerated external appointments for the year ended 30 April 2019, but will retain those received for the year ending 30 April 2020.

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. The current terms of the non-Executive Directors are set out in the table below. 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 2016 UK Corporate Governance 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.

Directors' contracts

		Date of contract/date of initial appointment to the Board	Expiry date of current term for non-Executive Directors
Gareth Davis	Chairman	1 June 2010	3 January 2021
Miles Roberts	Group Chief Executive	4 May 2010	not applicable
Adrian Marsh	Group Finance Director	24 September 2013	not applicable
Chris Britton		6 March 2013	6 March 2020
Jonathan Nicholls	Senior Independent Director	1 December 2009	30 November 2019
Kathleen O'Donovan		5 December 2012	4 December 2019
David Robbie		11 April 2019	10 April 2022
Louise Smalley		23 June 2014	22 June 2020
Rupert Soames		1 March 2019	28 February 2022

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

No payments were made to past Executive Directors during the year ended 30 April 2019 (2017/18: Nil). No payments were made in respect of loss of office during the year ended 30 April 2019 (2017/18: Nil).

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

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 may vary widely depending on local market conditions.

	Group Chief Executive Percentage change 2018 to 2019	All UK employees Percentage change 2018 to 2019
Salary	2.8%	3.0%
Benefits	0.0%	0.0%
Bonus	(13.5)%	(1.4)%

Relative importance of spend on pay

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

	2018/19 £m	2017/18 (restated) ² £m	Percentage change
Overall expenditure on employee pay ¹	1,266	1,104	14.7%
Dividend paid in the year	187	157	19%

1. Total remuneration reflects overall employee costs and includes some exchange rate fluctuation. See financial statements note 6 for further information.
2. The prior year information has been restated to reflect the classification of the Plastics division as discontinued.

CEO pay ratios (audited)

	25th percentile	Median	75th percentile
Total pay ratio	98:1	89:1	71:1
Fixed pay ratio	33:1	30:1	24:1

The table above sets out how the single total figure of remuneration (STFR) for the CEO compares to the STFR of the UK employees at the 25th percentile, median and 75th percentile.

All STFRs for the 2018/19 financial year have been based on full-time equivalent values and annualised where necessary.

DS Smith has chosen to use methodology B (as defined in the applicable regulations) which is to use the 2018 UK gender pay gap data to identify the relevant comparator employee falling at the relevant percentile and to calculate the annual total remuneration relating to 2018/19 for the three identified employees on the same basis as the CEO's annual total remuneration for the same period in the single figure table. In 2018/19, there were multiple bonus plans in place across the UK which are not payable in some cases in advance of the Directors' remuneration report being approved by the Board. It was therefore not practical to collate the bonus amounts relating to performance during 2018/19 for every UK employee in advance of the report being approved. We are confident that the three employee STFR figures used in the pay ratio reporting are as representative of the respective percentiles as would have been the case if the 2018/19 STFR had been calculated for all UK employees.

We believe that the results of the pay ratio are consistent with the Company's pay, reward and progression policies. The reward structures at DS Smith are set with reference to the external market and, for senior management and the CEO, this includes a significantly higher proportion of variable pay. As well as the annual bonus, this includes eligibility for long-term incentives which are dependent on business and share price performance. For this reason, we have included ratios based on fixed pay only to give further context to these disclosures.

The overall vesting levels for the 2018/19 annual bonus and 2016 PSP award that the senior management participated in are between threshold and maximum performance levels. Therefore, in future years where business performance is particularly strong, we would expect the ratio to increase significantly and conversely in years of weaker performance, we would expect the total pay ratio to decrease significantly.

We plan to report on trends in these figures and links to wider pay, reward and progression policies in future years in line with relevant reporting requirements.

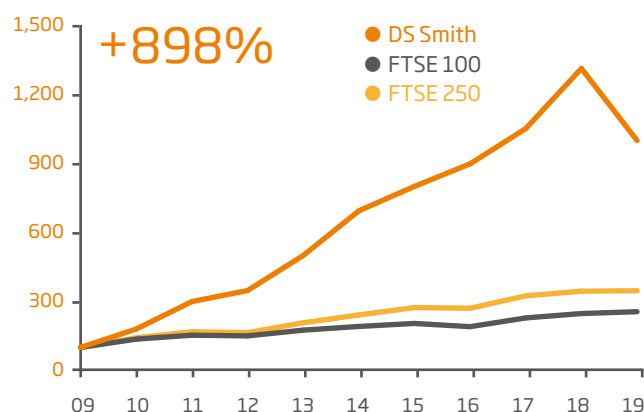
Remuneration of the Group Chief Executive

The table below shows the total remuneration figure for the Group Chief Executive for each of the last ten financial years. The total remuneration figure includes the annual bonus and long-term incentive awards which vested, based on performance in those years. The annual bonus and long-term incentive awards 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	2016/17	2017/18 ²	2018/19
Total remuneration (£'000)	1,499	1,796	2,170	6,057	3,696	5,527	4,447	4,861	4,220	3,017
Annual bonus (%)	100%	100%	100%	82%	85%	88%	79%	45%	88%	74%
Long-term incentive vesting (%)	28%	100%	100%	100%	98%	92%	94%	100%	93%	52%

- 2009/10 figures relate to the previous Group Chief Executive, Tony Thorne.
- The 2017/18 figure has been updated to include the actual share price on the date of vesting for the actual number of options vesting under the PSP award now that this is known.

Annual report on remuneration (continued)

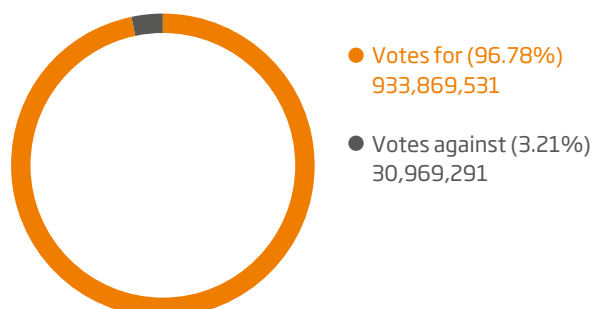


Review of past performance – total shareholder return graph

The above graph illustrates the Company's TSR performance since 1 May 2009 (the period required by the applicable regulations), relative to the FTSE 100 Index as well as the FTSE 250 Index. In December 2017 the Company joined the FTSE 100 index from the FTSE 250 Index. As at 30 April 2019 DS Smith ranked 91 by market capitalisation. This graph looks at the value, over the ten years to 30 April 2019, of an initial investment of £100 in DS Smith shares compared with that of £100 invested in both the FTSE 100 and FTSE 250 Index. The other points plotted are the values at intervening financial year ends.

Voting on the remuneration report at the 2018 AGM

At the AGM held in 2018, votes cast by proxy and at the meeting in respect of the Directors' remuneration report were as follows:



Total votes cast excluding votes withheld (which are not included in the final figures as they are not recognised as a vote in law)	964,952,588
Votes withheld	663,574
Total votes cast (including discretionary votes)	965,616,162

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 underpinned by the Company's overall remuneration policy, as described earlier in this report. It also determines the specific remuneration package, including service contracts and pension arrangements, for each Executive Director and our most senior executives, as well as the fees paid to the Chairman. The Remuneration Committee's Terms of Reference can be found at www.dssmith.com/investors/corporate-governance/committees/

Members	Since
Kathleen O'Donovan (Chair since 2013)	2012
Chris Britton	2013
Gareth Davis	2010
Jonathan Nicholls	2009
David Robbie	2019
Louise Smalley	2014
Rupert Soames	2019

Ian Griffiths retired from the Board and its committees on 28 June 2018.

Details of individual Directors' attendance can be found on page 60. The Group General Counsel and Company Secretary acts as Secretary to the Committee.

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 there is 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 Head of Reward, the Deputy Company Secretary, the Group General Counsel and Company Secretary and the Group Human Resources Director. No-one is allowed to participate in any matter directly concerning the details of their own remuneration or conditions of service.

The Company does not formally consult with employees on Executive Directors' remuneration, although has opened up channels of communication using, initially, the European Works Council structure as it is an established forum. When considering matters relating to the remuneration of the 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.

The Committee is advised by PricewaterhouseCoopers LLP (PwC) on the remuneration of Executive Directors and other senior executives. PwC also provides advice to the Company in connection with the operation of the Company's share-based incentive plans. PwC were appointed by the Committee as its advisers in January 2018, following a robust tender process. PwC is a member of the Remuneration Consultants Group and adheres to the Code of Conduct for Remuneration Consultants (which can be found at www.remunerationconsultantsgroup.com). During the year PwC provided advice to different parts of the Group on tax and other advisory and consultancy matters. The teams providing this advice are separate from the Remuneration Committee advisers and there was no conflict of interest. The total fees, excluding VAT, in respect of PwC's services to the Remuneration Committee during the year were £67,500. These fees were incurred through a retainer and on a time and materials basis. The Committee reviews the appointment of its advisers regularly and is satisfied that the advice it receives is objective and independent.

This report has been prepared in accordance with applicable legislation and regulatory requirements, including those of the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (Regulations). 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 Companies Act 2006. The Auditor's opinion is set out in the Independent Auditor's report and we have clearly marked the audited sections of this annual report on remuneration.

On behalf of the Board

KATHLEEN O'DONOVAN

Chairman of the Remuneration Committee

12 June 2019

Directors' report

Additional information and statutory disclosures

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 consolidated 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 for deterioration in both underlying cash flow and working capital), together with the available cash resources and undrawn committed borrowing facilities, the Directors have considered that adequate resources exist, before any mitigating actions, to continue in operational existence without relying on short-term facilities 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 disposals

Acquisitions and disposals in the year ended 30 April 2019 are described in note 30 to the consolidated financial statements.

Events after the reporting date

There are no subsequent events after the reporting date which require disclosure.

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 to the consolidated financial statements. In relation to the rights issue announced on 19 June 2018 to fund the acquisition of Europac, 293,068,454 new ordinary shares of 10 pence each were issued. These new shares ranked equally in all respects with the existing ordinary shares. Pursuant to the Company's employee share option schemes, 3,580,470 ordinary shares of 10 pence each were issued during the year. Between 1 May and 12 June 2019 inclusive 152,525 shares were issued pursuant to the Company's employee share option schemes. The Company has not utilised its authority to make market purchases of 107,458,246 shares granted to it at the 2018 AGM but, in line with market practice, will be seeking to renew such authority at this year's AGM.

The trustee of the employee benefit trust, which is used to purchase shares on behalf of the Company as described in

note 23 to the consolidated financial statements, has the power to vote or not vote, at its absolute discretion, in respect of any shares in the Company held unallocated in that 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.

Dividends

An interim dividend for 2018/19 of 5.2 pence per ordinary share was paid on 1 May 2019 and the Directors recommend a final dividend of 11.0 pence per ordinary share which, together with the interim dividend, increases the total dividend for the year to 16.2 pence per ordinary share (2017/18: 14.4 pence, restated to reflect the bonus element adjustment resulting from the rights issue). Subject to approval of shareholders at the AGM to be held on 3 September 2019, the final dividend will be paid on 1 November 2019 to shareholders on the register at the close of business on 4 October 2019.

Political donations

No political donations were made during the year ended 30 April 2019 (2017/18: 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 (the Act). These indemnities were in force throughout the year and up to the date of this annual report.

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.

A resolution to reappoint Deloitte LLP as Auditor will be proposed at the forthcoming AGM.

Non-financial information statement

The table below sets out where stakeholders can find information in our strategic report that relates to non-financial matters, as required under the Non-Financial Reporting Directive requirements.

Reporting requirement	Some of our relevant policies	Where to read more in this report about our impact, including the principal risks relating to these matters	Page
Environmental matters	Group Sustainability policy ¹	Our sustainability approach, strategy, focus and targets	32
		Our sustainability performance	31, 34
		Our differentiators	15
		Risk – sustainability	54
Employees	Code of Conduct ²	What we create for our people	13
	Group Health and Safety policy ¹	Diversity	29
	Compliance framework policy ²	To realise the potential of our people – performance	26
		Health and safety	27
		Risk – talent barriers	54
		Gender pay gap reporting	28
		Our purpose	27
Human rights	Modern Slavery policy ²	Sustainable governance	34
	Code of Conduct ²	Risk – governance	52
Social matters	Code of Conduct ²	Responsible neighbour	3
		What we create for our communities	13
Anti-bribery and corruption	Anti-corruption policy ²	Risk – governance	52
	Gifts and hospitality policy ²		
Business model		Our business model	12-13
Non-financial KPIs		Employees: accident frequency rate	27
		Sustainability: CO ₂ equivalent emissions	31, 34
		Customers: on-time in-full deliveries	24

1. Available to all employees through the DS Smith intranet. Not published externally.

2. Available both on our website www.dssmith.com and available to employees through the DS Smith intranet.

Substantial shareholdings

Information provided to the Company pursuant to the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website. The following information has been received, in accordance with DTR 5, from holders of notifiable interests in the Company's issued share capital.

	As at 30 April 2019	As at 12 June 2019	Nature of holding
Aviva plc and its subsidiaries	7.47%	7.47%	Direct & indirect
Norges Bank	5.16%	5.16%	Direct
Standard Life Aberdeen	5.02%	6.15%	Indirect
BlackRock, Inc.	Below 5%	Below 5%	Indirect
Ameriprise Financial, Inc. and its group	4.99%	4.99%	Direct & indirect

Directors' report (continued)

Additional employee disclosures

In our strategic report on pages 1 to 55 we set out some of the ways in which we realise the potential of our people. As part of creating a modern, diverse and inclusive culture all companies within the Group strive to operate fairly at all times and this includes not permitting discrimination against any employee or applicant for employment on the basis of race, religion or belief, colour, gender, disability, national origin, age, military service, veteran status, sexual orientation or marital status. This also includes giving full and fair consideration to suitable applications for employment from disabled persons and making appropriate accommodations so that if existing employees become disabled they can continue to be employed, wherever practicable, in the same job or, if this is not practicable, making every effort to find suitable alternative employment and to provide relevant training. Through the Group's processes for giving feedback following the Group's engagement survey and via our European Works Council as well as through other site and team meetings and briefing newsletters the Group provides employees with various opportunities to obtain information on matters of concern to them and to improve their awareness of the financial and economic factors that affect the performance of the Group.

Other disclosures

Certain information is included in our strategic report (pages 1 to 55) or financial statements that would otherwise be required to be disclosed in the Directors' report. This is as follows:

Subject matter	Page
Likely future developments in the business	9 - 11
Research and development	12
Use of financial instruments	47
Greenhouse gas emissions	34

As is customary, our principal debt facilities incorporate market standard change of control clauses.

A complete list of the Group's subsidiaries is set out in note 34 to the consolidated financial statements to comply with s409 of the Act. Companies within the Group have branches in Spain, Slovakia, Norway, Australia, Poland and Hungary.

The information that fulfils the requirements of the corporate governance statement for the purposes of DTR 7 can be found on pages 56 to 71, and that corporate governance report also forms part of the Directors' report.

The strategic report on pages 1 to 55 and the corporate governance report and directors' remuneration report on pages 56 to 96, together represent the management report for the purpose of compliance with DTR 4.1.8R.

The Directors' report was approved by the Board of Directors on 12 June 2019 and is signed on its behalf by:

IAIN SIMM

Group General Counsel and Company Secretary

12 June 2019

Directors' responsibilities

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 12 June 2019 and is signed on its behalf by:

MILES ROBERTS
Group Chief Executive

12 June 2019

ADRIAN MARSH
Group Finance Director

12 June 2019

Independent Auditor's report to the members of DS Smith Plc

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of DS Smith Plc (the 'parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 April 2019 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 Financial Reporting Standard 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.

We have audited the financial statements of the parent Company and the Group which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent Company balance sheets;
- the consolidated and parent Company statements of changes in equity;
- the consolidated cash flow statement;
- the related notes 1 to 35 to the consolidated financial statements; and
- the related notes 1 to 15 to the parent Company financial statements.

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, including FRS 101 *"Reduced Disclosure Framework"* (United Kingdom Generally Accepted Accounting Practice).



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	<p>The key audit risks that we identified in the current year were:</p> <ul style="list-style-type: none">• classification and presentation of adjusting items; and• taxation. <p>Within this report, any new key audit matters are identified with  and any key audit matters which are the same as the prior year identified with .</p>
Materiality	<p>The materiality that we used for the Group financial statements was £23m (2017/18: £18m) which was determined on the basis of approximately 5% of adjusted profit (profit before tax and adjusting items).</p>
Scoping	<p>Our full scope audits and audits of specified balances at components provided coverage of 82% (2017/18: 81%) of the Group's revenue and 81% (2017/18: 81%) of the Group's profit before tax and adjusting items.</p>
Significant changes in our approach	<p>In the 2017/2018 audit we identified a key audit matter in respect of the acquisition accounting related to the acquisition of Interstate in the US, and specifically the identification and valuation of intangible assets and goodwill. This is not identified as a key audit matter for 2018/2019 as our audit work was completed in the previous year.</p>

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the Directors' statement in Note 1a 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 and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal controls. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing to report, add or draw attention to in relation to these matters.

Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 49-55 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 51 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; or
- the Directors' explanation on page 51 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 are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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.

Classification and presentation of adjusting items

Key audit matter description



The presentation and consistency of costs and income within adjusting items in the income statement is a key determinant in assessing the quality of the Group's earnings and also presents the opportunity for management bias in the presentation of results. Management judgement is required in determining the accounting policy for identifying if an item is adjusting based on the size, nature and incidence of the item. Additionally, this is an area that attracts greater scrutiny from the financial reporting regulator.

For the year ended 30 April 2019, the Group incurred net adjusting items of £105 million (2017/18: £88 million).

Refer to note 4 for details of adjusting items in the year and note 1 (x) for management's policy for identifying adjusting items. The classification and presentation of adjusting items is also considered to be a significant matter for the Audit Committee (page 67).

How the scope of our audit responded to the key audit matter



As a response to the identified key audit matter, we performed the following audit procedures:

- We assessed the design and implementation of relevant controls in respect of the classification and presentation of adjusting items.
- We considered the appropriateness and classification of the items which are included within adjusting items by testing a sample and agreeing them back to relevant supporting documentation. This specifically included a review of classification of adjusting items arising on the acquisition of Europac – in particular any integration and acquisition costs.
- We have assessed the appropriateness of the adjusting items recorded, in accordance with management's policy on adjusting items and the latest guidance from the FRC and the European Securities and Markets Authority (ESMA) on the presentation of alternative performance measures.
- We reviewed the related disclosure in the Group financial statements and assessed consistency with the prior period and current market best practice.

Key observations



We are satisfied that the amounts classified as adjusting items are in accordance with the Group's accounting policy and the related disclosure of these items in the financial statements is appropriate.

Taxation

Key audit matter description



The value of the tax provisions recorded in respect of a number of uncertain tax positions requires judgement in respect of the likely outcome of negotiations with various tax authorities. Areas of particular judgement included transfer pricing provisioning, legacy SCA packaging tax matters and the recognition of a provision in respect of the ongoing State Aid investigation in respect of the UK. Refer to note 1(w) for management's process for estimating and recording tax provisions and note 1(z) for further detail in respect of the range of possible outcomes with regards to those uncertain tax positions.

How the scope of our audit responded to the key audit matter



We engaged and worked with our tax specialists, including those local jurisdictions as required, to challenge the estimates and judgements made by management when calculating the income tax payable in each territory and the associated provisions held in relation to tax exposures. This included transfer pricing, legacy SCA tax disputes and the consideration of the State Aid provision. Specifically, we have reviewed the correspondence with the taxation authorities in significant locations and the support or opinions received from external counsel or other advisors where management has utilised such opinions to appraise the likely outcome of technical tax treatments and to assess the reasonableness of the provisions made.

We have also assessed the design and implementation of relevant controls over the significant risk relating to taxation.

Key observations



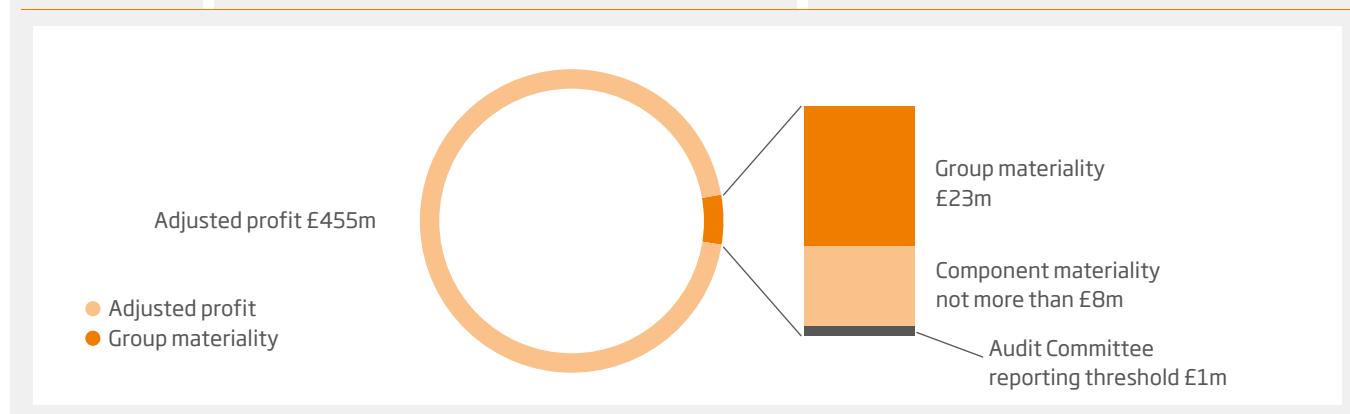
We are satisfied that the assumptions used in calculating the tax charge and recording the associated tax provisions are reasonable. The disclosures in notes 4 and 7 to the financial statements appropriately reflect and explain the specific uncertainties and the key movements in the material tax provisioning items in the year.

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 financial statements	Parent Company financial statements
Materiality	£23 million (2017/18: £18 million)	£8 million (2017/18: £7 million)
Basis for determining materiality	Materiality has been determined as approximately 5% of profit before tax and adjusting items. This is consistent with prior year. The materiality equates to less than 1% (2017/18: less than 1%) of revenue from continuing operations and less than 1% (2017/18: less than 1%) of net assets. It also equates to c. 6.5% of statutory profit before tax (2017/18: 6.9%).	Parent Company materiality equates to less than 1% (2017/18: less than 1%) of net assets, and is capped at less than 40% (2017/18: 40%) of Group materiality.
Rationale for the benchmark applied	We exclude the effect of adjusting items to provide a stable basis for materiality, as these items are expected to be volatile year on year and profit before tax and adjusting items is a key metric for users of the accounts and is consistent with the Group's internal and external reporting.	Net assets is typically considered an appropriate benchmark for materiality as the parent Company is the holding company, but given the quantum of net assets on the parent Company balance sheet, we have limited materiality to 40% of Group materiality.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1 million (2017/18: £0.75 million), 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

DS Smith operates in five geographic segments, four in Europe (UK; Western Europe; DCH and Northern Europe; and Central Europe and Italy) and one in North America. 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 twelve components (2017/18: twelve) located in the United Kingdom, Spain, France, Germany, North America, Italy and the Netherlands. These twelve 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 on a rotational basis. In 2018/19, we visited Spain, the Netherlands, Germany, Italy and the US. In accordance with a simplified stratification of scoping that we have applied in the year, in addition to the components where we have primarily focused on during the year, a full scope audit has also been performed at the largest components located in Romania, Spain, Portugal, Austria, Poland, Belgium, Denmark, Hungary, Lithuania, Slovakia, Slovenia and Sweden. In total, these components accounted for 80% (2017/18: 81%) of revenue and 77% (2017/18: 81%) of profit before tax and adjusting items.

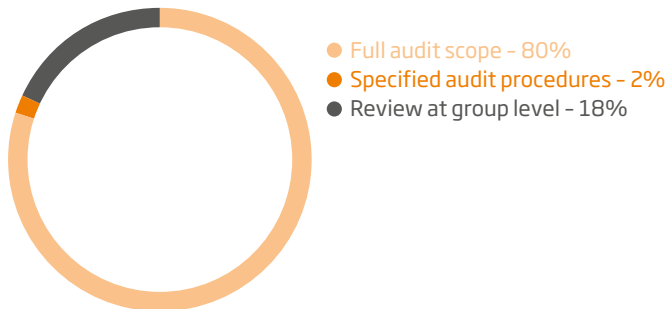
For the US Plastics division, which has been included as discontinued operations and assets/liabilities held for sale at 30 April 2019 (the disposal is expected to complete in the second half of 2019), we have performed specified audit procedures on the key classes of transactions and account balances. The audit procedures have been performed to component materiality of £8 million. This accounts for 2% of revenue and 4% of profit before tax and adjusting items.

Independent Auditor's report to the members of DS Smith Plc continued

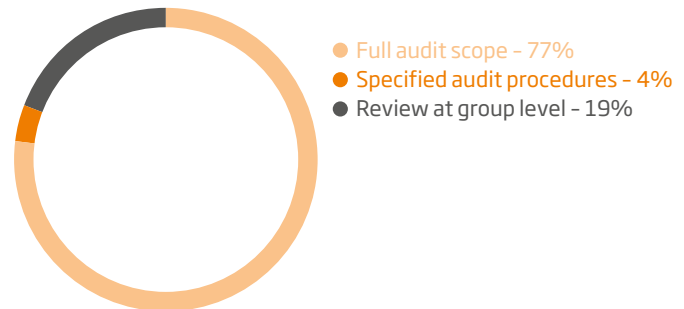
Together, full scope audits and audits of specified balances were performed on components which account for 82% (2017/18: 81%) of revenue and 81% (2017/18: 81%) of profit before tax and adjusting items.

At the head office level, we also tested the consolidation process and carried out analytical procedures to verify 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.

Revenue



Profit before tax and adjusting items



Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit Committee reporting* – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- *Directors' statement of compliance* with the *UK Corporate Governance Code* – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of Directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit, and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team, including significant component audit teams, and involving relevant internal specialists, including tax, valuations, pensions, and IT regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in respect of the classification and presentation of adjusting items; and
- obtaining an understanding of the legal and regulatory framework that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, and tax legislation. In addition, compliance with terms of the Group's regulatory solvency requirements and environmental regulations were fundamental to the Group's ability to continue as a going concern.

Audit response to risks identified

As a result of performing the above, we identified classification and presentation of adjusting items as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC;
- in addressing the risk of fraud through recognition of customer rebates within revenue, evaluating the design and implementation of relevant controls over customer rebates; testing a sample of the Group’s customer rebates and analysing the terms of the key customer contracts to test completeness of recognised client discounts and rebates; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions 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.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors’ 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 Group and of the parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or 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.

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 in respect of these matters.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the shareholders on 13 October 2006 to audit the financial statements for the year ended 30 April 2007 and subsequent financial periods. Following a competitive tender process, we were reappointed as auditor for the year ended 30 April 2014 and subsequent financial years. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 13 years, covering the years ended 30 April 2007 to 30 April 2019.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Use of our report

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.

Nicola Mitchell

(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
12 June 2019

Consolidated income statement

Year ended 30 April 2019

	Note	Before adjusting items 2019 £m	Adjusting items 2019 (note 4) £m	2019 £m	Before adjusting items 2018 (restated) ¹ £m	Adjusting items 2018 (note 4) (restated) ¹ £m	2018 (restated) ¹ £m
Continuing operations							
Revenue	2	6,171	-	6,171	5,518	-	5,518
Operating costs	3,4	(5,540)	(50)	(5,590)	(5,026)	(45)	(5,071)
Operating profit before amortisation, acquisitions, disposals, and guaranteed minimum pension equalisation	2	631	(50)	581	492	(45)	447
Amortisation of intangible assets; acquisitions and disposals	10,4	(114)	(32)	(146)	(90)	(28)	(118)
Guaranteed minimum pension equalisation		-	(8)	(8)	-	-	-
Operating profit		517	(90)	427	402	(73)	329
Finance income	5	-	-	-	-	-	-
Finance costs	4,5	(69)	(15)	(84)	(58)	(12)	(70)
Employment benefit net finance expense	24	(2)	-	(2)	(4)	-	(4)
Net financing costs		(71)	(15)	(86)	(62)	(12)	(74)
Profit after financing costs		446	(105)	341	340	(85)	255
Share of profit of equity accounted investments, net of tax	12	9	-	9	5	-	5
Profit before income tax		455	(105)	350	345	(85)	260
Income tax (expense)/credit	7,4	(101)	13	(88)	(69)	46	(23)
Profit for the year from continuing operations		354	(92)	262	276	(39)	237
Discontinued operations							
Profit for the year from discontinued operations, net of tax	31	22	(10)	12	24	(2)	22
Profit for the year		376	(102)	274	300	(41)	259
Profit for the year attributable to:							
Owners of the parent		376	(102)	274	300	(41)	259
Non-controlling interests		-	-	-	-	-	-
Earnings per share (from continuing operations)							
Earnings per share							
Basic	8			19.7p			21.2p
Diluted	8			19.7p			21.1p

1. Comparatives have been restated for the adoption of IFRS 15 *Revenue from Contracts with Customers*, the rights issue during the year, and the classification of the Plastics business as a discontinued operation.

Consolidated statement of comprehensive income

Year ended 30 April 2019

	Note	2019 £m	2018 (restated) ¹ £m
Profit for the year		274	259
Items which will not be reclassified subsequently to profit or loss			
Actuarial (loss)/ gain on employee benefits	24	(62)	57
Income tax on items which will not be reclassified subsequently to profit or loss	7	11	(14)
Items which may be reclassified subsequently to profit or loss			
Foreign currency translation differences		(45)	1
Cash flow hedges fair value changes		29	8
Reclassification from cash flow hedge reserve to income statement		(37)	10
Movement in net investment hedge		17	-
Income tax on items which may be reclassified subsequently to profit or loss	7	3	5
Other comprehensive (expense)/income for the year, net of tax		(84)	67
Total comprehensive income for the year		190	326
Total comprehensive income attributable to:			
Owners of the parent		190	326
Non-controlling interests		-	-

1. Comparatives have been restated for the adoption of IFRS 15 *Revenue from Contracts with Customers*, the rights issue during the year, and the classification of the Plastics business as a discontinued operation.

Consolidated statement of financial position

At 30 April 2019

	Note	2019 £m	2018 £m
Assets			
Non-current assets			
Intangible assets	10	3,211	2,043
Biological assets		9	3
Property, plant and equipment	11	2,993	2,396
Equity accounted investments	12	33	24
Other investments	13	12	11
Deferred tax assets	21	64	64
Other receivables	15	9	7
Derivative financial instruments	20	12	15
Total non-current assets		6,343	4,563
Current assets			
Inventories	14	584	543
Biological assets		6	4
Income tax receivable		18	15
Trade and other receivables	15	914	863
Cash and cash equivalents	18	382	297
Derivative financial instruments	20	35	44
Assets classified as held for sale	31	237	-
Total current assets		2,176	1,766
Total assets		8,519	6,329
Liabilities			
Non-current liabilities			
Borrowings	19	(2,392)	(1,811)
Employee benefits	24	(170)	(106)
Other payables	16	(16)	(14)
Provisions	22	(16)	(4)
Deferred tax liabilities	21	(323)	(195)
Derivative financial instruments	20	(14)	(35)
Total non-current liabilities		(2,931)	(2,165)
Current liabilities			
Bank overdrafts	18	(129)	(29)
Borrowings	19	(233)	(162)
Trade and other payables	16	(1,855)	(1,705)
Income tax liabilities		(133)	(118)
Provisions	22	(17)	(16)
Derivative financial instruments	20	(16)	(24)
Liabilities classified as held for sale	31	(93)	-
Total current liabilities		(2,476)	(2,054)
Total liabilities		(5,407)	(4,219)
Net assets		3,112	2,110
Equity			
Issued capital	23	137	107
Share premium		2,236	1,260
Reserves		738	742
Total equity attributable to owners of the parent		3,111	2,109
Non-controlling interests		1	1
Total equity		3,112	2,110

Approved by the Board of Directors of DS Smith Plc on 12 June 2019 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 2019

	Note	Share capital £m	Share premium £m	Hedging reserve £m	Translation reserve £m	Own shares £m	Retained earnings ¹ £m	Total reserves attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
At 1 May 2017		95	728	(22)	40	(4)	516	1,353	2	1,355
Profit for the year		-	-	-	-	-	259	259	-	259
Actuarial gain on employee benefits	24	-	-	-	-	-	57	57	-	57
Foreign currency translation differences		-	-	-	1	-	-	1	-	1
Cash flow hedges fair value changes		-	-	8	-	-	-	8	-	8
Reclassification from cash flow hedge reserve to income statement	20	-	-	10	-	-	-	10	-	10
Income tax on other comprehensive income		-	-	(3)	8	-	(14)	(9)	-	(9)
Total comprehensive income		-	-	15	9	-	302	326	-	326
Issue of share capital		12	532	-	-	-	32	576	-	576
Employee share trust		-	-	-	-	3	(7)	(4)	-	(4)
Share-based payment expense (net of tax)		-	-	-	-	-	15	15	-	15
Dividends paid	9	-	-	-	-	-	(157)	(157)	-	(157)
Transactions with non-controlling interests		-	-	-	-	-	-	-	(1)	(1)
Other changes in equity in the year		12	532	-	-	3	(117)	430	(1)	429
At 30 April 2018		107	1,260	(7)	49	(1)	701	2,109	1	2,110
Profit for the year		-	-	-	-	-	274	274	-	274
Actuarial loss on employee benefits	24	-	-	-	-	-	(62)	(62)	-	(62)
Foreign currency translation differences		-	-	-	(44)	-	(1)	(45)	-	(45)
Cash flow hedges fair value changes		-	-	29	-	-	-	29	-	29
Reclassification from cash flow hedge reserve to income statement	20	-	-	(37)	-	-	-	(37)	-	(37)
Movement in net investment hedge		-	-	-	17	-	-	17	-	17
Income tax on other comprehensive income		-	-	2	1	-	11	14	-	14
Total comprehensive (expense)/ income		-	-	(6)	(26)	-	222	190	-	190
Issue of share capital		30	976	-	-	-	-	1,006	-	1,006
Employee share trust		-	-	-	-	-	(8)	(8)	-	(8)
Share-based payment expense (net of tax)		-	-	-	-	-	1	1	-	1
Dividends paid	9	-	-	-	-	-	(187)	(187)	-	(187)
Other changes in equity in the year		30	976	-	-	-	(194)	812	-	812
At 30 April 2019		137	2,236	(13)	23	(1)	729	3,111	1	3,112

1. Retained earnings include a reserve related to merger relief (note 23).

Consolidated statement of cash flows

Year ended 30 April 2019

	Note	2019 £m	2018 (restated) ¹ £m
Continuing operations			
Operating activities			
Cash generated from operations	26	681	527
Interest received		1	1
Interest paid		(62)	(42)
Tax paid		(85)	(68)
Cash flows from operating activities		535	418
Investing activities			
Acquisition of subsidiary businesses, net of cash and cash equivalents	30	(1,498)	(615)
Capital expenditure		(303)	(328)
Proceeds from sale of property, plant and equipment and intangible assets		14	16
Cash flows used in restricted cash and other deposits		(4)	(6)
Cash flows used in investing activities		(1,791)	(933)
Financing activities			
Proceeds from issue of share capital		1,006	283
Repayment of borrowings		(3,335)	(490)
Proceeds from borrowings		3,810	1,008
(Payments in respect of)/proceeds from settlement of derivative financial instruments		(36)	2
Repayment of finance lease obligations		(4)	(4)
Dividends paid to Group shareholders	9	(187)	(157)
Other		(6)	(4)
Cash flows from financing activities		1,248	638
(Decrease)/increase in cash and cash equivalents from continuing operations		(8)	123
Discontinued operations			
Cash flows from discontinued operations	31	(3)	18
(Decrease)/increase in cash and cash equivalents		(11)	141
Net cash and cash equivalents at beginning of the year		268	123
Exchange (losses)/gains on cash and cash equivalents		(4)	4
Net cash and cash equivalents at end of the year	18	253	268

1. Restated for the classification of the Plastics business as a discontinued operation (note 31).

Notes to the consolidated financial statements

1. Significant accounting policies

(a) Basis of preparation

(i) Consolidated financial statements

These financial statements are the consolidated financial statements for the Group consisting of DS Smith Plc, a company registered in England and Wales, 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 biological assets, other investments, assets and liabilities of certain financial instruments and employee benefit plans that are stated at their fair value and share-based payments that are stated at their grant date fair value.

The comparative information presented in this annual report has been restated as a result of the adoption of IFRS 15 *Revenue from Contracts with Customers*, the rights issue during the year, and the classification of the Plastics business as a discontinued operation.

The consolidated financial statements have been prepared on a going concern basis as set out on page 94 of the Directors' 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 and critical accounting judgements are discussed in accounting policy 1(z) and 1(aa).

(ii) Discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale is expected to be completed within one year from the date of the classification.

On 6 March 2019, the Group announced the agreement to sell the Plastics division. Accordingly, the Group considered the Plastics division to meet the criteria of a discontinued operation as the sale is expected to be completed within one year from the reporting date.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement. Cash flows generated from discontinued operations are presented as a single item in the statement of cash flows.

All other notes to the financial statements include amounts for continuing operations. Unless otherwise stated comparative information has been restated.

(iii) New accounting standards adopted

The following new accounting standards, amendments or interpretations have been adopted by the Group as of 1 May 2018:

- IFRS 15 *Revenue from Contracts with Customers*
- IFRS 9 *Financial Instruments*
- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*, and
- Amendments to IFRS 2 *Classification and Measurements of Share-based Payment Transactions*.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 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's review of the requirements of IFRS 15 against existing policy and practice concluded that the timing of revenue recognition was materially consistent with the requirements of 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.

The Group utilises customised dies, tools and moulds in order to fulfil customer orders, which vary considerably in value and treatment in the customer contracts. While some are immaterial in the context of the contract, others are of more significant value and contractually distinct and are therefore considered a separate performance obligation under IFRS 15. Previously, revenue from dies, tools and moulds was netted within operating costs, while under IFRS 15 it represents a separate performance obligation and is included within revenue.

1. Significant accounting policies continued

(a) Basis of preparation continued

(iii) New accounting standards adopted continued

IFRS 15 Revenue from Contracts with Customers continued

In addition to the IFRS 15 adjustment relating to dies, tools and moulds, energy income, historically netted within operating costs while not material, has been determined to be more appropriately stated within revenue.

The Group has applied IFRS 15 with effect from 1 May 2018, with full restatement of prior periods to ensure comparability of the consolidated income statement. The impact of applying the changes described above on the restatement of the results for the year ended 30 April 2018 was to increase both revenue and operating costs relating to continuing operations by £99 million with no impact on net profit and loss. There was no impact on discontinued operations revenue. Other areas identified in the review of IFRS 15 were concluded not to have material differences to current practice.

IFRS 9 Financial Instruments

IFRS 9 has replaced IAS 39 *Financial Instruments: Recognition and Measurement* and concerns the classification, measurement and de-recognition of financial assets and financial liabilities, introduces the expected credit loss model for the assessment of impairment of financial assets, introduces new classification and measurement rules for financial assets affecting the Group's other investments previously classified as available for sale and held at fair value, and changes the hedge accounting requirements.

The Group has determined that all existing effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. The Group has elected to continue to apply the hedge accounting requirements of IAS 39, as allowed under IFRS 9.

The Group's other investments previously classified as available for sale under IAS 39 and held at fair value have been designated on transition as fair value through other comprehensive income, after which the Group will continue to record their fair value movements in other comprehensive income.

On the date of initial application, 1 May 2018, the financial instruments of the Group were as follows, with any reclassifications noted:

Financial instruments	Measurement		Carrying amount at 1 May 2018		
	Original (IAS 39)	New (IFRS 9)	Original £m	New £m	Difference
Non-current financial assets					
Other investments	Available for sale	FVTOCI	11	11	-
Other receivables	Amortised cost	Amortised cost	7	7	-
Derivative financial instruments	FVTOCI	FVTOCI	15	15	-
Current financial assets					
Trade and other receivables	Amortised cost	Amortised cost	863	863	-
Cash and cash equivalents	Amortised cost	Amortised cost	297	297	-
Derivative financial instruments	FVTOCI	FVTOCI	44	44	-
Non-current borrowings					
Borrowings	Amortised cost	Amortised cost	(1,811)	(1,811)	-
Other payables	Amortised cost	Amortised cost	(14)	(14)	-
Derivative financial instruments	FVTOCI	FVTOCI	(35)	(35)	-
Current borrowings					
Borrowings	Amortised cost	Amortised cost	(162)	(162)	-
Bank overdrafts	Amortised cost	Amortised cost	(29)	(29)	-
Derivative financial instruments	FVTOCI	FVTOCI	(24)	(24)	-
Trade and other payables	Amortised cost	Amortised cost	(1,705)	(1,705)	-

The Group has adopted the simplified approach to provide for losses on receivables within the scope of IFRS 9. The impact of applying the expected credit loss model has been concluded not to be material considering the quality and short-term nature of the Group's trade receivables. As the impact of adopting IFRS 9 is not material, the Group has not restated prior periods on adoption of IFRS 9.

Other than as disclosed above, the adoption of the other new accounting 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.

1. Significant accounting policies continued

(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 Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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.

(c) Revenue

The Group is in the business of providing sustainable packaging solutions, sustainable paper products, recycling and waste management services. The Group has concluded that it is the principal in its revenue arrangements.

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 contracts with customers is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services and the fulfilment of the related performance obligations.

The transaction price is the contractual price with the customer adjusted for rebates and discounts. Rebates and discounts are estimated using historical data and experiences with the customers. Revenue is recognised to the extent that it is highly probable that a significant reversal will not occur. Returns from customers are negligible. No element of financing is deemed present as typical sales contracts with customers are usually shorter than 12 months.

A receivable is recognised when the goods are delivered or services provided at a point in time that consideration is unconditional because only the passage of time is required before the payment is due.

(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, where appropriate, the Group estimates supplier income due from annual agreements for volume rebates.

(e) Government grants

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.

1. Significant accounting policies continued

(g) Foreign currency translation continued

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 an 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.

(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.

(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

Property, plant and equipment is stated at cost less accumulated depreciation and impairment.

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

Gains or losses arising on the sale of surplus property assets are recorded through operating profit before adjusting items.

(j) Other investments

Other investments primarily consist of available for sale investments in unquoted equity securities and restricted cash. Equity securities which are reliably measurable are measured at fair value. On initial recognition, the Group make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income (FVTOCI). Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination. The remainder of other investments are carried at cost less any impairment.

Investment in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments; instead, it is transferred to retained earnings. The Group has designated all investments in equity that are not held for trading as at FVTOCI on initial application of IFRS 9 (see notes 1(a)(iii) and 20).

(k) 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 consolidated income statement. No impairments have been recognised in the year.

(i) Cash generating units

For the purposes of property, plant and equipment and other intangibles impairment testing, each operating segment, split by process (e.g. Packaging, Paper, Recycling), is a separate individual CGU. 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.

1. Significant accounting policies continued

(k) Impairment continued

(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 flows, 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.

(l) 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:

- 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:

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.

(l) Derivative financial instruments continued

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.

(m) 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.

(n) Trade and other receivables

Trade and other receivables are stated at their cost less impairment provisions.

(o) 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 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.

(p) Biological assets

Biological assets consist of standing timber, measured at fair value less cost to sell. Any change in fair value resulting from both net growth and change in the market value of standing timber is presented in the income statement. The revenue from the sale of standing timber is presented within revenue.

1. Significant accounting policies continued

(q) Cash and cash equivalents and restricted cash

Cash and cash equivalents comprise of 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.

(r) 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.

(s) 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.

(t) 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.

(u) Trade and other payables

Trade and other payables are stated at their cost.

(v) 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.

(w) 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 or in other comprehensive income.

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.

1. Significant accounting policies continued

(w) Taxation continued

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.

(x) Adjusting 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 adjusting items.

Such items include business disposals, restructuring and optimisation, acquisition related and integration costs, and impairments.

(y) 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, including reasons for their use and reconciliations to IFRS figures are included as appropriate in note 33.

(z) 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.

(i) 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. In particular, the Group has recognised a provision for the maximum potential exposure as a result of the EU Commission decision on State Aid in the UK. See note 7 for additional information.

(ii) Acquisitions

Estimates are required to value assets and liabilities acquired in business combinations at fair value and the purchase price is allocated to assets and liabilities based on these fair values. Determining fair values involves the use of significant estimates and assumptions (including discount rates, asset lives, customer attrition rates and recoverability). The value of intangible assets and property, plant and equipment on acquisition is typically determined by qualified valuation specialists where material. Refer to note 30 for details of the current year acquisitions.

(iii) Impairments

The Group tests goodwill and tangible assets for any impairment on an annual basis. The recoverable amounts of the CGUs is determined based on value-in-use calculations which require the use of assumptions and estimates. Budgets comprising forecasts of revenue, overheads, and capital expenditure based on current and anticipated market conditions have been considered and approved by management. Refer to note 10 for details of the estimates and assumptions applied.

(aa) Critical accounting judgement

Adjusting items

The Group is required to exercise judgement in applying the adjusting items accounting policy to items of income and expenditure, taking 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.

1. Significant accounting policies continued

(ab) 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
IFRS 16	<i>Leases</i>	30 April 2020
IFRIC Interpretation 23	<i>Uncertainty over Income Tax Treatments</i>	30 April 2020
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>	30 April 2020
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i>	30 April 2020

IFRS 16 *Leases*

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 supersedes the current lease guidance including IAS 17 *Leases* and the related Interpretations for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group is 1 May 2019.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

IFRS 16 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 as the present value of future lease payments for the lease term. Depreciation of right-of-use assets and interest on the corresponding lease liabilities are recognised in the income statement 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).

On implementation of IFRS 16 there will be a material increase in lease liabilities, along with a corresponding increase in right of use assets within property, plant and equipment. The Group's most significant leases relate to property and production equipment and the undiscounted commitments under non-cancellable operating leases in accordance with IAS 17 total £259 million for continuing operations at 30 April 2019 (30 April 2018: £209 million).

The estimated impact on the consolidated financial position and the Group's Key Performance Indicators are as follows:

Property, plant and equipment	Increase	c. £235m
Net debt	Increase	c. £235m
Depreciation	Increase	c.£70m
Interest	Increase	c.£10m
Adjusted PBT	Decrease	c.£5m
EBITDA	Increase	c. £75m
Net debt to EBITDA	Increase	Negligible
Return on average capital employed	Decrease	30bps

The Group will adopt the modified retrospective approach using practical expedients available, with a cumulative adjustment to equity at 1 May 2019, and as such will not restate comparatives. The Group will make use of the practical expedient available on transition to IFRS 16 to not reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 May 2019. On transition, the Group will measure all right-of-use assets at the amount of the lease liability on adoption.

Additionally, the adoption of IFRS 16 does not have a material impact on the Group's current accounting for finance leases.

Other standards not yet effective

IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments* clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In particular, this Interpretation addresses whether uncertain tax treatments should be considered separately or together with one or more other uncertain tax treatments, and addresses the assumptions an entity makes about the examination of tax treatments by taxation authorities. The Group is currently evaluating the impact of the new Interpretation.

The Group does not anticipate that the adoption of the remaining standards and interpretations that are effective for the year ending 30 April 2020 will have a material effect on its financial statements.

Of the standards listed above, all except for IFRIC 23, amendments to IAS 28 and amendments to IAS 19 have 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).

The Group's operations are organised into five continuing segments, which cover geographical regions with integrated Packaging and Paper businesses. Plastics, as a discontinued operation, is reported separately. These comprise the Group's reportable segments and their results are regularly reviewed by the Group Chief Executive. The measure of profitability reported to the Group Chief Executive for the purposes of resource allocation and assessment of performance is adjusted operating profit, which is a non-GAAP performance measure, about which further information is provided in note 33.

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 2019	Note	UK £m	Western Europe £m	DCH and Northern Europe £m	Central Europe and Italy £m	North America £m	Total £m
External revenue		1,134	1,739	1,076	1,583	639	6,171
Adjusted EBITDA ¹		152	196	132	210	130	820
Depreciation	11	(31)	(57)	(32)	(45)	(24)	(189)
Adjusted operating profit¹		121	139	100	165	106	631
Unallocated items:							
Amortisation	10						(114)
Adjusting items in operating profit	4						(90)
Total operating profit (continuing operations)							427
Unallocated items:							
Net financing costs							(86)
Share of profit of equity accounted investments, net of tax							9
Profit before income tax							350
Income tax expense							(88)
Profit for the year (continuing operations)							262
Analysis of total assets and total liabilities							
Segment assets		870	3,112	974	1,508	1,262	7,726
Unallocated items:							
Equity accounted investments and other investments							45
Derivative financial instruments							47
Cash and cash equivalents							382
Tax							82
Assets classified as held for sale							237
Total assets							8,519
Segment liabilities		(306)	(847)	(223)	(407)	(88)	(1,871)
Unallocated items:							
Borrowings and accrued interest							(2,787)
Derivative financial instruments							(30)
Tax							(456)
Employee benefits							(170)
Liabilities classified as held for sale							(93)
Total liabilities							(5,407)
Capital expenditure		54	91	42	78	38	303

1. Adjusted to exclude amortisation and adjusting items.

2. Segment reporting continued

Year ended 30 April 2018 (restated)	Note	UK £m	Western Europe £m	DCH and Northern Europe £m	Central Europe and Italy £m	North America £m	Total continuing operations £m
External revenue		1,088	1,476	1,106	1,462	386	5,518
Adjusted EBITDA ¹		138	147	121	167	76	649
Depreciation	11	(29)	(45)	(31)	(38)	(14)	(157)
Adjusted operating profit¹		109	102	90	129	62	492
Unallocated items:							
Amortisation	10						(90)
Adjusting items in operating profit	4						(73)
Total operating profit (continuing operations)							329
Unallocated items:							
Net financing costs							(74)
Share of profit of equity accounted investment, net of tax							5
Profit before income tax							260
Income tax expense							(23)
Profit for the year							237

Analysis of total assets and total liabilities

Segment assets	835	1,182	1,000	1,481	1,147	5,645
Unallocated items:						
Equity accounted investment and other investments						35
Derivative financial instruments						59
Cash and cash equivalents						297
Tax						79
Assets relating to discontinued operations ²						214
Total assets						6,329
Segment liabilities	(280)	(680)	(208)	(394)	(62)	(1,624)
Unallocated items:						
Borrowings and accrued interest						(2,035)
Derivative financial instruments						(59)
Tax						(313)
Employee benefits						(106)
Liabilities relating to discontinued operations ²						(82)
Total liabilities						(4,219)

Capital expenditure (restated)	65	83	60	88	32	328
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1. Adjusted to exclude amortisation and adjusting items.

2. Plastics division is classified as a discontinued operation in FY2018/19.

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	
	2019 £m	2018 (restated) £m	2019 £m	2018 £m	2019 £m	2018 (restated) £m
Continuing operations						
UK	1,053	920	435	431	49	85
France	933	711	418	253	47	39
Germany	680	696	334	325	34	49
Italy	649	586	241	235	26	34
USA	652	350	240	204	40	31
Rest of the World	2,204	2,255	1,344	889	107	90
	6,171	5,518	3,012	2,337	303	328

3. Operating profit

	2019 £m	2018 (restated) £m
Continuing operations		
Operating costs		
Cost of sales	3,124	2,927
Other production costs	1,105	988
Distribution	454	389
Administrative expenses	907	767
	5,590	5,071

Details of adjusting items included in operating profit are set out in note 4.

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

	2019 £m	2018 (restated) £m
Continuing operations		
Depreciation – owned assets	181	152
– leased assets	8	5
Amortisation of intangible assets	114	90
Profit on sale of non-current assets	(4)	(1)
Hire of plant and machinery	29	24
Other operating lease rentals	34	32
Research and development	9	10

	2019			2018		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Auditor's remuneration						
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	0.9	2.5	3.4	0.8	2.2	3.0
Total audit fees	1.0	2.5	3.5	0.9	2.2	3.1
Corporate finance services	1.2	-	1.2	1.4	-	1.4
Audit related assurance services	0.4	-	0.4	0.1	-	0.1
Total non-audit fees	1.6	-	1.6	1.5	-	1.5
Total Auditor's remuneration	2.6	2.5	5.1	2.4	2.2	4.6

Non-audit fees include reporting accountant's fees in respect of the acquisition of Europac and the related rights issue. In addition to these fees for 2019, there are non-audit fees totalling to £0.7 million for Europac, paid to the Company's Auditor in the pre-acquisition period from 1 May 2018 to 22 January 2019. These related to £0.6 million of IT related support and implementation fees and £0.1 million of other fees including internal audit services.

Non-audit fees in 2017/18 include reporting accountant's fees in respect of the acquisition of Interstate Resources.

A description of the work of the Audit Committee is set out in the corporate governance section 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. Adjusting items

Items are presented as adjusting in the financial statements when 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. With effect from 1 May 2017, the Group has changed the description of these items from 'exceptional' to 'adjusting', to better represent their nature.

	2019 £m	2018 (restated) £m
Continuing operations		
Acquisition related costs	(32)	(28)
Integration costs	(27)	(13)
Other restructuring costs	(3)	(15)
Impairment of assets	-	(1)
Guaranteed minimum pension equalisation	(8)	-
Other	(20)	(16)
Total pre-tax adjusting items (recognised in operating profit)	(90)	(73)
Finance costs adjusting items	(15)	(12)
Adjusting tax items	(1)	33
Current tax credit on adjusting items	14	13
Total post-tax adjusting items	(92)	(39)

2018/19

Acquisition related costs of £32m relate to professional advisory, legal and consultancy fees and directly attributable internal salary costs relating to the review of potential deals, and deals completed during the year. Of the total, £22m relates to the acquisition of Europac, with the most significant components being transaction and sponsor fees, legal costs, and financial and tax due diligence and advice costs.

Integration costs relate to integration projects underway, primarily to achieve cost synergies from the major acquisitions made in the current period and previous financial years (of which £14m relates to Europac and £9m relates to Interstate Resources). They include those directly attributable internal salary costs which would otherwise not be incurred.

On 26 October 2018, the High Court issued a judgment with respect to the equalisation between men and women of guaranteed minimum pension (GMP) benefits accrued between 1990 and 1997, in order to comply with sex discrimination legislation. The impact of this judgment was a charge of £8m for the Group.

Other restructuring costs of £3m include reorganisation and restructuring in Western Europe (£1m), and various projects commenced in the previous year.

Other adjusting items of £20m principally relate to a significant multi-year major IT project which has been substantially completed in this year. The costs of this project extend over several years and as well as adjusting items include capitalisation of intangible assets, particularly in the case of IT systems. Those costs are primarily as a result of the Group's acquisition activity, where the businesses acquired typically have a limited IT and financial infrastructure.

Finance costs adjusting items relate to financing costs incurred in the acquisition of Europac of £7m, with the remainder relating to the unwind of the discount on the redemption liability related to the purchase of Interstate Resources.

Adjusting tax items

Adjusting tax items include the release of a provision of £32m in relation to the closure of a business in Denmark by SCA Packaging prior to ownership by the Group. This amount has been offset by a provision of £33m which represents the maximum potential tax exposure which could arise in connection with the recent decision by the EU Commission on State Aid in relation to the UK Controlled Foreign Company regime.

On 25 April 2019, the EU Commission released its final decision which concluded that up until 31 December 2018, the UK Controlled Foreign Company legislation partially represents State Aid.

There is significant uncertainty surrounding the quantum of the additional tax exposure due to a number of different factors which are likely to impact the overall State Aid collection process. To date, no formal guidance has been issued by the UK Government in relation to their likely approach to identifying and recovering any State Aid. The potential additional liability ranges from nil to £33 million depending upon the method of calculation. In view of the significant uncertainty and the broad range of possible outcomes, the Group has recognised a provision for the maximum potential exposure of £33 million, which includes an estimate of £2 million for interest on overdue tax.

The current tax credit on adjusting items of £14m in the year ended 30 April 2019 is the tax effect at the local applicable tax rate of adjusting items that are subject to tax. This excludes non-tax deductible deal related advisory fees in relation to acquisitions and disposals.

4. Adjusting items continued

2017/18

Acquisition related costs of £28m relate to professional advisory, legal and consultancy fees and directly attributable internal salary costs relating to the review of potential deals, and deals completed during the period, including the acquisition of Interstate Resources, DPF Groupe and EcoPack and EcoPaper. Of the total, £14m relates to the acquisition of Interstate Resources, with the most significant components being transaction and sponsor fees, legal costs, and financial and tax due diligence and advice costs. Also included within acquisition costs is £2m for the year end remeasurement of fair value on the redemption liability related to the purchase of Interstate Resources.

Integration costs relate to integration projects underway, primarily to achieve cost synergies from the acquisitions made in the current period and previous financial years (of which Interstate Resources comprises £6m). They include those directly attributable internal salary costs which would otherwise not be incurred.

Other restructuring costs of £15m include reorganisation and restructuring in DCH and Northern Europe (£4m) and the UK (£4m), primarily relating to the completion of projects commenced in the previous year.

Other adjusting items of £16m principally relate to significant multi-year European centralisation and optimisation projects, including the development of a Group-wide financial ERP solution, shared service centre and major IT projects. The costs of these programmes extend over several years and as well as adjusting items include capitalisation of intangible assets, particularly in the case of the financial ERP system. Those costs are primarily as a result of the Group's acquisition activity, which has been focused on businesses where the IT and financial infrastructure is limited.

Finance costs adjusting items relate to financing costs incurred in the acquisition of Interstate Resources of £5m, with the remainder relating to the unwind of the discount on the redemption liability related to the purchase of Interstate Resources.

On 22 December 2017, the US enacted a major tax reform bill, which included, inter alia, the reduction in corporation tax rate from 35% to 21%. The revised rate has been used to revalue net deferred tax liabilities in the US, leading to a credit to profit and loss of £37m to adjusting tax items, of which the most significant element relates to the deferred tax liabilities arising on the recognition of intangibles in business combinations. The remaining £4m debit is an increase in tax provisions in respect of tax risks in acquired businesses.

The current tax credit on adjusting items of £13m in the year ended 30 April 2018 is the tax effect at the local applicable tax rate of adjusting items that are subject to tax. This excludes non-tax deductible deal related advisory fees in relation to acquisitions and disposals.

5. Finance income and costs

	2019 £m	2018 (restated) £m
Continuing operations		
Interest income from financial assets	-	-
Finance income	-	-
Interest on borrowings and overdrafts	62	54
Other	7	4
Finance costs before adjusting items	69	58
Finance costs adjusting items	15	12
Finance costs	84	70

6. Personnel expenses

	2019 £m	2018 (restated) £m
Continuing operations		
Wages and salaries	1,015	875
Social security costs	195	174
Contributions to defined contribution pension plans	43	40
Service costs for defined benefit schemes (note 24)	6	6
Share-based payment expense (note 25)	7	9
Personnel expenses	1,266	1,104

	2019 Number	2018 (restated) Number
Average number of employees		
UK	4,964	4,953
Western Europe	7,074	6,710
DCH and Northern Europe	4,976	4,792
Central Europe and Italy	8,640	8,032
USA	1,753	526
Rest of the World	167	145
Average number of employees	27,574	25,158

7. Income tax expense

	2019 £m	2018 (restated) £m
Current tax expense		
Current year	(123)	(95)
Adjustment in respect of prior years	8	13
	(115)	(82)
Deferred tax credit		
Origination and reversal of temporary differences	5	4
Reduction in tax rates	(2)	(1)
Adjustment in respect of prior years	11	10
	14	13
Total income tax expense before adjusting items	(101)	(69)
Adjusting tax items (note 4)	(1)	33
Current tax credit on adjusting items (note 4)	14	13
Total income tax expense in the income statement from continuing operations	(88)	(23)
Total income tax expense in the income statement from discontinued operations	(6)	(10)
Total income tax expense in the income statement - total Group	(94)	(33)

The tax credit on amortisation was £26m (2017/18: £23m).

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

	2019 £m	2018 (restated) £m
Profit before income tax on continuing operations	350	260
Profit before income tax on discontinued operations	18	32
Share of profit of equity accounted investments, net of tax	(9)	(5)
Profit before tax and share of profit of equity accounted investments, net of tax	359	287
Income tax at the domestic corporation tax rate of 19.00% (2017/18: 19.00%)	(68)	(55)
Effect of additional taxes and tax rates in overseas jurisdictions	(36)	(27)
Additional items deductible for tax purposes	19	19
Non-deductible expenses	(25)	(20)
Release of prior year provisions in relation to acquired businesses	38	3
Deferred tax not recognised	(2)	(4)
Foreign exchange	1	(5)
Adjustment in respect of prior years	(19)	20
Effect of change in corporation tax rates	(2)	36
Income tax expense - total Group	(94)	(33)

The Group's effective tax rate, excluding amortisation, adjusting items and share of result from equity accounted investments was 22.8% (2017/18: 21.5%).

7. Income tax expense continued

Uncertain tax positions

The Group operates in a complex multinational tax environment and is subject to uncertain tax positions and changes in legislation in the jurisdictions in which it operates. The Group's uncertain tax positions principally include pricing of cross-border transactions and a limited number of specific transaction related tax risks.

The assessment of uncertain tax positions is based on management's expectation of the likely outcome of settlements with tax authorities or litigation. The quantification of the risks at any one point in time, especially with respect to transfer pricing, requires a degree of judgement and estimation by management.

Within the consolidated balance sheet at 30 April 2019 for continuing operations are current tax liabilities of £133m (30 April 2018 total operations: £118m) which include a provision of £105m (30 April 2018: £104m) relating to uncertain tax positions. It is possible that amounts paid will be different from the amounts provided and the Group estimates the range of reasonably possible outcomes relating to uncertain tax positions to be from £12m to £162m.

Uncertain tax positions are generally released as statute of limitations end or specific tax enquiries are closed. The Group estimates that transfer pricing provisions of up to £7m could reverse in the next 12 months.

Included within the current tax liabilities is an amount of £8m (30 April 2018: £21m) relating to interest and penalties on uncertain tax positions.

Please refer to note 4 for further detail on movements in uncertain tax positions included in adjusting items.

Tax on other comprehensive income and equity

	Gross 2019 £m	Tax credit/ (charge) 2019 £m	Net 2019 £m	Gross 2018 £m	Tax credit/ (charge) 2018 £m	Net 2018 £m
Actuarial (loss)/gain on employee benefits	(62)	11	(51)	57	(14)	43
Foreign currency translation differences	(45)	1	(44)	1	8	9
Movements in cash flow hedges	(8)	2	(6)	18	(3)	15
Movement in net investment hedge	17	-	17	-	-	-
Other comprehensive (expense)/income for the year	(98)	14	(84)	76	(9)	67
Issue of share capital	1,006	-	1,006	576	-	576
Employee share trust	(8)	-	(8)	(4)	-	(4)
Share-based payment expense	7	(6)	1	9	6	15
Dividends paid to Group shareholders	(187)	-	(187)	(157)	-	(157)
Other comprehensive income/(expense) and changes in equity	720	8	728	500	(3)	497

8. Earnings per share

Basic earnings per share from continuing operations

	2019	2018 (restated)
Profit from continuing operations attributable to ordinary shareholders	£262m	£237m
Weighted average number of ordinary shares	1,327m	1,117m
Basic earnings per share	19.7p	21.2p

Diluted earnings per share from continuing operations

	2019	2018 (restated)
Profit from continuing operations attributable to ordinary shareholders	£262m	£237m
Weighted average number of ordinary shares	1,327m	1,117m
Potentially dilutive shares issuable under share-based payment arrangements	6m	7m
Weighted average number of ordinary shares (diluted)	1,333m	1,124m
Diluted earnings per share	19.7p	21.1p

The number of shares excludes the weighted average number of the Company's own shares held as treasury shares during the year of 1m (2017/18: 1m).

Adjusted earnings per share from continuing operations

Adjusted earnings per share is a key performance measure for management long-term remuneration and is widely used by the Group's shareholders. Adjusted earnings is calculated by adding back the post-tax effects of both amortisation and adjusting items.

Further detail about the use of non-GAAP performance measures, including details of why amortisation is excluded, is given in note 33.

A reconciliation of basic to adjusted earnings per share is as follows:

	2019			2018 (restated)		
	£m	Basic - pence per share	Diluted - pence per share	£m	Basic - pence per share	Diluted - pence per share
Basic earnings	262	19.7p	19.7p	237	21.2p	21.1p
Add back:						
Amortisation of intangible assets	114	8.7p	8.6p	90	8.1p	8.0p
Tax credit on amortisation	(26)	(2.0p)	(2.0p)	(23)	(2.1p)	(2.1p)
Adjusting items, before tax	105	7.9p	7.9p	85	7.6p	7.6p
Tax on adjusting items and adjusting tax items	(13)	(1.0p)	(1.0p)	(46)	(4.1p)	(4.1p)
Adjusted earnings	442	33.3p	33.2p	343	30.7p	30.5p

9. Dividends proposed and paid

	2019		2018	
	Pence per share	£m	Pence per share	£m
2017/18 interim dividend - paid (restated) ¹	-	-	4.6p	53
2017/18 final dividend - paid	-	-	9.8p	134
2018/19 interim dividend - paid	5.2p	71	-	-
2018/19 final dividend - proposed	11.0p	151	-	-

1. Restated for rights issue (note 23) 2017/18 interim dividend restated to 4.56 pence per share.

	2019 £m	2018 £m
Paid during the year	187	157

The interim dividend in respect of 2018/19 of 5.2 pence per share (£71m) was paid after the year end on 1 May 2019. The 2017/18 interim and final dividends were paid during the 2018/19 financial year. A final dividend in respect of 2018/19 of 11 pence per share 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 2018	1,408	93	29	841	95	2,466
Acquisitions	809	1	-	494	5	1,309
Fair value adjustments on acquisitions made in the prior year	12	-	-	-	-	12
Additions	-	10	1	-	29	40
Disposals	-	(1)	-	-	(14)	(15)
Transfers	-	6	1	-	(7)	-
Transfer to assets held for sale	(69)	(6)	(11)	-	(14)	(100)
Currency translation	7	(2)	(1)	(6)	-	(2)
At 30 April 2019	2,167	101	19	1,329	94	3,710
Amortisation and impairment						
At 1 May 2018	(27)	(51)	(22)	(295)	(28)	(423)
Amortisation	-	(10)	(2)	(88)	(16)	(116)
Disposals	-	1	-	-	4	5
Transfer to assets held for sale	10	5	11	-	-	26
Currency translation	-	2	1	6	-	9
At 30 April 2019	(17)	(53)	(12)	(377)	(40)	(499)
Carrying amount						
At 1 May 2018	1,381	42	7	546	67	2,043
At 30 April 2019	2,150	48	7	952	54	3,211

	Goodwill £m	Software £m	Intellectual property £m	Customer related £m	Other £m	Total £m
Cost						
At 1 May 2017	782	83	28	540	69	1,502
Acquisitions	638	-	-	297	-	935
Additions	-	3	-	-	32	35
Disposals	-	(3)	-	-	(3)	(6)
Transfers	-	7	-	-	(7)	-
Currency translation	(12)	3	1	4	4	-
At 30 April 2018	1,408	93	29	841	95	2,466
Amortisation and impairment						
At 1 May 2017	(27)	(42)	(19)	(218)	(18)	(324)
Amortisation	-	(9)	(2)	(70)	(12)	(93)
Disposals	-	2	-	-	3	5
Currency translation	-	(2)	(1)	(7)	(1)	(11)
At 30 April 2018	(27)	(51)	(22)	(295)	(28)	(423)
Carrying amount						
At 1 May 2017	755	41	9	322	51	1,178
At 30 April 2018	1,381	42	7	546	67	2,043

10. Intangible assets continued

Goodwill

The CGU groups below represent the lowest level at which goodwill is monitored for impairment indicator and 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:

	2019 £m	2018 £m
UK	167	167
Western Europe	965	194
DCH and Northern Europe	224	229
Central Europe and Italy	187	187
North America	607	544
Plastics	-	60
Total goodwill	2,150	1,381

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 2019 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 2020 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 (2021 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; and
- the pre-tax adjusted discount rate is derived from the weighted average cost of capital ('WACC') for the Group of 9.5% (2017/18: 9.5%). 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 (75% weighting) and 30-year UK gilts (25% weighting), adjusted for the relevant country market risk premium, ranging from 0% to 15.5%, 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. 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.

Key assumptions by CGU	UK	Western Europe	DCH and Northern Europe	Central Europe and Italy	North America	Plastics ¹
Long-term growth rate at 30 April 2019	1.5%	1.9%	1.5%	1.8%	2.0%	2.0%
Long-term growth rate at 30 April 2018	1.7%	1.8%	1.5%	1.7%	1.9%	2.0%
Discount rate at 30 April 2019	9.1%	9.2%	8.4%	11.3%	8.9%	8.9%
Discount rate at 30 April 2018	9.1%	8.8%	8.6%	11.0%	8.5%	9.0%

1. The Plastics division has been considered for impairment on a fair value less cost to sell basis and the result does not indicate any potential impairment.

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 2019 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 2018	883	2,658	93	253	3,887
Acquisitions	191	359	2	57	609
Fair value adjustments on acquisitions made in the prior year	(1)	(5)	-	-	(6)
Additions	25	73	2	214	314
Disposals	(9)	(46)	(3)	-	(58)
Transfers	28	219	5	(252)	-
Transfer to assets held for sale	(30)	(201)	(6)	(9)	(246)
Currency translation	(22)	(58)	(2)	(3)	(85)
At 30 April 2019	1,065	2,999	91	260	4,415
Depreciation and impairment					
At 1 May 2018	(176)	(1,281)	(34)	-	(1,491)
Depreciation charge	(27)	(164)	(9)	-	(200)
Disposals	4	42	2	-	48
Transfers	(6)	6	-	-	-
Transfer to assets held for sale	17	150	4	-	171
Currency translation	10	38	2	-	50
At 30 April 2019	(178)	(1,209)	(35)	-	(1,422)
Carrying amount					
At 1 May 2018	707	1,377	59	253	2,396
At 30 April 2019	887	1,790	56	260	2,993

	Land and buildings £m	Plant and equipment £m	Fixtures and fittings £m	Under construction £m	Total £m
Cost					
At 1 May 2017	772	2,254	73	162	3,261
Acquisitions	65	289	1	18	373
Additions	14	125	6	180	325
Disposals	(8)	(96)	(6)	(5)	(115)
Transfers	22	65	16	(103)	-
Currency translation	18	21	3	1	43
At 30 April 2018	883	2,658	93	253	3,887
Depreciation and impairment					
At 1 May 2017	(155)	(1,208)	(32)	-	(1,395)
Depreciation charge	(25)	(136)	(7)	-	(168)
Impairment	-	(1)	-	-	(1)
Disposals	7	83	6	-	96
Currency translation	(3)	(19)	(1)	-	(23)
At 30 April 2018	(176)	(1,281)	(34)	-	(1,491)
Carrying amount					
At 1 May 2017	617	1,046	41	162	1,866
At 30 April 2018	707	1,377	59	253	2,396

Assets under construction mainly relate to production machines and site improvements being constructed at various sites across the Group.

Carrying amount held under finance leases

At 1 May 2018	7	19	1	-	27
At 30 April 2019	12	15	1	-	28

12. Equity accounted investments

	2019 £m	2018 £m
At beginning of the year	24	9
Acquisitions	5	12
Dividends	(2)	(1)
Share of profit of equity accounted investments, net of tax	9	5
Currency translation	(3)	(1)
At end of the year	33	24

Principal equity accounted investments

	Nature of business	Principal country of operation	Ownership interest	
			2019	2018
OJSC Rubezhansk Paper and Packaging Mill	Paper and packaging	Ukraine	49.6%	49.6%
Philcorr LLC	Packaging	USA	40.0%	40.0%
Philcorr Vineland LLC	Packaging	USA	40.0%	40.0%
Cartonajes Santander, S.L.	Packaging	Spain	39.58%	-
Cartonajes Cantabria S.L.	Packaging	Spain	39.58%	-
Euskocartón, S.L.	Packaging	Spain	39.58%	-
Industria Cartonera Asturiana S.L.	Packaging	Spain	39.58%	-

All the above associates are accounted for using the equity method because the Group has the ability to exercise significant influence over the investments due to the Group's equity holdings and board representation.

Investments in Cartonajes Santander, S.L., Cartonajes Cantabria S.L., Euskocartón, S.L., and Industria Cartonera Asturiana S.L. were acquired as part of the Europac acquisition during the current financial year.

Summary of financial information of associates

The financial information below is for the Group's associates on a 100% basis for the year ended 31 December.

	2019 £m	2018 £m
Current assets	52	45
Non-current assets	43	37
Current liabilities	(30)	(20)
Non-current liabilities	(8)	(20)
Revenue	213	192
Profit after tax	24	14
Other comprehensive income	-	1

13. Other investments

	2019 £m	2018 £m
Other investments	9	8
Restricted cash	3	3
Total non-current investments	12	11

14. Inventories

	2019 £m	2018 £m
Raw materials and consumables	340	313
Work in progress	26	26
Finished goods	218	204
	584	543

Inventory provisions at 30 April 2019 were £37m (30 April 2018: £33m).

15. Trade and other receivables

	2019		2018	
	Non-current £m	Current £m	Non-current £m	Current £m
Trade receivables	-	699	-	690
Loss allowance	-	(34)	-	(39)
Prepayments and accrued income	-	89	-	64
Other deposits	-	89	-	45
Other receivables	9	71	7	103
	9	914	7	863

The Group has sold without recourse certain trade receivables and on realisation the receivable is de-recognised and proceeds are presented within operating cash flows.

	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
Trade receivables							
At 30 April 2019	665	562	70	18	5	5	5
At 30 April 2018	651	523	78	30	11	5	4

Movement in loss allowance

	2019 £m	2018 £m
At 1 May	(39)	(37)
Amounts written off	11	4
Net remeasurement of loss allowance	(3)	(3)
Acquisitions	(4)	(1)
Foreign exchange gains and losses	1	(2)
At 30 April	(34)	(39)

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and diverse. The majority of customers are credit insured and the Group has a history of low levels of losses in respect of trade receivables. Management are satisfied that the loss allowance represents the Group's expected credit losses as defined by IFRS 9 *Financial Instruments*. The accounting impact of credit insurance is not considered integral to the consideration of the carrying value of the trade receivables.

16. Trade and other payables

	2019		2018	
	Non-current £m	Current £m	Non-current £m	Current £m
Trade payables	-	1,238	-	1,170
Non-trade payables and accrued expenses	16	617	14	535
	16	1,855	14	1,705

In accordance with government initiatives to allow suppliers to receive payments earlier than contractual payment terms, the Group has set up supply chain finance programmes through third parties. These allow suppliers to receive, if they choose, an earlier payment whilst the Group continues to pay to the suppliers' contractual terms. Suppliers are at liberty to use them or not and these arrangements have no cost to the Group and have no effect on trade payable balances or operating cash flows. The Group does not participate in any rebates, does not receive any fees from the providers nor does it provide any discounts or incentives for the suppliers to utilise these facilities. Additionally, they are not used to create payment terms which are abnormal, atypical or extend statutory payment terms in the countries the Group operates in and no adjustments are made by Standard and Poors in their assessment of Group adjusted net debt.

Within non-trade payables and accrued expenses is the redemption liability arising on the acquisition of Interstate Resources and relating to a put option held by the seller, as detailed further in note 30. The next exercise date is 1 September 2019 under the contract, and as such the redemption liability is classified within current liabilities.

The liability at 30 April 2019 is recorded at the discounted fair value of the estimated redemption amount, applying a discount rate of 9%, based on the multiple based formula using the forecast results of the Interstate Resources business, as specified in the contract.

17. Net debt

	Note	2019 £m	2018 £m
Non-current liabilities		(2,392)	(1,811)
Current liabilities		(233)	(162)
Derivative financial instruments		3	(23)
Net cash and cash equivalents	18	253	268
Other investments – restricted cash		3	3
Other deposits		89	45
Net debt		(2,277)	(1,680)

The movement in net debt is as follows:

	At 30 April 2018 £m	Continuing operations cash flow £m	Acquisitions £m	Foreign exchange, fair value and non-cash movements £m	At 30 April 2019 £m
Cash and cash equivalents	297	83	8	(6)	382
Overdrafts	(29)	(102)	-	2	(129)
Net cash and cash equivalents	268	(19)	8	(4)	253
Other investments – restricted cash	3	-	-	-	3
Other deposits	45	4	42	(2)	89
Borrowings – due after one year	(1,802)	(438)	(159)	14	(2,385)
Borrowings – due within one year	(158)	(37)	(87)	52	(230)
Finance leases	(13)	4	-	(1)	(10)
Derivative financial instruments					
assets	12	(3)	-	3	12
liabilities	(35)	39	-	(13)	(9)
	(1,948)	(431)	(204)	53	(2,530)
Net debt	(1,680)	(450)	(196)	49	(2,277)

Net debt is a non-GAAP measure not defined by IFRS, calculated in accordance with the Group's banking covenant requirements. Further detail on the use of non-GAAP measures is included in note 33.

Derivative financial instruments above relate to forward foreign exchange contracts, interest rate and cross-currency swaps used to hedge the Group's borrowings and the ratio of net debt to adjusted 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 incurred on debt issuance and new finance leases.

Other deposits are included, as these short-term receivables have the characteristics of net debt.

18. Cash and cash equivalents

	2019 £m	2018 £m
Bank balances	375	195
Short-term deposits	7	102
Cash and cash equivalents (consolidated statement of financial position)	382	297
Bank overdrafts	(129)	(29)
Net cash and cash equivalents (consolidated statement of cash flows)	253	268

19. Borrowings

	2019			2018		
	Current £m	Non-current £m	Total £m	Current £m	Non-current £m	Total £m
Bank and other loans ¹	(5)	(443)	(448)	-	(1)	(1)
Commercial paper	(148)	-	(148)	-	-	-
Medium-term notes and other fixed-term debt						
€59m private placement shelf facility 4.40% coupon August 2018	-	-	-	(52)	-	(52)
€60m term loan floating EURIBOR + margin December 2018	-	-	-	(53)	-	(53)
€60m term loan floating EURIBOR + margin January 2019	-	-	-	(53)	-	(53)
€25m term loan EURIBOR + 0.18% coupon July 2019	(22)	-	(22)	-	-	-
€20m term loan EURIBOR + 0.65% coupon July 2020	-	(17)	(17)	-	-	-
€59m private placement shelf facility 4.83% coupon August 2020	-	(51)	(51)	-	(52)	(52)
€150m term loan 0.6% coupon July 2021	-	(129)	(129)	-	(132)	(132)
€10m term loan EURIBOR + 0.85% coupon July 2021	-	(9)	(9)	-	-	-
€60m term loan EURIBOR + 0.35% coupon November 2021	-	(52)	(52)	-	-	-
€20m term loan EURIBOR + 0.85% coupon July 2022	-	(17)	(17)	-	-	-
\$380m USD private placement 4.51% weighted average coupon August 2019-2022 ²	(55)	(236)	(291)	-	(276)	(276)
€500m medium-term note 2.25% coupon September 2022	-	(429)	(429)	-	(437)	(437)
€131m term loan EURIBOR + 1.0% coupon July 2024	-	(108)	(108)	-	-	-
€750m medium-term note 1.38% coupon July 2024	-	(646)	(646)	-	(656)	(656)
£250m medium-term note 2.88% coupon July 2029	-	(248)	(248)	-	(248)	(248)
Finance lease liabilities	(3)	(7)	(10)	(4)	(9)	(13)
	(233)	(2,392)	(2,625)	(162)	(1,811)	(1,973)

1. Drawings under a short-term bank revolving credit facility and other bank loans.

2. Swapped to fixed rate £150m and fixed rate €158m using cross-currency interest rate swaps.

Borrowings are unsecured and measured at amortised cost.

There have been no breaches of covenants during the year ended 30 April 2019 in relation to the above borrowings.

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

	2019 £m	2018 £m
Expiring between two and five years	955	800
Expiring after five years	150	-
	1,105	800

Changes in liabilities arising from financing activities

	At 1 May 2018 £m	Financing cash flows £m	Acquisitions £m	New finance leases £m	Fair value adjustments	Other £m	At 30 Apr 2019 £m
Bank and other loans	(1)	(581)	(69)	-	-	55	(596)
Medium-term notes and other fixed-term debt	(1,959)	106	(177)	-	-	11	(2,019)
Finance lease liabilities	(13)	4	-	-	-	(1)	(10)
Derivative financial instruments related to hedging of financial liabilities (note 17)							
assets	12	(3)	-	-	3	-	12
liabilities	(35)	39	-	-	(13)	-	(9)
Total liabilities from financing activities	(1,996)	(435)	(246)	-	(10)	65	(2,622)

Other changes include foreign exchange movements.

19. Borrowings continued

Financing cash flows consist of the net amount of proceeds from borrowings, repayment of borrowings, repayment of finance lease obligations and proceeds from settlement of derivative financial instruments in the consolidated statement of cash flows. Payments in respect of, and proceeds from settlement of derivative financial instruments in the consolidated statement of cash flows relate solely to derivative financial instruments used to hedge the Group's borrowings and the ratio of net debt to adjusted EBITDA.

The repayment profile of the Group's borrowings, after taking into account the effect of cross-currency interest rate swaps and forward foreign exchange contracts is as follows:

	2019				
	1 year or less £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Borrowings					
Fixed rate	(58)	(78)	(786)	(897)	(1,819)
Floating rate	(175)	(134)	(497)	-	(806)
Total borrowings	(233)	(212)	(1,283)	(897)	(2,625)
	2018				
	1 year or less £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Borrowings					
Fixed rate	(112)	(116)	(788)	(907)	(1,923)
Floating rate	(50)	-	-	-	(50)
Total borrowings	(162)	(116)	(788)	(907)	(1,973)

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

	2019				
	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m
Borrowings					
Fixed rate	(377)	(1,403)	-	(39)	(1,819)
Floating rate	159	(467)	(498)	-	(806)
	(218)	(1,870)	(498)	(39)	(2,625)
Net cash and cash equivalents (including bank overdrafts)					
Floating rate	49	98	45	61	253
Net borrowings at 30 April 2019	(169)	(1,772)	(453)	22	(2,372)
	2018				
	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m
Borrowings					
Fixed rate	(392)	(1,474)	-	(57)	(1,923)
Floating rate	128	172	(350)	-	(50)
	(264)	(1,302)	(350)	(57)	(1,973)
Net cash and cash equivalents (including bank overdrafts)					
Floating rate	120	101	20	27	268
Net borrowings at 30 April 2018	(144)	(1,201)	(330)	(30)	(1,705)

At 30 April 2019, 71% of the Group's borrowings, after taking into account the effect of cross-currency swaps and forward foreign exchange contracts, were denominated in euros in order to hedge the underlying assets of the Group's European operations (30 April 2018: 66%). 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

	2019			2018		
	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	3	-	3	4	-	4
Between one and five years	7	-	7	9	-	9
Finance lease liabilities	10	-	10	13	-	13

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 impact of adopting IFRS 9 on the Group's financial instruments is described in note 1 (a).

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:

		2019		2018	
	Category	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Financial assets					
Cash and cash equivalents	Amortised cost	382	382	297	297
Available for sale – other investments	FVTOCI	12	12	11	11
Trade and other receivables	Amortised cost	923	923	870	870
Derivative financial instruments	FVTOCI	47	47	59	59
Total financial assets		1,364	1,364	1,237	1,237
Financial liabilities					
Trade and other payables	Amortised cost	(1,871)	(1,871)	(1,719)	(1,719)
Bank and other loans	Amortised cost	(448)	(448)	(1)	(1)
Commercial paper	Amortised cost	(148)	(148)	–	–
Medium-term notes and other fixed-term debt	Amortised cost	(2,019)	(2,069)	(1,959)	(1,995)
Finance lease liabilities	Amortised cost	(10)	(10)	(13)	(13)
Bank overdrafts	Amortised cost	(129)	(129)	(29)	(29)
Derivative financial instruments	FVTOCI	(30)	(30)	(59)	(59)
Total financial liabilities		(4,655)	(4,705)	(3,780)	(3,816)

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.

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	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Derivatives held to:						
Manage the interest rate and currency exposures on business activities, borrowings and net investments	12	12	(9)	(35)	3	(23)
Derivative financial instruments included in net debt	12	12	(9)	(35)	3	(23)
Derivatives held to hedge future transactions:						
Energy and carbon certificate costs	35	47	(21)	(24)	14	23
Total derivative financial instruments	47	59	(30)	(59)	17	-
Current	35	44	(16)	(24)	19	20
Non-current	12	15	(14)	(35)	(2)	(20)
	47	59	(30)	(59)	17	-

(c) Cash flow, fair value and net investment hedges**(i) Hedge reserves**

Set out below is the reconciliation of each component in the hedging reserve:

	Commodity risk £m	Foreign exchange risk £m	Total
Balance at 1 May 2017	-	(22)	(22)
Gain/(loss) on designated cash flow hedges:			
Cross currency and interest rate swaps	-	(20)	(20)
Forward foreign exchange contracts	-	(3)	(3)
Commodity contracts	31	-	31
Loss/(gain) reclassified from equity to the income statement:			
Cross currency and interest rate swaps	-	17	17
Commodity contracts	(7)	-	(7)
Deferred tax	(4)	1	(3)
At 30 April 2018	20	(27)	(7)
Gain/(loss) on designated cash flow hedges:			
Cross currency and interest rate swaps	-	22	22
Forward foreign exchange contracts	-	(9)	(9)
Commodity contracts	16	-	16
Loss/(gain) reclassified from equity to the income statement:			
Cross currency and interest rate swaps	-	(12)	(12)
Forward foreign exchange contracts	-	1	1
Commodity contracts	(26)	-	(26)
Deferred tax	2	-	2
At 30 April 2019	12	(25)	(13)

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:

	2019 £m	2018 £m
Cost of sales	(26)	(7)
Finance costs/(income)	(11)	17
Total pre-tax (gain)/loss reclassified from equity to the income statement during the year	(37)	10

20. Financial instruments continued

(ii) Hedges of net investments in foreign operations

The Group utilises foreign currency borrowings and holds cross-currency interest rate swap contracts and forward foreign exchange contracts as hedges of long-term investments in foreign subsidiaries. The pre-tax gain on the hedges recognised in equity during the year was £17m (2017/18: loss of £1m). This gain is matched by a similar loss in equity on the retranslation of the hedged foreign subsidiary net assets resulting in a net gain of £nil (2017/18: net gain of £nil) treated as hedge ineffectiveness in the income statement.

(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 (note 17).

	2019 £m	2018 £m
Net debt	2,277	1,680
Total equity	3,112	2,110
Managed capital	5,389	3,790

The major changes in managed capital levels are as follows: during the year, the Group renegotiated its revolving credit facility, increasing the facility by £600 million to £1.4 billion. Shares were issued in July in a £1 billion rights issue, the proceeds of which together with drawing on the revolving credit facility, were used to fund the acquisition of Europac. Managed capital is different from capital employed (defined as property, plant and equipment, goodwill and intangible assets, working capital, capital debtors/creditors, provisions, biological assets and assets/liabilities held for sale). Managed capital relates to our sources of funding, whereas adjusted 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 every two months 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.

Under interest rate swap contracts, the Group agrees to exchange a stream of interest payments calculated on agreed notional principal amounts.

Sensitivity – fixed rate liabilities

At 30 April 2019, 69% of the Group's borrowings were at fixed rates of interest (30 April 2018: 97%). 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 2019.

To calculate the impact on the income statement for the year, the interest rates on all variable-rate external borrowings and cash deposits have been increased by 100 basis points, and the resulting increase in the net interest charge has been adjusted for the effect of the Group's interest rate derivatives.

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

	2019		2018	
	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	(2)	(2)	(1)	(1)

20. Financial instruments continued**(d) Risk identification and risk management continued****(ii) Market risk continued****Foreign exchange risk**

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in sterling, was as follows:

	2019		2018	
	EUR £m	USD £m	EUR £m	USD £m
Trade receivables	476	36	479	37
Trade payables	(996)	(187)	(901)	(168)
Net borrowings ¹	(1,772)	(453)	(1,201)	(330)

1. After taking into account the effect of cross-currency interest rate swaps and forward foreign exchange contracts.

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 swaps and forward foreign exchange 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 and forward foreign exchange contracts 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 forward foreign exchange contracts which are designated as cash flow hedges.

The Group only designates the forward rate of foreign currency forwards in hedge relationships.

For the hedges of highly probable forecast sales and purchases, as the critical terms (i.e. the notional amount, life and underlying terms) of the foreign exchange forward contracts and their corresponding hedged items are the same, the Group performs a qualitative assessment of effectiveness and it is expected that the value of the forward contracts and the value of the corresponding hedged items will systematically change in opposite directions in response to movements in the underlying exchange rates.

The Group's main currency exposures are to the euro and US dollar. The following significant exchange rates applied during the year:

	2019		2018	
	Average	Closing	Average	Closing
Euro	1.135	1.159	1.132	1.137
US dollar	1.304	1.301	1.356	1.373

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 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.

	2019		2018	
	Impact on profit £m	Impact on total equity £m	Impact on profit £m	Impact on total equity £m
10% strengthening of sterling	-	38	-	32
10% weakening of sterling	-	(47)	-	(39)

20. Financial instruments continued

(d) Risk identification and risk management continued

(ii) Market risk continued

Commodity risk

The Group's main commodity exposures are to changes in gas and electricity prices. The Group also hedges its exposure to fluctuations in the cost of carbon emission certificates. This commodity price risk is managed by a combination of physical supply agreements and derivative instruments. At 30 April 2019, gains of £12m net of tax (2017/18: £20m) are deferred in equity in respect of cash flow hedges in accordance with IAS 39. 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.

	2019		2018	
	Impact on profit £m	Impact on total equity £m	Impact on profit £m	Impact on total equity £m
10% increase in electricity prices	-	3	-	3
10% increase in gas prices	-	8	-	17
10% increase in carbon certificate prices	-	3	-	-

(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 2019 was £1,364m 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 2019, the Group had £1,105m of undrawn committed borrowing facilities (30 April 2018: £800m). 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).

At 30 April 2019	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	1,871	1,855	16	-
Bank and other loans	601	152	449	-
Medium-term notes and other fixed-term debt	2,020	69	1,042	909
Finance lease liabilities	10	3	7	-
Bank overdrafts	129	129	-	-
Interest payments on borrowings	236	48	136	52
Total non-derivative financial liabilities	4,867	2,256	1,650	961

20. Financial instruments continued**(d) Risk identification and risk management continued****(iv) Liquidity risk continued**

At 30 April 2018	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	1,719	1,705	14	-
Bank and other loans	1	-	1	-
Medium-term notes and other fixed-term debt	1,979	157	912	910
Finance lease liabilities	13	4	9	-
Bank overdrafts	29	29	-	-
Interest payments on borrowings	235	37	130	68
Total non-derivative financial liabilities	3,976	1,932	1,066	978

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 2019	Contractual payments/(receipts)			
	Total £m	1 year or less £m	1-5 years £m	More than 5 years £m
Derivative financial liabilities				
Energy derivatives	(13)	(9)	(4)	-
Interest rate and currency swaps:				
Payments	1,144	795	349	-
Receipts	(1,152)	(801)	(351)	-
Total net derivative financial liabilities	(21)	(15)	(6)	-

At 30 April 2018	Contractual payments/(receipts)			
	Total £m	1 year or less £m	1-5 years £m	More than 5 years £m
Derivative financial liabilities				
Energy derivatives	(24)	(18)	(6)	-
Interest rate and currency swaps:				
Payments	1,327	743	584	-
Receipts	(1,313)	(740)	(573)	-
Total net derivative financial (liabilities)/assets	(10)	(15)	5	-

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	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
At beginning of the year	(221)	(169)	41	51	51	63	(2)	1	(131)	(54)
Acquisitions	(162)	(120)	2	1	14	-	1	-	(145)	(119)
Credit/(charge) for the year:										
- continuing	25	66	(2)	(4)	(9)	(12)	-	-	14	50
- discontinuing	(1)	-	-	-	-	-	-	-	(1)	-
Recognised directly in equity	-	-	5	(8)	-	-	2	(3)	7	(11)
Transfer to liabilities held for sale	1	-	-	-	-	-	-	-	1	-
Currency translation	(2)	2	-	1	(1)	-	(1)	-	(4)	3
At end of the year	(360)	(221)	46	41	55	51	-	(2)	(259)	(131)

At 30 April 2019, 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:

	2019 £m	2018 £m
Deferred tax liabilities	(323)	(195)
Deferred tax assets	64	64
Net deferred tax	(259)	(131)

The deferred tax asset in respect of tax losses at 30 April 2019 includes an asset in the UK of £26m (30 April 2018: £31m). The asset is recognised based on additional interest income that will arise in the UK from the financing of acquisitions. The asset is expected to be fully recovered over the next five years.

The Group has total unrecognised deferred tax assets relating to tax losses of £44m (30 April 2018: £20m). 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.

22. Provisions

	Restructuring £m	Other £m	Total £m
At 1 May 2018	8	12	20
Acquisitions	15	23	38
Charged to income	19	3	22
Utilised	(39)	(8)	(47)
At 30 April 2019	3	30	33
Non-current	–	16	16
Current	3	14	17
	3	30	33

The restructuring provision includes amounts associated with the site closures and restructuring costs described in note 4. Other provisions mainly relate to environmental and restoration liabilities, indemnities and liabilities related to litigations. 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			
	2019 millions	2018 millions	2019 £m	2018 £m
Ordinary equity shares of 10 pence each:				
Issued, allotted, called up and fully paid	1,371	1,075	137	107

During the year ended 30 April 2019, 296,648,924 ordinary shares were issued as a result of rights issues during the year and exercises of employee share options. The rights issue was on the basis of 3 for 11 ordinary shares at 350 pence per share. The net proceeds from the rights issue were £1,002m. The related transaction costs amounting to £25m have been netted against proceeds.

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.

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. At 30 April 2019, the Trust held 1.1m shares (30 April 2018: 0.4m shares). The market value of the shares at 30 April 2019 was £4.1m (30 April 2018: £2.0m). 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.

Retained earnings

Retained earnings includes a merger relief reserve related to the shares issued in consideration to the sellers of EcoPack/EcoPaper. The closing balance of this reserve is £32m.

24. Employee benefits

Balance sheet

	Total		UK		Overseas	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Present value of post-retirement obligations	(1,264)	(1,186)	(1,084)	(1,029)	(180)	(157)
Fair value of plan assets						
Equities/multi-strategy	353	322	335	303	18	19
Debt instruments	238	228	211	195	27	33
Derivatives	486	522	485	520	1	2
Real estate	1	3	-	-	1	3
Cash and cash equivalents	6	5	5	4	1	1
Other	18	6	-	-	18	6
	1,102	1,086	1,036	1,022	66	64
Net post-retirement plan deficit	(162)	(100)	(48)	(7)	(114)	(93)
Other employee benefit liabilities	(8)	(6)	-	-	(8)	(6)
Total employee benefit deficit	(170)	(106)	(48)	(7)	(122)	(99)
Related deferred tax asset	37	26	9	1	28	25
Net employee benefit deficit	(133)	(80)	(39)	(6)	(94)	(74)

Employee benefit schemes

At 30 April 2019, 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 previous 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 2019 under the plan is £18.7m. 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 order to manage risk, the Group Scheme's investment strategy is designed to closely align movements in the Group Scheme's assets to that of its liabilities, whilst maintaining an appropriate level of expected return. To do this, the Scheme has hedged its inflation and interest rate risk exposure on a Technical Provisions basis. 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.

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.

24. Employee benefits continued

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;
- Belgium – liabilities with respect to non-contributory defined benefit and cash balance retirement plans, as well as unfunded jubilee arrangements. The defined benefit plan is closed to new employees, although active members continue to accrue benefits;
- Switzerland – a contributory defined benefit pension scheme providing pensions and lump sum benefits to members and dependants;
- Italy – mandatory end-of-service lump sum benefits in respect of pre-2007 service;
- Portugal – defined benefit pensions plan with a fund that guarantees a payment of a pension supplement to all retired employees and pensioners who were receiving pension benefit from the fund on 13 July 2007; and
- Germany – jubilee arrangements and non-contributory defined benefit pension schemes.

In general, local trustees or similar bodies manage the post-retirement and medical plans in accordance with local regulations.

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

	2019 £m	2018 £m
Schemes' liabilities at beginning of the year	(1,192)	(1,280)
Acquisitions	(20)	(32)
Interest cost	(31)	(30)
Service cost recognised in the consolidated income statement	(6)	(6)
Member contributions	-	(1)
Settlement/curtailment	2	19
Pension payments	55	49
GMP equalisation	(8)	-
Unfunded benefits paid	5	7
Actuarial (losses)/gains – financial assumptions	(99)	89
Actuarial (losses) – experience	(4)	(8)
Actuarial gains – demographic	22	4
Currency translation	2	(3)
Reclassification	2	-
Schemes' liabilities at end of the year	(1,272)	(1,192)

Movements in the fair value of employee benefit plans' assets recognised in the consolidated statement of financial position

	2019 £m	2018 £m
Schemes' assets at beginning of the year	1,086	1,099
Acquisitions	8	24
Employer contributions	20	25
Member contributions	1	1
Other contributions	(6)	6
Settlement/curtailment	-	(19)
Interest income	29	27
Actuarial gains/(losses)	19	(28)
Pension payments	(55)	(49)
Currency translation	-	-
Schemes' assets at end of the year	1,102	1,086

24. Employee benefits continued

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 2019	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	199	224	444	453	333	110	30

The weighted average duration for the Group Scheme is 16 years.

The Group made agreed contributions of £19m to the Group Scheme in 2018/19 (2017/18: £20m). The Group's current best estimate of contributions expected to be made to the Group Scheme in the year ending 30 April 2020 is approximately £19m. A charge over four UK Packaging properties has been made as security for the unfunded arrangement in the UK, the liability for which totals £6m.

Significant actuarial assumptions

Principal actuarial assumptions for the Group Scheme are as follows:

	2019	2018
Discount rate for scheme liabilities	2.4%	2.8%
Inflation	2.1%	2.0%
Pre-retirement pension increases	2.1%	2.0%
Future pension increases for pre 30 April 2005 service	2.2%	2.0%
Future pension increases for post 30 April 2005 service	1.6%	1.5%

For other overseas arrangements, the weighted average actuarial assumptions are a discount rate of 1.5% (30 April 2018: 1.4%) and an inflation rate of 1.8% (30 April 2018: 1.8%).

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 2019, the mortality base table used is SAPS 2 (year of birth), with CMI 2018 projections with a 1.25% per annum long-term rate of improvement used for future longevity improvement. At 30 April 2018 the mortality base table used was SAPS 2 (year of birth), with CMI 2017 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:

	2019		2018	
	Male	Female	Male	Female
Life expectancy at age 65				
Member currently aged 65	20.5	22.6	21.0	23.2
Member currently aged 45	21.4	24.2	22.0	24.9

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	(100)
0.5% increase in inflation	(63)
1 year increase in life expectancy	(40)

24. Employee benefits continued

Expense recognised in the consolidated income statement

	Total	
	2019 £m	2018 £m
Post-retirement benefits current service cost	(6)	(6)
Total service cost	(6)	(6)
Net interest cost on net pension liability	(1)	(3)
Pension Protection Fund levy	(1)	(1)
Employment benefit net finance expense	(2)	(4)
GMP equalisation recognised as adjusting item	(8)	-
Total expense recognised in the consolidated income statement	(16)	(10)
Items recognised in other comprehensive income		
Remeasurement of defined benefit obligation	(81)	85
Return on plan assets excluding amounts included in employment benefit net finance expense	19	(28)
Total (losses)/gains recognised in other comprehensive income	(62)	57

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 between 2015 and 2016 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.

Awards made in 2017 and 2018 are subject to either two performance measures or to three performance measures:

- (a) 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.

- (b) Two performance measures:

- i. 50% of each award based on average adjusted EPS; and
- ii. 50% of each award based on average adjusted ROACE.

The awards granted between 2013 – 2015 have vested, but have 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, 2014 and 2015 awards have vested, but have not yet been fully exercised.

25. Share-based payment expense continued

- (iii) 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. The last award under this Plan was the 2016/17 award granted in July 2016.
- (iv) An international sharesave plan was introduced in January 2014 with further invitations being made in January 2016, January 2017, January 2018 and January 2019. 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. In France, the option price is discounted by up to 20% of the 20-day average up to the day before grant date. 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, 2017, 2018 and 2019. 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.

Further details of the awards described in (i), (ii), and (iv) are set out in the Remuneration Committee report.

Options outstanding and exercisable under share arrangements at 30 April 2019 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	6,455,875	Nil	1.2	Nil	77,339	Nil
Deferred Share Bonus Plan	1,285,487	Nil	1.0	Nil	125,867	Nil
Sharesave Plan	12,842,196	269.0 – 412.0	1.9	314.3	980,752	302.0

	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	1,553,880	Nil	0.3	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	
	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)
2019										
At 1 May 2018	Nil	6,014	Nil	1,161	Nil	-	343.7	9,751	Nil	3,158
Granted	Nil	2,842	Nil	609	Nil	-	274.5	6,308	Nil	-
Exercised	Nil	(1,999)	Nil	(455)	Nil	-	301.6	(1,765)	Nil	(1,209)
Lapsed	Nil	(401)	Nil	(29)	Nil	-	354.1	(1,453)	Nil	(395)
At 30 April 2019	Nil	6,456	Nil	1,286	Nil	-	314.3	12,841	Nil	1,554
Exercisable at 30 April 2019	Nil	77	Nil	126	Nil	-	302.0	981	Nil	-

25. Share-based payment expense continued

	Performance share plan		Deferred share bonus plan		Share matching plan		Sharesave plan		Long-term incentive plan	
	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options (£'000s)
2018										
At 1 May 2017	Nil	5,468	Nil	1,481	Nil	508	314.1	9,135	Nil	4,717
Granted	Nil	2,424	Nil	248	Nil	-	412.0	2,436	Nil	-
Exercised	Nil	(1,554)	Nil	(538)	Nil	(494)	270.6	(1,234)	Nil	(1,011)
Lapsed	Nil	(324)	Nil	(30)	Nil	(14)	319.4	(586)	Nil	(548)
At 30 April 2018	Nil	6,014	Nil	1,161	Nil	-	343.7	9,751	Nil	3,158
Exercisable at 30 April 2018	Nil	589	Nil	165	Nil	-	269.0	64	Nil	-

The average share price of the Company during the financial year was 412.6 pence (2017/18: 489.9 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 (Monte Carlo) valuation model, was £12.3m. The significant inputs into the model were: a share price of 517.8p for the PSP at the grant date; the exercise prices shown above; an expected volatility of the share price of 23%; the scheme life disclosed above; a risk-free interest rate of 0.80%, and an expected dividend yield of nil. The volatility of share price returns is calculated over the period of time commensurate with the remainder of the performance period immediately prior to the date of grant.

The total charge for the year relating to share-based payments recognised as personnel expenses was £7m (2017/18: £9m).

26. Cash generated from operations

	2019 £m	2018 (restated) £m
Continuing operations		
Profit for the year	262	237
Adjustments for:		
Pre-tax integration costs and other adjusting items	50	45
Amortisation of intangible assets; acquisitions and disposals	146	118
Guaranteed minimum pension equalisation	8	-
Cash outflow for adjusting items	(93)	(78)
Depreciation	189	157
Profit on sale of non-current assets	(4)	(1)
Share of profit of equity accounted investments, net of tax	(9)	(5)
Employment benefit net finance expense	2	4
Share-based payment expense	7	9
Finance income	-	-
Finance costs	84	70
Other non-cash items	(1)	2
Income tax expense	88	23
Change in provisions	(19)	(9)
Change in employee benefits	(17)	(27)
Cash generation before working capital movement	693	545
Changes in:		
Inventories	(7)	(81)
Trade and other receivables - gross	85	(136)
Factored trade receivables	(82)	118
Trade and other payables	(8)	81
Working capital movement	(12)	(18)
Cash generated from continuing operations	681	527

27. Reconciliation of net cash flow to movement in net debt

	2019 £m	2018 (restated) £m
Profit for the year	262	237
Income tax expense	88	23
Share of profit of equity accounted investments, net of tax	(9)	(5)
Net financing costs	86	74
Amortisation of intangible assets; acquisitions and disposals	146	118
Guaranteed minimum pension equalisation	8	-
Adjusting items	50	45
Adjusted operating profit	631	492
Depreciation	189	157
Adjusted EBITDA	820	649
Working capital movement	(12)	(18)
Change in provisions	(19)	(9)
Change in employee benefits	(17)	(27)
Other	2	10
Cash generated from operations before adjusting cash items	774	605
Capital expenditure	(303)	(328)
Proceeds from sale of property, plant and equipment and other investments	14	16
Tax paid	(85)	(68)
Net interest paid	(61)	(41)
Free cash flow	339	184
Cash outflow for adjusting items	(93)	(78)
Dividends paid	(187)	(157)
Acquisition of subsidiary businesses, net of cash and cash equivalents	(1,498)	(615)
Other	(6)	(4)
Net cash flow	(1,445)	(670)
Proceeds from issue of share capital	1,006	283
Borrowings acquired, including deposits	(204)	(204)
Net movement on debt	(643)	(591)
Foreign exchange, fair value and other non-cash movements (note 17)	49	(15)
Net debt movement - continuing operations	(594)	(606)
Net debt movement - discontinued operations	(3)	18
Opening net debt	(1,680)	(1,092)
Closing net debt	(2,277)	(1,680)

Adjusted operating profit, adjusted EBITDA, free cash flow, and net debt are non-GAAP measures not defined by IFRS. Further detail on the use of non-GAAP measures is included in note 33.

28. Operating leases

Non-cancellable operating lease rentals relating to continued operations are payable as follows:

	2019 £m	2018 (restated) £m
Less than one year	65	48
Between one and five years	138	111
More than five years	56	50
	259	209

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 2019, the Group had committed to incur capital expenditure of £129m (30 April 2018: £56m).

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 2019.

30. Acquisitions and disposals

(a) Acquisition of Papeles y Cartones de Europa, S.A. (Europac)

On 22 January 2019, the Group completed its acquisition of a 100% interest in Papeles y Cartones de Europa, S.A. (Europac), a leading integrated packaging business in Iberia and France.

The acquisition was funded by the rights issue of 3 for 11 ordinary shares at 350 pence per share on 25 July 2018 (gross proceeds of £1,027m offset by related transaction costs of £25m) and a new committed debt facility entered into on 20 November 2018.

In the year ended 30 April 2019, Europac contributed combined revenue of £191m and adjusted operating profit before amortisation and adjusting items of £40m to the Group's results. If the acquisition had occurred on 1 May 2018, estimated revenue and adjusted operating profit before amortisation and adjusting items for the combined Europac group would have been £780m and £130m, respectively.

The following table summarises the consideration paid for the Europac business and provisional fair value of assets acquired and liabilities assumed:

	Carrying values before acquisition £m	Provisional fair values £m
Intangible assets	5	488
Biological assets	6	6
Property, plant and equipment	623	604
Other non-current assets	9	9
Inventories	76	73
Income tax receivable	16	16
Trade and other receivables	117	117
Cash and cash equivalents	6	6
Borrowings, including deposits	(200)	(200)
Other non-current payables	(94)	(94)
Trade and other payables	(126)	(125)
Provisions and employee benefits	(42)	(50)
Income tax liabilities	(23)	(23)
Net deferred tax liabilities	(31)	(148)
Total identifiable net assets acquired	342	679
Goodwill		787
Total consideration		1,466
Satisfied by:		
Cash consideration		1,466
Total consideration transferred		1,466
Net cash flow arising on acquisition		
Cash consideration		1,466
Cash and cash equivalents acquired		(6)
Total cash outflow		1,460

A detailed exercise is being undertaken to assess the provisional fair values of assets acquired and liabilities assumed, with the use of third party experts where appropriate. The provisional fair values of intangible assets and property, plant and equipment will be assessed by reference to work performed by an independent valuation specialist. The intangible assets acquired as part of the acquisition relate to customer relationships.

If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised.

Deferred tax is recognised on the temporary timing differences created by the fair value adjustments.

30. Acquisitions and disposals continued

(a) Acquisition of Papeles y Cartones de Europa, S.A. (Europac) continued

The provisional goodwill balance of £787m arising on the acquisition of Europac (which is not expected to be tax deductible) includes anticipated synergies from integrating Europac into the Group, and the skills and technical talent of the Europac workforce.

(b) Other 2018/19 acquisition and disposals

In total, during the year ended 30 April 2019, cash consideration for acquisition of subsidiary businesses, net of cash and cash equivalents was £1,498m, and borrowings acquired, including deposits, were £204m, giving a total impact on net debt from acquisitions of £1,702m. Apart from the acquisitions of Europac, the remaining acquisitions are not material to the Group individually or in aggregate.

(c) Acquisition of Interstate Resources

On 25 August 2017, the Group acquired 80% interest in Indevco Management Resources Inc. (IMRI), the owner of Interstate Resources Inc. (Interstate Resources), from Merpas Co. Sàrl. ('Merpas').

The fair value of the identifiable assets and liabilities of Interstate Resources as at the date of acquisition were:

	Fair value on acquisition £m
Intangible assets	258
Biological assets	8
Property, plant and equipment	271
Equity accounted and other investments	19
Inventories	31
Net income tax assets	2
Trade and other receivables	61
Cash and cash equivalents	1
Borrowings	(140)
Trade and other payables	(42)
Provisions and employee benefits	(13)
Net deferred tax liabilities	(118)
Total identifiable net assets acquired	338
Redemption liability relating to non-controlling interest	(152)
Goodwill	591
Total consideration	777
Satisfied by:	
Cash consideration	516
Equity instruments (52,474,156 ordinary shares)	261
Total consideration transferred	777
Net cash flow arising on acquisition	
Cash consideration	511
Consideration payable	5
Cash and cash equivalents acquired	(1)
Total cash outflow	515

In the current financial year fair value adjustments were made in relation to property, plant and equipment and working capital resulting in an increase to goodwill of £10m.

30. Acquisitions and disposals continued

(d) Acquisition of EcoPack/EcoPaper

On 6 March 2018, the Group acquired EcoPack and EcoPaper for an enterprise value of c. €208 million.

The fair value of the identifiable assets and liabilities of EcoPack and EcoPaper as at the date of the acquisition were:

	Fair value on acquisition £m
Intangible assets	39
Property, plant and equipment	94
Inventories	5
Net income tax liabilities	(1)
Trade and other receivables	12
Borrowings	(60)
Trade and other payables	(10)
Net deferred tax liabilities	(6)
Total identifiable net assets acquired	73
Goodwill	55
Total consideration	128
Satisfied by:	
Cash consideration	95
Equity instruments (6,492,411 ordinary shares)	33
Total consideration transferred	128
Net cash flow arising on acquisition	
Cash consideration	95
Cash and cash equivalents acquired	-
Total cash outflow	95

During the current financial year fair value adjustments were made in relation to property, plant and equipment and trade and other payables, resulting in an increase to goodwill of £2m.

(e) Acquisition related costs

The Group incurred acquisition related costs of £32m (2017/18: £28m), primarily related to the acquisition of Europac as detailed in note 30(a), which has been included in administrative expenses within adjusting items. In addition, the Group incurred costs of £25m in relation to the rights issue which has been netted against share premium.

31. Discontinued operations and disposal group held for sale

The Plastics segment has been classified as discontinued operations as disclosed in note 1 (a) (ii).

Plastics principally comprises flexible packaging and dispensing solutions, extruded and injection moulded products and foam products. The consolidated income statement has been restated to present the Plastics segment as a discontinued operation. The consolidated statement of financial position presents the discontinued assets and liabilities as 'assets held for sale' and 'liabilities held for sale' respectively. The consolidated statement of cash flows has also been restated, presenting a single amount of net cash flow from discontinued operations.

(a) Condensed consolidated income statement – discontinued operations

	Year ended 30 April 2019 £m	Year ended 30 April 2018 £m
Revenue	352	346
Operating costs	(324)	(308)
Operating profit before amortisation and adjusting items	28	38
Amortisation of intangible assets	(1)	(3)
Pre-tax adjusting items	(10)	(3)
Net finance income	1	-
Profit before income tax	18	32
Income tax expense	(6)	(10)
Profit for the year from discontinued operations	12	22

The income tax expense is net of a tax credit on adjusting items of nil (30 April 2018: £1m credit).

Basic earnings per share from discontinued operations

	2019	2018 (restated)
Profit from discontinued operations attributable to ordinary shareholders	£12m	£22m
Weighted average number of ordinary shares	1,327m	1,117m
Basic earnings per share	0.9p	2.0p

Diluted earnings per share from discontinued operations

	2019	2018 (restated)
Profit from discontinued operations attributable to ordinary shareholders	£12m	£22m
Weighted average number of ordinary shares	1,327m	1,117m
Potentially dilutive shares issuable under share-based payment arrangement	6m	7m
Weighted average number of ordinary shares (diluted)	1,333m	1,124m
Basic earnings per share	0.9p	2.0p

The number of shares excludes the weighted average number of the Company's own shares held as treasury shares during the year of 1m (2017/18: 1m).

Adjusted earnings per share from discontinued operations for the year were 1.7p (30 April 2018: 2.3p).

(b) Assets and liabilities held for sale

	At 30 April 2019 £m
Intangible assets	74
Property, plant and equipment	74
Deferred tax assets	4
Inventories	29
Income tax receivable	6
Trade and other receivables	50
Assets held for sale	237
Employee benefits	(2)
Trade and other payables	(73)
Deferred tax liabilities	(5)
Income tax liabilities	(13)
Liabilities held for sale	(93)

31. Discontinued operations and disposal group held for sale continued

(c) Cash generated from discontinued operations

	Year ended 30 April 2019 £m	Year ended 30 April 2018 £m
Net cash from operating activities	16	34
Net cash from investing activities	(19)	(16)
Net cash flows for the year	(3)	18

Net cash from operating activities is stated after cash outflows in respect of adjusting items of £10m (30 April 2018: £2m).

32. 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 investments.

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 single total figure remuneration table in the Remuneration Committee report. Certain key management personnel also participate in the Group's share-based incentive programme (note 25). Included within the share-based payment expense, and detailed in the Remuneration Committee report, is a charge of £2m (2017/18: £3m) relating to key management personnel.

Transactions with pension trustees are disclosed in note 24.

Other related party transactions

	2019 £m	2018 £m
Sales to equity accounted investees	8	3
Sales to other investees	4	-
Purchases from equity accounted investees	3	9
Purchases from other investees	8	4

33. 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.

The principal adjustments to financial information are made to exclude the effects of adjusting items (refer to note 4) and amortisation.

Total reported financial information represents the Group's overall performance and financial position, but can contain significant unusual or non-operational items that may obscure understanding of the key trends and position. These unusual or non-operational items include business disposals, restructuring and optimisation project costs, acquisition-related and integration costs, and impairments. Restructuring and optimisation items treated as adjusting items are major programmes usually spanning more than one year, with uneven impact on the profit and loss for those years affected. Other adjusting items, such as business disposals, impairments, integration and acquisition costs, which are by nature either highly variable or can also have a similar distorting effect. Therefore, the Directors consider that presenting non-GAAP measures which exclude adjusting items enable comparability of the recurring core business, complementing the IFRS measures presented.

Amortisation relates primarily to customer contracts and relationships arising from business combinations. Significant costs are incurred in maintaining, developing and increasing the value of such intangibles, costs which are charged in determining adjusted profit. Exclusion of amortisation remedies this double count as well as providing comparability over the accounting treatment of customer contracts and relationships arising from the acquisition of businesses and those generated internally.

The Group's key non-GAAP measures are used both internally and externally to evaluate business performance against the Group's KPIs and banking and debt covenants, 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 the pre-tax effects of both amortisation and adjusting items. Adjusting items include business disposal gains and losses, restructuring and optimisation costs, 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.

33. Non-GAAP performance measures continued

Operating profit before adjusting items

A reconciliation between operating profit and operating profit before adjusting items is set out on the face of the consolidated income statement.

Other similar profit measures before adjusting items are quoted, such as profit before income tax and adjusting 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 and can be derived directly from the face of the consolidated income statement. Return on sales is used to measure the value we deliver to customers and the Group's ability to charge for that value.

	2019 £m	2018 (restated) £m
Adjusted operating profit	631	492
Revenue	6,171	5,518
Return on sales	10.2%	8.9%

Adjusted earnings per share

Adjusted earnings per share is basic earnings per share adjusted to exclude the post-tax effects of adjusting items and amortisation. Adjusted earnings per share is a key performance measure for management long-term remuneration and is widely used by the Group's shareholders.

A reconciliation between basic and adjusted earnings per share is provided in note 8.

Adjusted return on average capital employed (ROACE)

ROACE is the last 12 months' 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, biological assets and assets/liabilities held for sale.

	2019 £m	2018 (restated) £m
Capital employed at 30 April	5,674	3,967
Currency, inter-month and acquisition movements	(1,022)	(364)
Last 12 months' average capital employed	4,652	3,603
Last 12 months' adjusted operating profit	631	492
Adjusted return on average capital employed	13.6%	13.7%

Adjusted EBITDA

Earnings before interest, tax, depreciation and amortisation (Adjusted EBITDA) is adjusted operating profit excluding depreciation.

A reconciliation from adjusted operating profit to adjusted EBITDA is provided in note 27.

Net debt

Net debt is the measure by which the Group assesses its level of overall indebtedness within its financial position. The components of net debt as they reconcile to the primary financial statements and notes to the accounts is disclosed in note 17.

Net debt/EBITDA

Net debt/EBITDA is the ratio of net debt to adjusted EBITDA, calculated in accordance with the Group's banking covenant requirements.

Net debt/EBITDA is considered a key measure of balance sheet strength and financial stability by which the Group assesses its financial position.

In calculating the ratio, net debt is stated at average rates as opposed to closing rates, and adjusted 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.

	2019 £m	2018 £m
Net debt - reported basis (see note 17)	2,277	1,680
Currency effects	41	7
Net debt - adjusted basis	2,318	1,687
Adjusted EBITDA - last 12 months' reported basis	820	649
Acquisition effects	136	52
Add back of discontinued operations	40	49
Adjusted EBITDA - banking covenant basis	996	750

33. Non-GAAP performance measures continued

Free cash flow

Free cash flow is the net movement on debt before cash outflow for adjusting items, dividends paid, acquisition and disposal of subsidiary businesses (including borrowings acquired), and proceeds from issue of share capital.

A reconciliation from Adjusted EBITDA to free cash flow is set out in note 27.

Cash conversion

Cash conversion is free cash flow, as defined above, adjusted to exclude tax, net interest, growth capital expenditure and pension payments as a percentage of adjusted operating profit and can be derived directly from note 27, other than growth capital expenditure, which is capital expenditure necessary for the development or expansion of the business as follows:

	2019 £m	2018 (restated) ¹ £m
Growth capital expenditure	140	165
Non-growth capital expenditure	163	163
Total capital expenditure (note 27)	303	328
Free cash flow (note 27)	339	184
Tax paid (note 27)	85	68
Net interest paid (note 27)	61	41
Growth capital expenditure	140	165
Pension payments (note 27)	17	27
Adjusted free cash flow	642	485
Adjusted operating profit	631	492
Cash conversion	102%	99%

1. Comparatives have been restated for the adoption of IFRS 15 *Revenue from Contracts with Customers*, the rights issue during the year, and the classification of the Plastics business as a discontinued operation.

Average working capital to sales

Average working capital to sales 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, excluding capital and acquisition related debtors and creditors.

	2019 £m	2018 (restated) £m
Inventories (note 14)	584	514
Trade and other receivables	833	781
Trade and other payables	(1,587)	(1,420)
Inter-month movements and exclusion of capital and acquisition related items	174	114
Last 12 months' average working capital	4	(11)
Last 12 months' revenue	6,171	5,518
Average working capital to sales	0.1%	(0.2%)

Constant currency and organic growth

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. In addition, the Group then separates the first full year effects of acquisitions to determine underlying organic growth. The table below shows the calculations:

	Revenue £m	Adjusted operating profit £m
Reported basis - comparative year ended 30 April 2018 (restated)	5,518	492
Currency effects	(21)	1
Constant currency basis - comparative year ended 30 April 2018 (restated)	5,497	493
Prior year acquisitions	293	32
	5,790	525
Current year acquisitions	191	35
Synergies	-	25
Organic growth	190	46
Reported basis - year ended 30 April 2019.	6,171	631

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		Notes		Notes
Argentina		France		DS Smith Wirth Verpackungen GmbH	63
Total Marketing Support Argentina SA	2	DS Smith Ducaplast	55	Rapak GmbH	62
Australia		DS Smith France	34	Gibraltar	
Total Marketing Support Pacific Pty Ltd	3	DS Smith Hêtre Blanc	33	DS Smith Finco (IRE) Limited	72
Austria		DS Smith Packaging Anjou	33	Greece	
DS Smith Austria Holdings GmbH	4	DS Smith Packaging Atlantique	33	DS Smith Cretan Hellas S.A.	74
DS Smith Packaging Austria	4	DS Smith Packaging Bretagne	58	DS Smith Hellas S.A.	73
Beteiligungsverwaltungs GmbH		DS Smith Packaging C.E.R.A.	39	Guatemala	
DS Smith Packaging Austria GmbH	5	DS Smith Packaging Consumer	33	TMS Global Guatemala, Sociedad Anonima	75
DS Smith Packaging South East GmbH	4	DS Smith Packaging Contoire-Hamel	43	Honduras	
Belgium		DS Smith Packaging Display and Services	33	Total Marketing Support Honduras, S.A.	76
DS Smith Packaging Belgium N.V.	7	DS Smith Packaging DPf	32	Hong Kong	
DS Smith Packaging Marketing N.V.	8	DS Smith Packaging Fegersheim	37	The Less Packaging Company (Asia) Limited	77
DS Smith Plastics Bilzen N.V.	6	DS Smith Packaging France	33	Hungary	
Bolivia		DS Smith Packaging Kaypac	59	DS Smith Omikron Kft.	79
Total Marketing Support Bolivia S.A.	12	DS Smith Packaging Larousse	47	DS Smith Packaging Füzesabony Kft.	78
Bosnia & Herzegovina		DS Smith Packaging Mehun-CIM	46	DS Smith Packaging Hungary Kft.	79
DS Smith Packaging BH d.o.o. Sarajevo	9	DS Smith Packaging Nord Est	34	India	
DS Smith Recycling Bosnia d.o.o.	10	DS Smith Packaging Normandie Ondulé	52	DS Smith Products & Services India	80
Brazil		DS Smith Packaging Normandie	49	Private Limited	
Total Marketing Support Brazil Ltda	11	DS Smith Packaging Premium	57	The Less Packaging Company (India)	81
Bulgaria		DS Smith Packaging Sud Est	56	Private Limited	
DS Smith Bulgaria S.A.	13	DS Smith Packaging Sud Ouest	36	Total Marketing Support India Private Limited	82
Rapak EAD	14	DS Smith Packaging Systems	35	Ireland	
Canada		DS Smith Packaging Tout Embal	53	David S. Smith (Ireland) Unlimited Company	83
TMS Canada 360 Inc.	15	DS Smith Packaging Velin	54	DS Smith Packaging Ireland Limited	83
Chile		DS Smith Packaging Vervins	33	Italy	
Total Marketing Support Chile SpA	16	DS Smith Paper Coullons	51	DS Smith Holding Italia SpA	86
China		DS Smith Paper Kayzersberg	41	DS Smith Packaging Italia SpA	86
DS Smith Shanghai Trading Ltd	17	DS Smith Plastics France	40	DS Smith Paper Italia Srl.	86
TMS Shanghai Trading Ltd	18	DS Smith Recycling France	38	DS Smith Recycling Italia Srl	85
Colombia		DS Smith Rivatex	44	Toscana Ondulati SpA	E, 84
Total Marketing Support Colombia S A S	19	Europac Cartonnerie Atlantique	45	Japan	
Croatia		Europac Cartonnerie de Rouen	48	Total Marketing Support Japan Ltd	87
Bilokanik-IPA d.d.	H, 21	Europac Cartonnerie Savoie	42	Kazakhstan	
DS Smith Belišće Croatia d.o.o.	20	Europac Papeterie de Rouen	48	Total Marketing Support Kazakhstan	88
DS Smith Plastics Karlovac d.o.o.	22	Rowlandson France	34	Latvia	
DS Smith Unijapapir Croatia d.o.o.	23	SCI Europac	48	SIA DS Smith Packaging Latvia	89
Duropack Karton d.o.o.	24	Tecnicartón France	50	Lithuania	
Czech Republic		Germany		UAB DS Smith Packaging Lithuania	90
DS Smith Packaging Czech Republic s.r.o.	25	Bretschneider Verpackungen GmbH	I, 61	Luxembourg	
DS Smith Triss s.r.o.	26	Delta Packaging Services GmbH	68	DS Smith (Luxembourg) S.à r.l.	91
Denmark		DS Smith Hamburg Display GmbH	70	DS Smith Perch Luxembourg S.à r.l.	91
DS Smith Packaging Denmark A/S	27	DS Smith Packaging Arenshausen		DS Smith Re S.A.	91
Ecuador		Mivepa GmbH	64	Malaysia	
Total Marketing Support Ecuador TM-EC C.L.	28	DS Smith Packaging Arnstadt GmbH	60	Total Marketing Support (360) Malaysia	
Egypt		DS Smith Packaging Beteiligungen GmbH	71	Sdn. Bhd.	92
TMS Egypt LLC	29	DS Smith Packaging Deutschland Stiftung	66	Mexico	
Estonia		DS Smith Packaging Deutschland Stiftung & Co KG	71	Total Marketing Support 360 Mexico S.A de C.V	93
DS Smith Packaging Estonia AS	30	DS Smith Paper Deutschland GmbH	69	Morocco	
Finland		DS Smith Pre-Press Services GmbH	67	Tecnicartón Tánger S.a.r.l. AU	94
DS Smith Packaging Baltic Holding Oy	31	DS Smith Recycling Deutschland GmbH	65	Netherlands	
DS Smith Packaging Finland Oy	31	DS Smith Stange B.V. & Co. KG	71	David S. Smith (Netherlands) B.V.	97
DS Smith Packaging Pakkausjaloste Oy	31	DS Smith Transport Services GmbH	69	DS Smith (Holdings) B.V.	97
Eastpac Oy	31			DS Smith Baars B.V.	71
				DS Smith de Hoop Holding B.V.	97

34. DS Smith Group companies continued

Fully owned subsidiaries continued	Notes		Notes		Notes
Netherlands continued		DS Smith Packaging d.o.o. Kruševac	127	David S. Smith Nominees Limited	1
DS Smith Finance B.V.	97	Papir Servis DP d.o.o.	127	DS Smith (UK) Limited	1
DS Smith Hellas Netherlands B.V.	96	Slovakia		DS Smith Business Services Limited	1
DS Smith Italy B.V.	97	DS Smith Packaging Slovakia s.r.o.	130	DS Smith Corrugated Packaging Limited	1
DS Smith Packaging Almelo B.V.	95	DS Smith Slovakia s.r.o.	129	DS Smith Display Holding Limited	1
DS Smith Packaging Barneveld B.V.	98	DS Smith Turpak Obaly a.s.	D, 131	DS Smith Dormant Eight Limited	1
DS Smith Packaging Belita B.V.	97	Slovenia		DS Smith Dormant Five Limited	1
DS Smith Packaging Holding B.V.	97	DS Smith Slovenija d.o.o.	132	DS Smith Europe Limited	1
DS Smith Packaging International B.V.	97	South Africa		DS Smith Euro Finance Limited	1
DS Smith Packaging Netherlands B.V.	96	TMS 360 SA (PTY) Ltd	133	DS Smith Finco Limited	A, 1
DS Smith Recycling Benelux B.V.	96	Spain		DS Smith Foams UK Limited	1
DS Smith Recycling Holding B.V.	96	Bertako S.L.U.	144	DS Smith Haddox Limited	1
DS Smith Salm B.V.	97	DS Smith Andorra S.A.	136	DS Smith Holdings Limited	A, 1
DS Smith Tilburg C.V.	100	DS Smith Business Services S.L.U.	136	DS Smith International Limited	1
DS Smith Toppositie B.V.	97	DS Smith Carton Plastico S.A.	142	DS Smith Italy Limited	1
New Zealand		DS Smith Packaging Alcala S.L.U.	139	DS Smith Logistics Limited	1
Rapak Asia Pacific Limited	101	DS Smith Packaging Cartogal S.A.	145	DS Smith Packaging Limited	1
Nicaragua		DS Smith Packaging Dicesa S.A.	G, 138	DS Smith Paper Limited	1
Total Marketing Support Nicaragua, Sociedad Anonima	102	DS Smith Packaging Flak S.L.	141	DS Smith Pension Trustees Limited	1
Nigeria		DS Smith Packaging Galicia S.A.	146	DS Smith Perch Limited	1
Total Marketing Support 360 Nigeria Limited	103	DS Smith Packaging Holding S.L.U.	136	DS Smith Plastics Limited	1
North Macedonia		DS Smith Packaging Madrid S.L.	136	DS Smith Recycling UK Limited	1
DS Smith AD Skopje	F, 104	DS Smith Packaging Penedes S.A.U.	138	DS Smith Roma Limited	1
Pakistan		DS Smith TCT S.A.	136	DS Smith Sudbrook Limited	1
TMS Pakistan (Private) Limited	105	Europac Packaging Lucena, S.L.U.	140	DS Smith Supplementary Life Cover Scheme Limited	1
Philippines		Europac Recicla, S.A.	135	DS Smith Ukraine Limited	1
Total Marketing Support Philippines	106	Herederos de D. Timoteo, S.L.	137	DSS Eastern Europe Limited	1
Poland		Papeles y Cartones de Europa, S.A.	137	DSS Poznan Limited	1
DS Smith Packaging sp. z o.o.	107	Tecnicartón, S.L.	143	DSSH No. 1 Limited	1
DS Smith Polska sp. z o.o.	107	Sweden		First4Boxes Limited	1
DS Smith Plastics Polska sp. z o.o.	108	DS Smith Packaging Sweden AB	148	Grovehurst Energy Limited	1
Portugal		DS Smith Packaging Sweden Holding AB	148	JDS Holding	1
DS Smith Displays FFTM, Unipessoal Lda.	113	Switzerland		Miljoint Limited	1
DS Smith Displays Opcao Actual, S.A.	111	DS Smith Packaging Switzerland AG	149	Multigraphics Holdings Limited	1
DS Smith Displays P&I, S.A.	111	Thailand		Multigraphics Limited	1
DS Smith Packaging Portugal, S.A.	112	DS Smith Rapak (Thailand) Limited	150	Multigraphics Services Limited	1
Europa&c Cartao Ovar, S.A.	115	Turkey		Pavidda Paper Limited	1
Europa&c Distribuicao de Madeira, Lda.	116	DS Smith Ambalaj A.Ş.	151	Priory Packaging Limited	1
Europa&c Embalagem, S.A.	117	Total Marketing Support Turkey Baski Yönetimi Hizmetleri A.Ş.	152	rapak psi Limited	1
Europa&c Energia Viana, S.A.	118	Ukraine		Reed & Smith Limited	1
Europa&c Kraft Viana, S.A.	118	Total Marketing Support Ukraine	153	SRP New Thames Limited	1
Europa&c Portugal - Sociedade Gestora de Participacoes Sociais, S.A.	118	United Arab Emirates		St. Regis Holdings plc	1
Europa&c Recicla Portugal, S.A.	119	Total Marketing Support Middle East DMCC	155	St. Regis International Limited	1
Greenfrequency Energia, S.A.	118	UK		St. Regis Kemsley Limited	1
Lepe - Empresa Portuguesa de Embalagens, S.A.	110	A. A. Griggs and Company Limited	1	St. Regis Packaging (Scotland) Limited	156
Tecnicartón Portugal Unipessoal Lda	109	Abbey Corrugated Limited	1	St. Regis Paper Company Limited	1
Romania		Ashton Corrugated	1	The Brand Compliance Company Limited	1
DS Smith Packaging Romania S.R.L.	122	Ashton Corrugated (Southern) Limited	1	The Less Packaging Company Limited	1
DS Smith Packaging Ghimbav S.R.L.	C, 120	Avonbank Paper Disposal Limited	1	The Wansbrough Paper Company Limited	1
DS Smith Paper Zarnesti, S.R.L.	B, 121	Biber Paper Converting Limited	1	TheBannerPeople.Com Limited	1
Russia		Calara Holding Limited	1	Tillotsons Corrugated Cases Limited	1
David S. Smith Vostok	124	Conew Limited	1	TMS Global UK Limited	1
Packaging Kuban CJSC	125	Corrugated Products Limited	1	Total Marketing Support Global Limited	J, 1
Total Marketing Support Moscow	123	Creo Property Limited	1	Total Marketing Support Limited	1
Serbia		Creo Retail Marketing Holdings Limited	1	Treforest Mill plc	1
DS Smith Inos Papir Servis d.o.o.	126	Creo Retail Marketing Limited	1	TRM Packaging Limited	1
		D.W. Plastics (UK) Limited	1	United Shopper Marketing Limited	1
		David S Smith (Pension Contributions) Limited	1	W. Rowlandson & Company Limited	1
				Waddington & Duval Limited	1

34. DS Smith Group companies continued

Fully owned subsidiaries continued	Notes	Associate entities	Notes	Ownership interest at 30 April 2019
Uruguay		Netherlands		A Directly held by DS Smith Plc
Kozery S.A.	181	Industriewater Eerbeek B.V.	M, 99	B 99.927% ownership interest
USA		Stort Doonweg B.V.	J, 99	C 99.285% ownership interest
Carolina Graphic Services LLC	157	Portugal		D 98.89% ownership interest
Cedarpak LLC	158	Companhia Termica Do Serrado A.c.e.	O, 114	E 92% ownership interest
CEMT Holdings Group LLC	159	Serbia		F 81.39% ownership interest
Corrugated Container Corporation	175	Papir Pet d.o.o.	J, 128	G 80% ownership interest
Corrugated Supply LLC	159	Spain		H 69.788% ownership interest
Corrugated Supply LP	159	Cartonajes Cantabria, S.L.	N, 134	I 51% ownership interest
Corrugated Container Corporation of		Cartonajes Santander, S.L.	N, 134	J 50% ownership interest
Shenandoah Valley	176	Euskocarton, S.L.	N, 134	K 49.6% ownership interest
Corrugated Container Corporation of		Industria Cartonera Asturiana, S.A.	N, 147	L 40% ownership interest
Tennessee	177	Ukraine		M 37.5% ownership interest
David S. Smith (America), Inc.	172	Public Joint Stock Company "Rubizhanskiy		N 39.58% ownership interest
DS Smith Creative Solutions Inc.	178	Kartonno-Tarniy Kombinat"	K, 154	O 30% ownership interest
DS Smith North America Recycling, LLC	158	USA		
DS Smith North America Shared Services, LLC	158	Philcorr LLC	L, 169	
David S. Smith (Holdings) America, Inc.	174	PhilCorr Vineland LLC	L, 169	
DS Smith Extrusion USA LLC	173			
DS Smith Holdings, Inc.	174			
DS Smith Management Resources, Inc.	180			
DS Smith Packaging-Lebanon, LLC	179			
DS Smith Packaging-Stream, LLC	158			
DSS Rapak, Inc.	174			
Evergreen Community Power LLC	160			
Interstate CorrPack LLC	161			
Interstate Container Columbia LLC	162			
Interstate Container Lowell LLC	163			
Interstate Mechanical Packaging LLC	162			
Interstate Container New Castle LLC	164			
Interstate Container Reading LLC	165			
Interstate Container Westminster LLC	166			
Interstate Holding, Inc.	158			
Interstate Paper LLC	167			
Interstate Realty Hialeah LLC	180			
Interstate Resources, Inc.	158			
Interstate Southern Packaging LLC	168			
Newport Timber LLC	167			
Phoenix Technology Holdings USA, Inc.	180			
Rapak, LLC	174			
RB Lumber Company LLC	167			
RFC Container LLC	159			
SouthCorr LLC	170			
St. George Timberland Holdings, Inc.	167			
The Less Packaging Company, Inc.	171			
TMS America LLC	174			
United Corrstack LLC	160			

34. DS Smith Group companies continued**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. Friedrichstraße 10, 1010, Wien, Austria
5. Heidestrasse 15, 2433 Margarethen am Moos, Austria
6. Nijverheidsstraat 26, 3740 Bilzen, Belgium
7. New Orleansstraat 100, 9000 Gent, Belgium
8. Leonardo da Vincilaan 2, Corporate Village – Gebouw Gent 1831 Machelen-Diegem, Belgium
9. Igmanska bb, Sarajevo, Vogošća, Bosnia and Herzegovina
10. Jovana Dučića br 25 A, Banja Luka, Bosnia and Herzegovina
11. Rua das Flandreiras 677, Vila Olimpia, São Paulo, Brazil
12. Santa Cruz de la Sierra – Calle Dr. Mariano Zambrana No 700 UV: S/N MZNO: S/N Zona: Oeste
13. Glavinitsa, 4400 Pazardzhik, Bulgaria
14. 3rd Floor, 45 Industrialna Str, Shumen 9700, Bulgaria
15. 215-1673 Carling Avenue, Ottawa ON K2A 1C4, Canada
16. Santa Beatriz, 111. Of 1104. Providencia, Santiago de Chile, Chile
17. Room 05C, 3/F, No. 2 Building, Hongqiao Vanke Center, 988 Shenchang Road, Minhang district, 201107, Shanghai, China
18. R919, 9/F, No. 1788 West Nan Jin Rd, Jing An District, Shanghai, 200040, China
19. Calle 72, 10-07 Oficina 401, Edificio Liberty Seguros, Bogotá, Colombia
20. Vijenac Salamona Henricha Gutmanna 30, Belišće, Croatia
21. Dravska bb, Koprivnica (Grad Koprivnica), Croatia
22. Kupljensko 75/b, 47220 Vojnic, Croatia
23. Lastovska 5, Zagreb, Croatia
24. Radnička cesta 22, Zagreb, Croatia
25. Teplická 109, Martiněves, 405 02 Jilové, Czech Republic
26. Zirovnická 3124, 10600 Praha 10, Czech Republic
27. Åstrupvej 30, 8500 Grenaa, Denmark
28. Av. Republica de El Salvador N36-140, Edif. Mansion Blanca, Quito, PBX:4007828, Ecuador
29. Nile City Towers, North Tower, 22nd Floor, Cornish El Nil, Cairo, 11624, Egypt
30. Pae 24, 11415 Tallinn, Estonia
31. PL 426, 33101 Tampere, Finland
32. 350 Zone Artisanale des Trois Fontaines, 38140 Rives, France
33. 1 Terrasse Bellini, 92800, Puteaux, France
34. 11 route Industrielle, F-68320, Kunheim, France
35. 12 rue Gay Lussac ZI Dijon Chenove, 21300, Chenove, France
36. Zone Industrielle de Châteaubernard, 16102, Cognac, France
37. 146 Route de Lyon, 67640, Fegersheim, France
38. 2 Rue Vincent Van Gogh, ZAC des Bords de Marne, 93360, Neuilly Plaisance, France
39. 6-8 Boulevard Monge, 69330, Meyzieu, Lyon, France
40. 75 Route de Lapoutroie, 68240, Kayzersberg, France
41. 77 Route de Lapoutroie, 68240, Kayzersberg, France
42. Avenue Robert Franck, 73110, La Rochette, France
43. Contoire Hamel, 80500, Mondidier, France
44. Hotel d'Entreprise, Parc d'Activités Tournebride, 44118, La Chevroliere, France
45. Lieu Dit Fontaine, 49430 Durtal, France
46. Route de Marmagne, 18500, Mehun sur Yèvre, France
47. Rue de la Deviniere, B.P. 7, 45510 FR, Tigy, France
48. Rue Desire Granet, 76800 St. Etienne du Rouvray, France
49. Saint Amand, 50160, Torigni sur Vire, France
50. 27 Rue du Tennis, 25110, Baume les Dames, France
51. Usine de La Fosse, B.P. No 8, 45720, Coullons, France
52. ZAC Cabourg Village, 14390, Cabourg, France
53. 345 Impasse de Saint-Alban Avenue de Croupillac, 30100 Ales, France
54. ZI La Plaine – Eloyes, 88214, Remiremont, France
55. Zone d'entreprises de la Kruysstraete, B.P. 39, F-59470 Wormhout, France
56. Zone Industrielle du Pré de la Barre, 38440, St-Jean de Bournay, France
57. Zone Industrielle de Châteaubernard, 16102, Cognac, France
58. Zone Industrielle de Kevoasdoue, 29270, Carhaix, France
59. Zone Industrielle, Voiveselles Croisette, 88800, B.P. 37, Vittel, France
60. Bierweg 11, 99310 Arnstadt, Germany
61. Bretschneiderstr. 5, D-08309 Eibenstock, Germany
62. Dortmunder Strasse 6, 67823, Schwetzingen, Germany
63. Ersteiner Strasse 7-9, D79346 Endingen am Kaiserstuhl, Germany
64. Hauptstrasse 80, 37318 Arenshausen, Germany
65. Kufsteiner Strasse 27, 83064 Raubling, Germany
66. Rollnerstrasse 14, D-90408 Nürnberg, Germany
67. Ruhrstrasse 3, 36043 Fulda, Germany
68. Siemensstrasse 8, 50259 Pulheim, Germany
69. Weichertstrasse 7, D-63741 Aschaffenburg, Germany
70. Wilhelm-Bergner, Str.11 e, 21509 Glinde, Germany
71. Zum Fliegerhorst 1312 – 1318, 63526 Erlensee, Germany
72. 5-9 Main Street, Gibraltar
73. PO Box 1010, 57022 Sindos Industrial Area, Thessaloniki, Greece
74. PO Box 90, GR-72200 Ierapetra, Kriti, Greece
75. 15 Calle 1-04 Zona 10, Centrica Plaza, Torre I, Oficina 301, Guatemala, 01010, Guatemala
76. Avenida La Paz, No. 2702, Tegucigalpa, M.D.C., PO Box 2735, Honduras
77. Units 1607-8, 16th Floor, Citicorp Centre, 17 Whitfield Road, Causeway Bay, Hong Kong
78. Duropack ut. 1, 3390 Füzesabony, Hungary
79. Záhony u. 7, HU-1031 Budapest, Hungary
80. 409, Dalamal Chambers, , New Marine Lines, Mumbai – 400 020, India
81. A-5/30, Basement, Behind Oriental Bank of Commerce, Paschim Vihar, New Delhi, 110063, India
82. G-56 Green Park (main), New Delhi – 110016, India
83. 25/28 North Wall Quay, Dublin 1, Ireland
84. Capannori (Lu) Via del Fanuccio, 126 Cap. 55014 Frazione Marlia, Italy
85. Strada Lanzo 237, cap 10148, Torino (TO), Italy
86. Via Torri Bianche, n. 24, 20871 Vimercate (MB), Italy
87. Oak Minami-Azabu Building 2F, 3-19-23 Minami-Azabu, Minato-ku, Tokyo, 106-0047, Japan
88. Abay Ave. 52, 8 floor, 802-6 office "Innova Tower" BC, 050008, Almaty, Kazakhstan
89. Hospitālu iela 23-102, Rīga LV-1013, Latvia
90. Savanoriu ave. 183, 02300 Vilnius, Lithuania
91. 8-10 Avenue de la Gare, L-1610 Luxembourg
92. Unit C-12-4, Level 12, Block C, Megan Avenue II, No. 12 Jalan Yap Kwan Seng, 50450 Kuala Lumpur, Wilayah Persekutuan, Malaysia
93. Av. Paseo de las Palmas No. 800, Int. 2501, Col. Lomas de Chapultepec III Sección, Delegación Miguel Hidalgo, Ciudad de México, C.P. 11000, Mexico
94. Tanger, Zone Franche d'Exportation, ILot 11, Lot 5, Morocco
95. Bedrijvenpark Twente 90, NL-7602 KD Almelo, Netherlands
96. Coldenhovenseweg 130, 6961 EH, Eerbeek, Netherlands
97. Harderwijkerweg 41, 6961 GH, Eerbeek, Netherlands
98. Hermesweg 2, 3771 ND, Barneveld, Netherlands
99. Kanaalweg 8 A, 6961 LW, Eerbeek, Netherlands
100. Wegstraat 2, 5015 BS, Tilburg, Netherlands
101. Building C1, The Gate, 373 Neilson Street, Onehunga, Auckland, New Zealand
102. Car Building, 3rd Floor, Highway to Masaya, Managua, Nicaragua
103. 3, Ijora – Causeway, Ijora, Lagos, Nigeria
104. Zenden Dzemail 1, Skopje 1000, North Macedonia
105. Office 408, Level 5, Al Memar Tower, E-11/2, Islamabad, Islamabad Capital Territory (I.C.T.) 44000, Pakistan

34. DS Smith Group companies continued

Registered offices continued

106.	25/F Philam Tower, 8767 Paseo de Roxas Avenue, Bel-Air, Fourth District, NCR, Makati City, 1226, Philippines	144.	Polígono Industrial Areta nº 1, parcela 348, calle Altzutzate, nº 46, 31620 Huarte, Navarra, Spain
107.	Ul 17 Stycznia 45 D, 02-146 Warszawa, Poland	145.	Polígono Industrial A Tomada, parcela 28-33, A Pobra do Caramiñal, 15949 A Coruña, Spain
108.	ul. Malikow 150, Kielce 25-639, Poland	146.	Polígono Industrial O Pousadoiro 4, Parcela 1, 36617 Vilagarcía de Arousa, Pontevedra (Galicia), Spain
109.	Águeda (Aveiro), Raso de Paredes 3754-209, Portugal	147.	Polígono Industrial San Claudio, 33191, Oviedo, Spain
110.	Av. Jose Gregorio 114, 2430-275 Marinha Grande, Portugal	148.	Box 504, 331 25 Varnamo, Sweden
111.	Edifício Opcao Actual, Parque Industrial de Oliveirinha, 3430-414 Carregal do Sal, Portugal	149.	Industriestrasse 11, 4665 Oftringen, Switzerland
112.	Rua Mestra Cecília do Simão, n.º 378, 3885-593 Esmoriz, Ovar, Portugal	150.	1/21 Moo5 Factory G26, TFD Industrial Estate, Tambon Tasa-arn, Amphoe Bangpakong, Chachoengsao Province, Thailand
113.	Edifício Ds Smith, Zona Industrial de Sampaio, Oliveirinha, 3430 Carregal do Sal, Municipality of Carregal do Sal, Parish of Oliveira do Conde, Portugal	151.	Araptepe Selimpaşa Mah. 5007. Sk. No. 4 Silivri, Istanbul, Turkey
114.	Lugar do Espido, Via Norte, Distrito: Porto Concelho: Maia Freguesia: Cidade da Maia, 4470 177 MAIA, Portugal	152.	Goztepe Merdivenkoy Mah. Bora Sk. No.1 Nida Kule Is Merkezi, Kat 7, Kadikoy, Istanbul, 34732, Turkey
115.	Zona Industrial de Ovar, 3880-102, Ovar, Portugal	153.	4-5 Floors, 25B, Sagaydachnogo str., Kiev, 04070, Ukraine
116.	Parque Industrial da Cancela, 3125-042, Canico, Portugal	154.	67 Mendelev str., Rubizhne, Lugansk Region, 93006, Ukraine
117.	Rua do Monte Grande, n.º 3, 4485-255 Guilhabreu, Portugal	155.	Unit No: I5-PF-39, Detached Retail I5, Plot No: JLT-PH1-RET-I5, Jumeirah Lakes Towers, Dubai, United Arab Emirates
118.	Estrada 23 de Fevereiro, 372, 4905-261, Deocriste, Portugal	156.	Muir Road, Houston Industrial Estate, Livingston, West Lothian, EH54 5DR, UK
119.	Rua Pedro Jose Ferreira, 329/335, 4420-612, Gondomar, Portugal	157.	4328 Federal Drive, STE 105, Greensboro, NC 27410, United States
120.	No. 46 Fagarasului Street, Ghimbav, Brasov County, Romania	158.	3475 Piedmont Rd. NE, Suite 1525, Atlanta GA 30305, United States
121.	No. 18, 13 Decembrie Street, Zarnesti, Brasov County, Romania	159.	2066 South East Avenue, Vineland, NJ 08360, United States
122.	Calea Torontalului, DN6 km. 7, Timisoara, Romania	160.	720 Laurel Street, Reading, PA 19602, United States
123.	Office 405, 7 Dolgorukovskaya Street, Moscow, 127006, Russian Federation	161.	903 Woods Road, Cambridge, MD 21613, United States
124.	Office 9, 35/1 Dmitria Ulianova Street, Moscow 103031, Russian Federation	162.	128 Crews Drive, Columbia, SC 29210, United States
125.	2 Gibrinaya Street, Timashevsk Town, Krasnodar Region 352708, Russian Federation	163.	240 Industrial Avenue East, Lowell, MA 01852, United States
126.	11000 Beograd, Milorada Jovanovića 14, Serbia	164.	792 Commerce Avenue, New Castle, PA 16101, United States
127.	Krusevac, Balkanska 72, Serbia	165.	100 Grace Street, Reading, PA 19611, United States
128.	44 Bulevar Vojvode Stepe, Novi Sad, Serbia	166.	100 Simplex Drive, Westminster, MA 01473, United States
129.	Dolné Hony 21/435, Nitra 949 01, Slovakia	167.	2366 Interstate Paper Road, Riceboro, GA 31323, United States
130.	Námestie baníkov 8/31, 048 01 Rožnava, Slovakia	168.	120 T Elmer Cox Road Greeneville, TN 37743, United States
131.	Robotnícka 1, Martin, 036 80, Slovakia	169.	2317 Almond Road, Route 55 Industrial Park, Vineland, NJ 08360, United States
132.	Cesta prvih borcev 51, 8280 Brestanica, Slovenia	170.	3021 Taylor Drive, Asheboro, NC 27203, United States
133.	40 Philamere Road, Glenmore, Durban 4001, South Africa	171.	5750 Old Orchard Road, Ste 200, Skokie IL 60077, United States
134.	Polígono Industrial Heras, 239-242, 39792, Medio Cudeyo, Spain	172.	78 2 nd Avenue South Lester Prairie, MN 55354, United States
135.	Avenida el Norte de Castilla, 20, 47008 Valladolid (Valladolid), Spain	173.	208 Pinnacle Drive, Ste D, Romeoville, IL 60446, United States
136.	Avd. Del Sol 13 Torrejón de Ardoz, 28850 - Madrid, Spain	174.	1201 Windham Parkway, Suite D, Romeoville Illinois 60446, United States
137.	Carretera A-62, Burgos a Portugal, 34210, Duenas (Palencia), Spain	175.	6405 Commonwealth Drive SW, Roanoke, Virginia, 24018
138.	Carretera B.P. 2151 confluencia carretera C15, Sant Pere de Riudevitlles, 08776, Barcelona, Spain	176.	100 Development Ln., Winchester VA 22602, United States
139.	Carretera de Daganzo Km 3,450 - Polígono Industrial La Peña, Naves F1 a F8, 28806, Alcala de Henares (Madrid), Spain	177.	128 Corrugated Ln, Piney Flats TN 37686, United States
140.	Carretera Nacional 331 (Carretera de Malaga), Km.66,28, 14900, Lucena (Cordoba), Spain	178.	70 Outwater Ln., Floor 4, Garfield, NJ 07026, United States
141.	CL Sumoi 46-54 P.I., Clot de Moja, 08734 Olerdola, Barcelona, Spain	179.	800 Edwards Drive, Lebanon IN 46052, United States
142.	ctra. Madrid-Barcelona, Km. 28.300, Polig Ind, Fagober, Naves 6 y 7, 28802 Alcala de Henares, Madrid, Spain	180.	1300 Wilson Boulevard, Suite 1075, Arlington VA 22209, United States
143.	Parque Industrial Juan Carlos I, C/ Canal Crespo, 13 Almussafes 46440 (Valencia), Spain	181.	Plaza Independencia 811 PB, Montevideo, Uruguay

35. Subsequent events

There are no subsequent events after the reporting date which require disclosure.

Parent Company statement of financial position

At 30 April 2019

	Note	2019 £m	2018 £m
Assets			
Non-current assets			
Intangible assets	3	50	50
Property, plant and equipment	4	2	2
Investments in subsidiaries	5	3,618	2,152
Deferred tax assets		40	50
Other receivables	6	2,176	2,334
Derivative financial instruments	9	12	15
Total non-current assets		5,898	4,603
Current assets			
Trade and other receivables	6	544	897
Cash and cash equivalents		81	153
Derivative financial instruments	9	35	44
Total current assets		660	1,094
Total assets		6,558	5,697
Liabilities			
Non-current liabilities			
Borrowings	8	(2,100)	(1,669)
Employee benefits	10	(20)	(6)
Other payables	7	(147)	(405)
Derivative financial instruments	9	(13)	(35)
Total non-current liabilities		(2,280)	(2,115)
Current liabilities			
Borrowings	8	(234)	(318)
Trade and other payables	7	(162)	(187)
Income tax liabilities		(2)	(3)
Derivative financial instruments	9	(16)	(24)
Total current liabilities		(414)	(532)
Total liabilities		(2,694)	(2,647)
Net assets		3,864	3,050
Equity			
Issued capital	11	137	107
Share premium account	11	2,236	1,260
Reserves	11	1,491	1,683
Shareholders' equity		3,864	3,050

The Company made a profit for the year of £24m (2017/18: profit of £825m) including the recognition of intra-group dividends.

Approved by the Board of Directors of DS Smith Plc (company registered number 1377658) on 12 June 2019 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 2019

	Share capital £m	Share premium £m	Hedging reserve £m	Own shares £m	Merger relief reserve £m	Retained earnings £m	Total equity £m
At 30 April 2017	95	728	(22)	(4)	-	969	1,766
Profit for the year	-	-	-	-	-	825	825
Actuarial gain on employee benefits	-	-	-	-	-	18	18
Cash flow hedge movements	-	-	18	-	-	-	18
Income tax on other comprehensive income	-	-	(3)	-	-	(4)	(7)
Total comprehensive income	-	-	15	-	-	839	854
Issue of share capital	12	532	-	-	32	-	576
Employee share trust	-	-	-	3	-	(7)	(4)
Share-based payment expense (net of tax)	-	-	-	-	-	15	15
Dividends paid ¹	-	-	-	-	-	(157)	(157)
Other changes in equity in the year	12	532	-	3	32	(149)	430
At 30 April 2018	107	1,260	(7)	(1)	32	1,659	3,050
Profit for the year	-	-	-	-	-	24	24
Actuarial loss on employee benefits	-	-	-	-	-	(18)	(18)
Cash flow hedge movements	-	-	(9)	-	-	-	(9)
Income tax on other comprehensive income	-	-	2	-	-	2	4
Total comprehensive (expense)/income	-	-	(7)	-	-	8	1
Issue of share capital	30	976	-	-	-	-	1,006
Employee share trust	-	-	-	1	-	(8)	(7)
Share-based payment expense (net of tax)	-	-	-	-	-	1	1
Dividends paid ¹	-	-	-	-	-	(187)	(187)
Other changes in equity in the year	30	976	-	1	-	(194)	813
At 30 April 2019	137	2,236	(14)	-	32	1,473	3,864

1. Refer to note 9 to the consolidated financial statements for details of dividends paid.

Notes to the parent Company financial statements

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 with the exception of certain financial instruments and employee benefit plans that are stated at their fair value and share-based payments that are stated at their grant date fair value.

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:

- IAS 24 *Related Party Disclosure* in respect of transactions entered with wholly owned subsidiaries;
- 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*.

The Company has adopted the following new accounting standards, amendments or interpretations as of 1 May 2018:

- IFRS 15 *Revenue from Contracts with Customers*;
- IFRS 9 *Financial Instruments*;
- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*; and
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*.

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, 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, and for leasehold improvements are over the period of the lease.

(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.

(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.

1. Principal accounting policies continued

(g) Employee benefits continued

(ii) Share-based payment transactions continued

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 the income statement, 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

The cost of shares held in the employee share trust is deducted from equity. 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 retained earnings.

(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.

(k) Accounting judgements and key sources of estimation uncertainty

There are no significant accounting judgements and estimates applied in preparing the Company's account except for the impairment testing of amounts owed by subsidiary undertakings. When measuring the potential impairment of receivables from subsidiaries forward looking information based on assumptions for the future movement of different economic drivers are considered.

2. Employee information

The average number of employees employed by the Company during the year was 283 (2017/18: 260).

	2019 £m	2018 £m
Wages and salaries	26	21
Social security costs	4	3
Pension costs	1	1
Total	31	25

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	Other intangibles £m	Intangible assets under construction £m	Total £m
Cost				
At 1 May 2018	46	3	14	63
Additions	3	2	7	12
Transfers	16	-	(16)	-
At 30 April 2019	65	5	5	75
Amortisation				
At 1 May 2018	(13)	-	-	(13)
Amortisation charge	(12)	-	-	(12)
At 30 April 2019	(25)	-	-	(25)
Carrying amount				
At 1 May 2018	33	3	14	50
At 30 April 2019	40	5	5	50

4. Property, plant and equipment

	Leasehold improvements £m	Plant and equipment £m	Total £m
Cost			
At 1 May 2018	2	3	5
Additions	-	-	-
Transfers	1	(1)	-
At 30 April 2019	3	2	5
Depreciation			
At 1 May 2018	(1)	(2)	(3)
Depreciation charge	-	-	-
At 30 April 2019	(1)	(2)	(3)
Carrying amount			
At 1 May 2018	1	1	2
At 30 April 2019	2	-	2

5. Investments in subsidiaries

	Shares in Group undertakings £m
At 1 May 2018	2,152
Additions	1,466
At 30 April 2019	3,618

The Company's principal trading subsidiary undertakings at 30 April 2019 are shown in note 34 to the consolidated financial statements. Refer to note 30 to the consolidated financial statements for details of the acquisitions made in the current year.

6. Trade and other receivables

	2019		2018	
	Non-current £m	Current £m	Non-current £m	Current £m
Amounts owed by subsidiary undertakings	2,176	531	2,334	892
Other receivables	-	-	-	1
Prepayments and accrued income	-	13	-	4
	2,176	544	2,334	897

7. Trade and other payables

	2019		2018	
	Non-current £m	Current £m	Non-current £m	Current £m
Trade payables	-	26	-	18
Amounts owed to subsidiary undertakings	147	88	405	130
Other tax and social security payables	-	13	-	11
Non-trade payables, accruals and deferred income	-	35	-	28
	147	162	405	187

Non-current amounts owed to subsidiaries include £147m (30 April 2018: £402m), which are subject to interest at rates based on LIBOR or EURIBOR, are unsecured, and are repayable between 2021 and 2025.

8. Borrowings

	2019		2018	
	Non-current £m	Current £m	Non-current £m	Current £m
Bank loans and overdrafts	-	179	-	160
Medium-term notes and other fixed-term debt	2,100	55	1,669	158
	2,100	234	1,669	318

Disclosures in respect of the Group's 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	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Derivatives held to:						
Manage the interest rate and currency exposures on business activities, borrowings and net investments	12	12	(8)	(35)	4	(23)
Derivative financial instruments included in net debt	12	12	(8)	(35)	4	(23)
Derivatives held to hedge future transactions						
Energy costs	35	47	(21)	(24)	14	23
Total derivative financial instruments	47	59	(29)	(59)	18	-
Current	35	44	(16)	(24)	19	20
Non-current	12	15	(13)	(35)	(1)	(20)
	47	59	(29)	(59)	18	-

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.

	2019 £m	2018 £m
Present value of funded obligations	(1,080)	(1,022)
Present value of unfunded obligations	(6)	(7)
Fair value of scheme assets	1,036	1,022
Total IAS 19 deficit, net	(50)	(7)
Allocated to other participating employers	30	1
Company's share of IAS 19 deficit, net	(20)	(6)

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.

The closing merger relief reserve of £32m relates to the shares issued in consideration to the sellers of EcoPack/EcoPaper. Further details are included in note 23 to the consolidated financial statements.

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. At 30 April 2019, the Trust held 1.1m shares (30 April 2018: 0.4m shares). The market value of the shares at 30 April 2019 was £4.1m (30 April 2018: £2.0m). Dividends receivable on the shares owned by the Trust have been waived.

As at 30 April 2019, the Company had distributable reserves of £1,459m (30 April 2018: £1,651m).

12. Cash and cash equivalents

Included within cash and cash equivalents is £nil (30 April 2018: £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 2019, these guarantees amounted to £5m (30 April 2018: £6m).

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 32 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

	2015 (restated) ¹ £m	2016 (restated) ¹ £m	2017 (restated) ¹ £m	2018 (restated) ¹ £m	2019 £m
Continuing operations					
Revenue	3,603	3,858	4,540	5,518	6,171
Operating profit²	307	347	405	492	631
Amortisation	(44)	(49)	(63)	(90)	(114)
Share of (loss)/profit of equity-accounted investments before adjusting items, net of tax	-	(1)	3	5	9
Net financing costs before adjusting items	(38)	(47)	(56)	(62)	(71)
Profit before taxation and adjusting items	225	250	289	345	455
Acquisitions and disposals	(2)	5	(7)	(28)	(32)
Other adjusting items	(46)	(92)	(55)	(57)	(73)
Profit before income tax	177	163	227	260	350
Adjusted earnings per share²	20.7p	22.9p	27.3p	30.7p	33.3p
Dividends per share	10.6p	11.9p	14.1p	14.4p	16.2p
Return on sales ²	8.5%	9.0%	8.9%	8.9%	10.2%
Adjusted return on average capital employed ^{2,3,4}	14.1%	14.7%	14.3%	13.7%	13.6%

1. Restated to reflect the rights issue during the financial year, the adoption of IFRS 15 *Revenue from Contracts with Customers* as disclosed in note 1(a) (iii), and the presentation of the Plastics division as discontinued operations.

2. Before amortisation and adjusting items.

3. Adjusted return on average capital employed is defined as operating profit before amortisation and adjusting 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, biological assets 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

3 September 2019	Annual General Meeting
3 October 2019	Ex-dividend date for final dividend
1 November 2019	Payment of final dividend
5 December 2019*	Announcement of half-year results for the six months ended 31 October 2019
9 April 2020*	Ex-dividend date for interim dividend
1 May 2020*	Payment of interim dividend
11 June 2020*	Announcement of full-year results for the year ended 30 April 2020

* 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 on www.londonstockexchange.com. DS Smith's ticker symbol is SMDS. It is recommended that you consult your financial adviser and verify information obtained before making any investment decision.

Registrar

Please contact the Registrar 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 Registrar provides online 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 online without having to call or write to the Registrar.

Dividends

Shareholders who wish to have their dividends paid directly into a bank or building society account should contact the Registrar. In addition, the Registrar is now able to pay dividends in 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 Registrar to request further information.

Share dealing services

The Registrar offers 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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Other information

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.

This report contains certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this report and DS Smith Plc undertakes no obligation to update these forward-looking statements. Nothing contained in this report should be construed as a profit forecast.

Pages 1 to 96 consist of a strategic report and directors' report (including the directors' remuneration report) that have been drawn up and presented in accordance with and in reliance upon applicable English company law. The liability of the Directors in connection with such reports shall be subject to the limitation and restrictions provided by, and shall be no greater than is required by, applicable English company law.



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