DS Smith

Annual report & accounts 2018

Redefining packaging for a changing world

Strategic report

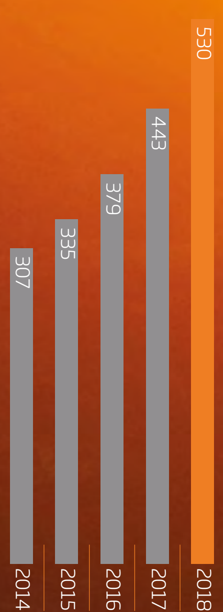
Governance

Financial statements

Highlights

Adjusted operating profit (£m)[1]

£530m



Return on sales (%)[1]

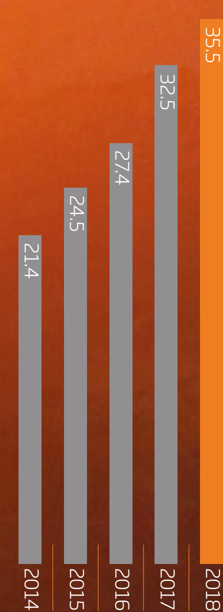
9.2%

ROACE (%)[1]

14.1%

Adjusted earnings per share (p)[1]

35.5p



1. Before adjusting items and amortisation.

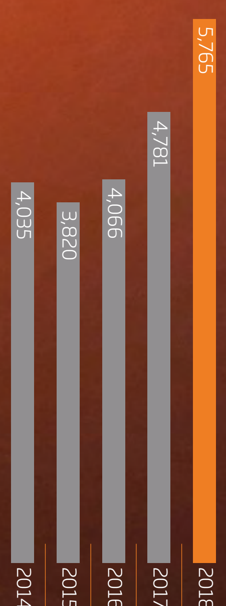
The above are non-GAAP performance measures - see note 32 to the financial statements.

Every day we deliver for our stakeholders by redefining packaging for a changing world.

As a leading provider of corrugated packaging, we create sustainable value by working in balance to develop our business, our people and our environment.

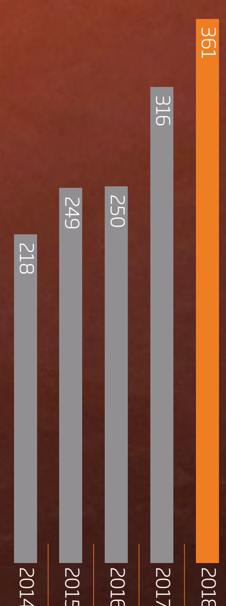
Revenue (£m)

£5,765m



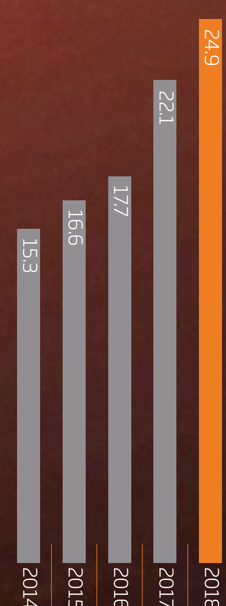
Operating profit (£m)

£361m



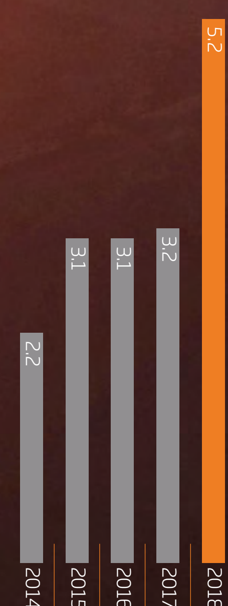
Reported earnings per share (p)

24.9p



Corrugated box volume growth (%)

5.2%



Our business

We provide sustainable packaging solutions that help customers respond to some of their biggest challenges. Our packaging, design and production is supported by paper making and recycling operations.

Packaging

We are a leading international packaging company, delivering leading edge products and the highest quality service across Europe and north America. Our product portfolio includes consumer packaging, displays and promotional packaging, specialist e-commerce packaging, customised protective packaging, transit packaging and industrial packaging, providing solutions for each market requirement.

We partner with customers to develop innovative packaging solutions, ensuring their products achieve more for less. As supply cycle strategists, 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 audit and creative design. Corrugated packaging is fully recyclable and largely made from recycled material, which means the packaging we produce helps our customers 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.

Paper

We are a leading global manufacturer of sustainable corrugated case material (CCM), which is the paper used by the packaging industry for conversion into board for making corrugated boxes. We also make some specialist paper grades such as plasterboard liner, all of which are made from recyclable material.

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

Paper is readily transportable and is traded globally.

We operate eight paper mills in Europe principally dedicated to the production of recycled CCM and two mills in the US, one of which makes recycled CCM and the other virgin kraftliner from sustainable forest products. We also have two small mills in Europe making specialist papers.

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. 5. million tonnes annually and are one of the leading full recycling and waste management companies.

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

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

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.

Plastic packaging is a specialist market with numerous niche products.

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

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

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

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

Our vision

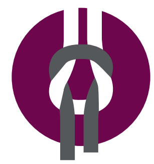
To be the leading supplier of sustainable packaging solutions.

Our culture

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

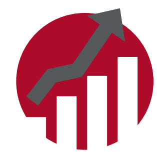
Be caring
We take pride in what we do and we care about our customers, our people and the world around us.

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 dssmith.com/people

c. 22,800 employees

Over 200 manufacturing sites in

34 countries

Over 16 billion boxes per year

c. 2,900 employees

10 countries

c. 2.9 million tonnes CCM per annum

c. 800 employees

14 countries

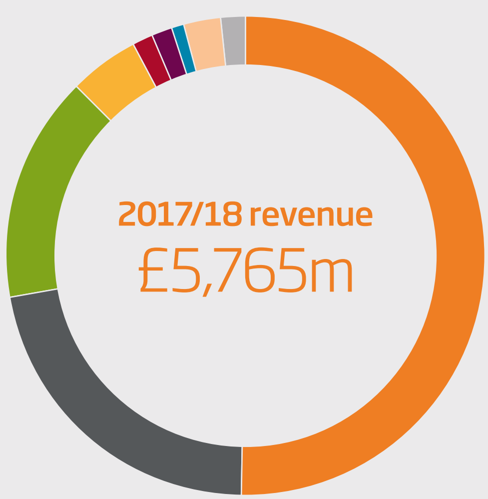
26 recycling depots

c. 2,000 employees

13 countries

25 sites

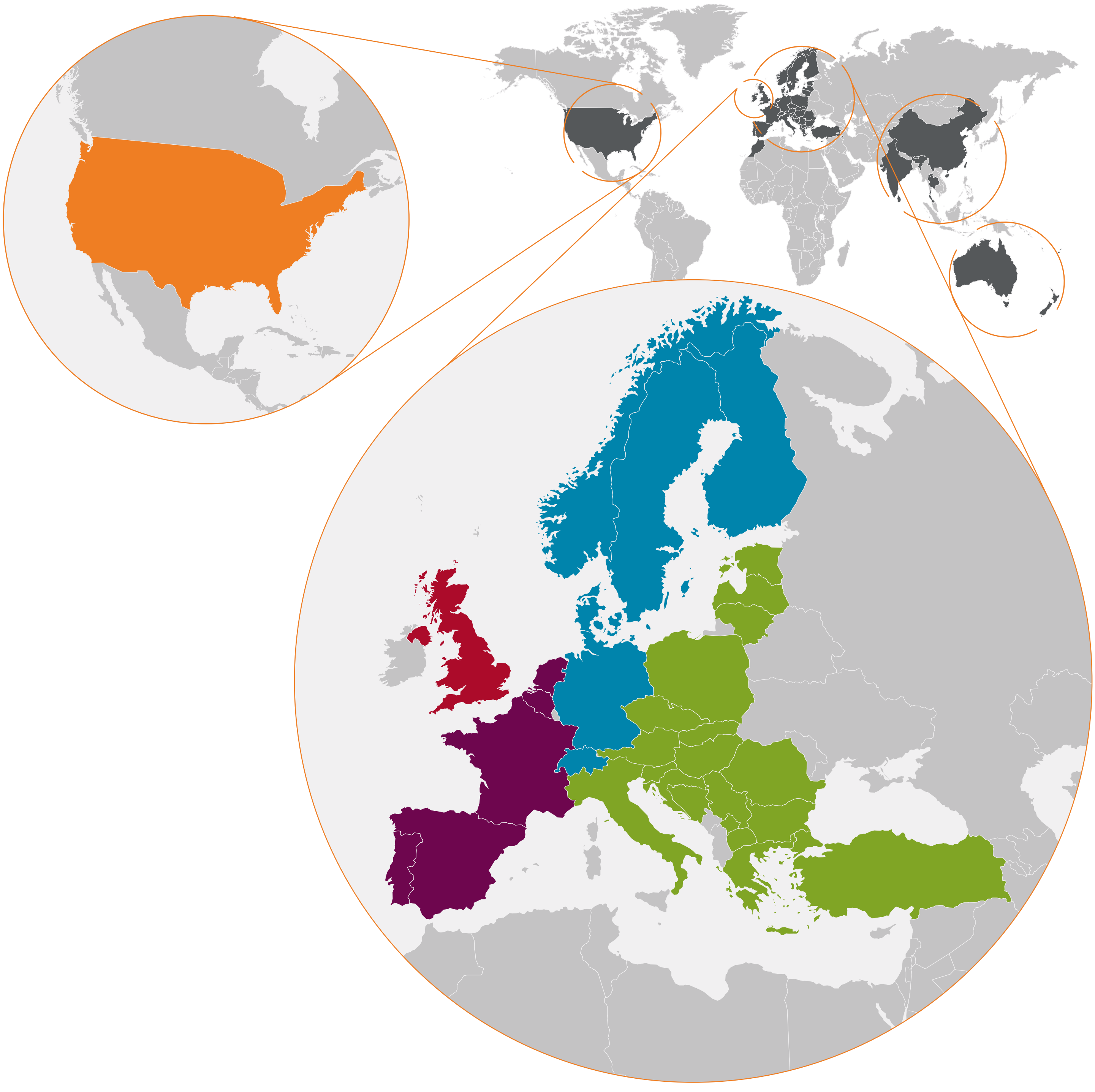
How our revenue is spent



- Cost of sales: **£2,992m**
- Labour costs: **£1,194m**
- Other costs: **£881m**
- Depreciation, amortisation and impairment: **£262m**
- Restructuring and investment: **£75m**
- Financing: **£74m**
- Tax: **£33m**
- Dividends: **£157m**
- Value retained by shareholders: **£97m**

Our global footprint

A leading provider of corrugated packaging supported by paper and recycling operations.



UK

£1,078m
2017/18 revenue

c. 5,100
Employees

United Kingdom

Western Europe

£1,450m
2017/18 revenue

c. 6,700
Employees

Belgium, France, Netherlands, Portugal and Spain

DCH and Northern Europe

£1,083m
2017/18 revenue

c. 5,000
Employees

Denmark, Finland, Germany, Norway, Sweden and Switzerland

Central Europe and Italy

£1,429m
2017/18 revenue

c. 8,200
Employees

Austria, Bosnia-Herzegovina, Bulgaria, Croatia, Czechia, Estonia, Greece, Hungary, Italy, Latvia, Lithuania, Macedonia, Poland, Romania, Serbia, Slovakia, Slovenia and Turkey

North America

£379m
2017/18 revenue

c. 1,500
Employees

United States

Plastics

£346m
2017/18 revenue

c. 2,000
Employees

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.

Our corrugated packaging business operates in five geographic segments. Recycling and paper form an integrated part of our global supply chain operations.

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

37
countries worldwide

c. 200
packaging manufacturing sites

9
Impact Centres

c. 28,500
people

33
PackRight Centres

12
paper mills

28
different languages

c. 8bn
square metres of corrugated board per annum

Acquisition – a platform for growth in the US

On 25 August 2017 we completed the acquisition of Interstate Resources and in doing so created our North America Packaging and Paper (NAPP) division. This acquisition followed consistent customer feedback that they also required the quality, service and innovative packaging solutions that we provide in Europe to be provided in the US too. Europe in general, and DS Smith in particular, has been at the forefront of retail ready packaging which has allowed our fast-moving consumer goods customers to both reduce their costs and also to drive sales in an increasingly competitive multi-channel retail environment. The US packaging market is starting to recognise and adopt a similar approach and we believe the leadership and credibility we have with our customers will provide significant opportunities for profitable growth over the coming years. The acquisition of Interstate Resources in August 2017 and the acquisition of Corrugated Container Corporation in June 2018 provides us with 16 packaging sites across the eastern United States, well located for our global customers. In addition, we have integrated Interstate Resources' two paper mills into our global supply engine allowing us to optimise our short paper position on a transatlantic basis, which has already contributed significant value to our business. We have been delighted with the contribution of NAPP and in May 2018 upgraded our synergies for a second time to $35 million.

17 **of our top 20 European customers have US operations**

Every day we deliver – no matter where in the world our customers are

Performance packaging opportunity

Performance packaging is our way of describing our approach to making boxes specified according to the strength of box required, not the materials used to construct it. By focusing on the box strength, we have been successful in reducing the weight of paper used, which is beneficial to both us and our customers. In the US, the weight of corrugated packaging is around 25 per cent heavier than that used in Europe and around 50 per cent heavier than that used in the UK. Our US customers have been extremely responsive to this concept which has been a contributor to the excellent volume.

Average board weight (gsm)

United Kingdom	430
Europe	525
United States	650

Continuing to grow

We have grown strongly in Europe and the US, with volume growth for corrugated boxes 5.2 per cent in 2017/18 and north America ahead of this rate. On 1 June 2018, we made a small additional acquisition in the US comprising four packaging sites with scope to grow their output.

Annual box volume growth (%)

2016	3.1
2017	3.2
2018	5.2

We are creating scale within DS Smith to extend our reach further and faster

Expertise in e-commerce

We are working with some of the world's biggest brands to navigate new ways of selling online and being the provider to the 'ebay generation' through our new online packaging store – epack. As e-commerce grows we are helping solve the biggest challenges including saving the empty space that is wasted in online shopping deliveries.

45%
Average void space in e-commerce packaging

We have developed "Made2fit", an innovation to tackle the e-commerce challenge of void space. Creating the right-sized pack lowers costs for e-retailers by reducing both operational and shipping cost, saving storage space, reducing labour costs and order administration and significantly cutting assembly and packing times. It also reduces product movement, helping to reduce damage and hence the rate of product returns. The resulting process helps customers prepare for omni-channel retailing, i.e. packaging that can be used in any retail environment.

Every day we deliver – to help customers adapt and unlock new value

Expertise in high performance paper

We are investing in light-weight paper to make optimum packaging. Our recently acquired mill in Romania specialises in such paper, which will maximise our opportunity to deliver performance packaging to customers in the eastern Europe region.

Showcasing innovation

We have a network of Impact Centres and PackRight Centres throughout Europe. Our Impact Centres are designed to provide inspiration to customer and retailers, demonstrating what is possible with well designed packaging. Our PackRight Centres are where we work in detail in a multi-disciplinary team with our customers to develop the optimum packaging for them.

6
New PackRight Centres opened in 2017/18

42
PackRight and Impact Centres throughout Europe

Our investments in innovation are helping customers solve big challenges, from performance to waste reduction

Every day we deliver – in sustainable and responsible ways

Sustainability is at the heart of what we do

- 14 day box-to-box cycle – with materials re-used seven times or more – www.dssmith.com/paper/insights/blogs/2017/11/box-to-box-in-14-days.
- Corrugated packaging is a fully recyclable product.
- Fibre-based packaging has the highest recycling rate of any packaging material proving that, unlike plastic alternatives, it is both recyclable and recycled in practice.
- 95 per cent of our sites have a recognised chain of custody certification such as FSC, PEFC or SFI and we are committed to sourcing only sustainable fibre.

Sustainable forestry

We acquired forestry assets in 2017, located in south east Georgia. With a total area of c. 18 thousand acres, they are managed on a sustainable basis, with at least one tree planted for each one felled. Georgia's forest area has remained stable over the past 50 years at c. 24 million acres, demonstrating the sustainable management in place in the state.

c. 18,000 acres
sustainably managed forest

Inspired by The Power of Less®, we redefine packaging, fit for a modern shared world

Solving the coffee cup challenge

With one in five people visiting one of the UK's c. 20,000 coffee shops every day, the non-recyclability of paper coffee cups has regularly been in the headlines. DS Smith has taken leadership in order to solve this increasingly unacceptable situation, with raised public awareness of landfill and the failure to reuse scarce resources. That is why DS Smith is committed to providing a solution for how these cups could be recycled.

Following recent trials, we have announced that our ground breaking UK paper mill has the capacity to recycle up to 2.5 billion coffee cups – the amount used in the UK every year.

We have put in place solutions to recycle all UK coffee cups at our mill but we still have some challenges to overcome, because there needs to be improvements in the infrastructure to segregate and collect coffee cups from consumers all over the UK.

That is why DS Smith is working with the coffee cup supply chain, policy makers, the recycling industry and coffee lovers across the UK to build a sustainable, long-term recycling solution. We can then potentially extend the model further.

Stepping up

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.

Performance

2017/18 has been a year of strong growth for DS Smith, both organically and through acquisition.

The organic box volume growth of over 5 per cent is a material step up from prior years and demonstrates how we are succeeding with a compelling offering for multinational customers. We are gaining market share along with taking advantage of the more positive economic environment in Europe. That growth in market share is in part due to the increased importance of display packaging and e-commerce packaging – areas in which we have consistently invested in and have a leadership position.

This year saw our first move into the corrugated packaging market in the US, by an acquisition in August 2017, and I am delighted by the progress that has been made. It was a bold move, but one that we knew to be backed up by demand from customers in Europe, who also operate in the US and want the opportunity to buy our type of packaging there too. The reaction from local customers in the US has been excellent also, with growth higher in the US than we have seen in Europe. Our new employees in the US and our established integration team have all done a wonderful job in making a success of the acquisition and the progress to date is an excellent platform for the coming year.

When we invest, financial discipline is paramount and I am pleased to report that we have once again achieved all our financial targets, with our return on average capital employed at around the top of our range, at 14.1 per cent.

Acquisition of Europac

On 4 June 2018, we announced the proposed acquisition of Papeles y Cartones de Europa, S.A., known as Europac, a leading western European integrated packaging business. The acquisition has a highly compelling strategic rationale and we expect that it will create significant value for customers and consistent and attractive returns for DS Smith shareholders. The acquisition will be financed through a combination of a rights issue and new debt. All shareholders will receive details setting out how they can participate in the rights issue, in separate documentation.

Dividend

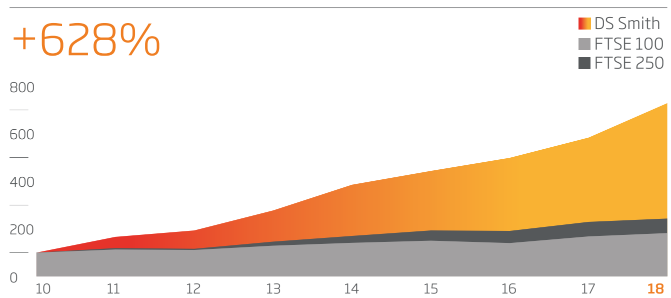
For the year 2017/18, the Board recommends a final dividend of 9.8 pence, which reflects the growth in the business and is in line with our policy of dividend cover of 2.0 to 2.5 times earnings. The dividend will be payable to all shareholders on the record date, including in respect of shares to be issued in the rights issue.

Delivering sustainable value

Since May 2010, under current leadership, the business has consistently delivered growth and returns. Total shareholder return, which is a measure of growth in the share price combined with the benefit of reinvested dividends, has grown 628 per cent, considerably out-stripping the FTSE 100 at 82 per cent and the FTSE 250 at 143 per cent over the same period.

In December 2017 DS Smith Plc moved up into the FTSE 100. While this is a reflection of our growth rather than an aim in itself, I am very proud of the business, which has grown in market capitalisation more than six times over in the period since I became Chairman. The credit belongs to each and every person who works for DS Smith, from the leadership team to the factory floor, all of whom have played their part.

Total shareholder return



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. That hard work has delivered these excellent results, with more customers than ever looking to DS Smith for their sustainable packaging solutions. The Board has great confidence in the future.

Gareth Davis
Chairman

Our differentiators

We are dedicated to creating packaging that helps our customers sell more, that reduces their costs and that manages their business risks, while providing great service, quality and innovation.

We are able to do so because of the scale of our business and our investment in innovation and process improvement.

Our scale

Enables us to serve large customers efficiently on a multinational basis

- Our corrugated packaging presence throughout Europe and in the US enables us to serve customers locally and with short lead-times.
- Long-standing relationships with a wide range of multinational fast-moving consumer goods (FMCG) customers.

Investment in innovation

Adds value to our customers

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

Total value approach

Aligns us with our customers who seek to maximise their efficiency

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

Our people

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

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

Sustainability is at the heart of our business

We have long recognised the importance of the circular economy.

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

We help our customers achieve more

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

Redefining packaging for tomorrow

At DS Smith, we are ambitious and excited about the future.

Miles Roberts – Group Chief Executive

Your corporate purpose is to "redefine packaging for a changing world" – what does that mean?

New technology and the massive growth in e-commerce are fundamentally changing the way we buy and use goods and services. This represents a huge opportunity for brands and organisations to deliver in new ways. But the opportunity also brings challenges. From complexity and cost in supply chains, to urban congestion and waste, there is a need for a new approach to packaging.

At DS Smith, we are ambitious and excited about the future. We are strategists that bring together an understanding of how to meet the massive opportunities for e-commerce, with the knowledge of how to deliver a more sustainable solution that meets changing societal needs. We are redefining packaging for a changing world. A decade of unprecedented growth in the industry means we do not just tell but show customers how to respond to change with speed and scale. Our integrated approach enables us to unlock 360 degree solutions that would otherwise be out of reach. Sustainability is at the heart of our business and we believe we can help our customers to grow, but not at the cost of the environment.

How would you sum up the 2018 financial year?

The past year has been a success both with regard to the existing business in Europe and the newly acquired business in the US. In Europe, we have seen our sales of boxes increase in volume by over 5 per cent year-on-year, which compares to an annual growth rate of c. 3 per cent for the prior three years. That tells me that we are getting things right for customers. We acquired our first US corrugated packaging business in August 2017 and I am delighted with the progress. Growth there has been higher than in Europe and the integration has gone smoothly too.

This success has not happened by accident. Our people are stepping up to the challenge that being a larger group presents. In addition, our business model is designed to be sustainable, both from an environmental perspective as well as a business perspective, which is important for all our stakeholders.

Will corrugated packaging become more popular as consumers become increasingly aware of sustainability issues?

We recognise that packaging is an issue for consumers. Corrugated packaging has the advantage of being fully and readily recyclable and largely made from recycled material, so we are working with customers to maximise the opportunities to use this versatile material. That said, the issue of packaging is complex, particularly when you consider the benefit of packaging in reducing waste in the supply chain. Multi-use plastic packaging, for example, can be very environmentally sustainable.

As one of the largest paper recyclers in the UK, we have invested in research into the recycling of single-use coffee cups, which is a major issue at present. Our experts found that coffee cups can be recycled in the normal waste stream, although there remain barriers to achieving this at present, for example around food contamination and the collection and recycling infrastructure. We are working with others in the industry more broadly to see how these barriers can be reduced and so play our part in reducing the number of single-use coffee cups that go to landfill.

Many of your major customers, such as FMCG businesses, are under pressure in mature markets such as Europe and the US. How are you able to succeed in this environment?

Major customers are under pressure, so they need a supplier partner who can create real value for them. We can do so by using our expertise and innovation to help them reduce their overall costs, while also aiming to drive their sales. We have the international reach to do so on a multinational basis and of course our product is inherently sustainable. Therefore customers are working more with big suppliers, like us, who can offer a high quality packaging solution for them.

How are you planning to grow in the US?

We have something different to bring to our US customers, in particular retail-ready packaging. This type of packaging is well developed in Europe and less so in the US, so we have an advantage versus competitors, along with our technology around making corrugated packaging from light-weight paper. We therefore have a strong commercial position. That has been seen in the excellent customer response in the US, which exceeded our initial expectations.

In addition, we expect to expand further in the US. The acquisition of four further packaging sites in June 2018, will help us to build our network further.

What has been your highlight of the year?

Gaining entry to the FTSE 100 was a milestone, but a consequence of success rather than an aim in itself. We now expect more scrutiny, so it is up to us to demonstrate leadership.

In January 2018 we held a senior managers conference at which we committed to stepping up and taking the business forward to the next level. It was a pleasure to see the energy of our senior leaders and their enthusiasm to continue to build on the success of the past year. That commitment among senior management is also reflected through the organisation with our employee charter, which we agreed with our union groups, to establish ways of working throughout the organisation.

Our strategy

To be the leader in sustainable packaging solutions

Our strategy is balanced across our four key stakeholders of employees, customers, communities and investors. It is:

To delight our customers

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

Read more on page 20

To realise the potential of our people

- Ensure 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 22

To lead the way in sustainability

- Building sustainability into our decisions
- Growing our recycling platform

Read more on page 26

To double our size and profitability

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

Read more on page 30

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

Bringing solutions to challenges from a changing consumer landscape

The consumer landscape is changing – more e-commerce means more packaging in the home. Changing shopper habits mean more frequent and smaller shopping trips. Last-minute decision making means a greater emphasis on in-store product awareness. Rising raw material costs mean food companies are constantly looking for greater efficiencies. Sustainability matters – consumers want packaging that does not litter the planet.

Market drivers	The impact
Retail and e-retail • High growth in e-commerce. • Traditional retail in a state of flux, with large format stores in decline and discount and convenience stores rising.	• Packaging becomes designed for e-commerce fulfilment at the outset, including being suitable for all elements of the supply chain and ultimately presentation to consumers as the packaging that is delivered to the home. • Packaging has to be adaptable to the needs of different store formats. • An increased importance of product presentation in the retail environment, which requires higher quality packaging.
Brands • Large brands, while clearly still significant, are being challenged by micro-brands, for example those sold direct to customers on subscription. • Consumers seek a more personalised or customised product.	• Packaging can help to differentiate brands, large and small. • Packaging can offer personalisation. • Packaging can provide links to information about the product, both enhancing the product and providing details about its provenance.
Social pressure for zero packaging waste • Packaging is still widely perceived as a problem, including excess packaging, voids in e-commerce, packaging that ends up as litter and unrecyclable materials that are badged as recyclable, for example disposable coffee cups.	• Packaging is required that is better designed to minimise void space and deliver value across the whole supply chain. • Recycled and recyclable packaging will be in greater demand, so long as this can be demonstrated and communicated.
Alternative materials • Material costs are increasing. Without innovation, this drives up the cost of packaging.	• Innovation is required to produce paper with higher performance (strength) without a significant increase in cost.
Evolution of customer base • Customers are increasingly considering new routes to market, particularly in e-commerce where they may now need to participate in packaging products directly. • Consolidation among bricks-and-mortar retailers, accelerating the process towards omni-channel retailing.	• Packaging businesses need to be able to offer innovative solutions to customers for e-commerce, in particular omni-channel retailing. • Packaging works within complex supply chains to drive value.
Changing demographics • Consumers are more interested in making their brand choice inside a store, rather than driven by advertising viewed at home, online or through traditional media.	• Packaging needs to be more visually appealing and facilitate the primary product being chosen in store. • Point of sale packaging, i.e. temporary displays commonly used for promotional products which provide flexibility for retailers.
Legislation • Potential legislation in a number of areas, e.g. EU legislation on the "circular economy" and specific rules around contamination of fibre.	• Packaging businesses will be required to take a more sophisticated approach on a pan-European basis, for fibre collection and recycling.
Technology • Potential developments in paper.	• Packaging businesses will be required to invest more in technology around fibre use in the recovery, pulping and paper making fields.

Our market environment

The European corrugated packaging market is fragmented, with the top five corrugated packaging producers estimated to comprise c. 40 per cent of the total European market.

The US corrugated packaging market, by way of contrast, is substantially consolidated with the top five corrugated packaging producers comprising c. 65 per cent of the US market.

Plastic packaging is a global business with numerous niche products.

The DS Smith response

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

Focus on multinational capability

We continue to build our coverage across Europe and also in the US, in order to serve customers who require a multi-national solution for their packaging.

Focus on e-commerce packaging and point of sale

We are further building our expertise in this area with recruitment and allocation of resource within the business and investment in innovation to support major customers.

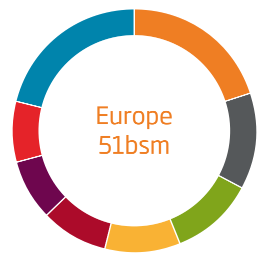
Focus on innovation, research and development

We are continuing our investment in Impact Centres and PackRight Centres with six opened in 2017/18 and more planned for 2018/19. We also have a collaboration with a research institute in Sweden, associated with Stockholm University, to lead the industry in paper science.

Implementation of our performance packaging programme

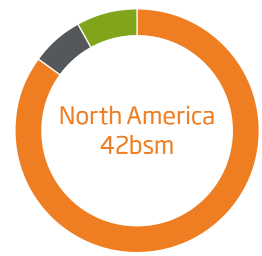
We are continuing our focus on optimal use of fibre in packaging, both within our packaging business and in collaboration with our paper manufacturing operations.

Corrugated packaging market by country



Germany	20%
Italy	13%
France	11%
Spain	10%
UK	9%
Poland	8%
Turkey	8%
Other	21%

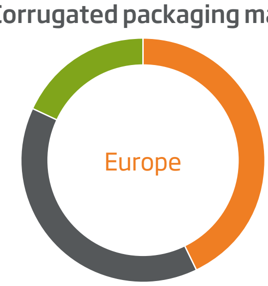
Source: ICAA 2017



US	85%
Canada	7%
Mexico	8%

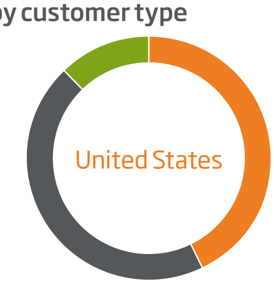
Source: ICAA 2017

Corrugated packaging market by customer type



FMCG and agriculture	43%
Industrial	39%
Other consumer	18%

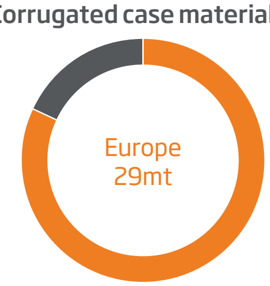
Source: FEFCO 2016



FMCG and agriculture	43%
Industrial	45%
Other consumer	12%

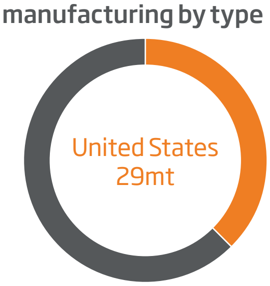
Source: FBA 2017

Corrugated case material (CCM) manufacturing by type



Recycled CCM	24
Kraftliner	5

Source: CEPI



Recycled CCM	11
Kraftliner	18

Source: FBA 2017: production for domestic consumption

Notes: bsm – billion square metres
mt – million tonnes
CCM – corrugated case material

To become the leading supplier of sustainable packaging

What we use

Human capital – our people and values

We employ approximately 28,500 people. We seek to develop our people through training and providing opportunity for new challenges. We have an employee engagement programme, OWN IT!, designed to align employees with the overall aims of the business. We maintain a close, constructive relationship with our European Works Council and have in place an Employee Charter.

We have a set of values that all employees are expected to follow in their interactions with other employees, customers, suppliers and their communities. We work to promote the application of these values through employee communications and celebrating our employees' success in demonstrating our values.

Financial capital

We are funded by a combination of shareholder equity, debt raised and cash flow generated by our operations, which is reinvested in the business. Our approach to capital allocation is driven by returns on capital, with all investments expected to achieve our target range in the medium-term. We target a net debt/EBITDA ratio of less than or equal to 2.0 and are committed to our investment grade credit rating.

Manufacturing and other physical assets

We have an extensive network of packaging manufacturing sites, paper mills, forestry assets, 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 customers, communities, capital providers, suppliers, governments and regulators.

The DS Smith brand is consistent across our business and seeks to bring together the different elements of the organisation under a consistent vision, purpose and set of values.

Intellectual capital

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

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 and then convert that paper 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 mill; all pulp is sourced from certified sustainable sources. 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 – supported by our values

Insight

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

Innovation

Innovation in packaging design can help customers sell more (such as SalesFront®), reduce costs (such as Trayzer®) or manage their risks (such as interlocking, non-tip systems). Our designers work with customers to create innovative packaging solutions to meet their requirements. Best practice is shared and designers are coordinated across all our regions.

We are also innovators in the use of light-weight corrugated board, in a programme called "PACE". Our proprietary technology to test the strength of corrugated board as it is manufactured means we can use the optimum paper weight required. In addition, we are developing innovative machine solutions that build boxes at high speeds, which can significantly reduce costs and improve efficiency for customers.

Manufacturing

We manufacture corrugated packaging, plastic packaging and paper to a high standard, expertly designed for its purpose. For corrugated packaging, we manufacture corrugated board, print, cut and glue the boxes, which are then shipped flat on pallets, ready for assembly and filling at our customers' factories. Plastic packaging is manufactured by us and supplied to our customers ready for filling.

Our paper mills manufacture corrugated case material (CCM) from old corrugated cases (OCC) and from pulp.

Design

Using our network of 33 PackRight Centres, we design packaging that fulfils our customers' requirements at all stages of their supply chain, including the manufacturing process, logistics and marketing. We work collaboratively and on a multi-disciplinary basis with our customers to come up with the optimum solution for them.

What we create

For our business

A supplier partner who helps our customers to sell more products, focused on efficiency across our customers' supply chains and who helps them achieve their own sustainability targets.

A supplier who customers want to work with – 5.2 per cent volume growth in corrugated box.

Returns to our equity and debt providers
Our total shareholder return has grown 628 per cent from 1 May 2010 to 30 April 2018. Our listed debt is investment grade credit rated and we are committed to maintaining that rating.

For our people

Opportunity – we encourage the identification of development needs and opportunities to build capability and develop strong talent pipelines at all levels in the organisation.

Supportive culture – an engaged workforce – our employee engagement statistic improved from 61 per cent to 69 per cent.

Employees share in the future of the Group – our international Sharesave scheme covers nearly all employees.

For our communities

Sustainable forestry – all forestry assets certified sustainable.

Leadership in solving sustainability problems e.g. coffee cups.

Supporting local charities through the DS Smith Charitable Foundation. £273,000 was donated in 2017/18.

We show above some of the non-financial impacts of the business. Please refer to the table on page 63 to see how we comply with the new Non Financial Reporting Disclosure requirements.

To delight our customers

We aim to delight our customers by offering great service, quality and innovation. We do this by delivering on all our commitments, further improving our quality standards and driving innovation, on a multinational basis.

We do this by

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

Our performance

In 2017/18 we delivered:

- Strong organic volume growth in box volumes
- Expanded our packaging capability in the US – enhancing our potential offering to multinational customers
- Six new PackRight Centres
- Continued roll-out of performance packaging – customer acceptance high

In 2018/19 we will:

- Prioritise investment and innovation in growth areas, in particular e-commerce and display packaging
- Continue to grow partnerships with our key customers in the US
- Open further Impact Centres and PackRight Centres, in Europe and the US
- Place additional focus on improving service levels
- Renew sales and our marketing approach to deliver a differentiated customer experience by investing in training and best-in-class materials

Our KPIs

On-time, in-full delivery

Definition

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

Target

97%

Why this is a KPI

Packaging is an essential part of an efficient supply chain. Therefore, delivery of a order on-time and in-full is a very important part of being a trusted partner to our customers.

2018 performance

This year, we have continued to strive for a higher service standard. The on-time in-full rate achieved remains short of our target and it remains a key area of focus. At the same time, we have seen other areas of success, for example the defect rate (measured in defects-parts-per million) has dropped in our packaging business by 28 per cent.

2016	92%
2017	93%
2018	93%

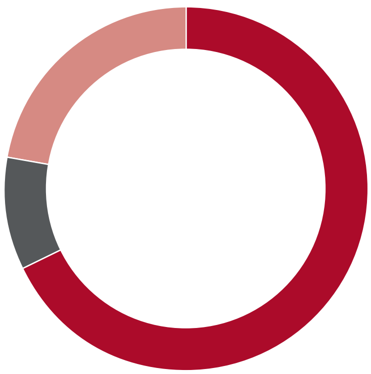
Our packaging customer profile

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

Long-standing partnerships with multinational customers drives value for both parties

- Volume growth among our multinational customers has been a consistent driver of Group growth, as large customers look for a co-ordinated approach to their packaging in Europe and beyond.
- 17 of our top 20 European customers also operate in the US. We think that, over time, the opportunity to co-ordinate the procurement of packaging in both Europe and the US will be attractive to customers.
- Long-standing supply partnerships drive value for both parties, as we can work together with customers to reduce their overall supply chain costs with innovative, efficient packaging.
- We have worked with many of our customers for over a decade and some for many decades.
- Our emphasis on FMCG customers means that the demand for our product is relatively consistent, as consumption of staple products tends to be less variable than discretionary items.
- FMCG customers also tend to change or promote their products frequently, which gives us the opportunity to introduce new innovation to our packaging and increase the value we add.
- We have a high quality diverse customer base which is not reliant on any single customer. Our largest packaging customer represents c. 2 per cent of Group revenue and our top-20 packaging customers comprise c. 13 per cent of Group revenue.

Our corrugated packaging customers by volume



FMCG and food	Other consumer related products	Other industrial
68%	10%	22%
• Grocery • Home and personal care • Beverages • Tobacco • Agriculture • E-commerce	• Pharmaceutical • Electronics • Automotive	• Machinery • Chemicals • Construction

Source: DS Smith analysis of 2018 corrugated box sales by volume

Our recycling customers

We provide recycling solutions to a range of retailers and other businesses. We are proud to serve some of Europe's best known organisations such as Aldi, Tesco, Primark, Auchan and IKEA as well as thousands of smaller scale companies across multiple sectors. Go to our case studies website (www.dssmith.com/recycling/insights/case-studies) to discover how our solutions are benefiting our customers, large and small.

Our plastic packaging customers

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

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

To realise the potential of our people

Engaging and energising our people is a key building block in our vision. Our values are at our core, serving as the common foundation for over 28,500 people across geographies and businesses, including newly acquired companies.

We do this by

- 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 capabilities

Our performance

In 2017/18 we delivered:

- 239 sites without a lost time accident
- Accident frequency rate of 2.8
- Management Standards launched to 3,500 managers
- Integration of c. 1,900 new employees from three acquisitions
- Launched personal development planning support for all employees

In 2018/19 we will:

- Continue and renew our strong focus on health and safety
- Continue to develop strong leadership and management capability
- Embed Management Standards into recruitment, promotion, assessment and development conversations for managers
- Invite all employees to share their opinions in an Employee Survey
- Increase the efficiency of people processes by enhancing and extending the use of our information systems

Our KPIs

Accident Frequency Rate (AFR)

Definition

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

Target

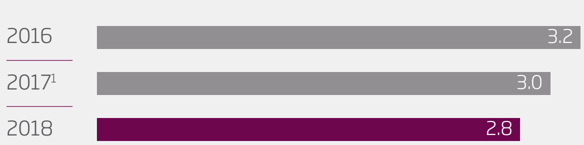
0 accidents

Why this is a KPI

At DS Smith 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 performance

We are pleased to see a reduction in LTAs and AFR, a result of the proactive measures put in place at mid-year.



1. On a comparative basis

Ensuring the safety of all

First and foremost, we live that commitment by promoting a safety culture throughout the Group; putting safety first on every meeting agenda and including it as an essential part of the induction of all new employees, contractors and agency workers and when anyone visits one of our sites.

Our standards and expectations for safety go beyond the legal requirements of the countries in which we operate and are modelled to drive world-class safety performance and to achieve our goal of zero accidents. As a result 239 of our locations achieved zero lost time accidents (LTAs) in 2017/18. Overall we are pleased with the reduction in our LTA rates and our accident frequency rates, however, by our exacting standards, we were disappointed by an increase in both the number, and severity, of accidents that happened in the mid-part of the 2017/18 year, which impacted our overall performance for this data collection period. Previously reported 2016/17 data has been updated to reflect all acquisitions during the financial year, therefore providing a direct comparison data set for 2017/18.

Health and safety key performance indicators	2017/18	2016/17 (comparative)	2016/17 (reported)	Variance
Total LTAs[1]	**126**	132	113	(4.5)%
AFR[2]	**2.8**	3.0	2.6	(6.7)%

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

Determined to return to a positive trend of accident reduction, in both number and severity, we have proactively taken steps to reduce risks and reinforce our policies, processes and safe systems of work as well as developing our safety culture. In 2017 we further upgraded our global health, safety and environmental management system, CERTUS, providing us with greater control and richer insight into our performance in these areas whilst also reducing the number of information systems in use across the Group. We continue to invest in all physical safety improvements such as machine guarding, safety equipment or segregation of vehicles and pedestrians. In addition, we are reinforcing how vital it is to keep actively focused on safety at all times by increasing the safety leadership skills of managers through training and involving all employees in identifying ways we could make our workplaces safer.

To increase safety leadership skills and to expedite the compliance with DS Smith's safety standards we have designed a bespoke development course for key managers. Starting with our recently acquired businesses in Iberia, south east Europe and the US, all transferring plant-responsible managers have attended the Safety Leadership Onboarding. This programme equips them to act as role models, challenge effectively and demonstrate the importance of safety over production deadlines to our employees. A similar series of workshops were also held for all safety professionals across the Group to promote leadership skills, continuous development, networking, the sharing of good practices and to clarify expectations of our health and safety professionals.

Safety responsibility extends beyond managers and we expect all employees to look out for their own safety and for that of their colleagues, and to continuously look for ways to improve the safety of their workplace.

In the following months, we will be implementing a new health and safety strategy and widening our aim towards a vision of zero harm. The journey towards zero harm will encompass organisational, physical and cultural elements, designed to engage our people and move towards sustainable world-class health and safety performance in the years to come.

Health and Safety Manager, Karlovac, Croatia

In 2017, DS Smith Karlovac in Croatia achieved ten years without a lost-time accident and were recognised with a health and safety award issued by the Croatian Ministry of Labour. This achievement was based on a significant work programme over many years including investment in machine guarding, vehicles and personal protective equipment as well as training, ergonomic furniture and personal alarms. However, it was only with the engagement and participation of all employees on site that the safety culture and sustained safety performance were able to develop.

"To me, the most important thing is to speak directly to the employees, listen to their ideas and proposals and – as part of the conversation – point them to the importance of safety at work. I believe that without their co-operation and team work, it could have been difficult to reach the desired results. The realisation that their opinions were heard and taken into consideration made it much easier to achieve these results. All my colleagues were very supportive and cooperative. I'm also very grateful to work for a company like DS Smith that invests in its employees and cares about their safety and well-being."

Sinisa Kotur, Health and Safety Manager, Karlovac

Creating a place where people are proud to work and give their best

Our people are talented, hard-working and keen to make active contributions to the success of the Company. We want to empower our employees to realise their potential and are working to ensure we have the talent to meet and exceed our organisational ambitions for future growth and industry innovation.

OWN IT!

Our employees are unified by their connection to the same corporate culture and business strategy and we have retained that connection under the banner of OWN IT!

In the past year, sites and offices across the globe have utilised their Employee Survey results and the OWN IT! toolkit to create and implement engagement improvement plans that are connected to a common framework but localised to their individual priorities. In November 2017, 14,000 colleagues took the opportunity to share their views on the progress we are making in a pulse survey which reflected an 8 per cent increase in employee engagement.

In parallel to our direct engagement with all employees, we work closely with employee representative groups. Our ability to adapt, change and grow as an organisation benefits from a good working relationship with these forums and our European Works Council (EWC). We have collaboratively delivered several successful projects including a Code of Conduct and most recently the Employee Charter, which lists the mutual commitments of management and employee representatives to improve the business culture and operations to ensure colleagues are treated fairly, listened to, supported and given the opportunity to succeed.

Growing Together

growing TOGETHER

Open and regular performance dialogue is central to our people plan. All employees who want to develop with DS Smith should have a plan in place with their manager and the opportunity to acquire new skills or challenge themselves in their role, through project work or formal learning. In order to promote that dialogue and enhance the development culture in DS Smith we launched Growing Together. The Growing Together site provides guidance on planning a career with DS Smith, not just fulfilling a job, and equips employees and managers alike with the structure to have positive development conversations and identify the appropriate development actions.

Inclusion and diversity

Our commitment to realising the potential of our people extends to all employees. For us, it is all about merit. Anyone can and should be able to realise their full potential in DS Smith without experiencing inequality and unfairness on any grounds, including disability. Our stated ambition is to promote an inclusive culture within which all employees are valued and respected and have the opportunity to flourish.

As standard, we include employee opinion metrics on fairness and equal treatment in every employee survey and we are working together with our EWC on the topic of inclusion and diversity in the broadest sense as part of the implementation of our Employee Charter. In recent years a primary focus has been cultural diversity and inclusion through a period of rapid international growth in order to maximise the value creation from our acquisitions. Most recently we have agreed diversity and inclusion priorities which will form part of a focused work plan for 2018/19. Other ongoing initiatives include the creation of working groups to boost the representation of minority groups within the employee base, education, training on inclusive work practices and ensuring there are clear channels for employees to speak up to their representatives or to use our "Speak Up!" channel should they encounter any bias or unfair actions. DS Smith leadership has been proactive in agreeing a stated ambition to create an inclusive culture and have agreed a clear set of priorities which will form our workplan for 2018/19. Our commitment to diversity and inclusion has been communicated through various channels to our employees and is captured in our Code of Conduct, our Employee Charter and our Management Standards.

Gender diversity

Board

Male: 6
Female: 2

Senior management

Male: 118
Female: 16

Group

Male: 22,020
Female: 6,284

This year, we have published gender pay gap information for our UK businesses for the first time. The evidence in the report reflects the hard work we put in to implement fair and equitable policy and process when it comes to reward. What our report, and those of others in the industry, has highlighted is the need to encourage more women into jobs in the manufacturing industry. DS Smith is keen to take a leading role in promoting training, recruitment and networking opportunities to enhance the gender diversity of our workforce and to promote inclusive work practices.

Our priorities

1. Actively encouraging women to choose careers in manufacturing.
2. Identifying female talent and supporting them to grow and develop within our organisation.
3. Ensuring everyone has the opportunity to reach their full potential by removing any potential barriers so that women can succeed in our business.

Management standards

Over the past few years we have been developing all people managers to understand the importance of their role in driving the performance of their teams and ultimately the business. Our Engaging Managers Programme has given over 3,000 managers the skills to act as positive role models and engage their teams. Alongside this, we have Core Values and Leadership Competencies which set the behavioural code for how DS Smith managers are expected to carry out their work. Based on feedback in the 2016 Employee Survey, we identified a need for greater clarity of expectations and consistency of management practices across the Group. As a result, we have introduced nine Management Standards which encompass the key expectations of all DS Smith managers, all related policies and processes and links to learning materials or activities.

Meeting specific business challenges

To meet some of the more specific business challenges and to deliver our strategy, we are also developing key leaders from our Group talent-pool. A prestigious Global Leadership Programme has been designed in partnership with Oxford University's Saïd Business School for future executives who can be called upon to step up and take on strategic leadership roles. The first groups will be embarking on this programme during 2018.

Julie Westcott, Group Health and Safety Director

With safety as a continued strategic priority, a key appointment made this year was our new Group Health and Safety Director, Julie Westcott, who was promoted from our Packaging division. Julie joined DS Smith nine years ago and has supported the development of our health and safety programme from roles in the Packaging, Paper and Recycling divisions as well as leading the co-ordination of best practice sharing and internal audit across the entire Group. She has been instrumental in raising standards, educating on the drivers of a safety culture, influencing managers and leaders in their responsibilities and improving the way we communicate the good practices in place with colleagues.

Building individual and organisational capabilities

DS Smith's continued growth, maturation as an organisation and innovation into new products and services requires fresh talent and different experience to supplement our strong internal labour market.

Bringing in expertise

Vacancies and newly created roles in the organisation have given us the opportunity to bring in new colleagues from leading companies and for them to introduce different perspectives and extensive experience to some key functions in DS Smith.

Packaging specialists of the future

Working in partnership with our EWC, we have also been proactively seeking ways to retain the expert knowledge of our workforce, as many technical experts and long service employees approach retirement. As a result, we have reinvigorated apprenticeship and graduate programmes and are tightening international good practice sharing or coordination surrounding these programmes. Overall, these efforts will ensure consistently optimised resourcing levels and provide opportunities to pair experienced colleagues with new joiners to pass on their skills.

Our apprenticeship scheme introduces young talent into the organisation and gives them the opportunity to become the packaging specialists of tomorrow.

Apprentices in Germany and Switzerland

In Germany and Switzerland DS Smith currently employs 110 apprentices and students who are joining a three-year programme. They can select courses in production, logistics, maintenance or administration in specific areas like packaging technologists, media technologists, industrial clerks, designers, paper engineers etc.

Every year a central onboarding welcome event takes place for all new apprentices to enable the development of a strong network. In September 2017, we welcomed 47 new apprentices and students.

During the programme the apprentices gain professional experience within different site departments, as well as theoretical knowledge within vocational schools. The apprentices graduate with a state-approved degree.

After completion of the training we take on 90 per cent of the apprentices in a permanent employment relationship. In this way, we support the growth of the business and counter the lack of specialists.

Integrating new business

Stronger Together – Interstate Resources Acquisition

Our approach to integration is based on the overriding belief that when we integrate businesses we are truly stronger together. This belief extends beyond the assets, products and technologies – people are at the heart. We gain skills, knowledge, experience and ideas every time we acquire a new business and this was particularly the case with Interstate Resources in north America.

In order to maximise the strength of Interstate Resources and DS Smith, we invested significant time and effort to engage and align the Interstate Resources leadership team at the outset. A combined leadership event was followed by a cascade to all new colleagues of DS Smith sharing our story, our values and setting out the roadmap for integration. Individual workstreams then held their own subject matter workshops, unifying colleagues working in similar roles, i.e. health and safety, paper and packaging, and promoting best practice sharing.

Regular and engaging two-way communications kept colleagues informed throughout the process and early access to the full DS Smith suite of communication and collaboration tools helped our new colleagues in north America feel part of the wider team with more than 25,000 individuals around the world.

The successful integration of Interstate Resources can be summarised in the feedback received during the stronger together conference:

"A new spirit of success has developed"

"We gained a shared sense of moving the business forward… a shared destiny"

"I see more opportunities for my growth and development, business-wise and personally"

Acquisitions not only provide access to new knowledge and expertise about our customers but also provide opportunities for individuals and teams. We have already seen the benefit in sharing practices across Europe and north America and have identified a number of key talents to fulfil short or medium-term placements overseas, providing invaluable experience for the individual and supporting the wider integration process.

We have also expanded our capacity in Europe through acquisition this year and most recently added the Romanian based EcoPack and EcoPaper businesses to our operations in south east Europe. Our experience in identifying the right organisations to join DS Smith and in successfully integrating them into the Group is a key capability; ensuring we have the right talent with knowledge of the local market and customers in these high growth areas.

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.

We do this by

- Building sustainability into our decisions
- Growing our recycling platform

Our performance

In 2017/18 we delivered:

- EcoVadis Gold secured, placing us in the top 5 per cent of all evaluated organisations
- 95 per cent FSC® certified across all in scope packaging and paper sites
- 5.9 per cent reduction in waste to landfill per tonne of production, in the Packaging division

In 2018/19 we will:

- Roll out and implement new sustainability targets to underpin our strategy
- Further embed sustainability reporting into existing performance measurement mechanisms
- Integrate the North America Paper and Packaging division into our sustainability reporting

Our KPIs

CO_2 equivalent emissions

Definition

Total CO_2 equivalent (CO_2e) emissions per tonne of production

Target

30% Reduction over the 10 years to 2030

Why this is a KPI

Energy consumption and associated carbon emissions are significant environmental aspects that contribute to global challenges such as climate change and we are committed to reducing our emissions relative to production.

2018 performance

CO_2e emissions per tonne of production have increased by 5.2 per cent. This is due to a combination of increased use of natural gas at our paper mills as a result of decreased burning of alternative fuels like reject plastics and a focus on performance papers and packaging which, whilst using less fibre and providing better performing packaging, are more carbon intensive per tonne of production. We remain in a positive position against our long-term target, showing a 1.5 per cent reduction in carbon intensity against a 2015 baseline.

Packaging plays a key role in delivering sustainable products

The core role of packaging is to protect products and to keep food and drink fresher for longer. As shops and shopping habits evolve, consumer expectations change and supply chains become more complex, packaging has to work harder than ever. Increasingly, packaging is expected to build brands, enhance customer experience and make supply chains more efficient. Packaging has to do all this whilst retaining its core purpose: protecting products. The right packaging does all of this sustainably.

According to the Food and Drink Federation and INCPEN, packaging can account for just 10 per cent of the total resources and energy invested in a product's carbon footprint. A product's packaging is there to protect it, ensuring it will not be damaged as it traverses the supply chain from point of production to point of use. In protecting the product effectively, packaging plays a vital role in ensuring valuable energy and resources are not wasted.

Packaging also makes supply chains more efficient. The right packaging, working in harmony with the product, can increase transport utilisation, simplify logistics, streamline last-mile deliveries, reduce damage rates and cut down on product returns. At each link in the supply chain, packaging plays an important role in protecting resources and minimising environmental impact.

In doing so, innovative packaging can play a key role in addressing many of the challenges linked to global megatrends – increased efficiency in a resource constrained world, last mile delivery in increasingly urbanised societies and reducing food waste in developed and developing countries.

Whilst the core role of packaging will always be to protect products and to keep food and drink fresher for longer, new and innovative packaging does much more, sustainably.

Sustainability is embedded within our circular offer

Our business model is circular with a unique capability of complementary recycling, paper and packaging operations. It is through this closed-loop system that we are able to embed sustainability into our products and services and deliver packaging solutions and recycling services that meet the evolving requirements of supply chains, customers and consumers.

Our sustainable packaging solutions begin with **product design and innovation**. Our global network of packaging strategists, supported by our innovative Impact and PackRight Centres, work with customers to design packaging that protects products and the resources invested in them whilst making their supply chains more efficient.

Sustainable sourcing is central to our offer. Our primary raw material – fibre – is a renewable biomaterial. Our focus is on using quality, sustainably sourced raw materials, whether fibre or plastics. In Europe, our paper division manufactures only recycled papers, whilst in north America our Reading mill also manufactures recycled papers and our Riceboro kraftliner mill sources all of its fibre inputs from sustainable sources.

Our **manufacturing** operations are focused on fully recyclable corrugated solutions and within our plastics business we provide packaging solutions that are multi-use or made from recycled and recyclable materials. 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.

Truly sustainable packaging solutions can set off a domino effect of efficiencies in our **customers' supply cycles**, making logistics more efficient, reducing supply chain environmental impacts, protecting products and keeping food and drink fresher for longer.

End of life recycling is a core element of our circular business model. Paper and board has the highest recycling rate of any material in Europe with fibres capable of being recycled up to seven times. Our recycling division, one of the largest in Europe, plays a key role in this, managing over 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 Review 2018 which is available online: dssmith.com/company/sustainability/sustainabilityreport

Our sustainability approach, strategy, focus and targets

At DS Smith, our approach to sustainability is focused on three core pillars. Through ongoing engagement with a wide variety of stakeholders we have identified a number of priority areas where we believe we can have the greatest impact.

To drive and focus our activities in these areas we have, this year, set ourselves a number of new challenging and ambitious long-term targets, complementing those already in place. Our full list of targets is as follows:

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.

Packaging Impact
Manufacture 100 per cent reusable or recyclable packaging by 2025 and grow our net positive recycling position[1]

Fibre Sourcing
Use 100 per cent recycled or chain of custody certified papers by 2020

Carbon and Energy
Reduce our CO_2e emissions by 30 per cent per tonne of production by 2030, against a 2015 baseline

Supplier Standards
Assess sustainability performance of 80 per cent[3] of non-paper suppliers by 2020

Water Stewardship
Achieve zero water impact[2] by 2030

Responsible Employer
Build a diverse, engaged and respected workforce

Waste and Recycling
Send zero waste to landfill by 2030

Responsible Neighbour
Engage in community programmes at 100 per cent of our sites by 2020

Health and Safety
Zero accidents
Vision zero harm

1 Involved in all or in part of collecting, sorting, reprocessing, managing and/or transporting a greater tonnage of material through our Recycling division than we place on the market through our Packaging and Plastics divisions
2 To include water quality, water stress improvements and water reduction (where feasible)
3 By spend

Performance

In the past year we have been working to complete a range of commitments made relating to each of our focus areas. A summary of performance against these commitments can be found below.

Packaging impact

Perhaps more than ever before the role of packaging in society is being scrutinised. There is more that the industry can do to provide sustainable packaging solutions and real change will come from collaboration between all involved: regulators, trade bodies, councils, brand-owners, retailers, re-processors and consumers. DS Smith continues to innovate to drive resource efficiency in packaging, with highlights from the past year including Bedkind (an animal bedding product made from waste from our packaging operations), Beaulex(R) (an urban drainage solution made from post-consumer plastic waste) and various e-commerce initiatives (e.g. DISCS(TM) and Made2fit).

Fibre sourcing

Each production site that converts or trades in wood fibre or other wood derivative products is mandated to pursue a recognised certification programme leading to a chain of custody for responsible fibre sourcing. 95 per cent of our production sites are currently certified by a recognised certification scheme.

Supplier standards

Our commitment to ensure our top 200 strategic suppliers sign our new Global Supplier Standard has progressed well, with 213 having committed to adhere to our minimum social and environmental expectations. However, we have not progressed as we had planned with regards developing and implementing a supplier assessment programme. Work is ongoing and our ambition and focus in this area is now reflected in our new target for 80 per cent of our non-paper suppliers (by spend) to have their sustainability performance assessed by 2020. Whilst our aim to source 100 per cent of our papers sustainably addresses the risk associated with our primary raw material, the purpose of this target is to ensure we drive similar ethical standards into our wider supply base.

Carbon and energy

Our net carbon figures for 2017 rose by 4.4 per cent on 2016 values, driven by an increase in the consumption of natural gas at some of our paper mills and corrugators which can be seen in the 5.3 per cent increase in Scope 1 emissions. This was partially offset by a 4.5 per cent increase in energy exports representing 317 kt of CO_2e. The slight fall in production by weight reported here reflects the fact that, whilst production by volume continues to increase, the relative weight of this production has decreased due to the success of our focus on lighter, higher performance papers and packaging.

We remain in a positive position against our long-term target to reduce our CO_2e emissions per tonne of production by 30 per cent, with our carbon intensity 1.5 per cent lower against a 2015 baseline. This is the result of an ongoing focus on both energy efficiency investments and switching to cleaner, less carbon intensive fuels.

As reported last year, we are continuing to roll out ISO50001 certification at all relevant sites and will use this management framework as a mechanism for driving continued performance improvements against our long-term carbon reduction target.

We recognise the importance of climate change as both a challenge and opportunity for all businesses and are aware of the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). At present we believe that we report against many of the recommended criteria through our annual submission to the Carbon Disclosure Project. Over the coming year we will review our reporting against the criteria and will look to disclose more in future reports.

Recycling and waste

We have had some considerable success in reducing our waste to landfill, most notably at our paper mill in Belišće, Croatia where waste to landfill fell by 26.9 per cent, and in our packaging division where absolute waste to landfill fell by 8.7 per cent, or by 5.9 per cent relative to production. However the impact of Operation National Sword in China – restricting the export market for recycled materials – has seen our total waste to landfill tonnages increase by 21 per cent on an absolute basis and 22 per cent relative to production as UK infrastructure has been unable to recycle some of the material that would otherwise have been exported for recycling.

The restrictions on exporting recycled materials have had a significant impact on waste management operations at Kemsley, our UK paper mill. Supporting our customers in new territories means that we have to operate in countries where the waste management infrastructure is less mature than in many European countries, but we aim to use the expertise within our group to manage the waste from our mills sustainably. This is reflected in our new zero waste to landfill ambition.

Water stewardship

Over the past year our effluent per tonne of production has increased slightly. This is the result of the ongoing focus on innovative performance papers and packaging.

As reported last year, having a focus on water reduction is a challenge as reducing water use has a negative impact on the amount of energy consumed in our paper mills, negating any potential positive environmental impact. As such, our new focus is on water quality and through effective treatment we are able to ensure that our effluent does not adversely affect the water resources that we share with our local communities. This focus on water quality is something that we have looked to reflect in our new water stewardship target. During the year we received notification of breaches or minor environmental incidents at six sites. There were zero major incidents (defined as incidents of significant impact reportable to local or national authorities, or incidents potentially resulting in legal prosecution) reported for the period of this report.

Health and safety, responsible employer and responsible neighbour

For information on the past year's health and safety performance and our ongoing work to be an ever more responsible employer please see page(s) 22 and 23.

Sustainability governance

The Board considers risks arising from sustainability issues as being among the key risks to the Group's operations and by way of mitigation adequate and effective policies and procedures for managing emerging sustainability issues are in place. 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 through the Group Health, Safety, Environment and Sustainability Committee and a divisionally focused Sustainability Steering Group oversees the process and sets and monitors internal targets and strategies to ensure sustainability-related risks and opportunities are appropriately managed. Any residual issues are brought to the Board. The Sustainability Steering Group is chaired by the Group General Counsel and Company Secretary.

DS Smith is committed to conducting business in a socially and environmentally responsible manner. DS Smith subscribes to a number of international standards and guidelines relevant to corporate responsibility and business conduct, including:

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

For more information on our policies, procedures and performance in any of these areas please see our Sustainability Review 2018.

Data

KPI	Unit of measure	2015 (published)	2016 (published)	2016 (representative)	**2017**	2017 vs 2016 (representative)
Scope 1	kt CO_2e	1,678	1,570	1,576	**1,660**	5.3
Scope 2	kt CO_2e	355	333	348	**352**	1.2
Emissions from energy exports	kt CO_2e	348	299	299	**317**	5.8
Total CO_2e (net energy export)	kt CO_2e	1,686	1,604	1,624	**1,695**	4.4
Energy exported	gwh	962	852	854	**892**	4.5
Total production	kt nsp	8,059	8,209	8,302	**8,234**	(0.8)
Waste to landfill	kt	87	98	97	**118**	21.0
Effluent	Mm^3	19	20	19	**20**	6.1
CO_2e per tonne of production	kg CO_2e/tonne nsp	209.0	195.4	195.7	**205.9**	5.2
Effluent/tonne production	m^3/tonne nsp	2.4	2.4	2.3	**2.5**	7.0
Landfill/tonne production	kg/tonne nsp	10.7	11.9	11.7	**14.3**	22.0

Methodology

1. Figures from all years are based on data from sites we owned for the entirety of that year. 2017 data based on sites we have owned since 1 January 2017. 2016 figure "2016 (representative)" restated from last year to include data from sites added to the 2017 scope to give a representative like-for-like comparison. We have shown the 2015 published figure as it is the baseline year for our target, and the published figure for 2016 to show the performance of the business as previously reported. The same calculations have been applied for all years.
2. The CO_2 and CO_2e emissions were calculated using the UK DECC 2016 factors for all fuels and the UK national grid. Emissions from other national grids use the DECC factors (IEA) from 2015.
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; 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.

Full details on the methodology and additional facts and figures on our sustainability data can be found in our Sustainability Review 2018 and databook.

Verification Statement from Bureau Veritas UK Ltd

Bureau Veritas UK Limited (Bureau Veritas) has been commissioned by DS Smith Plc. (DS Smith) to provide an independent opinion on the following environmental performance indicators: energy consumption, greenhouse gas emissions, raw material usage, water consumption, waste, discharge (to air and water) and production for calendar year 2017. 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 do 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

To double our size and profitability

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

We do this by

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

Our performance

In 2017/18 we delivered:

- 5.2 per cent underlying box volume growth
- 17 per cent revenue growth (constant currency)
- 16 per cent adjusted operating profit growth (constant currency)
- Expansion of our corrugated packaging and paper operations into north America
- High growth from multinational and e-commerce customers

In 2018/19 we will:

- Continue to drive growth through investment and acquisitions
- Optimise our manufacture and sourcing of CCM
- Maximise efficiency of operations and procurement

Our KPIs

Like-for-like corrugated volume growth

Definition

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

Target

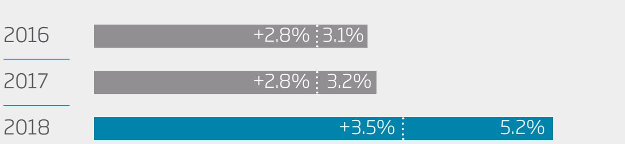
GDP +1% weighted GDP +1% target

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.

2018 Performance

In 2018 our corrugated box volumes grew 5.2 per cent consistently throughout the year. This is significantly ahead of the target of GDP + 1 per cent (being 3.5 per cent) and represents a step change compared to prior years. The drivers behind this are success in our recently acquired north American business along with significant growth in Germany and eastern Europe.



···· GDP +1 target level

Return on sales

Definition

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

Target

8-10%

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.

2018 Performance

In 2018 we achieved a return on sales of 9.2 per cent, broadly consistent with the prior two years and in the upper half of our target range of 8–10 per cent. This has been delivered despite substantial short-term headwinds from the very significant rise in paper prices over the year, which is the largest input to our corrugated packaging. These input cost increases have been recovered progressively through the year, with a time lag.

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.

Target

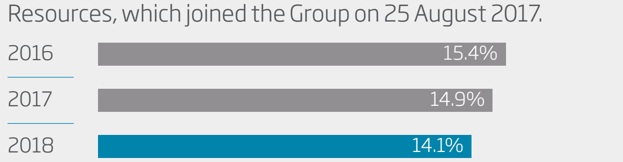
12-15%

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.

2018 Performance

In 2018 we achieved a ROACE of 14.1 per cent, near the top of our target range. This includes the acquisition of Interstate Resources, which joined the Group on 25 August 2017.



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.

Target

≤2.0x

Why this is a KPI

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

2018 Performance

Net debt/EBITDA at 30 April 2018 is 2.2 times. The increase in Group leverage is due principally to acquisitions in the year of £819 million, partially offset by cash flow in the period and proceeds of equity issued of £283 million.

Cash conversion

Definition

Free cash flow before tax, net interest, growth capex, pension payments and adjusting items cash flows 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.

Target

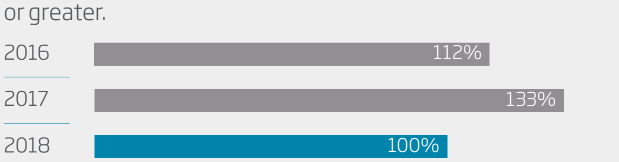
≥100%

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.

2018 Performance

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



Further information on calculation of financial KPIs and other non-GAAP performance measures is given in note 32 to the financial statements

Operating review

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

Overview

The past year has seen a backdrop of strong economic growth in Europe and in particular, growth in e-commerce. In the financial year 2017/18, DS Smith once again achieved very strong growth driven both organically and through acquisitions and we are particularly pleased with our volume growth and gain in market share. The ongoing recovery of very substantial input cost rises, through pricing, has resulted in a broadly stable margin year-on-year. The business took a further major step in August 2017 with the acquisition in north America of Interstate Resources. We are delighted with the initial performance and integration of what is now our North America Packaging and Paper (NAPP) business. The positive response from customers to this acquisition is reflected in the strong volume growth since ownership. We made further investments in our fast growing south eastern Europe region with the acquisition of a Romanian integrated packaging business with a newly commissioned light-weight paper mill. Since the financial year-end, we have announced the proposed acquisition of Europac a leading integrated packaging business in western Europe and of Corrugated Container Corporation, a four site box business in north America.

Organic corrugated box volumes have grown strongly throughout the year by 5.2 per cent. As with last year all regions have again reported growth, with particularly strong regional volumes in DCH and Northern Europe, Central Europe and Italy, and North America. This rate of box volume growth is ahead of our GDP +1 per cent target, which equates to 3.5 per cent. Growth again comes from our multinational customers, particularly e-commerce and shelf ready packaging. Our core strategy has been built around providing consistent quality and service on a pan-European and now also trans-Atlantic basis providing opportunities for our customers to benefit from our investment in innovation and leading solutions. We fully expect the current trends around sustainable packaging solutions and rationalising supply chains to continue and we continue to seek to drive our market share gains.

Our long-standing approach of working with customers to increase their sales, reduce their costs and manage their risks, remains as relevant as ever.

For the full-year, revenue growth of 17 per cent on a constant currency basis was broadly equally weighted between the contribution from organic growth and from acquired businesses. Organic growth was driven principally by volume growth and increases in sales price, implemented in response to rises in underlying paper prices.

Adjusted operating profit increased by 16 per cent on a constant currency basis (20 per cent on a reported basis) to £530 million (2016/17: £443 million). This was driven by the contribution from volume growth, contributing 13 per cent growth (£59 million) compared to the prior year, and from the contribution of businesses acquired, in particular our north America assets. Input cost increases were driven by a very substantial rise in the cost of paper and other operating costs, which were substantially passed through to customers, with the usual timing lag, with a net negative impact on profit of £52 million.

Adjusted earnings per share increased by 7 per cent on a constant currency basis to 35.5 pence (9 per cent on a reported basis) (2016/17: 32.5 pence). This result builds on eight years of consistently strong growth, with the eight year compound annual growth rate for adjusted EPS being 26 per cent.

The Board considers the dividend to be an important component of shareholder returns and, as such, has a policy to deliver a progressive dividend, where dividend cover is between 2.0 and 2.5 times, through the cycle. For the year 2017/18, in accordance with our dividend policy, the Board recommends a final dividend of 9.8 pence per share, which will be paid to all shares on the record date, including those to be issued in the rights issue. The 2017/18 interim dividend of 4.9 pence, and prior dividends, will be restated in future accounts to reflect the bonus factor adjustment resulting from the rights issue.

Growing the business

DS Smith has grown the business very profitably, organically and through consolidating acquisitions. We believe that the success of our multinational customer strategy demonstrates that there is significant customer demand for high quality packaging and consistent service on both a pan-European and now trans-Atlantic basis. As such we continue to see this demand as a significant growth driver. Our capital and target acquisition investments are set out each year in our three year corporate plan and agreed with the Board. All investments are evaluated to determine that they fulfil our strict financial criteria of being consistent with our financial KPIs, in the medium-term. Our strategic aim is to become the leader in sustainable packaging solutions by any measure. We will continue to build on our strong customer demand for our packaging solutions and maintain our investment in innovation and design, allowing our customers to participate in these benefits to drive their businesses.

Acquisition of Interstate Resources

In 2017/18, we responded to customer demands and brought our solutions to north America, through the acquisition of Interstate Resources. We also added strategically required capacity in the fast growing south east Europe region through the acquisition of the EcoPack and EcoPaper businesses in Romania

The creation of our North America Packaging and Paper (NAPP) business has been a success on numerous measures and the acquisition of Interstate Resources has materially outperformed our initial expectations. Engagement from new colleagues in north America has been excellent, with a huge enthusiasm to deliver our business plans. The integration of their paper assets into our global supply chain has already yielded significant value and we are progressing extremely well with our multinational customers. The NAPP division is managed by a senior team made up of a mix of those who have worked in that business for many years, and those with a background in DS Smith, with the overall approach being getting the "best from both" and all parties learning from one another. We are also implementing OWN IT!, our employee engagement programme which helps colleagues around the organisation actively participate in delivering the corporate strategy. Since the year-end we acquired box plants in four new sites in the US.

Strategic review of Plastics division

Consistent with our strategy to be the leading supplier of sustainable packaging solutions and increasing focus on the production of high quality, cost effective corrugated packaging, we have initiated a strategic review of our Plastics business.

Proposed acquisition of Europac

On 4 June 2018, we announced the proposed acquisition of Papeles y Cartones de Europe, S.A., known as Europac, a leading integrated packaging business in western Europe. The acquisition has a highly compelling strategic rationale and we expect that it will create significant value for customers and consistent and attractive returns for DS Smith shareholders.

Delivering on our medium-term targets and key performance indicators

We continue to deliver in line with our medium-term targets and key performance indicators. As set out above, corrugated box volumes grew by 5.2 per cent. This exceeded our target of GDP +1 per cent, with year-on-year GDP growth, weighted by our sales in the markets in which we operate, estimated at 2.5 per cent (Source: Eurostat) resulting in a 170 basis point outperformance against the target of 3.5 per cent. All regions have again recorded volume growth in the year, with a particularly strong contribution from DCH and Northern Europe region, Central Europe and Italy, and from North America. Underlying the regional performances has been the growth of our pan-European customer base, where we continue to make significant gains with existing customers as we increase our market share with them, further demonstrating the demand for a high quality pan-European supplier of corrugated packaging, operating on a co-ordinated multinational basis.

Adjusted return on sales has remained broadly flat at 9.2 per cent (2016/17: 9.3 per cent), in the upper half of our target range of 8-10 per cent, reflecting the benefit of good drop-through from incremental revenues into profit, offset by substantial input cost pressure over the period and the recovery of this through selling price.

Adjusted return on average capital employed (ROACE) is 14.1 per cent (2016/17: 14.9 per cent), continuing near the top of our medium-term target range of 12-15 per cent and significantly above our cost of capital, despite the recent significant acquisition of Interstate Resources in north America, which has a dilutive impact on this ratio. The ongoing high ROACE reflects significant focus on an efficient capital base, in addition to profitability. We have maintained our continual focus on tight capital allocation and management within the business, including working capital, which has been closely managed as shown by a reduction in the ratio of average working capital to revenue. ROACE is our primary financial measure of success, and is measured and calculated on a monthly basis.

Net debt as at 30 April 2018 was £1,680 million (30 April 2017: £1,092 million) reflecting the significant acquisitions made in the period of £819 million (including debt assumed of £204 million), less cash raised from the issue of new equity of £283 million. Cash generated from operations before adjusting items of £656 million was used to invest in capex of £329 million (net) and one off adjusting items of £80 million primarily in acquiring and integrating the new businesses. Net debt/EBITDA (calculated in accordance with our banking covenant requirements) is 2.2 times (2016/17: 1.8 times). This reflects the acquisitions made as well as ongoing tight cash management and control throughout the business.

During the year, the Group generated free cash flow of £204 million (2016/17: £363 million). Cash conversion, as defined in our financial KPIs (page 31), was 100 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 have again reported 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 9 per cent from 3.0 to 2.8, reflecting our ongoing commitment to best practice in health and safety. We are proud to report that 239 sites achieved our target of zero accidents this year and we continue to strive for zero accidents for the Group as a whole.

The Group has a challenging target for customer service of 97 per cent on-time, in-full deliveries. In the year we achieved 93 per cent, an improvement versus the prior year, but still below our target. Management remains extremely 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 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 2017, compared to calendar 2016, on a restated basis to reflect acquisitions, our CO_2 equivalent emissions, relative to production, have increased by 5 per cent, reflecting an increase in energy usage relating to increased volume growth, and by the impact of light-weighting our paper and packaging.

Outlook

The current year has started well, with the volume growth momentum seen in 2017/18 continuing into the new financial year and the ongoing recovery of the paper price rises announced earlier this calendar year progressing as expected.

The drivers for growth of sustainable packaging in a dynamic consumer and retail environment are more relevant than ever. Our differentiated position with customers, built on our geographic scale and innovation-led expertise reinforces our confidence in the prospects for the business.

Statement of approval

This Strategic Report, including pages 2 to 45, was approved by a duly authorised Committee of the Board of Directors on 17 June 2018, and signed on its behalf by

Miles Roberts

Group Chief Executive

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

Group

£m	Year ended 30 April 2018	Year ended 30 April 2017	Change – reported
Revenue	**5,765**	4,781	21%
Adjusted operating profit[1]	**530**	443	20%
Operating profit	**361**	316	14%

Strong organic volume growth, revenue growth driven by paper prices and growth from acquisitions offset by input cost increases led to higher revenue and operating profits. Revenue increased by 21 per cent to £5,765 million and operating profit by 14 per cent to £361 million. The operating review below includes discussion of adjusted operating profit which excludes amortisation and adjusting items. Note 32 includes discussion on non-GAAP performance measures.

UK

£m	Year ended 30 April 2018	Year ended 30 April 2017	Change
Revenue	**1,078**	962	12%
Adjusted operating profit[1]	**109**	94	16%
Return on sales[1] – %	**10.1**	9.8	+30bps

Our UK corrugated packaging business has performed well despite the uncertain economic backdrop. E-commerce volumes have been particularly good, and we recently launched an online e-commerce supply platform for small businesses in addition to our focus on large e-commerce customers. We have made very good progress on input cost recovery and continue to drive operational efficiencies. The UK business is long paper and recycling, which has benefited from the rising paper price environment over the past 12 months.

DCH and Northern Europe

£m	Year ended 30 April 2018	Year ended 30 April 2017	Change – reported	Change – constant currency
Revenue	**1,083**	989	10%	6%
Adjusted operating profit[1]	**90**	82	10%	6%
Return on sales[1] – %	**8.3**	8.3	–	–

Volumes in this region have continued to be very positive, with very good volume growth in Northern Europe and excellent growth in the DCH (Germany and Switzerland) region. Revenues grew by 6 per cent, reflecting the benefit of positive corrugated box volumes throughout the region.

Adjusted operating profit increased by 6 per cent, in line with revenue growth, reflecting the benefit of the drop through of profit from volume growth and the benefit of the contribution from our paper manufacturing operations in the region. Consequently, return on sales was stable at 8.3 per cent.

Western Europe

£m	Year ended 30 April 2018	Year ended 30 April 2017	Change – reported	Change – constant currency
Revenue	**1,450**	1,264	15%	10%
Adjusted operating profit[1]	**102**	104	(2%)	(6%)
Return on sales[1] – %	**7.0**	8.2	(120bps)	(120bps)

Like-for-like corrugated packaging volumes in the region have been strong, with both France and Iberia gaining market share with pan-European and e-commerce customers, offsetting continued flat market conditions in Benelux. Revenues have grown by 10 per cent, principally from good organic growth and a small contribution from the full year benefit of the acquisitions of GoPaca and P&I Display in Iberia in 2016/17.

There has been good recovery of paper cost rises to date in the region, with a short-term lag. Adjusted operating profit fell slightly reflecting input costs not yet fully recovered in absolute terms although this is expected to be completed in the new financial year. Return on sales has fallen by 120 basis points reflecting the short-term lag in input cost recovery described above and are expected to be restored in the new financial year.

Central Europe and Italy

£m	Year ended 30 April 2018	Year ended 30 April 2017	Change – reported	Change – constant currency
Revenue	**1,429**	1,239	15%	10%
Adjusted operating profit[1]	**129**	125	3%	(2%)
Return on sales[1] – %	**9.0**	10.1	(110bps)	(110bps)

Volumes in this region have again been very good, particularly in Poland and the Baltic region, and also in south eastern Europe. Revenue growth of 10 per cent reflects the strong organic volume growth, sales price increases implemented to recover input costs, and a modest early contribution from the EcoPack and EcoPaper business acquired on 6 March 2018.

Adjusted operating profit is marginally lower, reflecting a small contribution from the acquired businesses and the benefit of drop-through from volume and sales price increases, offset by the increases in paper and other input costs, as described earlier. As a result, return on sales reduced by 110 basis points which as with other regions should be fully restored in the new financial year.

North America

£m	Year ended 30 April 2018	Year ended 30 April 2017
Revenue	**379**	–
Adjusted operating profit[1] – £m	**62**	–
Return on sales[1] – %	**16.4**	–

The performance of the North America packaging and paper division has been excellent, with corrugated box volume growth compared to the comparative period (prior to DS Smith ownership) ahead of the Group average. The return for the period, on a

1. Adjusted to exclude amortisation and adjusting items

run-rate basis is above our weighted average cost of capital, well ahead of our initial expectations. Both the paper and packaging assets have performed very well in a rising paper price environment. Synergies of c. $10 million (c. £8 million) have been realised, principally from global supply chain benefits versus our target of $35 million (upgraded from $25 million at the time of announcement of the acquisition), the remainder of which we expect to realise over the coming two financial years, broadly evenly split.

Plastics

£m	**Year ended 30 April 2018**	Year ended 30 April 2017	Change – reported	Change – constant currency
Revenue	**346**	327	6%	5%
Adjusted operating profit[1]	**38**	38	–	–
Return on sales[1] – %	**11.0**	11.6	(60bps)	(50bps)

Constant currency revenue increased 5 per cent, the majority of which was driven from volume and pricing increases, and also with a contribution from the acquisition of Parish, a small but highly complementary bag-in-box business in north America acquired in January 2017. Adjusted operating profit was stable at £38 million, principally reflecting the impact of rising raw material and other costs, which, as expected, were only partially recovered in the year with the remainder to be recovered early on the next year.

Non-GAAP performance measures

The Group uses certain key non-GAAP measures in order to provide a balanced 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 32 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

Delivering strong financial performance

Adrian Marsh – Group Finance Director

Overview

The Group performed very strongly in 2017/18, with significant organic volume growth, revenue growth reflecting the recovery of paper prices and growth from acquisitions more than offsetting input cost headwinds. In the year we acquired Interstate Resources in the US and EcoPack and EcoPaper in Romania. DS Smith maintains the widest reach in Europe of any packaging group and, as a result, is able to offer a complete pan-European solution to all our customers, and through the creation of our North American Packaging and Paper business we can offer trans-Atlantic solutions too.

The Group continues to deliver 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:

- Adjusted operating profit before adjusting items and amortisation up 16 per cent on a constant currency basis and 20 per cent on a reported basis at £530 million (2016/17: £443 million)
- Operating profit at £361 million is up 14 per cent (2016/17: £316 million)
- Organic corrugated box volume growth of 5.2 per cent (2016/17: 3.2 per cent)
- Adjusted return on sales[1] of 9.2 per cent (2016/17: 9.3 per cent)
- Adjusted return on average capital employed[1] of 14.1 per cent (2016/17: 14.9 per cent)
- Net debt/EBITDA of 2.2 times (2016/17: 1.8 times)

Trading results

Group revenue increased to £5,765 million (2016/17: £4,781 million), a growth of 21 per cent on a reported basis, reflecting volume and sales price growth, the impact of acquisitions and a positive currency translation effect. Corrugated box volume growth was significantly ahead of target, of GDP +1 per cent, at 5.2 per cent, and sales price growth reflected the price increases that took place to recover paper price increases in the year. The euro accounted for 57 per cent of Group revenue and its strength against sterling during the year represented the majority of the £143 million of currency impact. On a constant currency basis, revenue increased by 17 per cent, including organic growth of £401 million.

Operating profit of £361 million increased from the prior year (2016/17: £316 million) due to business growth, partially offset by higher adjusting items of £76 million (2016/17: £62 million) and higher amortisation of £93 million (2016/17: £65 million) driven by the significant acquisitions made in the year.

Adjusted operating profit rose by 20 per cent on a reported basis to £530 million (2016/17: £443 million), with currency having a positive impact of £13 million. Growth on a constant currency basis was 16 per cent, benefiting from a £67 million impact from the acquisitions of Interstate Resources in the US and EcoPack and EcoPaper in Romania during the financial year. These acquisitions have already begun to generate synergies in the short time that they have been part of the Group and are on track to deliver or outperform their acquisition business cases. This strong result is testament to the Group's experience in the effective integration of, and support for, acquired businesses.

The profit drop-through from higher volumes (£59 million) and the benefit of higher pricing and sales mix (£204 million) was offset in part by higher input and other costs (£256 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 a particularly large impact on distribution. The commercial finance function within the Group has worked 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.

Depreciation increased by £20 million in the year on a reported basis mainly from the acquisition of Interstate Resources and previous capital investments. The increase in amortisation for the year from £65 million in 2016/17 to £93 million in 2017/18 was driven primarily by intangible assets recognised through the acquisition of Interstate Resources.

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 broadly flat return on sales of 9.2 per cent (2016/17: 9.3 per cent). In 2015 the return on sales target range was increased to 8-10 per cent and again performance has been fully in line with this upgraded target.

The return on average capital employed for the year was 14.1 per cent (2016/17: 14.9 per cent), which is at the higher end of 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 2016/17 and partially by acquisitions made in 2017/18.

Income statement	2017/18 £m	2016/17 £m
Revenue	**5,765**	4,781
Adjusted operating profit[1]	**530**	443
Adjusted return on sales[1]	**9.2%**	9.3%
Net financing costs	**(62)**	(55)
Share of profit of equity accounted investments, net of tax	**5**	3
Adjusted profit before tax[1]	**473**	391
Adjusted income tax expense[1]	**(104)**	(85)
Non-controlling interests	**–**	1
Adjusted earnings[1]	**369**	307
Basic adjusted earnings per share[1]	**35.5p**	32.5p
Profit for the year attributable to owners of the parent	**259**	257
Basic earnings per share	**24.9p**	22.1p

1. Adjusted to exclude amortisation and adjusting items

Adjusting items

Adjusting items before tax, financing costs and share of results of associates were £76 million (2016/17: £62 million).

Acquisition related costs of £29 million (2016/17: £7 million) were the largest element of adjusting items in 2017/18 driven by the acquisition costs of Interstate Resources which comprised £14 million of the total, but also reflecting a year of significant deal activity. They comprise professional advisory and legal fees, and directly attributable staff costs related to acquisitions evaluated and completed during the year as well as to deals which are still in the pipeline, as well as a £2 million fair value remeasurement on the redemption liability related to the acquisition of Interstate Resources. Integration costs of £13 million related to both current and prior year acquisitions.

Restructuring and reorganisation costs of £17 million were incurred primarily in DCH and Northern Europe (£4 million) and in the UK (£4 million). Approximately half of the restructuring charges relate to initiatives that commenced in the prior year, with the remainder attributable to new initiatives launched in the current year.

Other adjusting items of £16 million (2016/17: £9 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.

Finance costs adjusting items relate to financing costs incurred in the acquisition of Interstate Resources of £5 million, with the remainder relating to the unwind of the discount on the redemption liability related to the purchase of Interstate Resources. The finance cost which would have been incurred had the put option been exercised is recorded in underlying finance costs.

Interest, tax and earnings per share

Net financing costs were £74 million (2016/17: £55 million). Net financing costs before adjusting items were £62 million, up £7 million from the prior year. The increase from the prior year was primarily due to the acquisition of Interstate Resources. Interest costs include a charge of £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 £12 million (2016/17: nil) comprise the unwind of the discount on the put option liability recognised on the acquisition of Interstate Resources, and bridge financing and bond issue costs associated with this acquisition. The employment benefit net finance expense was £4 million (2016/17: £5 million).

Profit before tax was higher at £292 million (2016/17: £264 million), due to flow through of higher operating profit and improved share of results of associates, partially offset by higher finance costs. Adjusted profit before tax of £473 million (2016/17: £391 million) was higher due to the growth in adjusted operating profit.

The share of the profit of equity accounted investments was £5 million (2016/17: £3 million).

The tax charge of £33 million was £23 million lower than the prior year primarily due to the recognition of a reduction in current and deferred tax liabilities as a result of the major tax reform in the US. The Group's effective tax rate on adjusted profit, excluding amortisation, adjusting items and associates was 22.5 per cent (2016/17: 22.0 per cent). The adjusting items tax credit was £47 million (2016/17: £13 million), driven by a £37 million credit arising from the US tax reform in December 2017.

Reported profit after tax, amortisation and adjusting items was £259 million (2016/17: £208 million).

Basic earnings per share were 24.9 pence (2016/17: 22.1 pence) despite higher amortisation and adjusting items, together with the equity issues noted above.

Adjusted earnings per share were 35.5 pence (2016/17: 32.5 pence), an increase of 9 per cent on a reported basis and 7 per cent on a constant currency basis, driven by the growth in operating profit. Earnings per share were impacted in the period by the equity issue on 29 June 2017 which raised funds for the Interstate Resources acquisition, that completed approximately two months later on 25 August 2017, in addition to the equity issues to the vendors of both Interstate Resources and EcoPack and EcoPaper.

Dividend

The proposed final dividend is 9.8 pence (2016/17: 10.6 pence), which will be paid on 1 November 2018 to ordinary shareholders on the register at close of business on 5 October 2018, including those shares to be issued in the rights issue.

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 significant strategic steps with the acquisition of an 80 per cent holding in Interstate Resources in the US on 25 August 2017 and of EcoPack and EcoPaper in Romania on 6 March 2018.

Interstate Resources is an integrated packaging business based on the East Coast of the US and comprised the Group's North America segment. In the year ended 30 April 2018, Interstate Resources contributed revenue of £379 million and adjusted operating profit before amortisation and adjusting items of £62 million. The total consideration of £772 million plus debt acquired of £140 million was funded in part by a placement of ordinary shares in the market and to the seller. A redemption liability for the sale and/or acquisition of the remaining 20 per cent was also recognised as a liability, initially at £152 million.

EcoPack and EcoPaper is a leading integrated packaging business in Romania. It will significantly enhance the Group's capacity to serve customers in this high growth region as well as supporting our wider substantial eastern European presence. The total consideration of £128 million plus debt acquired of £60 million was funded by existing debt facilities and the issue of ordinary shares to the seller.

In addition the two box plants of the DPF Groupe in France were acquired in the period.

Acquisitions in 2016/17 included Creo in the UK, Deku-Pack in Denmark, Parish in the USA and GoPaca and P&I Display in Portugal.

Cash flow

Closing net debt of £1,680 million (30 April 2017: £1,092 million) has increased year on year with outflows on strategic acquisitions and borrowings acquired more than offsetting cash inflows from operating activities. Working capital outflows of £16 million are an effect of higher input prices in inventory, offset by trade payables, and higher selling prices increasing trade receivables.

Capital expenditure net of asset disposals increased to £329 million in the year (2016/17: £226 million). The Group capital expenditure strategy of balancing asset renewal/replacement and investment in growth and efficiency has been maintained. Growth and efficiency together account for 65 per cent of expenditure. Proceeds from the disposal of property, plant and equipment were £18 million (2016/17: £18 million), resulting in profits of £1 million (2016/17: £14 million).

Net interest payments of £41 million were £4 million lower than the prior year. Interest on the Euro Medium Term Notes (EMTN) issued in July 2017 is payable annually, which 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 £80 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 £615 million in the year. No businesses were disposed of in 2017/18.

During the year dividends of £157 million, representing the 2016/17 interim dividend and final dividend, were paid.

The £656 million cash generated from operations before adjusting cash items and net acquisitions made in the year has contributed to a net cash outflow for the year of £652 million, compared to an inflow of £105 million in the prior year.

Loans and borrowings from acquired businesses were £204 million. Net proceeds from the issue of share capital were £283 million in the year, primarily due to the equity issue on 29 June 2017 which raised funds for the Interstate Resources acquisition. Foreign exchange, fair value and other non-cash movements increased net debt by £15 million.

Cash flow	2017/18 £m	2016/17 £m
Cash generated from operations before adjusting cash items	656	695
Capital expenditure (net of disposal of fixed assets)	(329)	(226)
Tax paid	(82)	(61)
Net interest paid	(41)	(45)
Free cash flow	204	363
Cash outflow for adjusting items	(80)	(66)
Dividends	(157)	(121)
Acquisitions of businesses	(615)	(71)
Other	(4)	–
Net cash flow	(652)	105
Issue of share capital	283	13
Loans and borrowings acquired	(204)	(14)
Other movements	(15)	(97)
Net debt movement	(588)	7
Opening net debt	(1,092)	(1,099)
Closing net debt	(1,680)	(1,092)

Statement of financial position

Shareholders' funds have increased to £2,109 million at 30 April 2018, an increase of £756 million over the reported position of the prior year. The improvement in shareholders' funds is principally due to profit attributable to shareholders of £259 million (2016/17: £209 million) and actuarial gains on employee benefits of £57 million partly offset by income tax on items which will not be reclassified to profit or loss of £14 million. This net increase was further offset by the dividend payments of £157 million (2016/17: £121 million). Equity attributable to non-controlling interests was £1 million (30 April 2017: £2 million).

The net debt to earnings before interest, tax, depreciation and amortisation (EBITDA) ratio, calculated in accordance with the Group's debt covenants, was 2.2 times at 30 April 2018, up from 1.8 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. 2.4 times.

The covenant calculations exclude from the income statement adjusting items and any interest arising from the defined benefit pension schemes. At 30 April 2018, 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	2017/18 £m	2016/17 £m
Intangible assets	2,043	1,178
Property, plant and equipment	2,396	1,866
Inventories	543	406
Trade and other receivables	870	769
Cash and cash equivalents	297	139
Other	180	135
Total assets	6,329	4,493
Bank overdrafts	(29)	(16)
Borrowings	(1,973)	(1,263)
Trade and other payables	(1,719)	(1,372)
Provisions	(20)	(29)
Employee benefits	(106)	(181)
Other	(372)	(277)
Total liabilities	(4,219)	(3,138)
Net assets	2,110	1,355
Net debt	1,680	1,092
Net debt to EBITDA ratio	2.2x	1.8x

Energy costs

Energy is a significant cost for the Group and gas, electricity and diesel costs totalled £207 million in the year (2016/17: £179 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 2018, the Group's committed borrowing facilities totalled c. £2.8 billion of which c. £800 million were undrawn. Undrawn committed borrowing facilities are held to provide protection against any refinancing risk on maturing facilities or deterioration in working capital balances. The Group's committed borrowing facilities at 30 April 2018 had a weighted average maturity of 6.2 years (30 April 2017: 3.8 years). The Group's total gross borrowings at 30 April 2018 were £1,973 million (30 April 2017: £1,263 million).

During the year, the Group issued €750 million and £250 million of new debt under the EMTN programme. The proceeds were used for the acquisition of Interstate Resources and to repay drawings under the Group's syndicate bank revolving credit facility. The Group is committed to maintain its investment grade credit rating from Standard and Poor's and has structured the financing of the recently announced acquisition of Europac to try and achieve this. The proposed acquisition of Europac for an implied enterprise value €1,904 million will be financed by the issue of new equity (c. £1 billion) with the balance funded through new debt. It is expected that reported leverage (excluding the Interstate put option) will be under 2.5 times at year end following the acquisition.

The Group has for many years sold without recourse certain trade receivables and on realisation the 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 committed for three years and are not relied upon by the Group for liquidity. Balances have increased in the year to £559 million in line with the increase in turnover derived from higher prices for our products and the increase in the size of the Group. Similarly, during the year inventories and trade payables grew by a similar amount for the same reasons.

Committed facilities and debt at 30 April 2018

Facility	Currency	Committed funds million	Maturity	£ million equivalent
Syndicated bank RCF	GBP	800	2020	800
EMTN	EUR	1,250	2022-24	1,100
EMTN	GBP	250	2029	250
Term loan facilities	EUR	270	2018-21	237
Private placement	EUR	118	2018-20	104
Private placement	USD	380	2017-22	289[1]
Total				**2,780**

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 2018 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. No impairments were identified as a result of the testing.

The net book value of goodwill and other intangibles at 30 April 2018 was £2,043 million (30 April 2017: £1,178 million) with the increase a result of the acquisitions of Interstate Resources and EcoPack and EcoPaper 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 2018 were £1,086 million and the gross liabilities at 30 April 2018 were £1,192 million, resulting in the recognition of a gross balance sheet deficit of £106 million (30 April 2017: £181 million). The net deficit was £80 million (30 April 2017: £139 million) after taking into account deferred tax assets of £26 million (30 April 2017: £42 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 total cash contributions paid into the Group pension schemes were £25 million in 2017/18 (2016/17: £17 million), principally comprising £20 million (2016/17: £16 million) in respect of the agreed contributions to the pension scheme deficit (for the deficit recovery plan) and are included in cash generated from operations. During the year, the Group reached an agreement regarding contributions made in respect of unfunded pension arrangements. There is no impact on the gross liabilities in respect of these arrangements, and a gain of £4 million has been recognised. The reduction in the gross balance sheet deficit of £75 million is principally attributable to an increase in discount rates and a reduction in inflation assumptions in the main UK scheme.

Adrian Marsh
Group Finance Director

Supporting effective planning and quality decision-making

At DS Smith we believe that robust risk management drives better commercial decisions, contributes to our strong growth and provides a platform for all our businesses to become more resilient and sustainable.

2017 was a year where external risks increased and our internal risks required careful attention. Despite this we identified a number of opportunities, including in north America, where our disciplined approach in balancing the right risks against identified opportunities enabled us to remain on our strategic path. The continued uncertainty around the UK's exit from the EU and geo-political tensions generally, when set against the Group's risk tolerance levels, meant that we continued to be selective with our investments. We are however still confident that the underlying fundamentals of our markets reflect sustainable growth and we expect this to outweigh much of the near-term global uncertainty.

Post-acquisition integration

Our geographical footprint and the cross section of cultures in which we operate broadened during the year. While we recognised the potential for disrupting the consistency of DS Smith's offerings, we also saw that significant value could be gained by harnessing this diversity to help strengthen our approach across all our markets. Understanding the right cultural signals has been a key component in how we manage and integrate our internal supply chain and businesses. We continue to listen, learn and adapt our 'Day One' conferences and cultural awareness programmes. We are pleased with the results achieved to date, ensuring that our processes retain integrity and responsiveness, and promote recognition whilst maintaining consistently high quality as we grow.

We are satisfied with the way our acquisition processes have embedded risk assessments into the fabric of our due diligence processes. Our work undertaken during the acquisition of Interstate Resources provided us with growing confidence that our procedures in this key strategy area remained robust and appropriate.

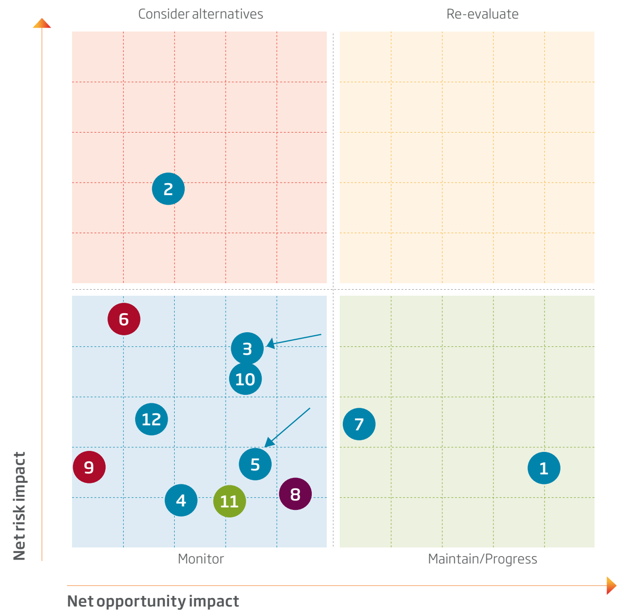
Principal risks

The details of our principal risks and uncertainties and the key mitigating activities put in place to address them can be found on pages 42 to 45. We disclose those risks we believe may have the greatest impact on our Corporate Plan. These have been the subject of discussion at Audit Committee meetings during 2017/18 and reflect the importance we place in managing these risks.

Our Group continues to be exposed to a wide range of political, market and macro-economic risks in addition to those listed in this report. These other risks are monitored as part of our standard operating processes for any change to ensure that appropriate mitigations are in place as part of regular management reviews. Whilst our capacity to influence external risks is often limited, we recognise the importance of operating a business model that can quickly flex and adapt to a changing environment.

Risk heat map

The results of our risk assessment process is presented below.



1 Acquisition strategy
2 Eurozone and macro-economics
3 Paper supply
4 Capital markets and liquidity
5 Market consolidation
6 Governance
7 Changes in shopping habits
8 Talent barriers
9 Digital vulnerabilities
10 Fibre technology
11 Sustainability
12 Strategic process change

Internal processes

Internally, we have added resources to strengthen our governance teams and invested in them to create a stronger compliance and risk framework to ensure there is both appropriate and rigorous management of this increasingly important part of our business.

Throughout the year we have challenged our businesses to improve the quality of risk information provided, whilst maintaining a simple and practical approach through our planning process. We have been particularly pleased with the participation and detailed discussion held across our Supply Engine and north American businesses regarding the nature and extent of their key risks. This has helped to enhance our understanding of our changing business risk profile, as well as informing us of emerging risk areas. Improvements in our controls for managing operational risks ensured that we both implemented and maintained risk resilience across our integrated supply chain.

Horizon scanning

Looking ahead, our external risk landscape will continue to evolve, but we are of the view that this will create new opportunities for all our businesses. This year we have seen many of our customers seeking our assistance to help them manage the growing consumer concerns with 'Blue Planet' plastics. At the same time there is increased recognition by our customers of the positive benefits of our returnable plastic packaging. In the medium term we envisage greater technological disruption in our industry including the adoption of alternative uses and sources of fibre. These provide both threats and opportunities as we, and others, seek to secure competitive advantage and/or create new markets for our products and services. In the longer term, social pressures to improve and manage areas of environmental risk can be expected to increase.

Developments in risk management

Our risk management organisation remained largely unchanged throughout 2017/18. The Group's risk policy was reviewed and adapted to reflect the growing partnership between our Group risk and strategy functions.

We have long believed that well-managed risk-taking activities form the basis of how we deliver on our Corporate Plan. Strong risk management drives better commercial decisions and this year we have promoted this in a number of key areas across our packaging division. We are pleased with the initial results and expect more to be achieved as this is embedded in our commercial ventures.

Anti-bribery and corruption policy

The Group has zero tolerance for bribery and corruption issues and key components of the Group's Code of Conduct and compliance regime are the specific policies on Bribery and Corruption, Gifts and Entertainment and its "Speak Up!" policy.

The Group conducts annual training on bribery and corruption, as well as ensuring that this is given promptly to new businesses joining the Group. Work around reviewing and limiting the use of agents by the businesses is also an increasing area of focus.

2017 saw the introduction of a twice yearly ethics report to the Audit Committee, as well as a half yearly Group policy compliance certification for management and those who have a customer or supplier facing role in the business.

Viability statement

Context

The Group's strategy and key differentiators are detailed on pages 2 and 13, and our risk management framework is described above. 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 engages with the process through a detailed review at their April Board meeting.

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

Assessment of longer-term viability

In accordance with the revised 2016 UK Corporate Governance Code, the Directors have assessed the viability of the Group over a three-year period to 30 April 2021, which is a longer period than the 12 month outlook required in adopting the going concern basis of accounting.

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 pan-European customer relationships.

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

The assessment of the Group's viability considers likely downside sensitivities (including mitigating actions), both individually and in combination. Downside sensitivities selected are severe but plausible scenarios aligned to the principal risks and uncertainties set out on pages 42 to 45 where the realisation of these risks is considered more than remote, taking into account the effectiveness of the Group's risk management and control systems and considering current risk appetite. The degree of severity applied to the sensitivities was based on historical extremes and the Directors' assessment of plausible movement in assumptions. Sensitivities considered included a 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	Gross impact	Net impact	Link to strategy	Risk appetite	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 existing supply cycle network.	↗	↔	To double our size and profitability		• 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		• 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		• 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 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		• Continued uncertainty about how the UK's exit from the EU might be implemented. • Failure to meet funding needs at favourable debt terms.
5. Concentration and consolidation of markets Market consolidation may create larger and more focused competitors which would weaken our position and bargaining power.	↗	↘	To double our size and profitability		• Our weaker competitive position may decrease sale volumes and margins. • Competitors may succeed in imitating our integration model that challenges our supply cycle business model. • We may face a 'perfect storm' scenario where customers, suppliers and competitors dominate.
6. Governance and compliance Non-compliance with local laws or regulations may damage our corporate reputation and subject the Group to significant financial penalties.	↗	↔	To delight our customers		• Direct intervention due to anti-trust concerns. • 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 appetite key

Acceptable | Re-assess | Unacceptable

Risk impact key

Increased | Stable | Decreased

Opportunities	Management controls	Board reviews
• We could succeed in entering new key markets and targeting growth areas. • We continue maintaining a positive track record across small and large transactions.	• We have a diverse acquisition strategy which includes bolt-on transactions. • Through the Group Strategy Committee, the paper division has clear overseas targeted investments in key markets and geographies (including the US).	• 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 quarterly throughout the year. • The Board received detailed updates on the Interstate transaction process.
• 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.	• Management teams continue to lead projects based on cost optimisation and operational efficiency. • We continue to invest in a strategy to address any long-term Eurozone currency imbalances by managing impacts of short-term slower-growth markets in higher-growth geographies.	• At each Board meeting the Group Chief Executive and Group Finance Director presented reviews and forecasts on the impact of a macro-economic environment. • The Board held discussions on the potential implications of the UK's exit from the EU.
• Improving supply chain performance by exploring our closed-loop and short-paper strategy. • Accessing additional recycled paper material outside of the UK. • Improvements in our internal supply of kraft paper from the Riceboro Mill.	• Enhancing the integration approach to all recycled paper/kraft paper across all geographies. • Considering kraft paper opportunities via further acquisition or commercial contracts with European and US partners. • Adopting innovations including the use of mixed paper in our mills, fibre mining technologies, and extraction of clean fibre.	• The Board regularly discussed M&A opportunities with a particular focus on security of supply including the positive effect of the Interstate Resources and EcoPack and EcoPaper acquisitions. • The Board considered the evaluation of existing market supply of kraftliner and other paper grades.
• Securing access to suitable sources of debt capital through effective active management of our core banking partners. • Becoming a constituent of the FTSE 100 Index helps us to build greater liquidity with institutional and equity investors.	• The Group has access to bank funding from its Revolving Credit Facility, maturing in May 2020. • 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.	• 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 arrangements, and new debt financing arrangements.
• 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.	• An organisation structured to actively manage strategic segments for display and heavy duty as well as consulting services. • Regular review and updates of the global value proposition for target customers. • Active project management focused on cost optimisation and footprint improvements.	• The Group Finance Director provided the Board with regular updates on market and competitor activity.
• An opportunity to demonstrate a standard of ethics and behaviour well above expectations of all stakeholders. • Enhanced collaboration with peers and stakeholders to monitor the implications of change in the regulatory landscape.	• Adoption of new policies and a thorough review of all existing Group policies. • Deployment of compliance as a core management standard and structured training across the Group. • Engaging external advisers to undertake compliance and certification testing.	• The Audit Committee regularly reviewed results of the internal control reports. At every meeting the Board received an internal corporate governance update. • Audit Committee received reports on ethics and compliance. • The Board discussed anti-tax evasion legislation, GDPR and modern slavery.

Principal risks	Gross impact	Net impact	Link to strategy	Risk appetite	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		• 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 to traditional single use and recyclable packaging to broaden our offering in existing markets.
8. Talent barriers Despite our commitment we may fail to retain, engage and develop productive workforce and to develop key talent.	↗	↔	To realise the potential of our people		• 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. Digital vulnerabilities Inability to integrate our digital printing technology and to protect our key IT infrastructure.	↗	↔	To delight our customers		• 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-attack 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		• 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		• Inability to manage energy demand needs within our sustainability targets. • Shift in recycling behaviour and consumer demand may hinder our competitive edge. • Ownership of a kraft mill brings new sustainability challenges through forest ownership.
12. Strategic process change Investments focusing on new energy initiatives (e.g. 'perfect box') may fail to deliver expected returns.	↗	↔	To double our size and profitability		• Unanticipated and protracted recovery due to a failure of our critical business processes. • Failure of strategic process change or system implementation failure.

Net risk appetite key

Acceptable Re-assess Unacceptable

Risk impact key

Increased Stable Decreased

Opportunities	Management controls	Board reviews
• Identifying early signs of growth opportunities by actively engaging with our customers. • Exploring new opportunities in the packaging business as an alternative to single use plastic packaging.	• Progressing innovation in e-commerce, bricks and mortar, digital world and the consumer's experience. • Managing 'front end' supply chain services with FMCG, industrial, heavy duty and display markets. • Extending e-commerce skills across the European packaging business and strengthening e-commerce in the US.	• The Board received a technical innovation presentation on specific packaging sectors with regards to e-commerce. • The Board considered customer shopping habits as part of Group Strategy review.
• Developing employee centred mobile processes through the use of global IT systems to ensure effective use of skills and resources. • Attracting young talent through DS Smith Charitable Foundation work and our partnership with the EY Foundation.	• 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.	• The Nomination Committee regularly reviewed Board succession planning and talent management. • The Group Chief Executive updated the Nomination Committee on senior management and talent management programmes.
• 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.	• Improving our awareness programme on security threats and best practice. • The IT optimisation programme continued to drive improvement in cyber skills and defences.	• The Board reviewed digital vulnerabilities as part of the Corporate Plan process.
• Enhancing strategic alliances with universities and paper machine manufacturers. • Exploring the use of virgin fibre in a sustainable manner, including production of kraft substitute and kraft top products.	• Additional investments in research and development of fibre recovery, pulping, papermaking and performance packaging. • Improving the management of maximisation of fibre efficiency.	• The Board regularly discussed the security of supply of existing materials as part of M&A updates. • The Board received a presentation on technical innovation in packaging.
• Implementation of a clean energy strategy ('Energy from Waste' project at Kemsley). • Listening to our stakeholders and encouraging wider engagement.	• 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.	• The Board received updates on Group sustainability performance.
• Enhancing the effectiveness of fibre and other efficiency programmes.	• All mills operations based on clearly defined asset management techniques. • Improved project management approach to process change initiatives.	• The Group Chief Executive and Group Finance Director presented the Board with regular updates on the progress of the support function review implementation.

This section sets out our corporate governance processes and the role they play in supporting the delivery of our strategy.

Introduction

It has been a year of considerable success, with DS Smith being admitted to the FTSE 100 Index. This elevation is a reflection of the excellent performance of all our employees, our consistent organic growth and our proven expertise in integrating acquisitions.

I 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 in the way in which we engage with each other, our customers, employees, shareholders, suppliers and other stakeholders. Our reputation as a Group is founded on always meeting these high standards. Fostering the right culture at DS Smith is critical to our success.

Governance code

I firmly believe that good corporate governance is critical in helping to build a successful business in a sustainable manner. During the year there have been various new regulations that the Board has taken into account and they are covered in this report. The Board has discussed means of fostering a more meaningful engagement between the Board and our workforce, in line with forthcoming Financial Reporting Council governance changes, and I look forward to updating you on these initiatives next year.

Diversity

There has been a continued focus on diversity during the year with the publication of the Hampton-Alexander review, the McGregor Smith and Parker reviews during 2017 and the new requirement for companies to publish gender pay gap information. The Board and I support the increased spotlight on this area and are committed to improving diversity throughout the Company, not just with regards to gender and ethnicity, but in the broader sense to include diversity of thought, tenure, age, experience, skills, geographical expertise, education and professional background.

Studies have shown that diversity can add value to boards and their decision making. The Board has reviewed our progress towards becoming a more diverse and inclusive business.

Board composition

Part of my role is to keep the membership of the Board and its range of skills under review. Ian Griffiths is stepping down as a non-Executive Director with effect from 28 June 2018 and I would like to take this opportunity on behalf of the Board to thank him for his insightful contribution over the last three years. A search for two new non-Executive Directors to join the Board is under way. We are looking to appoint outstanding candidates with a diverse range of experience, to maximise Board effectiveness.

External evaluation of Board effectiveness

In January this year, I commissioned an externally facilitated review of the Board and its committees to provide external input into their functioning and to identify ways in which to enhance our overall effectiveness. Details of the process, outcomes and actions are set out on page 58.

Culture and values

As Chairman, I am responsible for establishing and embedding the culture of the Board, which in turn sets the tone from the top for the culture of the Company.

New ambitions for our business require a shift in how we lead and manage our people. Earlier this year we launched our Management Standards which set the foundation for a common, core and consistent view of what good management looks like for DS Smith. As part of this process, we carried out a review of our Group policies to better align them with the ever changing legal and regulatory environment. You can read more about this on page 54.

Shareholder and wider stakeholder engagement

The Group's key stakeholders and their differing perspectives were identified and taken into account as part of the Board's strategy and corporate plan discussions. These discussions centred not only on delivering increased value for shareholders but also assessed the impact on the Group's wider stakeholders. Details of the Group's key wider stakeholders and the value of the strategy for them is set out below. 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 decision making. More information about how we engage with our stakeholder audience is set out on pages 59 and 60.

Gareth Davis – Chairman
17 June 2018

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 (Governance Code). This report outlines how we have applied the Governance Code's main principles. Published by the Financial Reporting Council, the Governance Code is available at www.frc.org.uk

Leadership

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

From page 54

Effectiveness

Your Board continuously 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 58

Accountability

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

From page 40

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 68

Relations with stakeholders

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

From page 59

The Directors talk about their approach to governance and what influences them.

What considerations and steps has DS Smith taken towards effective engagement with wider stakeholders?

I have always found DS Smith to be committed to maintaining good communications with stakeholders. The employee engagement survey is a very effective way of gauging what employees think is working and more importantly what is not working. There is an effective and empowered employee voice. Employees' views are sought out, they are listened to and they see that their opinions count and make a difference. The Board level discussions around how these opinions should be addressed is always very stimulating.

As a business, DS Smith works closely with the communities in which it operates. Although it is a global company, it is also a very local company. As a responsible corporate citizen DS Smith is aware of its potential to have a far reaching impact beyond the factory walls. The business occupies an important place within the communities where it operates, creating value through business operations and prosperity for shareholders. As a major employer, DS Smith has the capacity to affect the lives and livelihoods of thousands of people. Through global distribution networks DS Smith interacts indirectly with millions of consumers worldwide every single day. As a Group, DS Smith is committed to engaging with all of these external stakeholders and to ensuring that the influence it has is positive and mutually beneficial.

Does DS Smith have diversity initiatives and are they linked to the organisational strategy?

DS Smith is a diverse and growing company. Our businesses operate in many different countries and we have colleagues with different backgrounds and experiences. Everyone has something to bring because there's no such thing as universal experience. Companies with diverse management do better, so it's in our interests to make sure that when we recruit, whether onto the Board, into senior management or more widely, our workplaces better reflect our society.

Diversity is not just a 'women's issue', or a 'racial issue' or an 'educational issue'. It's something that we all benefit from. Diversity isn't a box-ticking exercise. You can't just fill quotas of people who all look a little bit different and expect the magic to happen if they all happen to think alike. Real diversity means people with different backgrounds, different ways of looking at the world, different interests and insights. And it means everyone respecting and seeing the value in thinking that differs from their own.

What makes the DS Smith's business model successful and how does it align with the Company's purpose and values?

Anyone who has ever heard me speaking about DS Smith knows that I think this is a great company by any measure. DS Smith is driven by the needs of our customers. From design to production and supply to recycling, we offer integrated solutions that address the entire supply cycle, creating simplicity from otherwise complex structures. We work to leverage our scale and geographic footprint to supply our customers with the innovative products they demand, with a level of service and quality that sets us apart from our competitors.

We believe in 'Leading by Listening'. We listen to what our customers want, rather than what the industry has historically offered. That is why at DS Smith we talk about lightening the load for our customers. If we listen to our customers, we'll find out what they want, and then we can become the leader they are looking for.

How does the Board monitor and challenge the implementation of remuneration policy and its alignment with the Company's strategic objectives?

The landscape for executive pay is continually changing. Executive pay and gender pay gaps are at root an issue of fairness. Last year I worked with the Remuneration Committee and its advisers to produce a clear remuneration policy that promotes the long-term success of the Company. This policy was adopted by shareholders with a 96.96% vote in favour at the AGM in 2017. As a modern employer, the Company takes its responsibilities under the new gender pay regulations very seriously.

The Remuneration Committee continued to ensure that decisions made during the year reflected our principles, Company performance and external considerations. The importance of aligning our remuneration arrangements with our strategic priorities played a crucial role in the Committee's decision-making during the year.

When looking at new appointments to the Board and succession planning more generally, what do you think makes an effective leader?

Change these days happens more quickly and more frequently and leaders need to be able to create conditions that encourage purposeful innovation and the ability to adapt as and when necessary. So when we are recruiting I would say that we should always be looking for agile leaders, people who display some common traits.

Agile leaders demonstrate humility. They are able to accept feedback and acknowledge that others might know more than they do. They are adaptable. They accept that change is ever present and dynamic and that changing their minds based on new information is a strength rather than a weakness. They should be visionary, be someone with a clear sense of long-term direction, even in the face of short-term uncertainty. I look for someone who is engaged. Someone with a willingness to listen, interact and communicate with internal and external stakeholders, with a strong sense of interest and curiosity in emerging trends.

What makes DS Smith's governance framework effective?

DS Smith keeps its governance framework under review to ensure it enhances the Board's ability to exercise proper oversight. Governance is an important element of the Board environment. To support how DS Smith does business and how the Company serves stakeholders it needs to be relevant, authentic and meaningful. As a Board we regularly discuss the evolving regulatory environment and the internal governance processes underpinning programmes and initiatives.

The governance process is simply the set of rules and procedures through which DS Smith is guided and controlled and it applies throughout the organisation. Every local business makes sure they have something in place that delivers full compliance both with local laws as well as wider regulations. Doing so ensures that decisions are taken at the right time and at the correct level of the business after the consideration of all relevant factors, ranging from commercial value to reputational risk.

Operating in multiple jurisdictions with varying legislative, social and cultural issues, to what extent is the 'right thing to do' guiding the Board's thinking as well as what is right legally?

Complying with the law and "doing the right thing without question" is an integral part of the culture and values of DS Smith and this will become even more relevant as the reputation of our business grows and we continue our expansion into new markets and geographies.

It is important for all of our employees as well as protecting the Company. As DS Smith is now a FTSE 100 company and continues to grow, we are subject to greater scrutiny, as well as being subject to greater regulatory requirements. Abiding by a compliance framework allows us to give all our stakeholders confidence in DS Smith and avoid breaching rules and regulations, which could lead to both corporate and personal liability.

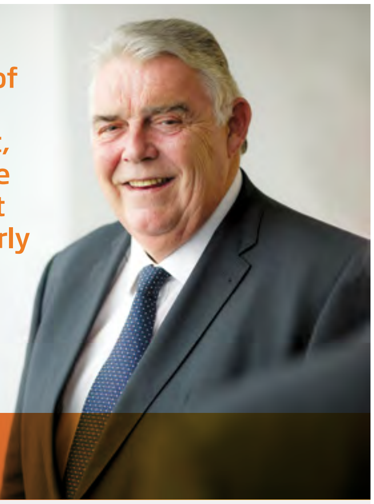
How does DS Smith's governance support the strategic goals?

In the last year, the Board looked at a number of acquisition prospects, two of which, Interstate Resources and EcoPaper and EcoPack, completed during the year. In both cases there were early discussions around the rationale for the transaction, the potential synergies, the key risks and the key financial considerations. Management and the Board's advisers produced a number of detailed papers to help the Board consider various aspects of the acquisition opportunities.

As a Board we discussed if these transactions would support the Company's longer-term strategic ambitions and deliver financial returns for shareholders and positive benefits for other stakeholders. I was particularly impressed by the detailed planning and preparation carried out by the integration team.

The right skills, experience, independence and knowledge to embed the right culture.

"The Committee continues its work of ensuring the Board composition is right, that our governance is effective and that succession is properly planned for."



Gareth Davis – Chairman

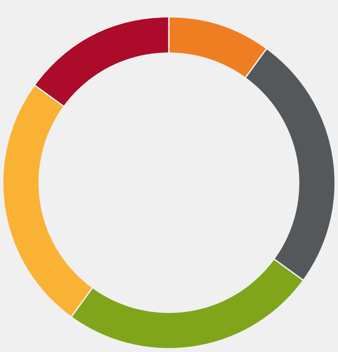
Key objective of the Nomination Committee

To make sure the Board comprises individuals with the necessary skills, knowledge and experience to ensure that it is effective in discharging its responsibilities and has oversight of all matters relating to corporate governance.

Key responsibilities

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

Allocation of time



Membership and operation of the Committee

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

The Group General Counsel and Company Secretary acts as Secretary to the Committee.
Details of individual Directors' attendance can be found on page 55.

Succession and diversity at Board and senior management levels are key aspects of our agenda. Our priorities over the year were as follows:

- Following Ian Griffiths' decision to step down from the Board in June 2018, to scope out the key skills, experience, characteristics and requirements for two new non-Executive Directors.
- To keep under review succession planning at the Executive Director level and support succession planning at senior management levels.
- To review the skills matrices of the senior management team following the Interstate Resources acquisition.
- To review our progress on becoming a more diverse and inclusive business.

Succession planning

The Board takes succession planning for both Board members and senior management very seriously. During the year, the Committee held four formal meetings and there were regular updates.

Ian Griffiths, who has been a non-Executive Director of DS Smith Plc since June 2014, decided to step down from the Board from 28 June 2018. Given the growth of the Group and its increasing international presence, the Nomination Committee is looking to further strengthen the Board with the appointment of two new non-Executive Directors. The Committee discussed the preferred skills and experience for the role specifications and considered the need for a robust selection process, facilitated by independent executive search consultants. We then invited 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. The Committee discussed the responses and selected Russell Reynolds Associates. Aside from assisting with recruitment, Russell Reynolds Associates has no other connection to the Company.

In line with best practice, during 2017/18 the Nomination Committee has also been exploring the contingency plan for unexpected departures and reviewed the Group Chief Executive's succession plan. The plan envisages the role being filled by either internal or external candidates and this discussion will be revisited in 2018/19.

Diversity

DS Smith acknowledges the importance of diversity and inclusion to the effective functioning of the Board. This includes diversity of skills and experience, age, gender, disability, sexual orientation, cultural background and belief. Currently, 25 per cent of our Board roles are held by women. 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. Our Board diversity statistics can be found below.

I believe that diversity should extend beyond the boardroom and so the Nomination Committee supports management in its efforts to build a diverse organisation. In preparation for the first gender pay gap reporting in April 2018, which is available on our website, we looked at any factors that might lead to a gender pay gap across the Group. Through our internal initiatives, we have 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. For us, it is all about merit. Anyone can and should be able to realise their full potential in DS Smith without experiencing inequality and unfairness on any grounds.

Board gender diversity

- Female: **25%**
- Male: **75%**

Board tenure

- 4 – 6 years: **62%**
- 7 – 9 years: **38%**

Board composition

- Executive: **25%**
- Non-Executive: **75%**

Independence and re-election of Directors

The Board is satisfied that all of its non-Executive Directors bring robust independent oversight and continue to remain independent. Biographical details of each Director can be found on pages 56 to 57. An evaluation of the performance of the Board was carried out by an external facilitator. More information about this process and the resultant action plan can be found on page 58.

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

Following these evaluations by the Nomination Committee, the Board recommends the re-election of all the Directors who are standing for re-election at the 2018 Annual General Meeting (AGM). Details about the Directors, including their other directorships, can be found in their biographies on pages 56 and 57.

Gareth Davis

Gareth Davis – Chairman
17 June 2018

Our governance structure unpacked.

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.
- Approving the strategy.
- Overseeing implementation of the strategy by ensuring that the Group is suitably resourced to achieve its strategic aspirations.

The Board considers the impact of its decisions and its responsibilities to all of the Group's stakeholders. Read about our key stakeholders on pages 59 and 60.

Chairman

- 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 Chair and appraises his performance.
- Acts as intermediary for other Directors, if needed.
- Available to respond to shareholder concerns when contact through the normal channels is inappropriate.

Non-Executive Directors

- Contribute to developing our strategy.
- Scrutinise and constructively challenge the performance of management in the execution of our strategy.

Audit Committee

Oversees and monitors the Company's financial statements, accounting processes and audits (internal and external).

Controls matters relating to fraud and whistleblowing reports received via "Speak Up!".

For more information see page 64

Remuneration Committee

Reviews and recommends the framework and policy for the remuneration of the Chairman, the Executive Directors, the Company Secretary and senior executives.

Considers the business strategy of the Group and how the remuneration policy reflects and supports that strategy.

For more information see page 68

Nomination Committee

Reviews the structure, size and composition of the Board and its Committees.

Identifies and nominates suitable candidates to be appointed to the Board and reviews the talent pool.

Considers wider elements of succession planning below Board level, including diversity.

For more information see page 50

Disclosure Committee

The Group Chief Executive, the Group Finance Director, the Chairman and the Company Secretary are the members. Other Directors, representatives from the Company's brokers, members of the Company's management and other external advisers may attend meetings in whole or in part, if invited.

The Disclosure Committee oversees the Company's compliance with its disclosure obligations.

US Sub Committee

The Chief Executive of Indevco Group, Neemat Frem, the Chairman, the Group Chief Executive, the Chair of the Audit Committee and the Group Finance Director are the members. Other Directors, representatives from the internal Auditor and external Auditor, members of the Company's management and other external advisers may attend meetings in whole or in part, if invited.

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

General Purposes Committee

The Group Chief Executive, Group Finance Director and the Chairman are the members.

To facilitate swift and efficient operational management decision-making for the business in relation to day-to-day financing and administrative matters.

Governance in action case study

Emma Ciechan, director of Planning, Performance Management & Sustainability, delivering an update to the Health and Safety and Sustainability Committee.

"We are building an even better business, focused on delivering sustainable value to all of our stakeholders. Truly sustainable value is found when balancing the needs of our business, our environment and our people."

Miles Roberts
Group Chief Executive

Group Chief Executive

- Responsible for management of the Group as a whole.
- Delivers strategic objectives within the Board's stated risk appetite.

Group Strategy Committee

Chaired by Miles Roberts

Meets monthly

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

Group Operating Committee

Chaired by Miles Roberts

Meets monthly

The Group Finance Director, divisional Chief Executives, the Group Human Resources Director, the Group General Counsel and Company Secretary, the Group Director of Corporate Affairs, the Group Chief Procurement Officer and the Group Chief Information Officer are the other members.
Considers Group-wide initiatives and priorities. Reviews the implementation of strategy and operational plans. Reviews changes to policies and procedures and facilitates the discussion of the development of new projects.

Group Health and Safety and Sustainability Committee

Chaired by Miles Roberts

Meets monthly

The Group Finance Director, divisional Chief Executives, the Group Human Resources Director, the Group Director of Corporate Affairs, the Group Health and Safety Director, the Director of Planning, Performance Management & Sustainability and the Group General Counsel and Company Secretary are the other members. Oversees the management processes, targets and strategies designed to manage health & safety and environmental and social risks and opportunities, and to ensure compliance with the Group's health and safety and environmental and social responsibilities and commitments.

Group Compliance Committee

Chaired by Miles Roberts

Meets quarterly

The Group Finance Director, the Group Risk Officer, the Group Financial Controller and the Group General Counsel and Company Secretary are the other members. Oversees compliance with all legal, regulatory and organisational requirements including the effective interface between the financial, legal, risk and internal audit functions.

Operating Divisions

Day-to-day business delivery

Corporate Functions

Day-to-day business delivery

Health and Safety and Sustainability Committee

This committee provides the drive, insight and expertise to enable the business to operate ever more sustainably, by focusing on:

- Our people – ensuring the safety, wellbeing and development of our colleagues and contributing to our communities. We are keen to ensure DS Smith is an engaging employer where our people can thrive and fulfil their potential. Across our business we play an active role in our communities, enabling our people to support the causes that matter to them.
- Our environment – minimising our impact from design to production, and supply to recycling. This commitment is a key part of how we are working to create a sustainable business model. Throughout our operations and supply chains, from design to production and supply to recycling, we are reducing energy consumption, minimising waste and embedding the highest ethical standards to ensure the most positive impact on our environment.

An insight into how the Board's approach to governance supported the delivery of our strategy.

Strategic goal	Board governance role	Risk management framework	Key activities in 2017/18
To delight our customers See our principal risks on page 40 for more detail.	• Determine risk appetite. • Ensure the Company remains at the forefront of developing and embedding best practice in responsible business behaviour. • Maintain and enhance DS Smith's culture and values and key policies and procedures and ensure these are rolled out to existing and acquired businesses. • Continue to strengthen internal controls and reporting.	• Retailing fails to evolve • Governance • Digital vulnerabilities	• Carried out a robust assessment of principal key risks (see pages 42 to 45), monitored and reviewed the internal controls process and assessed the Group risk profile by identifying where the business key risks lay, aligning them with the business risk appetite and highlighting how to target and mitigate those risks effectively. • Reinforced compliance with DS Smith's Code of Conduct and the Operating Framework, a document which sets out the Group's culture and values, as well as its key policies and procedures, all in accordance with the principles of good corporate governance.
To realise the potential of our people You can read more about how we develop our people on page 22.	• Annual evaluation of Board performance. • Review of the development pipeline. • Continue to monitor senior executive talent management and development plans to provide succession for all key positions. • Continue to increase the diversity of the Board and the management team.	• Talent barriers	• Continued to focus on the composition, balance and effectiveness of the Board. Undertook an external evaluation of the Board, with the aim of becoming the best Board we can be. • Reviewed the key operational roles and identified gaps in experience needed to deliver the strategy. • Held a number of meetings with people in the senior talent pipeline to further improve information flow. • Reviewed the governance framework and continued roll out of training and awareness drivers for key policies. • Monitored senior executive talent management and development plans with succession planning for all key positions in mind. • Monitored health and safety performance across the Group and reviewed the lessons learned to keep our employees and others affected by our operations safe. Regular Board updates received on actions improving health and safety.

Strategic goal	Board governance role	Risk management framework	Key activities in 2017/18
To lead the way in sustainability See also our Sustainability Report on our website.	• Keep financial key performance indicators (KPIs) under review. • Keep the Group's dividend policy under review. • Continue to monitor compliance with the key policies.	• Sustainability promise • Inability to secure paper supply • Unanticipated fibre technology changes	• Reviewed financial KPIs. • Considered and approved the Group's dividend policy. • Further understanding and planning actions in relation to new regulations over the period.
To double our size and profitability You can read more in our strategic report on page 2.	• Enhance the Board's strategic understanding of geopolitical and economic risks in international markets. • Approve the Corporate Plan and keep it under review. • Consider acquisitions and divestments as identified and determine appropriate course of action.	• Eurozone and macro-economic limits • Concentration and consolidation of markets • Access to markets and liquidity restrictions • Process changes	• Reviewed and approved the Corporate Plan. • Reviewed and approved a number of acquisitions, including Interstate Resources. • Reviewed the potential impact of the EU referendum (Brexit) to the business.

Board and Board Committee meetings attendance

	Board	Nomination Committee	Audit Committee	Remuneration Committee	Annual General Meeting	% attended
Total number of meetings in 2017/18	9	4	4	5	1	
Executive Directors						
Miles Roberts	9	4	N/A	N/A	1	100%
Adrian Marsh	9	N/A	N/A	N/A	1	100%
Non-Executive Directors						
Gareth Davis	9	4	N/A	5	1	100%
Chris Britton[1]	8	4	4	5	1	95%
Ian Griffiths[2]	9	4	4	4	1	95%
Jonathan Nicholls[1]	8	4	4	5	1	95%
Kathleen O'Donovan	9	4	4	5	1	100%
Louise Smalley	9	4	4	5	1	100%

In addition to the seven scheduled Board meetings, two ad hoc 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.

1. Chris Britton and Jonathan Nicholls were each unable to attend one ad hoc Board meeting due to prior business commitments.
2. Ian Griffiths was unable to attend one Remuneration Committee meeting due to prior business commitments.

The Board is focused on creating an inclusive culture in line with DS Smith's values.

Gareth Davis
Chairman

Key strength:
- Wealth of international experience
- Over 8 years' experience as a chairman

External appointments:
- Gareth is Chairman of Ferguson plc (formerly Wolseley plc)

Principal Board Committees
- Remuneration
- Nomination (Chair)

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.

On 2 April 2018 he stepped down from chairmanship of William Hill PLC. Previously he was Group Chief Executive of Imperial Tobacco Group PLC from its incorporation in 1996 until May 2010.

Miles Roberts
Group Chief Executive

Key strength:
- Clear strategic mindset
- Strong leadership skills

External appointments:
- Miles is a non-Executive Director of Aggreko plc

Principal Board Committees
- Nomination

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 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.

Adrian Marsh
Group Finance Director

Key strength:
- Strong financial expertise within an international context
- Wealth of experience as CFO in large listed multinationals

External appointments:
None

Principal Board Committees
None

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.

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

Principal Board Committees
- Audit
- Nomination
- Remuneration

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.

Ian Griffiths
Non-Executive Director

Key strength:
- Corporate finance expertise
- Extensive audit experience

External appointments:
- Ian is Chief Operating Officer and Group Finance Director of ITV plc

Principal Board Committees
- Audit
- Nomination
- Remuneration

Ian was appointed to the Board on 23 June 2014 as non-Executive Director. He is stepping down from the Board with effect from 28 June 2018.

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

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

Principal Board Committees
- Audit (Chair)
- Nomination
- Remuneration

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.

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

Kathleen O'Donovan
Non-Executive Director

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

External appointments:
- None

Principal Board Committees
- Audit
- Nomination
- Remuneration (Chair)

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 September 2013 and is a member of the Audit and Nomination Committees.

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.

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

Principal Board Committees
- Audit
- Nomination
- Remuneration

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.

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 division.

Being the best Board that we can be.

Formal evaluation is a valuable tool for improvement.

With internal evaluations having been carried out in each of the last two years, an external evaluation of the Board and its Committees was conducted this year in keeping with the guidance provided under the UK Corporate Governance Code. Clare Chalmers Limited (CCL) was appointed, a specialist consultancy which undertakes no other business for the Company. A formal assessment process was undertaken and the Chairman, together with the Group General Counsel and Company Secretary, provided a comprehensive briefing to CCL.

Observation

The review was conducted from January to April 2018. As part of the process CCL attended and observed a Board meeting and was given access to Board papers for the prior 12 months to enhance CCL's understanding of how the Board and its Committees operate.

Interviews

Individual interviews were held with each Director and the Group General Counsel and Company Secretary. An interview script was developed to ensure consistency, with bespoke questions to allow for additional information reflecting function, role, tenure and experience.

> **"Our Board is committed to excellence in corporate governance, but it is how the personalities, competencies and experiences around the table interact with each other that determine the Board's effectiveness."**

Evaluation and report

CCL found that the DS Smith Board operated to a high standard and worked well and effectively. It had overseen a period of rapid growth over the past five years that had taken the Company into the FTSE 100. CCL noted that the Board benefitted from a stable and long-serving group of directors, led by a highly capable Chairman. The challenge now facing the Board was to recruit new directors who could fill forthcoming vacancies and to ensure that all the Directors and the Board as a whole contributed fully to the Board's role.

Observation → **Interviews** → **Evaluation & report** → **Discussion** → **Action plan & sign off** → **Shared action plan**

CCL discussed the findings with the Chairman and presented the conclusions to the Board. The Board discussed the key points and agreed an action plan. As with every high performing board, the Directors will continue to look for areas of improvement.

Action plan	Recommendations
Board dynamics and culture	• The Chairman, together with the Group General Counsel and Company Secretary to agree a programme of essential site visits and meetings to be covered as part of induction, plus ongoing site visits for non-Executive Directors on at least an annual basis.
Board and executive succession	• Nomination Committee to prioritise succession planning, including recruitment, induction and ongoing Director development.
Strategic focus	• Non-Executive Directors to consider how best to use the post-meeting session to discuss ways of increasing the level of challenge, particularly on strategy and risk issues.
Communication, shareholders and stakeholders	• Board to consider ways of engaging with the customer perspective.
Risk framework	• Board to explore risk appetite within DS Smith as way of moving from oversight to active engagement on risk.
Board Committees	• Board to consider a more formal structure for the talent review and succession process.

Relations with stakeholders Our key stakeholders: who they are and how we engage

Honest and regular engagement with our shareholders and wider stakeholders is a vital ingredient of building the sustainable business we are so proud to be a part of.

As a company, we recognise that our responsibilities go far beyond delivering excellent returns to our shareholders. For us it is as much about satisfaction and doing the right thing as it is about healthy profits. Our reputation as a Group is founded on always meeting the highest ethical standards. This is evident in the way we engage with our customers, employees, shareholders, suppliers and other stakeholders. The DS Smith Code of Conduct has been created to clarify our ethical position on key topics and enshrines our core values – to be caring, challenging, trusted, responsive and tenacious.

You can read our Code of Conduct in full at http://www.dssmith.com/people/culture/code-of-conduct/

Stakeholder type	Link to our core values	Priority for DS Smith
Our people		High

How we engage:

1. Health and safety

The safety of our people is our number one priority. We take great pride in our safety record and are pleased with the progress made in reducing our accident frequency rate. Nonetheless, we remain focused on continuing our long-term goal towards a zero accident workplace.

Vision Zero is our step up in terms of health and safety – our vision for a future of zero harm – for anyone who comes to work at, or visits, our sites, offices, warehouses or any of our facilities. We want them to go home safe and healthy every single day.

In order to continue our journey towards zero harm, we need to focus on developing our culture and people's behaviour and mind-set so that working safely and healthily becomes the norm in our businesses and is integral to the way we do things.

2. Management standards

Following feedback from our last employee survey, new ambitions for our business require a shift in how we lead and manage our people. The Management Standards, which were introduced at the beginning of 2018, have been defined to ensure that the organisation can deliver on its Corporate Plan by setting baseline performance expectations for all managers. The nine Management Standards list the key expectations of a common, core and consistent view of what good management looks like for DS Smith, which in turn will empower and engage employees to contribute to a high performing organisation.

Achievements over the last 12 months

- 6.7% (2016/17: 19%) reduction in Accident Frequency Rate.
- 239 (2016/17: 207) sites with zero lost time accidents.
- All nine competencies comprising the Management Standards have been rolled out across the Group.

* Read more about engagement with employees in the People section on page 22.

Stakeholder type	Link to our core values	Priority for DS Smith
Our customers		High

How we engage:

1. Packaging strategists

Our packaging and display strategists, with their cross-industry experience, work in partnership with our customers to deliver results through packaging. We do this by helping them increase sales, lower cost and manage risks.

The challenge is to continue to deliver consistent quality and service, but with the opportunity to improve profitability for our customers through our ability to deliver in six distinct areas:

- Superior customer experience
- Authenticity
- Brand building
- Sustainability
- End-to-end solutions
- A connected world

Achievements over the last 12 months:

- Six new PackRight centres opened in 2017/18 bringing the total to 42 PackRight and Impact Centres throughout Europe.
- Strong organic volume growth in box volumes.
- We have reduced our defect rate (measured in defects-parts-per-million) by 28 per cent.
- Development of "Made2Fit", an innovation to tackle the e-commerce challenge of an average of 45 per cent void space.

Stakeholder type	Link to our core values	Priority for DS Smith
Our investors		High

How we engage:

1. Trading updates and investor meetings

The Board maintains and values regular dialogue with shareholders throughout the year. Formal trading updates are given to the market four times a year. Following the quarterly update, in Q1 and Q3, a conference call is held with shareholders and analysts and after the full-year and interim results a presentation is made to shareholders and analysts. In addition, pre-close trading updates are typically given at around the time of the close of the half and full-year periods.

Throughout the year, meetings and conference calls are organised in the UK, Europe and the US, at which the Group Chief Executive and Group Finance Director meet with investors, either individually or in groups, to discuss Group strategy and performance and respond to any questions raised. These are structured both around the reporting events such as the full-year and half-year results, as part of investor conferences, or ad hoc. The Chairman also meets with investors.

2. Annual General Meeting (AGM)

In September 2017 we welcomed shareholders to our AGM. It is an annual opportunity for our Board to directly engage with shareholders. Our Group Chief Executive gives a presentation on the performance of the business and our Chairman hosts an insightful Q&A session, encouraging challenging questions and constructive dialogue.

At the AGM in September 2018 we will be seeking to amend our Articles of Association to allow for hybrid AGMs in the future. These are meetings where virtual technology allows those shareholders who cannot attend in person to participate using an app. Making the most of advances in technology like this allows us to engage with more shareholders.

Achievements over the last 12 months:

- June 2017 full-year results presentation, the announcement of the acquisition of Interstate Resources, with an accompanying equity issue, followed by investor meetings.
- December 2017 half-year results presentation and investor meetings.
- Nine investor conferences attended.
- Four quarterly trading updates given to the markets.
- Investor roadshows to London, Edinburgh, Paris, Frankfurt, New York, Boston, Toronto, Atlanta, Chicago and Los Angeles.

Stakeholder type	Link to our core values	Priority for DS Smith
Local communities		Medium

How we engage:

1. Opportunities for young people

We seek to support future generations through our strategic alliances to reduce youth unemployment. From our apprentice programmes, our work with the Alliance for Youth initiative, our links with local schools and funding of scholarships we aim to help educate young people into work.

2. Charitable foundation

DS Smith seeks to make a positive contribution to our communities and build a reputation as a good neighbour and employer. We encourage our people to feel fulfilled through charity, community and volunteering work. We are proud to support our people, our communities and our customers in their goals to give something back through the DS Smith Charitable Foundation.

Achievements over the last 12 months:

- Inaugural partnership with the EY Foundation on the Smart Futures programme.
- For the past four years we have been supporting Keep Britain Tidy's Green Flag Award® scheme. This recognises and rewards well managed parks and green spaces, setting the benchmark standard for the management of recreational outdoor spaces across the United Kingdom and around the world.
- £190,000 donated in the last year to local charities who are engaged in improving or conserving the environment or who provide training and educational opportunities.

Stakeholder type	Link to our core values	Priority for DS Smith
Our Suppliers		Medium

How we engage:

1. Global supplier standards

DS Smith spends approximately €3 billion annually on suppliers and we expect our suppliers to support us in providing the world class quality and service we deliver to our customers on a daily basis.

As a business, we are committed to the highest ethical standards in the way we engage with suppliers. The Global Supplier Standards (GSS) state the minimum requirements and standards imposed on our suppliers in the areas of ethical business practices, code of conduct and social and environmental management. In addition to the general requirements and expectations, the GSS also lay down various product safety and quality assurance requirements and standards. We have conducted a thorough review of our supply chain and identified high-risk suppliers who have signed up to our GSS based on the Ethical Trading Initiative with references to the UK Modern Slavery Act. GSS have become the cornerstone of our supplier on-boarding programme.

Achievements over the last 12 months:

- 65 per cent of our supplier base, representing €1.4 billion spend, have committed to observe our Global Supplier Standards.

Going concern

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

After reviewing the Company's expenditure commitments, current financial projections and expected future cash flows (with appropriate sensitivities applied for deterioration in both underlying cashflow 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 twelve months from the date of approval of this report. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Acquisitions and divestments

2017/18 acquisitions and disposals

On 25 August 2017, the Group acquired 80 per cent of the shares of common stock in the capital of Indevco Management Resources, Inc. (IMRI) from Merpas Co. S.à r.l. Together with the 52,474,156 new ordinary shares allotted to Merpas the Group paid £772 million in respect of cash consideration and repayment of IMRI Group's financial indebtedness. A redemption liability relating to the non-controlling interest of £152 million for the 20 per cent minority stake in IMRI retained by Merpas was recognised at the same time. On fixed dates over the next four years, Merpas can require the Group to acquire some or all of the remaining shares in IMRI on agreed terms under a put option, and on the fifth anniversary of completion, the Group will (unless agreed otherwise) acquire any shares in IMRI that it does not already own.

On 18 October 2017 the Group announced it had entered into an agreement to acquire EcoPack and EcoPaper for an enterprise value of c. €208 million, which completed on 6 March 2018.

These businesses are a leading integrated packaging and paper group in Romania. The acquisition was funded by existing cash and debt facilities and the issue of 6,492,411 ordinary shares to the seller.

On 4 June 2018 the Company announced the proposed acquisition of Papeles y Cartones de Europa, S.A., known as Europac, a leading western European integrated packaging business. The offer price of €16.80 per Europac share values the entire share capital of Europac at €1,667 million (£1,453 million).

In addition to the acqusitions detailed above the Group also made various business acquisitions, which are not considered material to the Group individually or in aggregate.

2016/17 acquisitions and disposals

In the year ended 30 April 2017, the Group made various business acquisitions, which included the acquisition of two businesses specialising in point of sale and display product and services for in-store marketing, Creo in the UK and Deku-Pack in Denmark, the acquisition of Parish (a US manufacturer and supplier of bag-in-box systems), Gopaca (a corrugated producer in Portugal) and P&I Display (a specialist corrugated display business in Portugal).

These acquisitions were not considered material to the Group individually or in aggregate and were for a total of £71 million (net of cash and cash equivalents). Borrowings acquired from these transactions were £14 million.

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. Following the Placing announced on 29 June 2017, 62,637,363 new ordinary shares were placed at a price of £4.55 pence per share, resulting in total proceeds on issue of £288 million in connection with the acquisition of Interstate Resources. On 29 August 2017 52,474,156 new ordinary shares were allotted to Merpas Co. S.a r.l. in connection with the acquisition of Interstate Resources. On 7 March 2018, 6,492,411 new ordinary shares were allotted to Kameran Financial Limited in connection with the completion of the €208 million acquisition of EcoPack and EcoPaper, Romania. These new shares ranked equally in all respects with the existing ordinary shares. Pursuant to the Company's employee share option schemes, 1,619,350 ordinary shares of 10 pence each were issued during the year. 49,449 shares pursuant to the Company's employee share option schemes were issued between 1 May and 17 June 2018 inclusive. The Company has not utilised its authority to make market purchases of 101,451,301 shares granted to it at the 2017 AGM but, in line with market practice, will be seeking to renew such authority at this year's AGM.

Substantial shareholders

Information provided to the Company pursuant to the Financial Conduct Authority's (FCA) Disclosure Guidance and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website. As at 30 April 2018, the following information has been received, in accordance with DTR5, from holders of notifiable interests in the Company's issued share capital.

	Ordinary shares held	%	Nature of holding
Aviva plc	76,565,844	7.12	Direct & indirect
Standard Life Investments Limited	76,190,552	7.09	Indirect
Blackrock Inc	54,506,656	5.07	Indirect
Norges Bank	53,234,429	4.95	Direct
Ameriprise Financial Inc, and its group	47,955,690	4.46	Direct & indirect

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

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

Dividends

An interim dividend for 2017/18 of 4.9 pence per ordinary share was paid on 1 May 2018 and the Directors recommend a final dividend of 9.8 pence per ordinary share which, together with the interim dividend, increases the total dividend for the year to 14.7 pence per ordinary share (2016/17: 15.2 pence). Subject to approval of shareholders at the AGM to be held on 4 September 2018, the final dividend will be paid on 1 November 2018 to shareholders on the register at the close of business on 5 October 2018 including those to be issued in the rights issue. The 2017/18 interim dividend of 4.9 pence, and prior dividends, will be restated in future accounts to reflect the bonus factor adjustment resulting from the rights issue.

Political donations

No political donations were made during the year ended 30 April 2018 (2016/17: 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.

Risk governance

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

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

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

Other disclosures

This Directors' governance report fulfils the requirements of the directors' report for the purposes of the Act. The strategic report can be found on pages 2 to 45, and encompasses our corporate social responsibility report.

In line with the Regulations which implement the European Union Accounting Directive (SI 2015/980), a complete list of the Group's subsidiaries has been included on pages 136 to 140 to comply with s409 of the Act.

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

Subject matter	Page
Important events since the financial year-end	12
Likely future developments in the business	16
Research and development	18
Use of financial instruments	39
Waiver of dividends	61
Employment of disabled persons	23
Employee involvement	22
Greenhouse gas emissions	29

The information that fulfils the requirements of the Corporate Governance Statement for the purposes of the Disclosure Guidance and Transparency Rules can be found on pages 46 to 67, and forms part of the Directors' report. The 2016 UK Corporate Governance Code can be accessed at www.frc.org.uk

Internal control

The Board has an overall responsibility for the Group's system of internal control, including financial, operational and compliance controls. The Board is also responsible for the risk management system and for reviewing its effectiveness. Such a system, however, can only be designed to manage rather than to eliminate risk. Therefore it can provide only reasonable and not absolute assurance against material misstatement or loss. We have the necessary procedures in place to ensure that there is an ongoing process for identifying, evaluating and managing the significant risks to the Group. These procedures are in line with Financial Reporting Council guidance and have been in place throughout the year under review and up to the date of the approval of these financial statements. Our risk governance process, including how it is reviewed by the Board, is described in more detail on page 40.

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

- a clearly defined divisional organisation structure for monitoring the conduct and operations of individual business units;
- clear delegation of authority throughout the Group, starting with the matters reserved for the Board;
- a formal process for ensuring that key risks affecting all the Group's operations are identified and assessed on a regular basis, together with the controls in place to mitigate those risks. Risk consideration is embedded in decision-making processes. The most significant risks are periodically reported to the Board and considered by it. The risk process is reviewed by the Audit Committee;

- the preparation and review of comprehensive annual divisional and Group budgets and an annual review and approval by the Board of the Corporate Plan;
- the monthly reporting of actual results and their review against budget, forecasts (including bank covenant headroom) and the previous year, with explanations obtained for all significant variances;
- 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; and
- communicating key corporate values through our Code of Conduct to all employees.

Internal Audit

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

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

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

Disclosure of information to the Auditor

Each of the persons who is a Director at the date of the approval of this annual report confirms that:

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

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

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

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

By order of the Board

Iain Simm
Group General Counsel and Company Secretary

17 June 2018

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 new Non-Financial Reporting 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]	Sustainable forestry Social pressure for zero packaging waste Our sustainability approach, strategy, focus and targets Our differentiators Risk – sustainability	10 14 26 – 29 13 44
Employees	Code of Conduct[2] Group Health and Safety policy[1] Compliance framework policy[2]	What we create for our people Diversity To realise the potential of our people – performance Board diversity Health and safety Responsible conduct OWN IT! Risk – talent barriers	23 24 22 51 22 28 23 44
Human rights	Modern Slavery policy[2] Code of Conduct[2]	Sustainable governance Risk – governance and compliance	29 42
Social matters	Code of Conduct[2]	Responsible neighbour What we create for our communities	28 28
Anti-bribery and corruption	Anti-corruption policy[2] Gifts and hospitality policy[2] Anti-bribery Anti-corruption policy[2]	Risk – governance and compliance	42
Business model		Our business model	18-19
Non-financial KPIs		Employees: accident frequency rate Sustainability: CO_2 equivalent emissions Customers: on-time in-full deliveries	22 26 20

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.

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

Key objective of the Audit Committee

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

Key responsibilities

- The accounting principles, policies and practices adopted in the Group's accounts.
- External financial reporting and associated announcements.
- Managing the appointment, independence, effectiveness and remuneration of the Group's external Auditor, including the policy on the award of non-audit services.
- Initiating and supervising a competitive tender process for the external audit when next required.
- The resourcing, 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 2014 and the 2016 UK Corporate Governance Code (the Code).
- The provision of advice to the Board on whether the annual report and accounts, when taken as a whole, is fair, balanced and understandable and provides all the necessary information for shareholders to assess the Company's performance, business model and strategy.

Membership and operation of the Committee

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

Membership and operation of the Committee

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

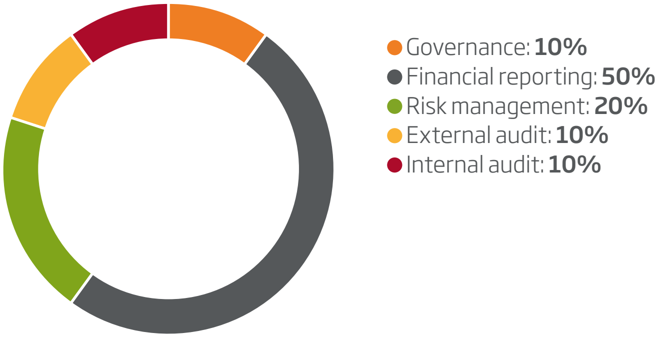
Meetings of the Committee are scheduled close to the end of the half and full year, as well as before the publication of the associated half and full-year financial reports, so as to ensure the Committee is informed fully and on a timely basis on areas of significant risks and judgement.

The Board is satisfied that Jonathan Nicholls and the members of the Audit Committee have both current and relevant financial experience (as set out on pages 56 to 57) and that the Audit Committee, as a whole, has competence relevant to the sector in which the Company operates.

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

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

Allocation of time



Risk management and internal controls

In fulfilling the Committee's oversight of the risk management and control environment, a number of key activities are undertaken during the year, as well as 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 any matters raised through "Speak Up!", the Group's confidential whistleblowing channel, and any related investigations.

The Committee approved the Group's annual Internal Audit plan, which was primarily risk-based focusing on the assurance of core processes 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 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	The Group has continued to deliver programmes to restructure the business to evolve and optimise the operational footprint and the support infrastructure. The costs of these programmes, together with other elements of income and cost (including acquisition 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. 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.
Acquisition accounting	The Group has made significant investments in new acquisitions during the year with consequential accounting considerations including, inter alia, identification and fair values of intangible assets, fair values of other assets and liabilities (including the redemption liability relating to the non-controlling interest arising on acquisition of Interstate Resources) and goodwill arising. The Audit Committee has reviewed the results of the work undertaken in these areas, which has included for certain acquisitions, engagement of external professional advisers on the identification and calculation of fair values of intangible assets. The Audit Committee is satisfied that the accounting and disclosure is appropriate.
Taxation	The focus by the Committee on taxation during the year considered the high current level of fiscal authority activity, the new Country by Country reporting requirements and the Group's expansion into new markets. This was in the context of the Group's overall tax strategy, as well as the significant reduction in rates across territories including the US. Taxation represents a significant cost to the business both in cash and accounting terms and the Group is exposed to differing tax regimes and risks which affect both the carrying values of tax balances (including deferred tax) and the resultant income statement charges. The Audit Committee reviewed the tax charge for the half-year and the full-year, including the underlying tax effect, the appropriateness of and movement in tax provisions recognised and the risks associated with them. The Audit Committee is satisfied that the disclosure is appropriate.

Role of the Committee

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 Annual General Meeting every year and makes himself available for any shareholder questions on the Committee's remit.

The Committee oversees and reviews the management of risk, financial results and the Group's internal audit function. The acquisition and integration programmes continue to be a focus, as well as the continued progress of the Group's optimisation projects. The Committee has also overseen the transition of lead external Audit partner, underway after Ian Waller rotates after the 2017/18 year end.

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

In November 2017, the Group received a letter from the Financial Reporting Council (FRC) regarding its 30 April 2017 annual report and accounts. The Audit Committee reviewed the responses drafted and subsequent correspondence with the FRC and the review concluded satisfactorily. The Audit Committee have reviewed the 30 April 2018 annual report and accounts to ensure the observations by the FRC have been addressed.

Significant other activities

During the year the Committee reviewed the updated wording of the Group's longer-term viability statement, set out on page 41.

In order to do this, they ensured that the model used for scenario and sensitivity testing aligned clearly with the principal risks of the Group, challenged the underlying assumptions used and reviewed the results of the detailed work performed. The Committee was satisfied that the viability statement had been prepared on an appropriate basis and that the statement was justified.

In order to help the Committee continue to meet their responsibilities, training and briefing sessions are organised during the Committee meetings.

During 2017/18, sessions included a briefing on the impact of new accounting standards, Corporate Governance developments and an update on strategy to address evolving legislation such as GDPR and Anti-bribery and Corruption.

External auditors

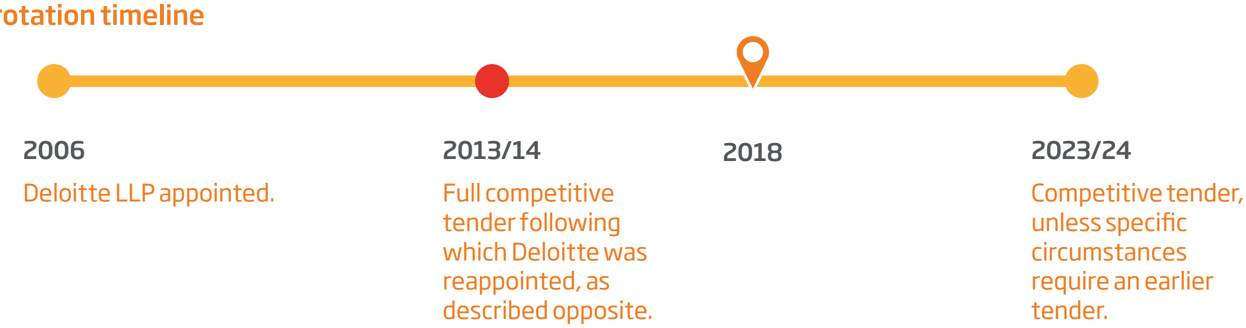
Pursuant to the terms of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Process and Audit Committee Responsibilities) Order 2014 (Competition & Markets Authority Order), which was introduced with effect from this year, the Audit Committee is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

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

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

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

Auditor rotation timeline



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 2017/18 should not exceed 70 per cent of the annual Group audit fee without prior formal approval by the Audit Committee. During 2017/18, total non-audit fees paid to the external Auditor of £1.5 million were 48 per cent of the annual Group audit fee (2016/17: £0.5 million: 18 per cent). The increase over the previous year was primarily due to the work performed in connection with the acquisition of Interstate Resources. In addition, £8.4 million was paid to other accounting firms for non-audit work, including £1.1 million for work relating to internal Audit (see note 3). EU regulations and other guidance 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 has been introduced, 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. On the basis of the Committee's own review, approval requirements in the non-audit services policy, and the Auditor's confirmation, the Audit Committee is satisfied with Deloitte's independence and effectiveness.

Deloitte confirmed that, with one exception, no non-audit services prohibited by the FRC's Ethical Standard were provided to the Group or parent Company. The one exception was that services relating to payroll were provided to an immaterial overseas subsidiary, which was acquired during the period. The services were provided by an associate of Deloitte France prior to acquisition and continued post acquisition before ceasing within nine months of the acquisition having completed. The overseas subsidiary is audited by a firm that is not part of Deloitte's network, which acts as a safeguard. In forming their opinion on the Group's financial statements, Deloitte place no reliance on the work of the subsidiary's auditor. The number of employees and the payroll charge within this subsidiary are wholly immaterial in the context of the Group figures. The fees for this work amounted to £8,000. Deloitte will not perform this work in the future.

Following investigation and after consideration of the facts highlighted above, the Audit Committee concluded that the provision of these services did not impact upon Deloitte's integrity, objectivity and independence as Auditor to the Group and parent Company.

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

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

Deloitte LLP were first appointed as external Auditor to the Group in 2006. In 2013/14, the Company carried out a full competitive tender for the role of Statutory Auditor, following which Deloitte were reappointed. The Committee's policy is that the role of external Auditor will be put out to tender at least every 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, the current lead audit partner, has been in post since 2013/14 and is due to rotate after this 2017/18 year end. A replacement has been identified and has been shadowing to ensure a smooth handover.

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 2018.

Jonathan Nicholls
Chairman of the Audit Committee

17 June 2018

We remain committed to ensuring that our policy continues to drive the right behaviours from our executives, who remain completely focused on the delivery of our vision – 'To be the leading supplier of sustainable packaging solutions'.

Kathleen O'Donovan – Chairman of Remuneration Committee

Dear shareholders

Background

On behalf of the Board, I am pleased to present our Directors' remuneration report for the year ended 30 April 2018.

Our remuneration policy was approved by shareholders at the Annual General Meeting (AGM) in September 2017 and we are reporting on our implementation under the new policy in the annual report on Directors' remuneration, which you can find starting on page 71. The annual report on Directors' remuneration will be presented for approval (which is an advisory vote) at our AGM on 4 September 2018.

Before I get into the detail of my report, I would like to remind shareholders about some achievements against our strategic priorities in the past year under the leadership of our executive team.

Recap on our strategy

To lead the way in sustainability

by championing sustainable supply cycle solutions and using materials responsibly through our production processes and beyond.

To delight our customers

by delivering outstanding results to them as we increase their sales, reduce their costs and manage their risk.

To realise the potential of our people

by creating a safe environment where every colleague can use and develop their skills and ideas.

To double our size and profitability

by driving operational excellence, growing our market share and expanding into new markets.

You can read more detail in the strategic report starting on page 2 but some of the key achievements are summarised below. The business has continued to perform strongly, with adjusted operating profit at £530 million, net debt/EBITDA of 2.2 times and adjusted return on average capital employed of 14.1%.

Key achievements by the business

- Award winning sustainability report and annual report.
- 6,201 tonnes carbon dioxide emissions saved by LED lighting in UK sites in 2017/18.
- Expanding into the US packaging and paper market with the acquisition of Interstate.
- Numerous packaging awards won for our supply cycle solutions.
- Launch of our Management Standards to 3,500 people managers.
- Graduation of the first Paper Technology Apprentices from DS Smith's paper division's inaugural three-year apprenticeship programme.
- 239 sites without a lost time accident.
- Entered the FTSE 100 Index.
- Adjusted earnings per share (EPS) increased 9%.
- Total shareholder return (TSR) 628% since 2010.

The landscape for executive pay is continually changing and that, together with the need to build public trust, is a continued theme of the discussions in our meetings. The Committee has oversight of all senior management remuneration and relevant employment matters to ensure that we have the best calibre people, either through promotion or recruitment, and that these leaders are properly incentivised. Your Committee seeks to ensure that the alignment of executive remuneration with both stakeholder interests and business outcomes continues to be effective.

We have recently submitted our first report under the UK gender pay gap regulations, which can be found on our website. Although our gender pay gap is less acute than the UK national average, we recognise that we have work to do. Acting upon the underlying reasons for the gap and reaching a higher standard of diversity is an important area of focus for the business.

As part of our annual decision making cycle 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 our leadership. This would include whether the leadership team continues to demonstrate living our values, how we measure employee performance and if they believe we have the right approach to reward. We review guidance from the government, focus groups 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.

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.

Year under review

The key decisions taken during the year were:

- Finalising the revised remuneration policy for approval by shareholders at the AGM in September 2017.
- Reviewing the salaries of the Group Chief Executive and Group Finance Director, taking into account increases for the wider workforce.
- Setting of the 2017/18 annual bonus targets.
- Setting of the performance criteria for PSP awards granted both in July to the Executive Directors and other senior managers, and in October 2017, to the senior management team of our new North America Paper and Packaging division.
- Measurement of performance criteria for incentive awards vesting in July 2018.
- Approval of the remuneration package for the newly appointed Group Human Resources Director.
- Appointment of new independent adviser PricewaterhouseCoopers LLC.

Kathleen O'Donovan
Chairman of the Remuneration Committee

17 June 2018

Key objective of the Remuneration Committee

Our objective is to have a fair, equitable and competitive total reward package that supports our vision; and to ensure the rewards are performance-based and encourage long-term shareholder value creation.

Key responsibilities

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

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

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

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

"The Remuneration Committee remains firmly committed to the principle of pay for performance, ensuring that rewards for the senior leadership team are aligned with the experience of long-term shareholders."

Kathleen O'Donovan

Context of the Committee's decisions

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

Allocation of time

- Strategy: **30%**
- Annual pay cycle including bonus and LTI targets: **30%**
- Shareholder consultation and governance: **40%**

Remuneration policy

The table below sets out a summary of how the remuneration policy will apply during 2018/19.

Remuneration element	Application of the remuneration policy

Base salary	• Salaries will be increased by 3% on 1 August 2018 as follows:
	  • Group Chief Executive £763,250; and
	  • Group Finance Director £479,600.

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

Annual bonus	• No changes to maximum award levels of:
	  • Group Chief Executive 200%; and
	  • Group Finance Director 150%.
	• Bonus paid half in cash and half in deferred shares, under the deferred share bonus plan (DSBP), with the shares vesting after three years.
	• The performance measures for 2018/19 will remain at 50% EBTA and 50% ROACE.

PSP	• No changes to maximum award levels of:
	  • Group Chief Executive 225%; and
	  • Group Finance Director 175%.
	• The performance measures for 2018/19 will remain at EPS, ROACE and relative TSR with equal weighting.
	• Two-year post-vesting holding period applies, resulting in a total five-year period from grant.

Shareholding guidelines	• Shareholding target remains at 225% of salary for the Group Chief Executive and 175% for the Group Finance Director. • Actual holding at 30 April 2018 was 1,305% and 249% respectively.

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; and
- seeks to avoid creating excessive risks in the achievement of performance targets.

2017/18 outcomes

Performance measure	Threshold	Target	Maximum	Actual	Weighting	% of maximum achieved
Annual bonus						
Adjusted EBTA	£378.2m	£398.1m	£418.0m	**£414.2m**	50%	90%
Adjusted ROACE	14.0%	14.7%	15.4%	**15.2%**	50%	86%
Overall						88%
PSP						
Average three-year EPS	26.6p		30.4p	**31.8p**	33.3%	100%
Average three-year ROACE	13.0%		15.0%	**14.9%**	33.3%	96%
Total shareholder return ranking	Median		Upper quartile	**12th**	33.3%	83%
Overall						93%

The relative TSR performance for the 2014/15 award was measured against the constituents of the FTSE 250 Industrial Goods and Services Supersector. Awards for 2016/17 and 2017/18 use the broader comparator group of the FTSE 350 in reflection of the growth of the Company and its move into the FTSE 100.
Awards vest on a straight-line basis between threshold and maximum performance.
For threshold performance 0% and 25% of the maximum award vests for the annual bonus and PSP respectively.

Remuneration policy

This part of the remuneration report sets out the key elements of our Directors' remuneration policy applicable from 5 September 2017 when the policy was approved by shareholders at the AGM by a vote in favour of 96.2%. The full policy can be found in the 2017 annual report on our website.

Current remuneration policy*

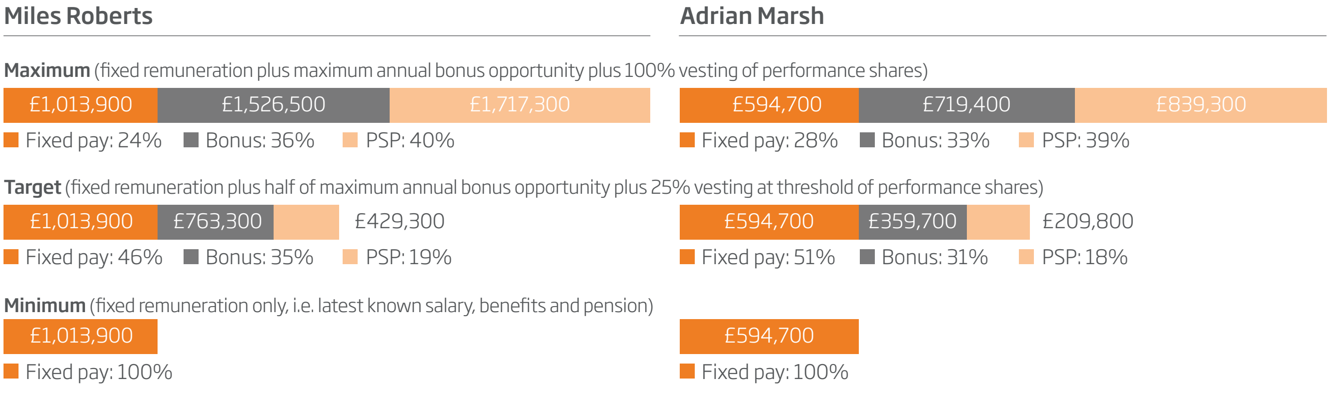
Element, purpose and link to strategy	Operation and performance metrics	Maximum opportunity
Basic salary To help recruit and retain key senior executives. To provide a competitive salary relative to comparable companies, in terms of size and complexity.	Normally reviewed by the Committee annually and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

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

Illustration of the remuneration policy for 2018/19

The balance between fixed and variable 'at risk' elements of remuneration changes with performance. The Company's remuneration policy results in a significant proportion of remuneration received by Executive Directors being dependent on Company performance. The application of the total remuneration of the Executive Directors for a minimum, target and maximum performance in 2018/19 is presented in the charts below. These figures are indicative as no adjustment for future share price movement and dividend accrual can have been made.



Annual report on remuneration (audited)

The table below shows how we have applied the current remuneration policy during 2017/18. It discloses 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.

Single total figure of remuneration for each Director (audited)

	Salary/fees £'000		Benefits[1] £'000		Annual bonus[2] £'000		Long-term incentives[3] £'000		Pensions[4] £'000		**Total 2017/18 £'000**	Total 2016/17 £'000
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17		
Executive Directors												
Group Chief Executive												
Miles Roberts	737	718	22	22	1,296	651	1,769	3,255	221	215	**4,045**	4,861
Group Finance Director												
Adrian Marsh	463	451	19	19	611	307	949	1,371	93	90	**2,135**	2,238
Total	1,200	1,169	41	41	1,907	958	2,718	4,626	314	305	**6,180**	7,099
Non-Executive Directors												
Chairman												
Gareth Davis	269	261	–	–	–	–	–	–	–	–	**269**	261
Chris Britton	57	55	–	–	–	–	–	–	–	–	**57**	55
Ian Griffiths	57	55	–	–	–	–	–	–	–	–	**57**	55
Jonathan Nicholls	75	73	–	–	–	–	–	–	–	–	**75**	73
Kathleen O'Donovan	68	65	–	–	–	–	–	–	–	–	**68**	65
Louise Smalley	57	55	–	–	–	–	–	–	–	–	**57**	55
Total	583	564	–	–	–	–	–	–	–	–	**583**	564

1. Taxable benefits in 2017/18 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 71.
3. The value of LTIs for 2017/18 represents the estimated value of the 2015 PSP using the average share price for the last three months of the year of £4.89 (the performance period for this award being the three years ending 30 April 2018).
The LTIs for 2016/17 were valued in the 2016/17 annual report using the average share price for the last three months of that financial year. This has been restated based on the share price on the actual vesting date now that this share price is known. This also impacts the total figure for the prior year. Note that the SMP was discontinued in 2014 so 2016/17 was the last year that it was included.
4. Miles Roberts receives an annual pension allowance of 30% of basic salary in lieu of membership of the defined contribution scheme. Adrian Marsh is a member of the defined contribution scheme. He contributes up to his annual allowance and the Company contribution is paid as a cash supplement. The annual pension allowances are not pensionable and are not considered to be salary for the purpose of calculating any bonus payment.

Fixed pay
Basic salary

	Salaries effective from:			Received in 2017/18 (£)
	1 August 2016 (£)	1 August 2017 (£)	1 August 2018 (£)	
Miles Roberts	723,000	741,000	763,250	**736,500**
Adrian Marsh	454,250	465,600	479,600	**462,763**

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. The salary review for the UK workforce as a whole was between 1% and 5% (and on average 2.5%). Where relevant, the Committee also considers external market data on salary and total remuneration and the Committee applies judgement when considering such data. The Executive Directors' salary increase for the 2018 review was 3% (2.5% for 2017).

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

	Base fee effective from			Received in 2017/18 (£)
	1 August 2016 (£)	1 August 2017 (£)	1 August 2018[1] (£)	
Gareth Davis	263,680	270,300	278,400	**£268,645**
Chris Britton	55,900	57,300	59,000	**£56,950**
Ian Griffiths[2]	55,900	57,300	-	**£56,950**
Jonathan Nicholls[3]	55,900	57,300	59,000	**£75,200**
Kathleen O'Donovan[4]	55,900	57,300	59,000	**£67,700**
Louise Smalley	55,900	57,300	59,000	**£56,950**

1. The fee increase for 2018 was 3% (2.5% in 2017).
2. Ian Griffiths is stepping down from the Board on 28 June 2018.
3. The amount received in 2017/18 includes payment in respect of Senior Independent Director fee of £7,500 per annum and Chairman of the Audit Committee fee of £11,000 from 1 August 2017. From 1 August 2018 the Chairman of the Audit Committee fee was increased to £13,500 per annum.
4. The amount received in 2017/18 includes payment in respect of Chairman of the Remuneration Committee fee of £11,000 from 1 August 2017. From 1 August 2018 this fee was increased to £13,500 per annum.

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 retrospectively adjust the targets, for example after a substantial restructuring, and would disclose and fully explain if it had.

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

Total shareholder return (TSR)
TSR is the increase (or decrease) in the value of a notional investment in a share in the Company and each of the companies in the Industrial Goods and Services Supersector within the FTSE 350 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 per share (EPS)
Adjusted EPS is disclosed in the Company's annual report and accounts and is the portion of the Group's adjusted after tax profit allocated to each outstanding share. Adjusted EPS is an indicator of the underlying performance of the DS Smith Group. The extent to which a PSP award subject to this performance condition vests, depends on the Company's average adjusted EPS performance over the three financial years prior to vesting.

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

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

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

Annual bonus (audited)

Bonus earned in 2017/18

The Executive Directors' targets for the 2017/18 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 2018. Achievement is calculated on a straight-line basis between threshold and target and between target and maximum.

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

Targets

Financial measure	Threshold 0% of maximum	Target 50% of maximum[1]	Maximum	Achieved
Adjusted EBTA	£378.2 million	£398.1 million	£418.0 million	£414.2 million
Adjusted ROACE	14.0%	14.7%	15.4%	15.2%

Outcomes

% of performance target achieved	Miles Roberts	Adrian Marsh
Adjusted EBTA	45/50	45/50
Adjusted ROACE	43/50	43/50
Total (as a proportion of the maximum opportunity)	88/100	88/100
Maximum bonus opportunity as a % of salary	200%	150%
Value of bonus paid in cash	£648,120	£305,423
Value of bonus deferred into shares	£648,120	£305,423
Overall award level[2]	£1,296,240	£610,846

1. The targets for threshold and maximum are set -/+5% of the target. There was a reduction in the ROACE target from 15.4% in 2016/17 to 14.7%. This reduction reflected the 2016/17 investment activity in a number of individually small acquisitions in Portugal, Denmark and the UK, which had a dilutive impact overall of 0.9%, taking the baseline to 14.5%. There was therefore an underlying increase in the ROACE target from 2016/17 to 2017/18 of 0.2%.
2. The annual bonus for the financial year 2017/18 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.

Performance is assessed on a constant currency and consistent basis and therefore the actual published results have been restated for bonus purposes using budgeted exchange rates and adjusted for the impact of unbudgeted acquisitions. The policy applied to the latter is to take into account only the upside or downside in earnings versus the acquisition business plan for the period post-acquisition. This ensures that management are only rewarded (or penalised) for business performance above (or below) the business plan which supported the acquisition price.

For the 2017/18 bonus the reported EBTA of £468.1 million has been reduced by £53.9 million to £414.2 million (£44.5 million in relation to the acquisition business plans, thereby only accounting for the performance above the acquisition plans, and £9.4 million to remove the favourable currency effect). Reported ROACE of 14.1% (calculated as £529.5 million EBITA divided by £3,753.2 million capital employed) has been adjusted by 1.2% for the removal of the acquisition business plans (EBITA of £57.2 million and capital employed of £655.6 million) and -0.1% for the favourable currency effect. The resulting 15.2% ROACE is the bonusable outcome and means management are rewarded for outperformance above the acquisition business case.

The improvements in earnings over and above the acquisition business plans, which impacts both EBTA and ROACE, primarily reflects significantly accelerated synergy benefits and cost savings above the Board approved plan for the Interstate Resources acquisition.

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 2017/18 is shown above for the Executive Directors and is generally between 60% and 110% for the other senior executives.

Implementation for 2018/19

Implemented in line with the policy.

The annual bonus will remain at 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 acquisition in the year, the Committee will assess how the financial performance of the acquired company should be included.

In the opinion of the Committee, the annual bonus measures and targets for 2018/19 are commercially sensitive and accordingly are not disclosed. These will be disclosed next year in the Directors' remuneration report, so that achievement against those targets will be visible, in retrospect.

Awards vesting based on performance in the three-year period to 2017/18

The PSP award granted on 24 July 2015 is based on performance over the three years to 30 April 2018. The 2015 PSP awards were based on equal weighting of TSR, EPS and ROACE performance conditions. An explanation for these performance conditions is on page 74. The TSR, ROACE and EPS performance conditions attached to these awards and actual performance against these conditions are set out in the table below.

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

In calculating the average adjusted ROACE for the performance period the Committee reviewed the impact of the acquisitions made during the year. The Committee considered it appropriate to recognise an element of dilutive impact due to the scale of the acquisitions. As a consequence the 2017/18 Group reported ROACE of 14.1% has been adjusted by 0.4% to 14.5% in the calculation of the three-year average.

Performance share plan (PSP) (audited)

TSR, ROACE and EPS performance targets on long-term incentives

	Weighting	Threshold (25% vests)	Maximum (100% vests)	Outcome	Vesting (% of maximum)
Three-year average EPS	One third	26.6p	30.4p	31.8p	100%
Three-year average ROACE	One third	13.0%	15.0%	14.9%	96%
Relative TSR[1]	One third	Median quartile	Upper quartile	12 out of 37	83%
Overall					93%

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

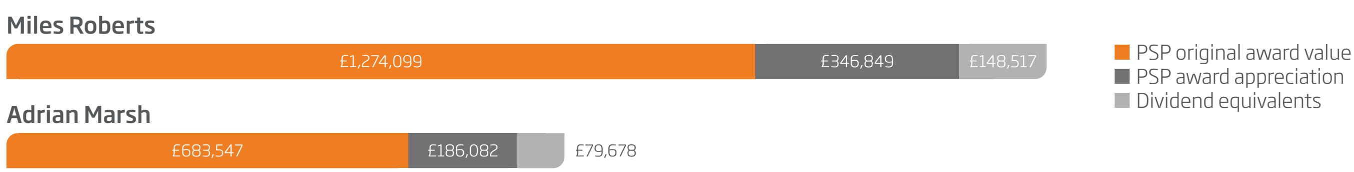
Resulting award levels

Executive Director	Award	Number of shares at grant	Number of shares to vest[1]	Number of shares to lapse	Re-investment of dividend	Total	Estimated value[2] (£'000)
Miles Roberts	PSP	356,214	331,279	24,935	30,353	361,632	1,769
Adrian Marsh	PSP	191,107	177,729	13,378	16,284	194,013	949

1. These shares are subject to a two-year holding period.
2. The estimated value of the vested shares is based on the average share price during the three months to 30 April 2018 (£4.89). These shares will vest on the third anniversary of grant on 24 July 2018.

The table on page 78 sets out details of the Executive Directors' outstanding share awards.

2014 PSP awards values (vested in full during 2017/18)



Value of the original awards based on the share price on 24 July 2015 of £3.846 for Miles Roberts and Adrian Marsh. The estimated appreciation value of the vested shares is based on the average share price during the three months to 30 April 2018 (£4.89). This graph does not take into account the re-investment of the dividend equivalent shares and is based on a vesting of 93%.

Implementation in 2018/19

In line with the award levels in 2017/18:

- The award to be made in 2018 will be at 225% of salary for the Group Chief Executive and at 175% of salary for the Group Finance Director.
- Shares that vest under the PSP awarded in 2018 to Executive Directors must be retained for a further two years before they can be sold.
- The awards will be granted as nil-cost options.
- The PSP will be subject to three performance measures: relative TSR, three-year average adjusted EPS and three-year average adjusted ROACE, with equal weighting on each element.

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

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

The targets for the 2018 PSP award will be:

% vesting as a proportion	Relative TSR one third[1]	3-year average EPS one third[2]	3-year average ROACE one third[3]
100%	Upper quartile	43.9p	15.7%
Between 25% and 100%	Between median and upper quartile	38.4p to 43.9p	14.5% to 15.7%
25%	Median quartile	38.4p	14.5%

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

1. The comparator group for measurement of relative TSR will be the FTSE 350 Industrial Goods and Services Supersector.
2. Three-year average adjusted EPS, as disclosed in the annual report, over the forthcoming three financial years, commencing with the financial year in which the award is made. Assuming steady growth, this will require the Company to achieve an average compound annual growth in EPS over the three-year period of between 4% and 11%.
3. Three-year average adjusted ROACE over the forthcoming three financial years, commencing with the financial year in which the award is made.

All employee share plan

We believe that our Sharesave plan (SAYE) is a valuable way of aligning our employees' interests with those of our long-term shareholders. Our commitment is to deliver an equal opportunity for all of our employees to participate in a plan that allows them to be engaged with the strategic direction of DS Smith and to share in its financial success.

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

This Plan will continue on an unchanged basis for 2018/19.

Executive Director	Options held at 30 April 2017	Options granted during the year	Options exercised during the year	Options lapsed during the year	Market price on date of exercise (p)	**Options held at 30 April 2018**	Exercise price (p)	Dates from which exercisable	Expiry date
Miles Roberts	3,345	–	3,345	–	494.4	**-**	269.0	1 Apr 17	30 Sep 17
	2,702	–	–	–	–	**2,702**	333.0	1 Apr 20	30 Sep 20
Adrian Marsh	3,345	–	3,345	–	478.8	**-**	269.0	1 Apr 17	30 Sep 17
	2,702	–	–	–	–	**2,702**	333.0	1 Apr 20	30 Sep 20

Share ownership guidelines

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

Name of Director	**Total as at 30 April 2018**	Total as at 30 April 2017	Unvested and subject to performance conditions[1]	Unvested and subject to continued employment[4]	Vested but not exercised[2]	Shareholding required (% salary/fee)	Shareholding at 30 April 2018 (% salary/fee)[3]	Requirement met
Executive Directors								
Miles Roberts	**1,651,589**	1,629,026	751,495	734,209	375,700	225%	1,305%	Yes
Adrian Marsh	**221,893**	43,504	367,205	369,215	-	175%	249%	Yes
Non-Executive Directors								
Gareth Davis	**106,900**	106,900	–	–	–	50%	207%	Yes
Chris Britton	**10,550**	10,550	–	–	–	50%	96%	Yes
Ian Griffiths	**15,000**	15,000	–	–	–	50%	137%	Yes
Jonathan Nicholls	**109,307**	109,307	–	–	–	50%	753%	Yes
Kathleen O'Donovan	**10,471**	10,471	–	–	–	50%	80%	Yes
Louise Smalley	**14,615**	14,615	–	–	–	50%	133%	Yes

1. Includes the 2015/16 and 2016/17 PSP.
2. 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.
3. Based on the salary/fee as at 1 August 2017 and a share price of £5.224 (being the closing price on 30 April 2018) multiplied by the current year shareholding.
4. Includes the 2014/15, 2015/16 and 2016/17 deferred bonus shares, the 2014/15 PSP which is due to vest on 24 July 2018 but is not subject to any further performance conditions and the 2016/17 Sharesave.

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

It is currently intended that any ordinary shares required to fulfil entitlements under the DSBP will be provided by Computershare Trustees (Jersey) Limited (the Trust), which buys shares on the market to do so. The Trust may also be used to fulfil certain entitlements under the PSP and the SAYE (along with new issue shares for other entitlements).

Outstanding share awards

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

	Award date	Awards held at 30 April 2017	Granted	Notional dividend shares accrued	Exercised/ vested	Lapsed/ forfeited	Market price on date of award (p)[1]	Market price at date of exercise (p)	Awards held at 30 April 2018	Vesting date (if performance conditions are met)	Expiry date
Miles Roberts											
PSP	30 Jul 14	375,700	–	36,260	36,260	–	267.5	515.0	375,700	30 Jul 17	30 Jul 24
PSP	24 Jul 15	356,214	–	–	–	–	384.6	–	356,214	24 Jul 18	24 Jul 25
PSP	1 Jul 16	415,876	–	–	–	–	379.8	–	415,876	1 Jul 19	1 Jul 26
PSP	18 Jul 17	–	335,619	–	–	–	484.7	–	335,619	18 Jul 20	18 Jul 27
									1,483,409		
DSBP	30 Jul 14	158,733	–	–	158,733	–	267.5	515.0	-	30 Jul 17	30 Jul 24
DSBP	24 Jul 15	156,734	–	–	–	–	384.6	–	156,734	24 Jul 18	24 Jul 25
DSBP	1 Jul 16	146,018	–	–	–	–	379.8	–	146,018	1 Jul 19	1 Jul 26
DSBP	18 Jul 17	–	67,123	–	–	–	484.7	–	67,123	18 Jul 20	18 Jul 27
									369,875		
SMP	30 Jul 14	238,099	–	22,980	261,079	–	267.5	515.0	-	30 Jul 17	30 Jul 24
									-		
Adrian Marsh											
PSP	30 Jul 14	186,915	–	18,040	204,955	–	267.5	482.2	-	30 Jul 17	30 Jul 24
PSP	24 Jul 15	191,107	–	–	–	–	384.6	–	191,107	24 Jul 18	24 Jul 25
PSP	1 Jul 16	203,199	–	–	–	–	379.8	–	203,199	1 Jul 19	1 Jul 26
PSP	18 Jul 17	–	164,006	–	–	–	484.7	–	164,006	18 Jul 20	18 Jul 27
									558,312		
DSBP	30 Jul 14	47,383	–	–	47,383	–	267.5	482.2	-	30 Jul 17	30 Jul 24
DSBP	24 Jul 15	72,074	–	–	–	–	384.6	–	72,074	24 Jul 18	24 Jul 25
DSBP	1 Jul 16	68,797	–	–	–	–	379.8	–	68,797	1 Jul 19	1 Jul 26
DSBP	18 Jul 17	–	31,629	–	–		484.7	–	31,629	18 Jul 20	18 Jul 27
									172,500		
SMP	30 Jul 14	71,074	–	6,859	77,933	–	267.5	482.2	-	30 Jul 17	30 Jul 24
									-		

1. The market price on the date of award was the average price of a DS Smith share for the three trading days preceeding the award.

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

Plan	Year	3-year average ROACE	3-year average adjusted EPS	TSR[1]
Performance share plan	2014/15	13.0% – 15.0%	26.6p – 30.4p	Median to upper quartile
	2015/16	14.5% – 15.7%	30.1p – 34.3p	
	2016/17	14.5% – 15.7%	34.2p – 39.1p	

1. The awards in 2015 and 2016 are measured against the FTSE 250 Industrial Goods and Services Supersector. The 2017 award is measured against the FTSE 350 Industrial Goods and Services Supersector.

2015, 2016 and 2017 PSP award: one-third based on relative TSR, one-third based on three-year average adjusted EPS and one-third based on three-year average adjusted ROACE. 25% of the award vests for achieving threshold performance, increasing on a straight-line basis to full vesting for maximum performance. Details of the number of shares to vest under the 2015 award are set out on page 76.

Dividend equivalents for the DSBP award in 2015 accrued during the vesting period and are paid in cash shortly after the award vests. Miles Roberts will receive £63,634 and Adrian Marsh will receive £29,262.

External appointments

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

Miles Roberts was a non-Executive Director of Aggreko plc and retained fees of £61,000 for the year ended 30 April 2018 (he was appointed on 7 March 2017 and retained fees of £9,541 in 2016/17). Adrian Marsh does not currently have any remunerated external appointments.

Notice period and payment for loss of office

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

		Date of contract/letter of appointment	Expiry of current term
Gareth Davis	Chairman	26 April 2016	31 May 2019
Miles Roberts	Group Chief Executive	4 May 2010	12 months by either the Director or the Company
Adrian Marsh	Group Finance Director	24 September 2013	12 months by either the Director or the Company
Chris Britton		7 March 2016	5 March 2019
Ian Griffiths		23 June 2017	22 June 2020
Jonathan Nicholls	Senior Independent Director	24 November 2015	30 November 2018
Kathleen O'Donovan		24 November 2015	4 December 2018
Louise Smalley		23 June 2017	22 June 2020

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

No payments were made to past Executive Directors during the year ended 30 April 2018 (2016/17: Nil). No payments were made in respect of loss of office during the year ended 30 April 2018 (2016/17: Nil).

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

The table below shows the change in the Group Chief Executive's remuneration compared to all full-time equivalent employees based in the UK. The UK employee workforce was chosen as a suitable comparator group as the Group Chief Executive is based in the UK (albeit with a global role and responsibilities) and pay changes across DS Smith may vary widely depending on local market conditions.

	Group Chief Executive	All UK employees
	Percentage change 2017 to 2018	Percentage change 2017 to 2018
Salary	**2.6%**	**2.6%**
Benefits	**0.0%**	**0.0%**
Bonus	**99.1%**	**63.3%**

Relative importance of spend on pay

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

£ million unless otherwise stated	**2017/18 £m**	2016/17 £m	Percentage change
Overall expenditure on employee pay [1]	**1,194**	1,046	14%
Dividend paid in the year	**157**	121	30%

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

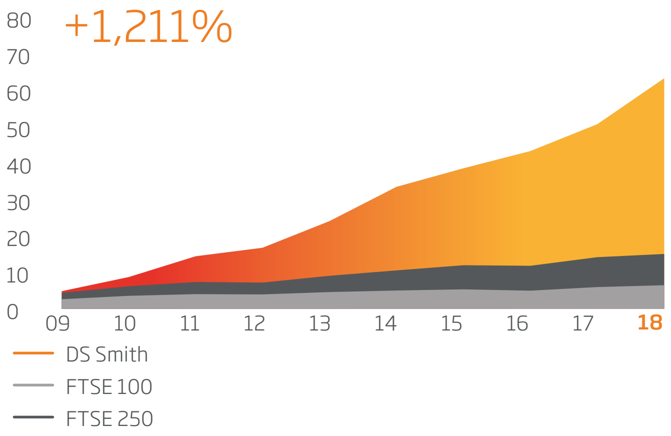
Remuneration of the Group Chief Executive

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

	2009/10[1]	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17[2]	**2017/18**
Total remuneration (£'000)	1,499	1,796	2,170	6,057	3,696	5,527	4,447	4,861	**4,045**
Annual bonus (%)	100%	100%	100%	82%	85%	88%	79%	45%	**88%**
LTIP vesting (%)	28%	100%	100%	100%	98%	92%	94%	100%	**93%**

1. 2009/10 figures relate to the previous Group Chief Executive, Tony Thorne.
2. The 2016/17 figure has been updated to include the actual share price on the date of vesting for the PSP and SMP now that this is known.

Total shareholder return from May 2009 (000')



Review of past performance – total shareholder return graph

This graph illustrates the Company's TSR performance since 1 May 2009, 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 2018 DS Smith ranked 88 by market capitalisation. This graph looks at the value, over the nine years to 30 April 2018, 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 2017 AGM

At the AGM held in 2017, votes cast by proxy and at the meeting in respect of the Directors' remuneration were as follows:

Resolution	Votes for including discretionary votes	Percentage for	Votes against	Percentage against	Total votes cast excluding votes withheld	Votes withheld[1]	Total votes cast (including discretionary votes)
Directors' remuneration policy	723,226,697	96.96%	22,523,083	3.02%	746,018,573	48,147,507	794,056,043
Directors' remuneration report	718,776,466	97.27%	20,032,459	2.71%	739,075,696	55,090,384	794,056,043

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

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 above. It also determines the specific remuneration package, including service contracts and pension arrangements, for each Executive Director and our most senior executives.

All members of the Committee are independent non-Executive Directors. We see this as fundamental in ensuring Executive Directors' and senior executives' remuneration is set by people who are independent and have no personal financial interest, other than as shareholders, in the matters discussed. There are no potential conflicts of interest arising from cross-directorships and 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 General Counsel and Company Secretary, the Group Human Resources Director and the Group Head of Reward. No-one is allowed to participate in any matter directly concerning the details of their own remuneration or conditions of service.

During the year under review the Committee appointed PricewaterhouseCoopers LLC (PwC) to provide advice on the remuneration of Executive Directors and other senior executives (advice was previously provided by New Bridge Street (a part of Aon plc)). PwC also provides advice to the Company in connection with the operation of the Company's share-based incentive plans. Both PwC and New Bridge Street are signatories to the Code of Conduct for remuneration consultants and members of the Remuneration Consultants Group. PwC provided advice to different parts of the Group on tax matters. The teams providing this advice are separate from the Remuneration Committee advisors and there was no conflict. New Bridge Street did not provide any other services to the Group during the year. Aon's risk solutions business carried out work for our insurance programme for the Group during the year, but otherwise Aon did not provide any other services and there was no conflict. The total fees, excluding VAT, to the Committee during the year were £22,500 in respect of PwC's services and £25,100 in respect of New Bridge Street. 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 the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the Listing Rules of the UK Listing Authority. The Board, in conjunction with the Committee, has taken the necessary steps to ensure that the Company complies with the provisions of the Code which relate to Directors' remuneration. The Committee confirms that throughout the year it has complied with governance rules and best practice provisions.

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

Prior to the 2017 AGM the Committee Chairman engaged with shareholders on the implementation of the remuneration policy. Since the AGM the Committee Chairman has continued to make herself open to engage with shareholders.

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

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

On behalf of the Board

Kathleen O'Donovan

Chairman of the Remuneration Committee

17 June 2018

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

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 17 June 2018 and is signed on its behalf by:

Miles Roberts
Group Chief Executive

17 June 2018

Adrian Marsh
Group Finance Director

17 June 2018

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 April 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of DS Smith Plc (the 'parent Company') and its subsidiaries (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 34 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 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, with one exception, no non-audit services prohibited by the FRC's Ethical Standard were provided to the Group or parent Company. This one exception related to immaterial payroll services provided to an insignificant newly acquired overseas subsidiary not audited by us. These services have ceased. It was concluded in agreement with the Audit Committee that this one exception did not impact upon our integrity, objectivity and independence (see page 67 for further information).

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	The key audit risks that we identified in the current year were: • classification and presentation of adjusting items; • taxation; and • acquisition accounting. 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 ⊗.
Materiality	The materiality that we used for the Group financial statements was £18m which was determined on the basis of profit before tax and adjusting items.
Scoping	Our full scope audit procedures provided coverage at the Group's key locations accounting for 59% (2016/17: 55%) of revenue and 63% (2016/17: 55%) of the profit before tax and adjusting items. Component auditors performed procedures on key audit matters and material balances for other locations that provided coverage over 22% (2016/17: 33%) of revenue and 18% (2016/17: 29%) of the profit before tax and adjusting items. Together our procedures on key audit matters and material balances covered 81% (2016/17: 88%) of revenue and 81% (2016/17: 84%) of profit before tax and adjusting items.
Significant changes in our approach	During 2017/18 the Group undertook a material acquisition in the US which required management judgement in determining the fair value of intangible assets, goodwill and other assets and liabilities in the opening balance sheet. Therefore, we have identified acquisition accounting as a new key audit matter for the current year.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the Directors' statement in note 1(a) to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's 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 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 40 -45 that describe the principal risks and explains how they are being managed or mitigated;
- the Directors' confirmation on page 41 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 41 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We 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 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 the assessment of the quality of the Group's earnings before adjusting items and also presents the opportunity for management bias in the presentation of results. Management judgement is required in determining whether an item should be presented as 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 2018, the Group incurred net adjusting items of £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 significant matter for the Audit Committee (page 65).

How the scope of our audit responded to the key audit matter

We considered the appropriateness and classification of the items which are included within adjusting items by testing a sample and agreeing them back to supporting documentation.

We have reviewed 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). We have reviewed the quality of adjusted earnings as a result of the impact of the items above.

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 require judgement in respect of the likely outcome of negotiations with various tax authorities. Refer to note 1(w) for management's process for estimating and recording tax provisions and note 7 for further detail in respect to 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 worked with our tax audit specialists, including those in required local jurisdictions, to challenge the estimates and judgements made by management when calculating the income tax payable in each territory and the associated provisions held. Specifically, we have reviewed the correspondence with the taxation authorities in significant locations, as well as reviewing 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 in assessing the reasonableness of the provisions made.

Key observations

We are satisfied that the assumptions used in calculating the tax charge and recording the associated tax provisions are appropriate.

Acquisition accounting

Key audit matter description

The Group acquired Interstate Resources Inc ("IRI") during the year for £772m. The judgements used in determining the value of goodwill (£581m) and intangible assets (£258m) and the allocation between these assets could, if performed inaccurately, lead to a material misstatement.

There is significant judgement and complexity involved in the allocation of excess consideration over net assets of the acquiree between the fair value of the intangible assets and remaining goodwill. For the fair value of intangible assets, this includes estimates for growth rates, margins, discount rates and retention rates.

Management must exercise judgement to accurately measure the fair value of the acquired assets and liabilities as at the acquisition date. Note 1(z) to the financial statements discusses this further.

How the scope of our audit responded to the key audit matter

We obtained and reviewed the purchase agreements and performed the procedures to assess whether the transaction has been accounted for appropriately in accordance with *IFRS 3 Business combinations*.

We have obtained management's calculations for the accounting for the acquisition and we checked the mathematical accuracy of the acquisition model. We also assessed the adjustments to assets and liabilities in order to bring them to their fair value. We have held discussions with management in order to challenge the completeness of these adjustments and have also corroborated these against independent valuation reports.

In order to assess the accuracy of the acquired intangible assets valuation, we have reviewed the methodology applied in management's calculation and challenged the assumptions behind the calculation. We have involved our own internal experts to assist in our assessment. We have reviewed the disclosures included within note 30 of the consolidated financial statements.

Key observations

We have satisfied ourselves that the valuation of assets and liabilities associated with these acquisitions is appropriate, that they have been recorded at their fair value and have been disclosed and accounted for appropriately.

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	£18 million (2016/17: £16 million)	£7 million (2016/17: £8 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% (2016/17: less than 1%) of revenue from continuing operations and less than 1% (2016/17: less than 1%) of net assets.	Parent Company materiality equates to less than 1% (2016/17: less than 1%) of net assets, and is capped at 40% (2016/17: 50%) 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.	Parent Company's materiality is determined based on net assets of the Company. The parent Company does not carry out trading activities and therefore net assets are the key metric for the users of the financial statements.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £750,000 (2016/17: £650,000) for the Group, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

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

Based on that assessment, we focused our Group audit scope primarily on the audit work at twelve components (2016/17: nine) located in the United Kingdom, France, Germany, Italy, the United States, Spain, Austria and Romania. 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. These components accounted for 59% (2016/17: 55%) of revenue and 63% (2016/17: 55%) of profit before tax and adjusting items.

For the remaining locations within our audit scope, the component auditor performed audit procedures on the key audit matters and material balances and provided reporting to the Senior Statutory Auditor. The Senior Statutory Auditor or another senior member of the Group audit team held discussions with the local audit team in the current year. These remaining locations accounted for 22% (2016/17: 33%) of revenue and 18% (2016/17: 29%) of profit before tax and adjusting items.

Together the procedures provided coverage on key audit matters and material balances covering 81% (2016/17: 88%) of revenue and 81% (2016/17: 84%) of profit before tax and adjusting items.

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

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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities.This description forms part of our auditor's report.

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.

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.

We have nothing to report in respect of these matters.

Directors' remuneration

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

We have nothing to report 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 12 years, covering the years ended 30 April 2007 to 30 April 2018.

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).

Ian Waller
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
17 June 2018

Consolidated income statement

Year ended 30 April 2018

	Note	Before adjusting items 2018 £m	Adjusting items (note 4) 2018 £m	2018 £m	Before adjusting items 2017 £m	Adjusting items (note 4) 2017 £m	2017 £m
Revenue	2	**5,765**	**–**	**5,765**	4,781	–	4,781
Operating costs	3, 4	**(5,235)**	**(47)**	**(5,282)**	(4,338)	(57)	(4,395)
Operating profit before amortisation, acquisitions and disposals	2	**530**	**(47)**	**483**	443	(57)	386
Amortisation of intangible assets; acquisitions and disposals	10, 4	**(93)**	**(29)**	**(122)**	(65)	(5)	(70)
Operating profit		**437**	**(76)**	**361**	378	(62)	316
Finance income	5	**2**	**–**	**2**	1	–	1
Finance costs	4, 5	**(60)**	**(12)**	**(72)**	(51)	–	(51)
Employment benefit net finance expense	24	**(4)**	**–**	**(4)**	(5)	–	(5)
Net financing costs		**(62)**	**(12)**	**(74)**	(55)	–	(55)
Profit after financing costs		**375**	**(88)**	**287**	323	(62)	261
Share of profit of equity accounted investments, net of tax	12	**5**	**–**	**5**	3	–	3
Profit before income tax		**380**	**(88)**	**292**	326	(62)	264
Income tax (expense)/credit	7, 4	**(80)**	**47**	**(33)**	(69)	13	(56)
Profit for the year		**300**	**(41)**	**259**	257	(49)	208
Profit for the year attributable to:							
Owners of the parent		**300**	**(41)**	**259**	258	(49)	209
Non-controlling interests		**–**	**–**	**–**	(1)	–	(1)

Earnings per share	Note	2018	2017
Earnings per share			
Basic	8	**24.9p**	22.1p
Diluted	8	**24.8p**	22.0p

All activities comprise continuing operations.

Consolidated statement of comprehensive income

Year ended 30 April 2018

	Note	2018 £m	2017 £m
Profit for the year		**259**	208
Items which will not be reclassified subsequently to profit or loss			
Actuarial gain/(loss) on employee benefits	24	**57**	(1)
Income tax on items which will not be reclassified subsequently to profit or loss	7	**(14)**	(3)
Items which may be reclassified subsequently to profit or loss			
Foreign currency translation differences		**1**	71
Cash flow hedges fair value changes		**8**	1
Reclassification from cash flow hedge reserve to income statement		**10**	8
Share of other comprehensive income of equity accounted investments	12	**–**	1
Income tax on items which may be reclassified subsequently to profit or loss	7	**5**	35
Other comprehensive income for the year, net of tax		**67**	112
Total comprehensive income for the year		**326**	320
Total comprehensive income/(expense) attributable to:			
Owners of the parent		**326**	321
Non-controlling interests		**–**	(1)

Consolidated statement of financial position

At 30 April 2018

	Note	2018 £m	2017 £m
Assets			
Non-current assets			
Intangible assets	10	**2,043**	1,178
Biological assets		**3**	–
Property, plant and equipment	11	**2,396**	1,866
Equity accounted investments	12	**24**	9
Other investments	13	**11**	3
Deferred tax assets	21	**64**	79
Other receivables	15	**7**	3
Derivative financial instruments	20	**15**	19
Total non-current assets		**4,563**	3,157
Current assets			
Inventories	14	**543**	406
Biological assets		**4**	–
Income tax receivable		**15**	10
Trade and other receivables	15	**863**	766
Cash and cash equivalents	18	**297**	139
Derivative financial instruments	20	**44**	13
Assets held for sale		**–**	2
Total current assets		**1,766**	1,336
Total assets		**6,329**	4,493
Liabilities			
Non-current liabilities			
Borrowings	19	**(1,811)**	(1,144)
Employee benefits	24	**(106)**	(181)
Other payables	16	**(14)**	(14)
Provisions	22	**(4)**	(5)
Deferred tax liabilities	21	**(195)**	(133)
Derivative financial instruments	20	**(35)**	(11)
Total non-current liabilities		**(2,165)**	(1,488)
Current liabilities			
Bank overdrafts	18	**(29)**	(16)
Borrowings	19	**(162)**	(119)
Trade and other payables	16	**(1,705)**	(1,358)
Income tax liabilities		**(118)**	(120)
Provisions	22	**(16)**	(24)
Derivative financial instruments	20	**(24)**	(13)
Total current liabilities		**(2,054)**	(1,650)
Total liabilities		**(4,219)**	(3,138)
Net assets		**2,110**	1,355
Equity			
Issued capital	23	**107**	95
Share premium		**1,260**	728
Reserves		**742**	530
Total equity attributable to owners of the parent		**2,109**	1,353
Non-controlling interests		**1**	2
Total equity		**2,110**	1,355

Approved by the Board of Directors of DS Smith Plc on 17 June 2018 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 2018

	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 2016		**94**	**716**	**(29)**	**(69)**	**(3)**	**428**	**1,137**	**3**	**1,140**
Profit for the year		–	–	–	–	–	209	209	(1)	208
Actuarial loss on employee benefits	24	–	–	–	–	–	(1)	(1)	–	(1)
Foreign currency translation differences		–	–	–	71	–	–	71	–	71
Cash flow hedges fair value changes		–	–	1	–	–	–	1	–	1
Reclassification from cash flow hedge reserve to income statement	20	–	–	8	–	–	–	8	–	8
Share of other comprehensive income of equity accounted investment	12	–	–	–	1	–	–	1	–	1
Income tax on other comprehensive income		–	–	(2)	37	–	(3)	32	–	32
Total comprehensive income/(expense)		**–**	**–**	**7**	**109**	**–**	**205**	**321**	**(1)**	**320**
Issue of share capital		1	12	–	–	–	–	13	–	13
Employee share trust		–	–	–	–	(1)	(5)	(6)	–	(6)
Share-based payment expense (net of tax)		–	–	–	–	–	9	9	–	9
Dividends paid	9	–	–	–	–	–	(121)	(121)	–	(121)
Other changes in equity in the year		**1**	**12**	**–**	**–**	**(1)**	**(117)**	**(105)**	**–**	**(105)**
At 30 April 2017		**95**	**728**	**(22)**	**40**	**(4)**	**516**	**1,353**	**2**	**1,355**
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)
Transaction 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**

1. Retained earnings include a reserve related to merger relief (note 23).

Consolidated statement of cash flows

Year ended 30 April 2018

Continuing operations	Note	2018 £m	2017 £m
Operating activities			
Cash generated from operations	26	**576**	629
Interest received		**1**	1
Interest paid		**(42)**	(46)
Tax paid		**(82)**	(61)
Cash flows from operating activities		**453**	523
Investing activities			
Acquisition of subsidiary businesses, net of cash and cash equivalents	30	**(615)**	(71)
Capital expenditure		**(347)**	(244)
Proceeds from sale of property, plant and equipment and intangible assets		**18**	18
Cash flows from restricted cash and other deposits		**(6)**	–
Cash flows used in investing activities		**(950)**	(297)
Financing activities			
Proceeds from issue of share capital		**283**	13
Repayment of borrowings		**(490)**	(924)
Proceeds from borrowings		**1,008**	785
Proceeds from settlement of derivative financial instruments		**2**	31
Repayment of finance lease obligations		**(4)**	(9)
Dividends paid to Group shareholders	9	**(157)**	(121)
Other		**(4)**	–
Cash flows from/(used in) financing activities		**638**	(225)
Increase in cash and cash equivalents		**141**	1
Net cash and cash equivalents at 1 May		**123**	115
Exchange gains on cash and cash equivalents		**4**	7
Net cash and cash equivalents at 30 April	18	**268**	123

1. Significant accounting policies

(a) Basis of preparation

These financial statements are consolidated financial statements for the Group consisting of DS Smith Plc, a company registered in 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 consolidated financial statements have been prepared on a going concern basis as set out on page 61 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).

The following new accounting standards, amendments or interpretations have been adopted by the Group as of 1 May 2017:

- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*;
- Amendments to IAS 7 *Disclosure Initiative*; and
- Annual Improvements to IFRSs 2014-2016 Cycle.

The adoption of these standards, amendments and interpretations has not had a material effect on the results for the year.

The accounting policies set out below have been applied consistently in all periods presented in these consolidated financial statements. The accounting policies have been applied consistently by all Group entities.

(b) Basis of consolidation

(i) Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control is achieved when the 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.

1. Significant accounting policies continued

(c) Revenue

Revenue comprises the fair value of the sale of goods and services, net of value added tax and other sales taxes, rebates and discounts and after eliminating sales within the Group. Revenue from the sale of goods is recognised when:

- the Group has transferred the significant risks and rewards of ownership to the buyer;
- all significant performance obligations have been met;
- the Group retains neither continuing managerial involvement nor effective control over the goods sold;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the amount of revenue can be measured reliably.

This is typically either when the goods are loaded onto the collection vehicle if the buyer is collecting them, or when the goods are unloaded at the delivery address if the Group is responsible for delivery.

(d) Supplier rebates

The Group receives income from its suppliers, mainly in the form of volume based rebates and early settlement discounts. These are recognised as a reduction in operating costs in the year to which they relate. At the period end, 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.

The assets and liabilities of all the Group entities that have a functional currency other than sterling are translated at the closing exchange rate at the reporting date. Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transactions).

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, borrowings, and other financial instruments designated as hedges of such investments, are recognised in the translation reserve. On the disposal of foreign currency entities, the cumulative exchange difference recorded in the translation reserve is taken to the consolidated income statement as part of the gain or loss on disposal.

(h) Intangible assets

(i) Goodwill

The recognition of business combinations requires the excess of the purchase price of acquisitions over the net book value of identifiable assets acquired to be allocated to the assets and liabilities of the acquired entity. The Group makes judgements and estimates in relation to the fair value allocation of the purchase price.

Goodwill is stated at cost less accumulated impairment losses. The useful life of goodwill is considered to be indefinite. Goodwill is allocated to the cash generating units (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the combination and is tested annually for impairment, or more frequently if impairment is indicated.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss recognised in the consolidated income statement.

(ii) Intellectual property

Intellectual property is stated at cost less accumulated amortisation and impairment.

(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

1. Significant accounting policies continued

(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 measureable are measured at fair value. The remainder of other investments are carried at cost less any impairment.

(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 income statement.

(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.

(ii) Calculation of recoverable amount

The recoverable amount of the Group's assets is calculated as the value-in-use of the CGU to which the assets are attributed or the net selling price, if greater. Value-in-use is calculated by discounting the cash flows expected to be generated by the CGU/group of CGUs being tested for evidence of impairment. This is done using a pre-tax discount rate that reflects the current assessment of the time value of money, and the country-specific risks for which the cash flows have not been adjusted. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

(iii) Reversals of impairment

Impairment losses in respect of goodwill are not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(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:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability;
- cash flow hedges when hedging exposure to variability in cash flows that is attributable to a particular risk associated with either a statement of financial position item or a highly probable forecast transaction; or
- hedges of the net investment in a foreign entity.

The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship as follows:

Fair value hedges: the carrying amount of the hedged item is adjusted for gains or losses attributable to the risk being hedged and the derivative is remeasured at fair value. Gains and losses from both the hedged item and the fair value of derivatives are taken to the income statement. The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

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.

1. Significant accounting policies continued

(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.

(q) Cash and cash equivalents and restricted cash

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. Cash and cash equivalents are stated at amortised cost.

Cash subject to contractual restrictions on use by the Group is excluded from cash and cash equivalents in the consolidated financial statements and is presented within other investments in the consolidated statement of financial position. Restricted cash is stated at amortised cost.

(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.

1. Significant accounting policies continued

(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.

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 32.

1. Significant accounting policies continued

(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. 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.

(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, the Group takes account of their origination, as well as considering similar items in prior years to ensure consistency and appropriate presentation. See note 4 for additional information.

(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 15	Revenue from Contracts with Customers	30 April 2019
IFRS 9	Financial Instruments	30 April 2019
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration	30 April 2019
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	30 April 2019
IFRS 16	Leases	30 April 2020
IFRIC Interpretation 23	Uncertainty over Income Tax Treatments	30 April 2020
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	30 April 2020
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	30 April 2020

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 has substantially completed its review of the requirements of IFRS 15 against existing policy and practice for both timing and amount of revenue recognised, in particular considering dies, tools and moulds, variable consideration, provision of machines to customers, and the agent versus principal criteria, as well as introducing the necessary processes to capture all information required for additional disclosures required under IFRS 15.

The review concluded that 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 both the Packaging and Plastics businesses 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. Currently revenue from dies, tools and moulds is netted within operating costs, while under IFRS 15 it represents a separate performance obligation and should be included within revenue. In addition to the IFRS 15 adjustment relating to dies, tools and moulds, energy income, historically netted within operating costs while not material, was determined to be more appropriately stated within revenue.

The Group will apply 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 during the year ended 30 April 2018 would have been to increase revenue and increase operating costs by £99 million respectively with no impact on net profit and loss. Other areas identified in the review of IFRS 15 were concluded not to have material differences to current practice.

1. Significant accounting policies continued

(ab) IFRS standards and interpretations in issue but not yet effective continued

IFRS 9 *Financial Instruments*

IFRS 9 will replace 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 currently intends to elect 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 will be designated on transition as fair value through other comprehensive income, after which the Group will record their fair value movements in other comprehensive income.

The Group will adopt the simplified approach to provide for losses on receivables within the scope of IFRS 9. A preliminary assessment based on average credit loss in relation to customers by region has been undertaken and 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 anticipated impact of adopting IFRS 9 is not expected to be material, the Group will not restate prior periods on adoption of IFRS 9.

IFRS 16 *Leases*

IFRS 16 replaces IAS 17 *Leases* and prescribes a single lessee accounting model that requires the recognition of a right of use asset and corresponding liability for all leases with terms over 12 months unless the underlying asset is of low value. The liability is initially measured at the present value of future lease payments for the lease term. Depreciation of right of use assets, and interest on 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) in the cash flow statement.

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 under IAS 17 are provided in note 28 and total £210m at 30 April 2018.

IFRS 16 will be the most significant of the new accounting standards for the Group. The Group currently expects to 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. During the year, the Group's transition work focused on collecting data in order to facilitate assessment of accounting impacts and transition options and the transition process will continue in 2018/19. Under the expected transition option, discount rates at 30 April 2019 will be utilised to calculate the transition adjustment and as such expectations of the transition impact will be able to be quantified at that time.

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, the 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 2019 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 six segments, five of which cover geographical regions with integrated Packaging and Paper businesses, and Plastics, which 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 32.

To accommodate the Group's acquisition of Interstate Resources in August 2017, an additional operating segment, 'North America' has been added for the year ended 30 April 2018.

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 2018	Note	UK £m	Western Europe £m	DCH and Northern Europe £m	Central Europe and Italy £m	North America £m	Plastics £m	Total continuing operations £m
External revenue		**1,078**	**1,450**	**1,083**	**1,429**	**379**	**346**	**5,765**
Adjusted EBITDA[1]		138	147	121	167	76	49	698
Depreciation	11	(29)	(45)	(31)	(38)	(14)	(11)	(168)
Adjusted operating profit[1]		**109**	**102**	**90**	**129**	**62**	**38**	**530**
Unallocated items:								
Amortisation	10							(93)
Adjusting items in operating profit	4							(76)
Total operating profit (continuing operations)								**361**
Unallocated items:								
Net financing costs								(74)
Share of profit of equity accounted investments, net of tax								5
Profit before income tax								**292**
Income tax expense								(33)
Profit for the year								**259**
Analysis of total assets and total liabilities								
Segment assets		835	1,182	1,000	1,481	1,147	214	5,859
Unallocated items:								
Equity accounted investments and other investments								35
Derivative financial instruments								59
Cash and cash equivalents								297
Tax								79
Total assets								**6,329**
Segment liabilities		(280)	(680)	(208)	(394)	(62)	(82)	(1,706)
Unallocated items:								
Borrowings and accrued interest								(2,035)
Derivative financial instruments								(59)
Tax								(313)
Employee benefits								(106)
Total liabilities								**(4,219)**
Capital expenditure		64	83	60	88	32	20	347

1. Adjusted to exclude amortisation and adjusting items.

2. Segment reporting continued

Year ended 30 April 2017	Note	UK £m	Western Europe £m	DCH and Northern Europe £m	Central Europe and Italy £m	North America £m	Plastics £m	Total continuing operations £m
External revenue		962	1,264	989	1,239	–	327	4,781
Adjusted EBITDA[1]		122	144	112	165	–	48	591
Depreciation	11	(28)	(40)	(30)	(40)	–	(10)	(148)
Adjusted operating profit[1]		94	104	82	125	–	38	443
Unallocated items:								
Amortisation	10							(65)
Adjusting items in operating profit	4							(62)
Total operating profit (continuing operations)								316
Unallocated items:								
Net financing costs								(55)
Share of profit of equity accounted investment, net of tax								3
Profit before income tax								264
Income tax expense								(56)
Profit for the year								208
Analysis of total assets and total liabilities								
Segment assets		823	1,062	951	1,170	–	215	4,221
Unallocated items:								
Equity accounted investment and other investments								12
Derivative financial instruments								32
Cash and cash equivalents								139
Tax								89
Total assets								4,493
Segment liabilities		(292)	(533)	(192)	(299)	–	(65)	(1,381)
Unallocated items:								
Borrowings and accrued interest								(1,299)
Derivative financial instruments								(24)
Tax								(253)
Employee benefits								(181)
Total liabilities								(3,138)
Capital expenditure		53	57	38	81	–	15	244

1. Adjusted to exclude amortisation and adjusting items.

Geographical areas

In presenting information by geographical area, external revenue is based on the geographical location of customers. Non-current assets are based on the geographical location of assets and exclude investments, deferred tax assets, derivative financial instruments and intangible assets (which are monitored at the operating segment level, not at a country level).

	External revenue		Non-current assets		Capital expenditure	
Continuing operations	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
UK	**969**	932	**439**	397	**89**	82
France	**776**	704	**264**	227	**38**	36
Germany	**697**	606	**326**	298	**49**	40
Italy	**564**	512	**234**	208	**34**	28
USA	**437**	93	**288**	17	**44**	2
Rest of the World	**2,322**	1,934	**852**	722	**93**	56
	5,765	4,781	**2,403**	1,869	**347**	244

3. Operating profit

Continuing operations	2018 £m	2017 £m
Operating costs		
Cost of sales	**2,992**	2,409
Other production costs	**1,060**	911
Distribution	**403**	331
Administrative expenses	**827**	744
	5,282	4,395

Details of adjusting items included in operating profit are set out in note 4.

Operating profit is stated after charging/(crediting) the following:

Continuing operations	2018 £m	2017 £m
Depreciation – owned assets	**162**	143
– leased assets	**6**	5
Amortisation of intangible assets	**93**	65
Profit on sale of non-current assets	**(1)**	(14)
Hire of plant and machinery	**25**	18
Other operating lease rentals	**34**	28
Research and development	**11**	7

	2018			2017		
Auditor's remuneration	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Fees payable to the Company's Auditor for audit of the Company's annual accounts	**0.1**	**–**	**0.1**	0.1	–	0.1
Fees payable to the Company's Auditor and their associates for other services:						
Audit of the Company's subsidiaries, pursuant to legislation	**0.8**	**2.2**	**3.0**	0.8	1.9	2.7
Total audit fees	**0.9**	**2.2**	**3.1**	0.9	1.9	2.8
Corporate finance services	**1.4**	**–**	**1.4**	–	–	–
Audit related assurance services	**0.1**	**–**	**0.1**	0.1	–	0.1
Tax and other services	**–**	**–**	**–**	0.3	0.1	0.4
Total non-audit fees	**1.5**	**–**	**1.5**	0.4	0.1	0.5
Total Auditor's remuneration	**2.4**	**2.2**	**4.6**	1.3	2.0	3.3

Non audit fees in 2017/18 include reporting accountant's fees in respect of the acquisition of Interstate Resources.

Non-audit fees do not include costs in respect of the proposed acquisition of Europac (note 34) which were incurred after the year end and are estimated to be in the region of £1.2m in total.

A description of the work of the Audit Committee is set out in the corporate governance section 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 where they are significant items of financial performance that the Directors consider should be separately disclosed to assist in the understanding of the trading and financial results of the Group. Such items include business disposals, restructuring and optimisation, acquisition related and integration costs, and impairments. With effect from 1 May 2017, the Group has changed the description of these items from 'exceptional' to 'adjusting', to better represent their nature.

Continuing operations	2018 £m	2017 £m
Acquisition related costs	**(29)**	(7)
Gains on acquisitions and disposals	**–**	2
Acquisitions and disposals	**(29)**	(5)
Integration costs	**(13)**	(17)
Other restructuring costs	**(17)**	(26)
Impairment of assets	**(1)**	(5)
Other	**(16)**	(9)
Total pre-tax adjusting items (recognised in operating profit)	**(76)**	(62)
Finance costs adjusting items	**(12)**	–
Adjusting tax items	**33**	(1)
Current tax credit on adjusting items	**14**	13
Deferred tax credit on adjusting items	**–**	1
Total post-tax adjusting items	**(41)**	(49)

2017/18

Acquisition related costs of £29m 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 £17m include reorganisation and restructuring in DCH and Northern Europe (£4m), the UK (£4m) and Plastics (£2m), primarily relating to 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 £14m 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.

4. Adjusting items continued

2016/17

Acquisition costs of £7m relate to professional advisory, legal and consultancy fees and directly attributable internal salary costs relating to the review and execution of potential deals, and deals completed during the year, including the acquisition of Creo, Deku-Pack, Gopaca, P&I Display and Parish.

Integration costs relate to integration projects underway to ensure appropriate health and safety standards are operating and to achieve cost synergies from the acquisitions made in the current year and previous financial year. They include those directly attributable internal salary costs which would otherwise not be incurred.

The £26m other restructuring costs include reorganisation and restructuring in DCH and Northern Europe (£11m), the UK (£6m), Western Europe (£4m) and Plastics (£2m).

Other adjusting items of £9m principally relate to infrastructure optimisation and efficiency projects.

The income tax credit on adjusting items includes an increase in tax provisions arising from the acquisition of a business (£1m), and the tax effect at the local applicable tax rate of adjusting items that are subject to tax. The adjusting items in the year give rise to a net income tax effect, with the exception of non-deductible deal related advisory fees in relation to acquisitions and disposals.

5. Finance income and costs

Continuing operations	2018 £m	2017 £m
Interest income from financial assets	(2)	(1)
Finance income	**(2)**	(1)
Interest on borrowings and overdrafts	54	46
Other	6	5
Finance costs before adjusting items	**60**	51
Finance costs adjusting items	12	–
Finance costs	**72**	51

6. Personnel expenses

Continuing operations	2018 £m	2017 £m
Wages and salaries	949	825
Social security costs	188	169
Contributions to defined contribution pension plans	42	37
Service costs for defined benefit schemes (note 24)	6	5
Share-based payment expense (note 25)	9	10
Personnel expenses	**1,194**	1,046

Average number of employees	2018 Number	2017 Number
UK	5,398	5,261
Western Europe	7,141	6,853
DCH and Northern Europe	4,906	4,701
Central Europe and Italy	8,278	8,370
USA	898	362
Rest of the World	476	127
Average number of employees	**27,097**	25,674

7. Income tax expense

	2018 £m	2017 £m
Current tax expense		
Current year	**(106)**	(99)
Adjustment in respect of prior years	**13**	9
	(93)	(90)
Deferred tax credit		
Origination and reversal of temporary differences	**4**	18
Reduction in tax rates	**(1)**	(3)
Adjustment in respect of prior years	**10**	6
	13	21
Total income tax expense before adjusting items	**(80)**	(69)
Adjusting tax items (note 4)	**33**	(1)
Current tax credit on adjusting items (note 4)	**14**	13
Deferred tax credit relating to adjusting items (note 4)	**–**	1
Total income tax expense in the income statement from continuing operations	**(33)**	(56)

The tax credit on amortisation was £24m (2016/17: £16m).

The reconciliation of the actual tax charge to that at the domestic corporation tax rate is as follows:

	2018 £m	2017 £m
Profit before income tax	**292**	264
Share of profit of equity accounted investments, net of tax	**(5)**	(3)
Profit before tax and share of profit of equity accounted investments, net of tax	**287**	261
Income tax at the domestic corporation tax rate of 19.00% (2016/17: 19.92%)	**(55)**	(52)
Effect of additional taxes and tax rates in overseas jurisdictions	**(27)**	(30)
Additional items deductible for tax purposes	**19**	18
Non-deductible expenses	**(20)**	(5)
Non-taxable gains	**–**	1
Release of prior year provisions in relation to acquired businesses	**3**	4
Deferred tax not recognised	**(4)**	–
Foreign exchange	**(5)**	–
Adjustment in respect of prior years	**20**	11
Effect of change in corporation tax rates	**36**	(3)
Income tax expense – total Group	**(33)**	(56)

The Group's effective tax rate, excluding amortisation, adjusting items and share of result from equity accounted investments was 22.5% (2016/17: 22.0%).

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.

Included within the consolidated balance sheet at 30 April 2018 are current tax liabilities of £118m (30 April 2017: £120m) which include a provision of £104m (30 April 2017: £95m) 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 £11m to £142m.

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 £13m could reverse in the next 12 months.

Included within the current tax liabilities is an amount of £21m (30 April 2017: £18m) relating to interest and penalties on uncertain tax positions.

The Group is also monitoring developments in relation to EU State Aid investigations following the EU Commission opening a State Aid investigation into the Group Financing Exemption in the UK's Controlled Foreign Company regime in October 2017. In line with current UK tax law, the Group applies this regime. Based on its current assessment, the Group does not consider any provision is required in relation to this issue.

Tax on other comprehensive income and equity

	Gross 2018 £m	Tax credit/ (charge) 2018 £m	Net 2018 £m	Gross 2017 £m	Tax credit/ (charge) 2017 £m	Net 2017 £m
Actuarial gain/(loss) on employee benefits	57	(14)	43	(1)	(3)	(4)
Foreign currency translation differences	1	8	9	71	37	108
Movements in cash flow hedges	18	(3)	15	9	(2)	7
Share of other comprehensive income of equity accounted investment	–	–	–	1	–	1
Other comprehensive income/(expense) for the year	**76**	**(9)**	**67**	80	32	112
Issue of share capital	576	–	576	13	–	13
Employee share trust	(4)	–	(4)	(6)	–	(6)
Share-based payment expense	9	6	15	10	(1)	9
Dividends paid to Group shareholders	(157)	–	(157)	(121)	–	(121)
Other comprehensive income/(expense) and changes in equity	**500**	**(3)**	**497**	(24)	31	(7)

8. Earnings per share

Basic earnings per share from continuing operations

	2018	2017
Profit from continuing operations attributable to ordinary shareholders	£259m	£209m
Weighted average number of ordinary shares	1,039m	945m
Basic earnings per share	24.9p	22.1p

Diluted earnings per share from continuing operations

	2018	2017
Profit from continuing operations attributable to ordinary shareholders	£259m	£209m
Weighted average number of ordinary shares	1,039m	945m
Potentially dilutive shares issuable under share-based payment arrangements	7m	6m
Weighted average number of ordinary shares (diluted)	1,046m	951m
Diluted earnings per share	24.8p	22.0p

The number of shares excludes the weighted average number of the Company's own shares held as treasury shares during the year of 1m (2016/17: 2m).

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 32.

A reconciliation of basic to adjusted earnings per share is as follows:

	2018			2017		
	£m	Basic – pence per share	Diluted – pence per share	£m	Basic – pence per share	Diluted – pence per share
Basic earnings	259	24.9p	24.8p	209	22.1p	22.0p
Add back:						
Amortisation of intangible assets	93	8.9p	8.9p	65	6.9p	6.8p
Tax credit on amortisation	(24)	(2.3p)	(2.3p)	(16)	(1.7p)	(1.7p)
Adjusting items, before tax	88	8.5p	8.4p	62	6.6p	6.6p
Tax on adjusting items and adjusting tax items	(47)	(4.5p)	(4.5p)	(13)	(1.4p)	(1.4p)
Adjusted earnings	369	35.5p	35.3p	307	32.5p	32.3p

9. Dividends proposed and paid

	2018		2017	
	Pence per share	£m	Pence per share	£m
2016/17 interim dividend – paid	–	–	4.6p	44
2016/17 final dividend – paid	–	–	10.6p	113
2017/18 interim dividend – paid	4.9p	53	–	–
2017/18 final dividend – proposed	9.8p	*see note	–	–

	2018 £m	2017 £m
Paid during the year	157	121

The interim dividend in respect of 2017/18 of 4.9 pence per share (£53m) was paid after the year end on 1 May 2018. The 2016/17 interim and final dividends were paid during the 2017/18 financial year.

* A final dividend in respect of 2017/18 of 9.8 pence per share has been proposed by the Directors after the reporting date, payable to all shares on the record date, including those to be issued in the rights issue (see note 34(a)).

10. Intangible assets

	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**

	Goodwill £m	Software £m	Intellectual property £m	Customer related £m	Other £m	Total £m
Cost						
At 1 May 2016	710	50	24	483	66	1,333
Acquisitions	27	1	–	24	–	52
Additions	–	10	1	–	20	31
Adjustment related to business combinations in prior year	3	–	–	–	–	3
Disposals	–	(5)	–	–	–	(5)
Transfers	–	22	–	–	(22)	–
Currency translation	42	5	3	33	5	88
At 30 April 2017	782	83	28	540	69	1,502
Amortisation and impairment						
At 1 May 2016	(26)	(32)	(15)	(156)	(15)	(244)
Amortisation	–	(11)	(2)	(50)	(2)	(65)
Disposals	–	5	–	–	–	5
Currency translation	(1)	(4)	(2)	(12)	(1)	(20)
At 30 April 2017	(27)	(42)	(19)	(218)	(18)	(324)
Carrying amount						
At 1 May 2016	684	18	9	327	51	1,089
At 30 April 2017	755	41	9	322	51	1,178

10. Intangible assets continued

Goodwill

The CGU groups below represent the lowest level at which goodwill is monitored for internal management purposes and are not larger than the operating segments determined in accordance with IFRS 8 *Operating Segments*. The carrying values of goodwill are split between the CGU groups as follows:

	2018 £m	2017 £m
UK	**167**	167
Western Europe	**194**	182
DCH and Northern Europe	**229**	220
Central Europe and Italy	**187**	124
North America	**544**	–
Plastics	**60**	62
Total goodwill	**1,381**	755

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 2018 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 2019 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 (2020 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% (2016/17: 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 as a whole. This Group rate has been adjusted for the risks inherent in the countries in which the CGU group operates that are not reflected in the cash flow projections.

Key assumptions by CGU	UK	Western Europe	DCH and Northern Europe	Central Europe and Italy	North America	Plastics
Long-term growth rate at 30 April 2018	**1.7%**	**1.8%**	**1.5%**	**1.7%**	**1.9%**	**2.0%**
Long-term growth rate at 30 April 2017	1.7%	1.8%	1.5%	1.8%	–	2.0%
Discount rate at 30 April 2018	**9.1%**	**8.8%**	**8.6%**	**11.0%**	**8.5%**	**9.0%**
Discount rate at 30 April 2017	8.8%	8.7%	8.2%	11.5%	–	8.9%

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 2018 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 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**

	Land and buildings £m	Plant and equipment £m	Fixtures and fittings £m	Under construction £m	Total £m
Cost					
At 1 May 2016	693	2,013	56	157	2,919
Acquisitions	11	7	3	–	21
Additions	17	70	7	121	215
Adjustment related to business combinations in prior year	–	(3)	–	–	(3)
Disposals	(15)	(52)	(3)	(5)	(75)
Transfers	25	89	5	(119)	–
Currency translation	41	130	5	8	184
At 30 April 2017	772	2,254	73	162	3,261
Depreciation and impairment					
At 1 May 2016	(136)	(1,079)	(26)	–	(1,241)
Depreciation charge	(22)	(120)	(6)	–	(148)
Impairment	(2)	(1)	–	–	(3)
Disposals	14	50	2	–	66
Currency translation	(9)	(58)	(2)	–	(69)
At 30 April 2017	(155)	(1,208)	(32)	–	(1,395)
Carrying amount					
At 1 May 2016	557	934	30	157	1,678
At 30 April 2017	617	1,046	41	162	1,866

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 2017	6	17	1	–	24
At 30 April 2018	**7**	**19**	**1**	**–**	**27**

12. Equity accounted investments

	2018 £m	2017 £m
At 1 May	**9**	4
Acquisitions	**12**	–
Dividends	**(1)**	–
Share of profit of equity accounted investments	**5**	3
Share of other comprehensive income of equity accounted investments	**–**	1
Currency translation	**(1)**	1
At 30 April	**24**	9

Principal equity accounted investments

	Nature of business	Principal country of operation	Ownership interest 2018	Ownership interest 2017
OJSC Rubezhansk Paper and Packaging Mill	Paper and packaging	Ukraine	**49.6%**	49.6%
Philcorr LLC	Packaging	USA	**40.0%**	–
Philcorr Vineland LLC	Packaging	USA	**40.0%**	–
The Display Connection Inc (DCI)	Point of sale display	USA	**48.0%**	–

The Group accounts for its investment in Rubezhansk using the equity method as an associate because the Group has the ability to exercise significant influence over the investment due to the Group's equity holdings.

The Group has a 40% interest in Philcorr LLC and Philcorr Vineland LLC, and a 48% interest in DCI, acquired as part of the Interstate Resources acquisition. The Group accounts for its investments in Philcorr LLC, Philcorr Vinelands LLC and DCI under the equity method of accounting because the Group has the ability to exercise significant influence over the investments due to the Group's equity holdings and board representation.

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.

	2018 £m	2017 £m
Current assets	**45**	26
Non-current assets	**37**	40
Current liabilities	**(20)**	(21)
Non-current liabilities	**(20)**	(17)
Revenue	**192**	108
Profit after tax	**14**	6
Other comprehensive income	**1**	3

13. Other investments

	2018 £m	2017 £m
Other investments	**8**	3
Restricted cash	**3**	–
Total non-current investments	**11**	3

14. Inventories

	2018 £m	2017 £m
Raw materials and consumables	**313**	219
Work in progress	**26**	24
Finished goods	**204**	163
	543	406

Inventory provisions at 30 April 2018 were £33m (30 April 2017: £28m). Inventory write-offs in the year totalled £1m (2016/17: £1m).

15. Trade and other receivables

	2018 Non-current £m	2018 Current £m	2017 Non-current £m	2017 Current £m
Trade receivables	–	690	–	628
Provisions for bad and doubtful receivables	–	(39)	–	(37)
Prepayments and accrued income	–	64	–	63
Other deposits	–	45	–	40
Other receivables	7	103	3	72
	7	863	3	766

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.

Trade receivables	Net carrying amount £m	Of which neither impaired nor past due £m	Of which past due but not impaired: 1 month or less £m	1-3 months £m	3-6 months £m	6-12 months £m	More than 12 months £m
At 30 April 2018	**651**	**523**	**78**	**30**	**11**	**5**	**4**
At 30 April 2017	591	478	72	25	7	6	3

Movement in bad and doubtful receivables allowance

	2018 £m	2017 £m
At 1 May	(37)	(33)
Uncollectible amounts written off	4	3
Increase in allowance recognised in the income statement	(3)	(2)
Acquisitions	(1)	(3)
Currency translation	(2)	(2)
At 30 April	**(39)**	(37)

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and diverse. Management believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful receivables.

16. Trade and other payables

	2018 Non-current £m	2018 Current £m	2017 Non-current £m	2017 Current £m
Trade payables	–	1,170	–	1,012
Non-trade payables and accrued expenses	14	535	14	346
	14	1,705	14	1,358

In accordance with government initiatives to allow suppliers to receive payments earlier than contractual payment terms the Group has set up, through third parties, supply chain finance programmes. 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.

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 first 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 2018 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. The movements due to re-measurement in the year ended 30 April 2018 were £2m.

17. Net debt

	2018 £m	2017 £m
Non-current liabilities	**(1,811)**	(1,144)
Current liabilities	**(162)**	(119)
Derivative financial instruments	**(23)**	8
Net cash and cash equivalents	**268**	123
Other investments – restricted cash	**3**	–
Other deposits	**45**	40
Net debt	**(1,680)**	(1,092)

The movement in net debt is as follows:

	At 1 May 2017 £m	Continuing operations cash flow £m	Acquisitions £m	Foreign exchange, fair value and non-cash movements £m	At 30 April 2018 £m
Cash and cash equivalents	139	150	4	4	**297**
Overdrafts	(16)	(11)	(2)	–	**(29)**
Net cash and cash equivalents	123	139	2	4	**268**
Other investments – restricted cash	–	3	–	–	**3**
Other deposits	40	3	–	2	**45**
Borrowings due – after one year	(1,133)	(820)	–	151	**(1,802)**
Borrowings due – within one year	(115)	302	(203)	(142)	**(158)**
Finance leases	(15)	4	(1)	(1)	**(13)**
Derivative financial instruments					
assets	14	(4)	–	2	**12**
liabilities	(6)	2	–	(31)	**(35)**
	(1,215)	(510)	(204)	(19)	**(1,948)**
Net debt	**(1,092)**	**(371)**	**(202)**	**(15)**	**(1,680)**

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 32.

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

	2018 £m	2017 £m
Bank balances	**195**	135
Short-term deposits	**102**	4
Cash and cash equivalents (consolidated statement of financial position)	**297**	139
Bank overdrafts	**(29)**	(16)
Net cash and cash equivalents (consolidated statement of cash flows)	**268**	123

19. Borrowings

	2018			2017		
	Current £m	**Non-current £m**	**Total £m**	Current £m	Non-current £m	Total £m
Bank and other loans[1]	**–**	**(1)**	**(1)**	(100)	(94)	(194)
Medium-term notes and other fixed-term debt						
€59m euro private placement shelf facility 4.40% coupon August 2018	**(52)**	**–**	**(52)**	–	(50)	(50)
€60m euro term loan floating EURIBOR + margin December 2018	**(53)**	**–**	**(53)**	–	(51)	(51)
€60m euro term loan floating EURIBOR + margin January 2019	**(53)**	**–**	**(53)**	–	(51)	(51)
€59m euro private placement shelf facility 4.83% coupon August 2020	**–**	**(52)**	**(52)**	–	(50)	(50)
\$380m (30 April 2017: \$400m) USD private placement 4.51% weighted average coupon August 2019-2022[2]	**–**	**(276)**	**(276)**	(15)	(293)	(308)
€150m euro term loan fixed rate 0.6% coupon July 2021	**–**	**(132)**	**(132)**	–	(126)	(126)
€500m euro medium-term note 2.25% coupon September 2022	**–**	**(437)**	**(437)**	–	(418)	(418)
€750m euro medium-term note 1.38% coupon July 2024	**–**	**(656)**	**(656)**	–	–	–
£250m medium-term note 2.88% coupon July 2029	**–**	**(248)**	**(248)**	–	–	–
Finance lease liabilities	**(4)**	**(9)**	**(13)**	(4)	(11)	(15)
	(162)	**(1,811)**	**(1,973)**	(119)	(1,144)	(1,263)

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, at 30 April 2018, all measured at amortised cost.

On 26 July 2017, the Group issued two public medium-term notes in the debt capital markets. The two issues were a seven year 1.38% €750m note and a 12 year 2.88% £250m note.

There have been no breaches of covenants during the year ended 30 April 2018 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:

	2018 £m	2017 £m
Expiring between two and five years	**800**	705

Changes in liabilities arising from financing activities

	At 1 May 2017 £m	Financing cash flows £m	Acquisitions £m	New finance leases £m	Fair value adjustments	Other £m	At 30 April 2018 £m
Bank and other loans	(194)	396	(203)	–	–	–	**(1)**
Medium-term notes and other fixed-term debt	(1,054)	(914)	–	–	–	9	**(1,959)**
Finance lease liabilities	(15)	4	(1)	(1)	–	–	**(13)**
Derivative financial instruments related to hedging of financial liabilities (note 17)							
assets	14	(4)	–	–	2	–	**12**
liabilities	(6)	2	–	–	(31)	–	**(35)**
Total liabilities from financing activities	**(1,255)**	**(516)**	**(204)**	**(1)**	**(29)**	**9**	**(1,996)**

Other changes include foreign exchange movements.

Financing cash flows consists 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. 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.

19. Borrowings continued

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:

	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)**

	2017				
	1 year or less £m	1–2 years £m	2–5 years £m	More than 5 years £m	Total £m
Borrowings					
Fixed rate	(19)	(54)	(281)	(627)	(981)
Floating rate	(100)	(101)	(81)	–	(282)
Total borrowings	(119)	(155)	(362)	(627)	(1,263)

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:

	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)**

	2017				
	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m
Borrowings					
Fixed rate	(156)	(811)	–	(14)	(981)
Floating rate	(12)	(203)	(35)	(32)	(282)
	(168)	(1,014)	(35)	(46)	(1,263)
Net cash and cash equivalents (including bank overdrafts)					
Floating rate	15	80	3	25	123
Net borrowings at 30 April 2017	(153)	(934)	(32)	(21)	(1,140)

At 30 April 2018, 66% of the Group's borrowings, after taking into account the effect of cross-currency swaps, were denominated in euros in order to hedge the underlying assets of the Group's European operations (30 April 2017: 80%). 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

	2018			2017		
	Future minimum lease payments £m	Interest £m	Present value of minimum lease payments £m	Future minimum lease payments £m	Interest £m	Present value of minimum lease payments £m
Less than one year	**4**	**–**	**4**	4	–	4
Between one and five years	**9**	**–**	**9**	10	–	10
More than five years	**–**	**–**	**–**	1	–	1
Finance lease liabilities	**13**	**–**	**13**	15	–	15

Financial statements

20. Financial instruments

The Group's activities expose the Group to a number of key risks which have the potential to affect its ability to achieve its business objectives. A summary of the Group's key financial risks and the policies and objectives in place to manage these risks is set out in the financial review and Principal risk sections of the strategic report.

The derivative financial instruments set out in this note have been entered into in line with the Group's risk management objectives. The Group's treasury policy prohibits entering into speculative transactions.

(a) Carrying amounts and fair values of financial assets and liabilities

Set out below is the accounting classification of the carrying amounts and fair values of all of the Group's financial assets and liabilities:

	2018		2017	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Financial assets				
Cash and cash equivalents	**297**	**297**	139	139
Available for sale – other investments	**11**	**11**	3	3
Trade and other receivables	**870**	**870**	769	769
Derivative financial instruments	**59**	**59**	32	32
Total financial assets	**1,237**	**1,237**	943	943
Financial liabilities				
Trade and other payables	**(1,719)**	**(1,719)**	(1,372)	(1,372)
Bank and other loans	**(1)**	**(1)**	(194)	(194)
Medium-term notes and other fixed-term debt	**(1,959)**	**(1,995)**	(1,054)	(1,088)
Finance lease liabilities	**(13)**	**(13)**	(15)	(15)
Bank overdrafts	**(29)**	**(29)**	(16)	(16)
Derivative financial instruments	**(59)**	**(59)**	(24)	(24)
Total financial liabilities	**(3,780)**	**(3,816)**	(2,675)	(2,709)

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	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Derivatives held to:						
Manage the interest rate and currency exposures on business activities, borrowings and net investments	**12**	14	**(35)**	(6)	**(23)**	8
Derivative financial instruments included in net debt	**12**	14	**(35)**	(6)	**(23)**	8
Derivatives held to hedge future transactions:						
Energy costs	**47**	18	**(24)**	(18)	**23**	–
Total derivative financial instruments	**59**	32	**(59)**	(24)	**–**	8
Current	**44**	13	**(24)**	(13)	**20**	–
Non-current	**15**	19	**(35)**	(11)	**(20)**	8
	59	32	**(59)**	(24)	**–**	8

(c) Cash flow, fair value and net investment hedges

(i) Cash flow hedging reserve movements

The following table identifies the movements in the cash flow hedging reserve during the year. All figures are post-tax.

	2018 £m	2017 £m
At 1 May	**(22)**	(29)
Post-tax unrealised fair value (loss)/gain on designated cash flow hedges		
Cross-currency interest rate swaps	**(21)**	(9)
Forward foreign exchange contracts	**2**	–
Commodity contracts	**26**	10
Post-tax loss/(gain) reclassified from equity to the income statement		
Cross-currency interest rate swaps	**14**	2
Commodity contracts	**(6)**	4
At 30 April	**(7)**	(22)

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:

	2018 £m	2017 £m
Cost of sales	**(7)**	5
Finance costs	**17**	3
Total pre-tax loss reclassified from equity to the income statement during the year	**10**	8

(ii) Hedges of net investments in foreign operations

The Group holds cross-currency interest rate swap contracts as hedges of long-term investments in foreign subsidiaries. The pre-tax loss on the hedges recognised in equity during the year was £1m (2016/17: loss of £11m). This loss is matched by a similar gain in equity on the retranslation of the hedged foreign subsidiary net assets resulting in a net gain of £nil (2016/17: net gain of £nil) treated as hedge ineffectiveness in the income statement.

20. Financial instruments continued

(d) Risk identification and risk management

(i) Capital management

The Group defines its managed capital as equity, as presented in the consolidated statement of financial position, and net debt (note 17).

	2018 £m	2017 £m
Net debt	**1,680**	1,092
Total equity	**2,110**	1,355
Managed capital	**3,790**	2,447

The major changes in managed capital levels are as follows: during the year, the Group issued €750m and £250m of new debt under the EMTN programme, and made a significant equity issue with proceeds of £283m, both primarily to raise funds for the Interstate Resources acquisition. Equity was also issued as part of the consideration for both the Interstate Resources and EcoPack/EcoPaper acquisitions. 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.

At 30 April 2018, 97% of the Group's borrowings were at fixed rates of interest (30 April 2017: 78%). 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 2018.

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.

20. Financial instruments continued
(d) Risk identification and risk management continued
(ii) Market risk continued

The results are presented before non-controlling interests and tax.

	2018		2017	
	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	**(1)**	**(1)**	(3)	(3)

Under interest rate swap contracts, the Group agrees to exchange a stream of interest payments calculated on agreed notional principal amounts. At 30 April 2018, losses of £23m (30 April 2017: losses of £21m) net of tax are deferred in equity in respect of cash flow hedges of interest rate risk. These will be reclassified to the income statement in the period in which the hedged item also affects the income statement, which will be during the period to 2022.

Foreign exchange risk

Foreign exchange risk on investments

The Group is exposed to foreign exchange risk arising from net investments in Group entities, the functional currencies of which differ from the Group's presentational currency, sterling. The Group partly hedges this exposure through borrowings denominated in foreign currencies and through cross-currency swap 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.

At 30 April 2018, losses net of tax deferred in equity in respect of foreign exchange cash flow hedges were £2m (30 April 2017: £nil).

The Group's main currency exposures are to the euro and US dollar. The following significant exchange rates applied during the year:

	2018		2017	
	Average	Closing	Average	Closing
euro	**1.132**	**1.137**	1.179	1.184
US dollar	**1.356**	**1.373**	1.285	1.294

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.

	2018		2017	
	Impact on profit £m	Impact on total equity £m	Impact on profit £m	Impact on total equity £m
10% strengthening of sterling	**–**	**32**	–	24
10% weakening of sterling	**–**	**(39)**	–	(30)

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. This commodity price risk is managed by a combination of physical supply agreements and derivative instruments. At 30 April 2018, gains of £20m net of tax (2016/17: £nil) are deferred in equity in respect of cash flow hedges in accordance with IAS 39 (30 April 2017: losses of £nil). 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.

	2018		2017	
	Impact on profit £m	Impact on total equity £m	Impact on profit £m	Impact on total equity £m
10% increase in electricity prices	–	3	–	2
10% increase in gas prices	–	17	–	13

(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 2018 was £1,237m 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 2018, the Group had £800m of undrawn committed borrowing facilities (30 April 2017: £705m). The Group mitigates its refinancing risk by raising its debt requirements from a number of different sources with a range of maturities.

The following table is an analysis of the undiscounted contractual maturities of financial liabilities (including the effect of cross-currency interest rate swaps).

	Contractual repayments			
At 30 April 2018	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

20. Financial instruments continued

(d) Risk identification and risk management continued

(iv) Liquidity risk continued

At 30 April 2017	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	1,372	1,358	14	–
Bank and other loans	197	100	97	–
Medium-term notes and other fixed-term debt	1,050	15	412	623
Finance lease liabilities	15	4	10	1
Bank overdrafts	16	16	–	–
Interest payments on borrowings	120	25	82	13
Total non-derivative financial liabilities	2,770	1,518	615	637

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 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 (assets)/liabilities	**(10)**	**(15)**	**5**	**–**

At 30 April 2017	Contractual payments/(receipts) Total £m	1 year or less £m	1-5 years £m	More than 5 years £m
Derivative financial liabilities				
Energy derivatives	–	–	–	–
Interest rate and currency swaps:				
Payments	492	74	86	332
Receipts	(502)	(74)	(90)	(338)
Total net derivative financial (assets)/liabilities	(10)	–	(4)	(6)

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	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
At 1 May	**(169)**	(158)	**51**	53	**63**	39	**1**	(17)	**(54)**	(83)
Acquired	**(120)**	(4)	**1**	–	**–**	–	**–**	–	**(119)**	(4)
Credit/(charge) for the year	**66**	10	**(4)**	(2)	**(12)**	14	**–**	–	**50**	22
Recognised directly in equity	**–**	–	**(8)**	(2)	**–**	8	**(3)**	16	**(11)**	22
Currency translation	**2**	(17)	**1**	2	**–**	2	**–**	2	**3**	(11)
At 30 April	**(221)**	(169)	**41**	51	**51**	63	**(2)**	1	**(131)**	(54)

At 30 April 2018, 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:

	2018 £m	2017 £m
Deferred tax liabilities	**(195)**	(133)
Deferred tax assets	**64**	79
Net deferred tax	**(131)**	(54)

The deferred tax asset in respect of tax losses at 30 April 2018 includes an asset in the UK of £31m (30 April 2017: £36m). 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 £20m (30 April 2017: £19m). 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 2017	18	11	29
Acquisitions	–	4	4
Charged to income	17	–	17
Credited to income	–	(1)	(1)
Utilised	(27)	(2)	(29)
At 30 April 2018	**8**	**12**	**20**
Non-current	–	4	4
Current	8	8	16
	8	**12**	**20**

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			
	2018 millions	2017 millions	**2018 £m**	2017 £m
Ordinary equity shares of 10 pence each:				
Issued, allotted, called up and fully paid	**1,075**	951	**107**	95

During the year ended 30 April 2018, 1,619,350 ordinary shares were issued as a result of exercises of employee share options. A placing on 29 June 2018 connected with the acquisition of Interstate Resources comprised an issue of 62,637,363 ordinary shares. The gross proceeds from issue of share capital were £288m. The related transaction costs amounting to £5m have been netted against proceeds.

Additionally, 52,474,156 ordinary shares were issued to the seller of Interstate Resources, and 6,492,411 ordinary shares were issued to the sellers of EcoPack/EcoPaper during the year.

The net movements in share capital and share premium are disclosed in the consolidated statement of changes in equity.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In respect of the Company's shares that are held by the Group, all rights are suspended until those shares are reissued.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations and the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Share premium

The share premium account represents the difference between the issue price and the nominal value of shares issued.

Own shares

The reserve for the Company's own shares comprises the cost of the Company's shares held by the Group. The Group operates a General Employee Benefit Trust, which acquires shares in the Company that can be used to satisfy the requirements of the performance share plan and the share matching plan. At 30 April 2018, the Trust held 0.4m shares (30 April 2017: 2.0m shares). The market value of the shares at 30 April 2018 was £2.0m (30 April 2017: £6.7m). 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

	Total		UK		Overseas	
Balance sheet	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Present value of post-retirement obligations	**(1,186)**	(1,277)	**(1,029)**	(1,133)	**(157)**	(144)
Fair value of plan assets						
Equities/multi-strategy	**322**	294	**303**	281	**19**	13
Debt instruments	**228**	165	**195**	134	**33**	31
Derivatives	**522**	506	**520**	506	**2**	–
Real estate	**3**	3	**–**	–	**3**	3
Cash and cash equivalents	**5**	3	**4**	2	**1**	1
Other	**6**	128	**–**	128	**6**	–
	1,086	1,099	**1,022**	1,051	**64**	48
Net post-retirement plan deficit	**(100)**	(178)	**(7)**	(82)	**(93)**	(96)
Other employee benefit liabilities	**(6)**	(3)	**–**	–	**(6)**	(3)
Total employee benefit deficit	**(106)**	(181)	**(7)**	(82)	**(99)**	(99)
Related deferred tax asset	**26**	42	**1**	14	**25**	28
Net employee benefit deficit	**(80)**	(139)	**(6)**	(68)	**(74)**	(71)

Employee benefit schemes

At 30 April 2018, the Group operated a number of employee benefit arrangements for the benefit of its employees throughout the world. The plans are provided through both defined benefit and defined contribution arrangements and their legal status and control vary depending on the conditions and practices in the countries concerned.

Pension scheme trustees and representatives of the Group work with those managing the employee benefit arrangements to monitor the effects on the arrangements of changes in financial markets and the impact of uncertainty in assumptions, and to develop strategies that could mitigate the risks to which these employee benefit schemes expose the Group.

UK schemes

The DS Smith Group Pension Scheme (the 'Group Scheme') is a UK funded final salary defined benefit scheme providing pensions and lump sum benefits to members and dependants. The Group Scheme closed to future accrual from 30 April 2011 with pensions calculated based on pensionable salaries up to the point of closure (or the date of leaving the Group Scheme, if earlier). The Group Scheme has a normal retirement age of 65 although some members are able to take their benefits earlier than this. Increases to pensions are affected by changes in the rate of inflation for the majority of members.

The Group Scheme is governed by a Trustee Company (DS Smith Pension Trustees Limited), which is comprised of a Board of Trustee Directors (the 'Trustee Board') and is independent of the Group. The Trustee Board is responsible for managing the operation, funding and investment strategy of the Group Scheme.

UK legislation requires the Trustee Board to carry out actuarial funding valuations at least every three years and to target full funding over an appropriate period of time, taking into account the current circumstances of the Group Scheme and the Group on a basis that prudently reflects the risks to which the Group Scheme is exposed (the 'Technical Provisions' basis). The most recent funding valuation was carried out as at 30 April 2016, following which a deficit recovery plan was agreed with the Trustee Board on 28 April 2017. The Group has agreed to increase existing cash contributions by 10% per annum, commencing with the current year back-dated to the beginning of the year. The planned contribution for 2016/17 was, therefore, increased from £16m to £17.6m. The contribution for the year ended 30 April 2018 under the plan is £18.3m. The recovery plan is expected to be completed on or around November 2025.

The Trustee Board and the Group have in place a secondary Long-Term Funding Target (the 'LTFT'), in addition to the statutory funding requirement, the purpose of which is to achieve material additional security for the Group Scheme's members. The objective of the LTFT is for the Group Scheme to be funded by 30 April 2035 to a level that does not expect to rely on future contributions from the Group.

In 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; 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

	2018 £m	2017 £m
Schemes' liabilities at 1 May	**(1,280)**	(1,145)
Acquisitions	**(32)**	–
Interest cost	**(30)**	(36)
Service cost recognised in the consolidated income statement	**(6)**	(5)
Member contributions	**(1)**	(1)
Settlement/curtailment	**19**	–
Pension payments	**49**	48
Unfunded benefits paid	**7**	7
Actuarial gains/(losses) – financial assumptions	**89**	(217)
Actuarial (losses)/gains – experience	**(8)**	56
Actuarial gains – demographic	**4**	22
Currency translation	**(3)**	(10)
Reclassification	**–**	1
Schemes' liabilities at 30 April	**(1,192)**	(1,280)

Movements in the fair value of employee benefit plans' assets recognised in the consolidated statement of financial position

	2018 £m	2017 £m
Schemes' assets at 1 May	**1,099**	957
Acquisitions	**24**	–
Employer contributions	**25**	17
Member contributions	**1**	1
Other contributions	**6**	–
Settlement/curtailment	**(19)**	–
Interest income	**27**	32
Actuarial (losses)/gains	**(28)**	138
Pension payments	**(49)**	(48)
Currency translation	**–**	2
Schemes' assets at 30 April	**1,086**	1,099

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 2018	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	**197**	**233**	**502**	**400**	**248**	**104**	**25**

The weighted average duration for the Group Scheme is 16 years.

The Group made agreed contributions of £20m to the Group Scheme in 2017/18 (2016/17: £16m). The Group's current best estimate of contributions expected to be made to the Group Scheme in the year ending 30 April 2019 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 £7m.

Significant actuarial assumptions

Principal actuarial assumptions for the Group Scheme are as follows:

	2018	2017
Discount rate for scheme liabilities	**2.8%**	2.5%
Inflation	**2.0%**	2.2%
Pre-retirement pension increases	**2.0%**	2.2%
Future pension increases for pre 30 April 2005 service	**2.0%**	2.2%
Future pension increases for post 30 April 2005 service	**1.5%**	1.8%

For other overseas arrangements, the weighted average actuarial assumptions are a discount rate of 1.4% (30 April 2017: 1.5%) and an inflation rate of 1.8% (30 April 2017: 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 2018, the mortality base table used is S2PA (year of birth), with CMI 2017 projections with a 1.25% per annum long-term rate of improvement used for future longevity improvement. At 30 April 2017 the mortality base table used was S2PA (year of birth), with CMI 2016 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:

	2018		2017	
	Male	Female	Male	Female
Life expectancy at age 65				
Member currently aged 65	**21.0**	**23.2**	21.2	23.2
Member currently aged 45	**22.0**	**24.9**	22.1	25.0

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	**(86)**
0.5% increase in inflation	**(59)**
1 year increase in life expectancy	**(34)**

24. Employee benefits continued

Expense recognised in the consolidated income statement

	Total	
	2018 £m	2017 £m
Post-retirement benefits current service cost	(6)	(5)
Total service cost	**(6)**	(5)
Net interest cost on net pension liability	(3)	(4)
Pension Protection Fund levy	(1)	(1)
Employment benefit net finance expense	**(4)**	(5)
Total expense recognised in the consolidated income statement	**(10)**	(10)
Items recognised in other comprehensive income/(expense)		
Remeasurement of defined benefit obligation	85	(139)
Return on plan assets excluding amounts included in employment benefit net finance expense	(28)	138
Total gains/(losses) recognised in other comprehensive income/(expense)	**57**	(1)

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 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 2013 and 2014 awards 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, 2013 and 2014 awards have vested, but have not yet been fully exercised.

25. Share-based payment expense continued

(iii) A share matching plan (SMP) is operated for Executive Directors and senior executives with the first award made in 2012/13. The award will vest after three years subject to remaining in service and the satisfaction of performance conditions measured over the three financial years commencing with the year of grant. The performance conditions of the award are based 50% on average adjusted EPS and 50% on average adjusted ROACE. No further awards under this Plan will be made subsequent to the 2014/15 award granted in July 2014.

All awards have vested, and have been fully exercised.

(iv) A long-term incentive plan (LTIP) is operated for selected senior managers with the first award made in 2013/14. The award will vest after three years subject to remaining in service and the satisfaction of performance conditions measured over the three financial years commencing with the year of grant. The performance conditions of the award are based 50% on average adjusted EPS and 50% on average adjusted ROACE. The last award under this Plan was the 2016/17 award granted in July 2016.

(v) An international sharesave plan was introduced in January 2014 with further invitations being made in January 2016, January 2017 and January 2018. All employees of the Company and participating subsidiaries were eligible to participate in this plan. Under this HMRC approved plan, options are granted to participants who have contracted to save up to a maximum of £250 (or local currency equivalent) across all open invitations per month over a period of three years at a discount of up to 20% to the average closing mid-market price of a DS Smith Plc ordinary share on the three dealing days prior to invitation. Options cannot normally be exercised until a minimum of three years has elapsed. In common with most plans of this type there are no performance conditions applicable to options granted under this plan. The provisions of this plan are subject to minor country specific variances. A standard US stock purchase plan, which received shareholder approval at the 2014 AGM, was also introduced in January 2014 and subsequent invitations were made in 2016, 2017 and 2018. US employees of the Group are eligible to participate in this plan. Options are granted to participants who have contracted to save up to $405 per month over a period of two years at a discount of up to 15% to the average closing mid-market price of a DS Smith Plc ordinary share on the day before grant. Options cannot normally be exercised until a minimum of two years has elapsed.

Full details of the awards described in (i), (ii), (iii) and (v) are set out in the Remuneration Committee report.

Options outstanding and exercisable under share arrangements at 30 April 2018 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	6,014,273	Nil	1.1	Nil	588,584	Nil
Deferred Share Bonus Plan	1,161,278	Nil	0.9	Nil	165,221	Nil
Share Matching Plan	–	Nil	–	Nil	–	Nil
Sharesave Plan	9,751,212	269.0-412.0	2.0	343.7	64,296	269.0

	Options outstanding			Options exercisable		
	Value (£)	Option price range (p)	Weighted average remaining contract life (years)	Weighted average exercise price (p)	Value exercisable	Weighted average exercise price (p)
Long-term incentive plan	3,158,096	Nil	0.8	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	
2018	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options (£'000s)
At 1 May 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**	**–**

25. Share-based payment expense continued

2017	Performance share plan Weighted average exercise price (p)	Performance share plan Options ('000s)	Deferred share bonus plan Weighted average exercise price (p)	Deferred share bonus plan Options ('000s)	Share matching plan Weighted average exercise price (p)	Share matching plan Options ('000s)	Sharesave plan Weighted average exercise price (p)	Sharesave plan Options ('000s)	Long-term incentive plan Weighted average exercise price (p)	Long-term incentive plan Options (£'000s)
At 1 May 2016	Nil	6,206	Nil	1,451	Nil	837	280.4	9,269	Nil	4,722
Granted	Nil	1,909	Nil	463	Nil	–	333.0	4,976	Nil	1,554
Exercised	Nil	(2,192)	Nil	(427)	Nil	(291)	269.1	(4,497)	Nil	(1,335)
Lapsed	Nil	(455)	Nil	(6)	Nil	(38)	288.8	(613)	Nil	(224)
At 30 April 2017	Nil	5,468	Nil	1,481	Nil	508	314.1	9,135	Nil	4,717
Exercisable at 30 April 2017	Nil	263	Nil	123	Nil	91	269.0	1,298	Nil	–

The average share price of the Company during the financial year was 489.9 pence (2016/17: 409.6 pence).

The fair value of awards granted in the period relates to the PSP and DSBP schemes.

The fair value of the PSP award granted during the year, determined using the stochastic valuation model, was £8m. The significant inputs into the model were: a share price of 478.0p for the PSP at the grant date; the exercise prices shown above; an expected volatility of the share price of 22.51% for Executive Directors and 23.94% for all other participants; the scheme life disclosed above; a risk-free interest rate of 0.47% for Executive Directors and 0.26% for all other participants, 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 £9m (2016/17: £10m).

26. Cash generated from operations

Continuing operations	2018 £m	2017 £m
Profit for the year	**259**	208
Adjustments for:		
Pre-tax integration costs and other adjusting items	**47**	57
Amortisation of intangible assets and acquisitions and disposals	**122**	70
Cash outflow for adjusting items	**(80)**	(66)
Depreciation	**168**	148
Profit on sale of non-current assets	**(1)**	(14)
Share of profit of equity accounted investments, net of tax	**(5)**	(3)
Employment benefit net finance expense	**4**	5
Share-based payment expense	**9**	10
Finance income	**(2)**	(1)
Finance costs	**72**	51
Other non-cash items	**2**	9
Income tax expense	**33**	56
Change in provisions	**(9)**	(6)
Change in employee benefits	**(27)**	(19)
Cash generation before working capital movement	**592**	505
Changes in:		
Inventories	**(82)**	(49)
Trade and other receivables	**(19)**	10
Trade and other payables	**85**	163
Working capital movement	**(16)**	124
Cash generated from continuing operations	**576**	629

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27. Reconciliation of net cash flow to movement in net debt

	2018 £m	2017 £m
Profit for the year	**259**	208
Income tax expense	**33**	56
Share of profit of equity accounted investments, net of tax	**(5)**	(3)
Net financing costs	**74**	55
Amortisation	**93**	65
Adjusting items	**76**	62
Operating profit before amortisation and adjusting items	**530**	443
Depreciation	**168**	148
Adjusted EBITDA	**698**	591
Working capital movement	**(16)**	124
Change in provisions	**(9)**	(6)
Change in employee benefits	**(27)**	(19)
Other	**10**	5
Cash generated from operations before adjusting cash items	**656**	695
Capital expenditure	**(347)**	(244)
Proceeds from sale of property, plant and equipment and other investments	**18**	18
Tax paid	**(82)**	(61)
Net interest paid	**(41)**	(45)
Free cash flow	**204**	363
Cash outflow for adjusting items	**(80)**	(66)
Dividends paid	**(157)**	(121)
Acquisition of subsidiary businesses, net of cash and cash equivalents	**(615)**	(71)
Other	**(4)**	–
Net cash flow	**(652)**	105
Proceeds from issue of share capital	**283**	13
Borrowings acquired	**(204)**	(14)
Net movement on debt	**(573)**	104
Foreign exchange, fair value and other non-cash movements (note 17)	**(15)**	(97)
Net debt movement – continuing operations	**(588)**	7
Opening net debt	**(1,092)**	(1,099)
Closing net debt	**(1,680)**	(1,092)

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 32.

28. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2018 £m	2017 £m
Less than one year	**49**	27
Between one and five years	**111**	64
More than five years	**50**	39
	210	130

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 2018, the Group had committed to incur capital expenditure of £56m (30 April 2017: £18m).

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 2018.

30. Acquisitions and disposals

(a) Acquisition of Interstate Resources

On 29 June 2017, the Group entered into a conditional agreement to acquire an 80% interest in Indevco Management Resources Inc. (IMRI), the owner of Interstate Resources Inc. (Interstate Resources), from Merpas Co. Sàrl. ('Merpas'), which completed on 25 August 2017.

Interstate Resources is an integrated packaging and paper producer based on the East Coast of the USA. It operates from 19 production sites and has approximately 1,500 employees.

Interstate Resources operates across the entire packaging chain including wood procurement, paper manufacturing, design, packaging manufacturing and customer logistics, with the majority of its customer base for its packaging products being FMCG and food customers.

The acquisition aligns with the global convergence of DS Smith's customers' requirements and is expected to create a higher quality, higher margin group with more growth potential.

The acquisition was funded by the issue of a placing on 29 June 2017 of shares in the Company with proceeds net of commissions and expenses of £280m, existing debt facilities, new debt facilities of £400m agreed by the Company on 28 June 2017, and the issue of 52,474,156 ordinary shares to the seller.

In the year ended 30 April 2018, Interstate Resources contributed combined revenue of £379m and adjusted operating profit before amortisation and adjusting items of £62m to the Group's results. If the acquisition had occurred on 1 May 2017, estimated revenue and adjusted operating profit before amortisation and adjusting items for the combined group would have been £5,954m and £557m respectively.

The following table summarises the consideration paid for the Interstate Resources business and provisional fair value of assets acquired and liabilities assumed:

	Carrying values before acquisition £m	Provisional fair values £m
Intangible assets	1	258
Biological assets	8	8
Property, plant and equipment	272	276
Equity accounted and other investments	16	19
Inventories	33	31
Net income tax assets	3	2
Trade and other receivables	63	61
Cash and cash equivalents	1	1
Borrowings	(140)	(140)
Trade and other payables	(54)	(42)
Provisions and employee benefits	(11)	(13)
Net deferred tax liabilities	(37)	(118)
Total identifiable net assets acquired	**155**	**343**
Redemption liability relating to non-controlling interest		(152)
Goodwill		581
Total consideration		**772**
Satisfied by:		
Cash consideration		511
Equity instruments (52,474,156 ordinary shares)		261
Total consideration transferred		**772**
Net cash flow arising on acquisition		
Cash consideration		511
Cash and cash equivalents acquired		(1)
Total cash outflow		**510**

The fair value of the ordinary shares issued was based on the listed share price of the Company at 25 August 2017 of £4.97 per share.

A detailed exercise has been 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 have been assessed by reference to work performed by an independent valuation specialist. The intangible assets acquired as part of the acquisition relate to customer relationships.

30. Acquisitions and disposals continued

(a) Acquisition of Interstate Resources continued

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.

The redemption liability relating to the non-controlling interest of £152m relates to the 20% minority stake in IMRI retained by Merpas. On fixed dates over the next four years, Merpas can require the Group to acquire some or all of the remaining shares in IMRI on agreed terms under a put option, and, on the fifth anniversary of Completion, the Group will (unless agreed otherwise) acquire any shares in IMRI that it does not already own. The Group has concluded that the risks and rewards related to the put option have substantially transferred to the Group as acquirer and, as such, a financial liability has been recognised, with no non-controlling interest recognised in the statement of financial position. The redemption liability is held at discounted fair value, with subsequent movements taken to the income statement; movements due to re-measurement using the multiple based formula as specified in the contract and the unwind of the discount are recorded in adjusting items. The redemption liability is included in trade and other payables in the consolidated statement of financial position (note 16).

Deferred tax is recognised on the temporary timing differences created by the fair value adjustments.

The trade and other receivables comprise gross contractual amounts due of £62m. At the acquisition date, it is estimated that contractual cash flows of £1m will not be collected.

The provisional goodwill balance of £581m arising on the acquisition of Interstate Resources (which is not expected to be tax deductible) includes anticipated synergies from integrating Interstate Resources into the Group, and the skills and technical talent of the Interstate Resources workforce.

(b) Acquisition of EcoPack/EcoPaper

On 18 October 2017, the Group announced it had entered into an agreement to acquire EcoPack and EcoPaper, (collectively "the Business") for an enterprise value of c. €208 million, which completed on 6 March 2018.

The Business is a leading integrated packaging and paper group in Romania; family owned for many years. It will significantly enhance the Group's capacity to serve customers in this high growth region as well as supporting our wider substantial Eastern European presence. The Business includes both high quality packaging assets, focused on the local FMCG market, as well as a new paper machine, built in 2017, that specialises in high quality, light-weight paper, which is particularly well-suited to supporting the Group's performance packaging solutions.

The acquisition was funded by existing cash and debt facilities and the issue of 6,492,411 ordinary shares to the seller.

In the year ended 30 April 2018, EcoPack/EcoPaper contributed combined revenue of £10m and adjusted operating profit before amortisation and adjusting items of £3m to the Group's results. If the acquisition had occurred on 1 May 2017, estimated revenue and adjusted operating profit before amortisation and adjusting items for the combined group would have been £5,836m and £538m respectively.

The following table summarises the consideration paid for the EcoPack/EcoPaper business and provisional fair value of assets acquired and liabilities assumed:

	Carrying values before acquisition £m	Provisional fair values £m
Intangible assets	–	39
Property, plant and equipment	94	94
Inventories	6	5
Net income tax liabilities	–	(1)
Trade and other receivables	12	12
Borrowings	(60)	(60)
Trade and other payables	(8)	(8)
Net deferred tax liabilities	–	(6)
Total identifiable net assets acquired	44	75
Goodwill		53
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

30. Acquisitions and disposals continued

(b) Acquisition of EcoPack/EcoPaper continued

The fair value of the ordinary shares issued was based on the listed share price of the Company at 6 March 2018 of £5.06 per share.

The intangible assets acquired as part of the acquisition relate to customer relationships.

Given that the acquisition was completed on 6 March, fair values for assets and liabilities acquired are provisional. 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.

The provisional goodwill balance of £53m arising on the acquisition of EcoPack/EcoPaper (which is not expected to be tax deductible) includes anticipated synergies from integrating EcoPack/EcoPaper into the Group, and the skills and technical talent of the EcoPack/EcoPaper workforce.

(c) Other 2017/18 acquisitions and disposals

In total, during the year ended 30 April 2018, cash consideration for acquisition of subsidiary businesses, net of cash and cash equivalents was £615m, and borrowings acquired were £204m, giving a total impact on net debt from acquisitions of £819m. Apart from the acquisitions of Interstate Resources and EcoPack/EcoPaper, the remaining acquisitions are not material to the Group individually or in aggregate.

(d) 2016/17 acquisitions and disposals

In the year ended 30 April 2017, the Group made various business acquisitions, which included the acquisition of two businesses specialising in point of sale and display product and services for in-store marketing, Creo in the UK and Deku-Pack in Denmark, the acquisition of Parish (a US manufacturer and supplier of bag-in-box systems), Gopaca (a corrugated producer in Portugal) and P&I Display (a specialist corrugated display business in Portugal).

These acquisitions were not considered material to the Group individually or in aggregate and were for a total of £71m (net of cash and cash equivalents). Borrowings acquired from these transactions were £14m.

(e) Acquisition related costs

The Group incurred acquisition related costs of £29m (2016/17: £7m) which primarily related to the acquisition of Interstate Resources as detailed in note 30(a). In addition to the total of £29m which was included in administrative expenses within adjusting items, £5m of costs related to the share placing with existing DS Smith equity holders has been netted against share premium.

31. Related parties

Identity of related parties

In the normal course of business the Group undertakes a wide variety of transactions between its subsidiaries and equity accounted 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 table on page 73 of 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 £3m (2016/17: £2m) relating to key management personnel.

Transactions with pension trustees are disclosed in note 24.

Other related party transactions

	2018 £m	2017 £m
Sales to equity accounted investees	3	–
Purchases from equity accounted investees	9	–
Purchases from other investees	4	–

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32. Non-GAAP performance measures

The Group presents reported and adjusted financial information in order to provide shareholders with additional information to further understand the Group's operational performance and financial position.

The principal adjustments to financial information are made to exclude the effects of adjusting items 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 and 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.

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.

	2018 £m	2017 £m
Adjusted operating profit	**530**	443
Revenue	**5,765**	4,781
Return on sales	**9.2%**	9.3%

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.

32. Non-GAAP performance measures continued

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.

	2018 £m	2017 £m
Capital employed at 30 April	**4,106**	2,796
Currency, inter-month and acquisition movements	**(353)**	182
Last 12 months' average capital employed	**3,753**	2,978
Last 12 months' adjusted operating profit	**530**	443
Adjusted return on average capital employed	**14.1%**	14.9%

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. A split showing the components of net debt is provided 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.

	2018 £m	2017 £m
Net debt – reported basis (see note 17)	**1,680**	1,092
Currency effects	**7**	–
Net debt – adjusted basis	**1,687**	1,092
Adjusted EBITDA – last 12 months' reported basis	**698**	591
Acquisition effects	**52**	6
Adjusted EBITDA – banking covenant basis	**750**	597

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 of 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:

	2018 £m	2017 £m
Growth capital expenditure	**175**	103
Non-growth capital expenditure	**172**	141
Total capital expenditure	**347**	244
Free cash flow (note 27)	**204**	363
Tax paid (note 27)	**82**	61
Net interest paid (note 27)	**41**	45
Growth capital expenditure	**175**	103
Pension payments (note 27)	**27**	19
	529	591
Adjusted operating profit	**530**	443
Cash conversion	**100%**	133%

32. Non-GAAP performance measures continued

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.

	2018 £m	2017 £m
Inventories	**543**	406
Trade and other receivables	**870**	769
Trade and other payables	**(1,719)**	(1,372)
Inter-month movements and exclusion of capital and acquisition related items	**308**	239
Last 12 months' average working capital	**2**	42
Last 12 months' revenue	**5,765**	4,781
Average working capital to sales	**0.0%**	0.9%

Constant currency

The Group presents commentary on both reported and constant currency revenue and adjusted operating profit comparatives in order to explain the impact of exchange rates on the Group's key income statement captions. Constant currency comparatives recalculate the prior period revenue and adjusted operating profit as if they had been generated at the current year exchange rates. The table below shows the calculation:

	Comparative year ended 30 April 2017	
	Revenue £m	Adjusted operating profit £m
Reported basis	**4,781**	**443**
Currency effects	**143**	**13**
Constant currency basis	**4,924**	**456**

33. DS Smith Group companies

The Group's ultimate parent Company is DS Smith Plc.

Group companies are grouped by the countries in which they are incorporated or registered. Unless otherwise noted, the undertakings below are wholly owned and consolidated by DS Smith and the share capital held comprises ordinary or common shares which are held by Group subsidiaries. Principal companies are identified in orange.

Fully owned subsidiaries	Notes
Argentina	
Total Marketing Support Argentina SA	2
Australia	
Total Marketing Support Pacific Pty Ltd	3
Austria	
DS Smith Austria Holdings GmbH	4
DS Smith Packaging Austria Beteiligungsverwaltungs GmbH	4
DS Smith Packaging Austria GmbH	5
DS Smith Packaging South East GmbH	4
Belgium	
DS Smith Packaging Belgium N.V.	7
DS Smith Packaging Marketing N.V.	8
DS Smith Plastics Bilzen N.V.	6
Bosnia & Herzegovina	
DS Smith Packaging BH d.o.o. Sarajevo	9
DS Smith Recycling Bosnia d.o.o.	10
Brazil	
Total Marketing Support Brazil Ltda	11
Bulgaria	
DS Smith Bulgaria S.A.	12
Rapak EAD	13
Canada	
TMS Canada 360 Inc.	14
Chile	
Total Marketing Support Chile SpA	15
China	
DS Smith Shanghai Trading Ltd	16
TMS Shanghai Trading Ltd	17
Colombia	
Total Marketing Support Colombia S A S	18
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DS Smith Finance B.V.	92
DS Smith Hellas Netherlands B.V.	91
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DS Smith Packaging Almelo B.V.	90
DS Smith Packaging Barneveld B.V.	93
DS Smith Packaging Belita B.V.	92
DS Smith Packaging Holding B.V.	92
DS Smith Packaging International B.V.	92
DS Smith Packaging Netherlands B.V.	91
DS Smith Recycling Benelux B.V.	91
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UK	
A. A. Griggs and Company Limited	1
Abbey Corrugated Limited	1
Ashton Corrugated	1
Ashton Corrugated (Southern) Limited	1
Avonbank Paper Disposal Limited	1
Biber Paper Converting Limited	1
Calara Holding Limited	1
Conew Limited	1
Corrugated Products Limited	1
Creo Property Limited	1
Creo Retail Marketing Holdings Limited	1
Creo Retail Marketing Limited	1
D.W. Plastics (UK) Limited	1
David S Smith (Pension Contributions) Limited	1
David S. Smith Nominees Limited	1
DS Smith (UK) Limited	1
DS Smith Business Services Limited	1
DS Smith Corrugated Packaging Limited	**1**
DS Smith Display Holding Limited	1
DS Smith Dormant Eight Limited	1
DS Smith Dormant Five Limited	1
DS Smith Euro Finance Limited	1
DS Smith Finco Limited	A, 1
DS Smith Haddox Limited	1
DS Smith Holdings Limited	A, 1
DS Smith International Limited	1
DS Smith Italy Limited	1
DS Smith Logistics Limited	1
DS Smith Packaging Limited	1
DS Smith Paper Limited	1
DS Smith Pension Trustees Limited	1
DS Smith Perch Limited	1
DS Smith Plastics Limited	1
DS Smith Recycling UK Limited	**1**
DS Smith Roma Limited	1
DS Smith Romania Limited	1
DS Smith Saver Plus Trustees Limited	1
DS Smith Sudbrook Limited	1
DS Smith Supplementary Life Cover Scheme Limited	1
DS Smith Ukraine Limited	1
DSS Eastern Europe Limited	1
DSS Poznan Limited	1
DSSH No. 1 Limited	1
First4Boxes Limited	1
Grovehurst Energy Limited	1
JDS Holding	1
Miljoint Limited	1
Multigraphics Holdings Limited	1
Multigraphics Limited	1
Multigraphics Services Limited	1
Pavidda Paper Limited	1
Priory Packaging Limited	1
rapak psi Limited	1
Reed & Smith Limited	1
SRP New Thames Limited	1
St. Regis Holdings plc	1
St. Regis International Limited	1
St. Regis Kemsley Limited	1

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St. Regis Paper Company Limited	1
The Brand Compliance Company Limited	1
The Less Packaging Company Limited	1
The Wansbrough Paper Company Limited	1
TheBannerPeople.Com Limited	1
Tillotsons Corrugated Cases Limited	1
TMS Global UK Limited	1
Total Marketing Support Global Limited	I, 1
Total Marketing Support Limited	1
Treforest Mill plc	1
TRM Packaging Limited	1
United Shopper Marketing Limited	1
W. Rowlandson & Company Limited	1
Waddington & Duval Limited	1
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Ownership interest at 30 April 2018	
A	Directly held by DS Smith Plc
B	99.285% ownership interest
C	98.89% ownership interest
D	92% ownership interest
E	81.39% ownership interest
F	80% ownership interest
G	69.788% ownership interest
H	51% ownership interest
I	50% ownership interest
J	49.6% ownership interest
K	48% ownership interest
L	40% ownership interest
M	37.5% ownership interest
N	30% ownership interest

33. 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 Fiandeiras 677, Vila Olimpia, Sao Paulo, Brazil
12. Glavinitsa, 4400 Pazardzhik, Bulgaria
13. 3rd Floor, 45 Industrialna Str, Shumen 9700, Bulgaria
14. 215-1673 Carling Avenue, Ottowa ON K2A 1C4, Canada
15. Santa Beatriz, 111. Of 1104. Providencia, Santiago de Chile, Chile
16. Room 05C, 3/F, No. 2 Building, Hongqiao Vanke Center, 988 Shenchang Road, Minhang district, 201107, Shanghai, China
17. R919, 9/F, No. 1788 West Nan Jin Rd, Jing An District, Shanghai, 200040, China
18. Calle 72 , 10-07 Oficina 401, Edificio Liberty Seguros, Bogotá, Colombia
19. Vijenac Salamona Henricha Gutmanna 30, Belišće, Croatia
20. Dravska bb, Koprivnica (Grad Koprivnica), Croatia
21. Kupljensko 75/b, 47220 Vojnic, Croatia
22. Lastovska 5, Zagreb, Croatia
23. Radnička cesta 22, Zagreb, Croatia
24. Julia House, 3 Themistocles Dervis Street, Nicosia, CY-1066, Cyprus
25. Teplická 109, Martiněves, 405 02 Jílové , Czech Republic
26. Zirovnicka 3124, 10600 Praha 10, Czech Republic
27. Åstrupvej 30, 8500 Grenaa, Denmark
28. Nile City Towers, North Tower, 22nd Floor, Cornish ElNil, Cairo, 11624, Egypt
29. Pae 24, 11415 Tallinn, Estonia
30. PL 426, 33101 Tampere, Finland
31. 350 Zone Artisanale des Trois Fontaines, 38140 Rives, France
32. 1 Terrasse Bellini, 92800, Puteaux, France
33. 11 route Industrielle, F-68320, Kunheim, France
34. 12 rue Gay Lussac ZI Dijon Chenove, 21300, Chenove, France
35. 143 Avenue Charles de Gaulle, 92521, Neuilly sur Seine Cedex, France
36. 146 Route de Lyon, 67640, Fegersheim, France
37. 2 Rue Vincent Van Gogh, ZAC des Bords de Marne, 93360, Neuilly Plaisance, France
38. 6-8 Boulevard Monge, 69330, Meyzieu, Lyon, France
39. 75 Route de Lapoutroie, 68240, Kaysersberg, France
40. 77 Route de Lapoutroie, 68240, Kaysersberg, France
41. Contoire Hamel, 80500, Mondidier, France
42. Hotel d'Enterprise, Parc d'Activities Tournebride, 44118, La Chevroliere, France
43. Route de Marmagne, 18500, Mehun sur Yevre, France
44. Rue de la Deviniere, B.P. 7, 45510 FR, Tigy, France
45. Saint Amand, 50160, Torigni sur Vire, France
46. 27 Rue du Tennis, 25110, Baume les Dames, France
47. Usine de La Fosse, B.P. No 8, 45720, Coullons, France
48. ZAC Cabourg Village, 14390, Cabourg, France
49. 345 Impasse de Saint-Alban Avenue de Croupillac, 30100 Ales, France
50. ZI La Plaine – Eloyes, 88214, Remiremont, France
51. Zone d'entreprises de la Kruysstraete, B.P. 39, F-59470 Wormhout, France
52. Zone Industrielle du Pré de la Barre, 38440, St-Jean de Bournay, France
53. Zone Industrielle de Châteaubernard, 16102, Cognac, France
54. Zone Industrielle de Kevoasdoue, 29270, Carhaix, France
55. Zone Industrielle, Voiveselles Croisette, 88800, B.P. 37, Vittel, France
56. Bierweg 11, 99310 Arnstadt, Germany
57. Bretschneiderstr. 5, D-08309 Eibenstock, Germany
58. Dortmunder Strasse 6, 67823, Schwetzingen, Germany
59. Ersteiner Strasse 7-9, D79346 Endingen am Kaiserstuhl, Germany
60. Hauptstrasse 80, 37318 Arenshausen, Germany
61. Kufsteiner Strasse 27, 83064 Raubling, Germany
62. Rollnerstrasse 14, D-90408 Nürnberg, Germany
63. Ruhrstrasse 3, 36043 Fulda, Germany
64. Siemensstrasse 8, 50259 Pulheim, Germany
65. Weichertstrasse 7, D-63741 Aschaffenburg, Germany
66. Wilhelm-Bergner, Str.11 e, 21509 Glinde, Germany
67. Zum Fliegerhorst 1312 – 1318, 63526 Erlensee, Germany
68. 5-9 Main Street, Gibraltar
69. PO Box 1010, 57022 Sindos Industrial Area, Thessaloniki, Greece
70. PO Box 90, GR-72200 Ierapetra, Kriti, Greece
71. Units 1607-8, 16th Floor, Citicorp Centre, 17 Whitfield Road, Causeway Bay, Hong Kong
72. Duropack ut. 1, 3390 Füzesabony, Hungary
73. Záhony u. 7, HU-1031 Budapest, Hungary
74. 101-104 Banaji House, Flora Fountain, Fort, Mumbai – 40000, India
75. 2/F, Elegance Tower, Jasola District Centre, Old Mathura Road, New Delhi, 110025, India
76. A-5/30, Basement, Behind Oriental Bank of Commerce, Paschim Vihar, New Delhi, 110063 , India
77. 25/28 North Wall Quay, Dublin 1, Ireland
78. Capannori (Lu) Via del Fanuccio, 126 Cap, 55014 Frazione Marlia, Italy
79. Strada Lanzo 237, cap 10148, Torino (TO), Italy
80. Viale Pasubio N.6, 20154 Milano, Italy
81. Oak Minami-Azabu Building 2F, 3-19-23 Minami-Azabu, Minato-ku, Tokyo, 106-0047, Japan
82. Abay Ave. 52, 8 floor, 802-6 office "Innova Tower" BC, 050008, Almaty, Kazakhstan
83. Hospitāļu iela 23-102, Rīga LV-1013, Latvia
84. Savanoriu ave. 183, 02300 Vilnius, Lithuania
85. 8-10 Avenue de la Gare, L-1610 Luxembourg
86. Zenden Dzemail 1, Skopje 1000, Macedonia (the former Yugoslav Republic of)
87. Unit C-12-4, Level 12, Block C, Megan Avenue II, No. 12 Jalan Yap Kwan Seng, 50450 Kuala Lumpur, Wilayah Persekutuan, Malaysia
88. 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
89. Tanger, Zone Franche d'Exportation, ILot 11, Lot 5, Morocco
90. Bedrijvenpark Twente 90, NL-7602 KD Almelo, Netherlands
91. Coldenhovenseweg 130, 6961 EH, Eerbeek, Netherlands
92. Harderwijkerweg 41, 6961 GH, Eerbeek, Netherlands
93. Hermesweg 2, 3771 ND, Barneveld, Netherlands
94. Kanaalweg 8 A, 6961 LW, Eerbeek, Netherlands
95. Wegastraat 2, 5015 BS, Tilburg, Netherlands
96. Building C1, The Gate, 373 Neilson Street, Onehunga, Auckland, New Zealand
97. 3, Ijora- Causeway, Ijora, Lagos, Nigeria
98. Office 408, Level 5, Al Memar Tower, E-11/2, Islamabad, Islamabad Capital Territory (I.C.T.) 44000, Pakistan
99. 25/F Philam Tower, 8767 Paseo de Roxas Avenue, Makati City, 1226, Philippines
100. Ul 17 Stycznia 45 D, 02-146 Warszawa, Poland
101. Águeda (Aveiro), Raso de Paredes 3754-209, Portugal
102. Edificio Opcao Actual, Parque Industrial de Oliveirinha, 3430-414 Carregal do Sal, Portugal

33. DS Smith Group companies continued

Registered offices continued

103. Rua Mestra Cecília do Simão, n.º 378 , 3885-593 Esmoriz, Ovar, Portugal
104. Via do Oriente, n.º 18, escritório 4, 1.º piso, Parque das Nações , 1990 514 Lisboa, Portugal
105. Lugar do Espido, Via Norte, Distrito: Porto Concelho: Maia Freguesia: Cidade da Maia, 4470 177 MAIA, Portugal
106. No. 46 Fagarasului Street, Ghimbav, Brasov County, Romania
107. No. 18, 13 Decembrie Street, Zarnesti, Brasov County, Romania
108. Calea Torontalului, DN6 kM. 7, Timisoara, Romania
109. Office 405, 7 Dolgorukovskaya Street, Moscow, 127006, Russian Federation
110. Office 9, 35/1 Dmitria Ulianova Street, Moscow 103031, Russian Federation
111. 11000 Beograd, Milorada Jovanovića 14, Serbia
112. 37000 Krusevac, Balkanska 72, Serbia
113. 44 Bulevar Vojvode Stepe, Novi Sad, Serbia
114. Dolné Hony 21/435, Nitra 949 01, Slovakia
115. Námestie baníkov 8/31, 048 01 Roznava, Slovakia
116. Robotnícka 1, Martin, 036 80, Slovakia
117. Cesta prvih borcev 51, 8280 Brestanica, Slovenia
118. 40 Philamere Road, Glenmore, Durban 4001, South Africa
119. Avd. Del Sol 13 Torrejón de Ardoz, 28850 – Madrid, Spain
120. Carretera B.P. 2151 confluencia carretera C15, Sant Pere de Riudevitlles, 08776, Barcelona, Spain
121. Carretera de Daganzo Km 3,450- Poligono Industrial La Peña, Naves F1 a F8, 28806, Alcala de Henares (Madrid), Spain
122. CL Sumoi 46-54 P.I., Clot de Moja, 08734 Olerdola, Barcelona, Spain
123. ctra. Madrid-Barcelona, Km. 28.300, Polig Ind, Fagober, Naves 6 y 7, 28802 Alcala de Henares, Madrid, Spain
124. Parque Industrial Juan Carlos I, C/ Canal Crespo, 13 Almussafes 46440 (Valencia), Spain
125. Polígono Industrial Areta nº 1, parcela 348, calle Altzutzate, nº 46, 31620 Huarte, Navarra, Spain
126. Polígono Industrial A Tomada, parcela 28-33, A Pobra do Caramiñal , 15949 A Coruña, Spain
127. Polígono Industrial O Pousadoiro 4, Parcela 1, 36617 Vilagarcía de Arousa, Pontevedra (Galicia), Spain
128. Box 504, 331 25 Varnamo, Sweden
129. Industriestrasse 11, 4665 Oftringen, Switzerland
130. 1/21 Moo5 Factory G26, TFD Industrial Estate, Tambon Tasa-arn, Amphoe Bangpakong, Chachoengsao Province, Thailand
131. Araptepe Selimpaşa Mah. 5007. Sk. No. 4 Silivri, Istanbul, Turkey
132. Goztepe Merdivenkoy Mah. Bora Sk. No.1 Nida Kule Is Merkezi, Kat 7, Kadikoy, Istanbul, 34732, Turkey
133. 4-5 Floors, 25B,Sagaydachnogo str., Kiev, 04070, Ukraine
134. 67 Mendeleev str., Rubizhne, Lugansk Region, 93006, Ukraine
135. Unit No: I5-PF-39, Detached Retail I5, Plot No: JLT-PH1-RET-I5, Jumeirah Lakes Towers, Dubai, United Arab Emirates
136. Muir Road, Houstoun Industrial Estate, Livingston, West Lothian, EH54 5DR, UK
137. 131W. Commercial Avenue, Moonachie, New Jersey 07074, United States
138. 4328 Federal Drive, STE 105, Greensboro, NC 27410, United States
139. 1300 Wilson Boulevard, Suite 1075, Arlington, VA 22209, United States
140. 2066 South East Avenue, Vineland, NJ 08360, United States
141. 1201 Windham Parkway, Suite D, Romeoville, IL 60446, United States
142. 720 Laurel Street, Reading, PA 19602, United States
143. 903 Woods Road, Cambridge, MD 21613, United States
144. 501 Finnegans Lane, North Brunswick, NJ 08902, United States
145. 128 Crews Drive, Columbia, SC 29210, United States
146. 240 Industrial Avenue East, Lowell, MA 01852, United States
147. 792 Commerce Avenue, New Castle, PA 16101, United States
148. 100 Grace Street, Reading, PA 19611, United States
149. 100 Simplex Drive Core 5, Westminster, MA 01473, United States
150. 2366 Interstate Paper Road, Riceboro, GA 31323, United States
151. 120 T Elmer Cox Road Greeneville, TN 37743, United States
152. 2317 Almond Road, Route 55 Industrial Park, Vineland, NJ 08360, United States
153. 3021 Taylor Drive, Asheboro, NC 27203, United States
154. 70 W. Madison St, Ste 5750, Chicago, Illinois, 60602, United States
155. 9 E. Loockerman Street, Suite 311, Dover, County of Kent, DE 19901, United States
156. 78 2nd Avenue South Lester Prairie, MN 55354, United States
157. 208 Pinnacle Drive, Ste D, Romeoville, IL 60446, United States
158. Corporation Trust Center, 1209 Orange Street, Wilmington, Newcastle, DE 19801, United States

34. Subsequent events

(a) Acquisition of Papeles y Cartones de Europa, S.A., (Europac)

On 4 June 2018, the Group announced the proposed acquisition of Papeles y Cartones de Europa, S.A. (Europac), a leading western European integrated packaging business, for €1,667m plus acquired cash and debt of €237m.

The acquisition will be funded by a rights issue of c. £1,000m net and a new committed debt facility of €740m.

The acquisition is expected to complete in the last quarter of 2018; completion is subject to certain conditions including approval by the Company's shareholders and the receipt of regulatory approvals.

An initial accounting and fair value exercise will be conducted shortly after completion.

The following table summarises the financial position of Europac at 31 December 2017 and its profit for the year then ended:

	Carrying values at 31 December 2017 £m
Non-current assets	739
Current assets	222
Non-current liabilities	(351)
Current liabilities	(247)
Total identifiable net assets acquired	**363**

	Results for year ended 31 December 2017 £m
Revenue	760
Operating costs	(663)
Operating profit	**97**
Net finance costs	(8)
Profit before tax	**89**
Income tax expense	(20)
Profit after tax	**69**

(b) Other subsequent events

On 22 May 2018, the Group announced an agreement to acquire Corrugated Container Corporation, a high-quality corrugated packaging Company in north America. The acquisition is not material to the Group.

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

Parent Company statement of financial position

At 30 April 2018

	Note	2018 £m	2017 £m
Assets			
Non-current assets			
Intangible assets	3	**50**	37
Property, plant and equipment	4	**2**	1
Investments in subsidiaries	5	**2,152**	1,833
Deferred tax assets		**50**	46
Other receivables	6	**2,334**	1,733
Derivative financial instruments	9	**15**	19
Total non-current assets		**4,603**	3,669
Current assets			
Trade and other receivables	6	**897**	504
Cash and cash equivalents		**153**	–
Derivative financial instruments	9	**44**	13
Total current assets		**1,094**	517
Total assets		**5,697**	4,186
Liabilities			
Non-current liabilities			
Borrowings	8	**(1,669)**	(1,004)
Employee benefits	10	**(6)**	(30)
Other payables	7	**(405)**	(406)
Derivative financial instruments	9	**(35)**	(11)
Total non-current liabilities		**(2,115)**	(1,451)
Current liabilities			
Borrowings	8	**(318)**	(291)
Trade and other payables	7	**(187)**	(659)
Income tax liabilities		**(3)**	(6)
Derivative financial instruments	9	**(24)**	(13)
Total current liabilities		**(532)**	(969)
Total liabilities		**(2,647)**	(2,420)
Net assets		**3,050**	1,766
Equity			
Issued capital	11	**107**	95
Share premium account	11	**1,260**	728
Reserves	11	**1,683**	943
Shareholders' equity		**3,050**	1,766

The Company made a profit for the year of £825m (2016/17: profit of £568m) including the recognition of intra-group dividends.

Approved by the Board of Directors of DS Smith Plc (company registered number 1377658) on 17 June 2018 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 2018

	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 2016	**94**	**716**	**(29)**	**(3)**	**–**	**521**	**1,299**
Profit for the year	–	–	–	–	–	568	568
Actuarial loss on employee benefits	–	–	–	–	–	(2)	(2)
Cash flow hedge movements	–	–	9	–	–	–	9
Income tax on other comprehensive income	–	–	(2)	–	–	(1)	(3)
Total comprehensive income	**–**	**–**	**7**	**–**	**–**	**565**	**572**
Issue of share capital	1	12	–	–	–	–	13
Employee share trust	–	–	–	(1)	–	(5)	(6)
Share-based payment expense (net of tax)	–	–	–	–	–	9	9
Dividends paid	–	–	–	–	–	(121)	(121)
Other changes in equity in the year	**1**	**12**	**–**	**(1)**	**–**	**(117)**	**(105)**
At 30 April 2017	**95**	**728**	**(22)**	**(4)**	**–**	**969**	**1,766**
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	–	–	–	–	–	(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**

1. Principal accounting policies

(a) Basis of preparation

These financial statements of DS Smith Plc (the 'Company') have been prepared on the going concern basis and in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101) and the UK Companies Act.

The accounts are prepared under the historical cost convention.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own income statement or statement of comprehensive income.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- statement of cash flows and related notes;
- a comparative period reconciliation for share capital;
- disclosures in respect of transactions with wholly owned subsidiaries;
- comparative period reconciliations for tangible fixed assets and intangible assets;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRSs; and
- disclosures in respect of Key Management Personnel.

As the Group financial statements include the equivalent disclosures, the Company has also taken advantage of the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 *Share-based Payment* in respect of Group settled share-based payments; and
- IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instruments*.

There are no new standards, amendments or interpretations that are applicable to the Company for the year ended 30 April 2018.

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.

1. Principal accounting policies continued

(g) Employee benefits continued

(ii) Share-based payment transactions

The Company operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The fair value of the options granted is measured using a stochastic model, taking into account the terms and conditions upon which the options were granted. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable.

At each reporting date, the Company revises its estimate of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in profit and loss, and a corresponding adjustment to equity. Where applicable, the fair value of employee services received by subsidiary undertakings within the DS Smith Plc Group in exchange for options granted by the Company is recognised as an expense in the financial statements of the subsidiary by means of a recharge from the Company.

(h) Shares held by employee share trust

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.

2. Employee information

The average number of employees employed by the Company during the year was 260 (2016/17: 164).

	2018 £m	2017 £m
Wages and salaries	**21**	23
Social security costs	**3**	4
Pension costs	**1**	1
Total	**25**	28

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 2017	29	–	12	41
Additions	–	3	19	22
Transfers	17	–	(17)	–
At 30 April 2018	46	3	14	63
Amortisation				
At 1 May 2017	(4)	–	–	(4)
Amortisation charge	(9)	–	–	(9)
At 30 April 2018	(13)	–	–	(13)
Carrying amount				
At 1 May 2017	25	–	12	37
At 30 April 2018	**33**	**3**	**14**	**50**

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4. Property, plant and equipment

	Leasehold improvements £m	Plant and equipment £m	Total £m
Cost			
At 1 May 2017	–	3	3
Additions	2	–	2
At 30 April 2018	2	3	5
Depreciation			
At 1 May 2017	–	(2)	(2)
Depreciation charge	(1)	–	(1)
At 30 April 2018	(1)	(2)	(3)
Carrying amount			
At 1 May 2017	–	1	1
At 30 April 2018	**1**	**1**	**2**

5. Investments in subsidiaries

	Shares in Group undertakings £m
At 1 May 2017	1,833
Additions	319
At 30 April 2018	**2,152**

The Company's principal trading subsidiary undertakings at 30 April 2018 are shown in note 33 to the consolidated financial statements.

6. Trade and other receivables

	2018		2017	
	Non-current £m	Current £m	Non-current £m	Current £m
Amounts owed by subsidiary undertakings	**2,334**	**892**	1,733	493
Other receivables	**–**	**1**	–	–
Prepayments and accrued income	**–**	**4**	–	11
	2,334	**897**	1,733	504

7. Trade and other payables

	2018		2017	
	Non-current £m	Current £m	Non-current £m	Current £m
Trade payables	**–**	**18**	–	20
Amounts owed to subsidiary undertakings	**405**	**130**	406	609
Other tax and social security payables	**–**	**11**	–	7
Non-trade payables, accruals and deferred income	**–**	**28**	–	23
	405	**187**	406	659

Non-current amounts owed to subsidiaries include £402m (30 April 2017: £404m), which are subject to interest at rates based on LIBOR or EURIBOR, are unsecured, and are repayable between 2021 and 2025.

8. Borrowings

	2018		2017	
	Non-current £m	Current £m	Non-current £m	Current £m
Bank loans and overdrafts	**–**	**160**	91	276
Medium-term notes and other fixed-term debt	**1,669**	**158**	913	15
	1,669	**318**	1,004	291

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	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Derivatives held to:						
Manage the interest rate and currency exposures on business activities, borrowings and net investments	**12**	14	**(35)**	(6)	**(23)**	8
Derivative financial instruments included in net debt	**12**	14	**(35)**	(6)	**(23)**	8
Derivatives held to hedge future transactions						
Energy costs	**47**	18	**(24)**	(18)	**23**	–
Total derivative financial instruments	**59**	32	**(59)**	(24)	**–**	8
Current	**44**	13	**(24)**	(13)	**20**	–
Non-current	**15**	19	**(35)**	(11)	**(20)**	8
	59	32	**(59)**	(24)	**–**	8

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.

	2018 £m	2017 £m
Present value of funded obligations	**(1,022)**	(1,126)
Present value of unfunded obligations	**(7)**	(7)
Fair value of scheme assets	**1,022**	1,051
Total IAS 19 deficit, net	**(7)**	(82)
Allocated to other participating employers	**1**	52
Company's share of IAS 19 deficit, net	**(6)**	(30)

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 and note 30(b).

As at 30 April 2018, the Company had distributable reserves of £1,651m (30 April 2017: £943m).

12. Cash and cash equivalents

Included within cash and cash equivalents is £nil (30 April 2017: £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 2018, these guarantees amounted to £6m (30 April 2017: £5m).

14. Related party disclosure

The Company has identified the Directors of the Company, its key management personnel and the UK pension scheme as related parties. Details of the relevant relationships with these related parties are disclosed in the Remuneration Committee report, and note 31 to the consolidated financial statements respectively.

15. Auditor's remuneration

Auditor's remuneration in respect of the Company is detailed in note 3 to the consolidated financial statements.

Five-year financial summary

Unaudited

Continuing operations	2014 £m	2015 £m	2016 £m	2017 £m	**2018 £m**
Revenue	4,035	3,820	4,066	4,781	**5,765**
Operating profit[1]	307	335	379	443	**530**
Amortisation	(51)	(46)	(51)	(65)	**(93)**
Share of (loss)/profit of equity-accounted investments before adjusting items, net of tax	–	–	(1)	3	**5**
Net financing costs before adjusting items	(48)	(38)	(47)	(55)	**(62)**
Profit before taxation and adjusting items	208	251	280	326	**380**
Acquisitions and disposals	(46)	(4)	14	(5)	**(29)**
Other adjusting items	5	(47)	(93)	(57)	**(59)**
Profit before income tax	167	200	201	264	**292**

	2014	2015	2016	2017	**2018**
Adjusted earnings per share[1]	21.4p	24.5p	27.4p	32.5p	**35.5p**
Dividends per share	10.0p	11.4p	12.8p	15.2p	**14.7p**

	2014	2015	2016	2017	**2018**
Return on sales[1]	7.6%	8.8%	9.3%	9.3%	**9.2%**
Adjusted return on average capital employed[1,2,3]	13.0%	14.6%	15.4%	14.9%	**14.1%**

1. Before amortisation and adjusting items.
2. Adjusted return on average capital employed is defined as operating profit before amortisation and adjusting items divided by average capital employed.
3. 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.

Financial diary

4 September 2018	Annual General Meeting
4 October 2018	Ex-dividend date for final dividend
1 November 2018	Payment of final dividend
6 December 2018*	Announcement of half-year results for the six months ended 31 October 2018
4 April 2019*	Ex-dividend date for interim dividend
1 May 2019*	Payment of interim dividend
13 June 2019*	Announcement of full year results for the year ended 30 April 2018

* Provisional date

Company website

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

Share price information

The latest price of the Company's ordinary shares is available from the FT Cityline service. To access this service, telephone +44 (0) 9058 171 690. For call charges, please check with your provider as costs may vary. Alternatively click on www.londonstockexchange.com. DS Smith's ticker symbol is SMDS. It is recommended that you consult your financial adviser and verify information obtained from these services before making any investment decision.

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

Dividends

Shareholders who wish to have their dividends paid directly into a bank or building society account should contact the Registrar. In addition, the Registrar is now able to pay dividends in 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.

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Registrar's queries

Information on how to manage your shareholdings can be found at https://help.shareview.co.uk. The pages at this web address provide answers to commonly asked questions regarding shareholder registration, links to downloadable forms and guidance notes. If your question is not answered by the information provided, you can send your enquiry via secure e-mail from these pages. You will be asked to complete a structured form and to provide your shareholder reference, name and address. You will also need to provide your e-mail address if this is how you would like to receive your response. In the UK you can telephone 0371 384 2197. Lines are open 8.30am to 5.30pm Monday to Friday. For call charges, please check with your provider as costs may vary. For overseas, telephone +44 (0) 121 415 7047.

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Results and presentations, investor and shareholder information are available in the investors section of our website:

www.dssmith.com/investors

Annual reports

Current and archived annual reports are available in the investors section of our website:

www.dssmith.com/investors/annual-reports

People

DS Smith is made up of a team of c. 28,500 employees across 37 countries. More information about our people and career opportunities is available in the people section of our website:

www.dssmith.com/people

Sustainability

DS Smith publishes a separate sustainability report. The report describes the environmental, social and economic perspectives of DS Smith's sustainability initiatives, with additional information available on our website:

www.dssmith.com/company/sustainability

DS Smith worldwide

Find out more about our global divisions and the countries in which we operate and get in touch with us:

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