Redefining Packaging for a Changing World

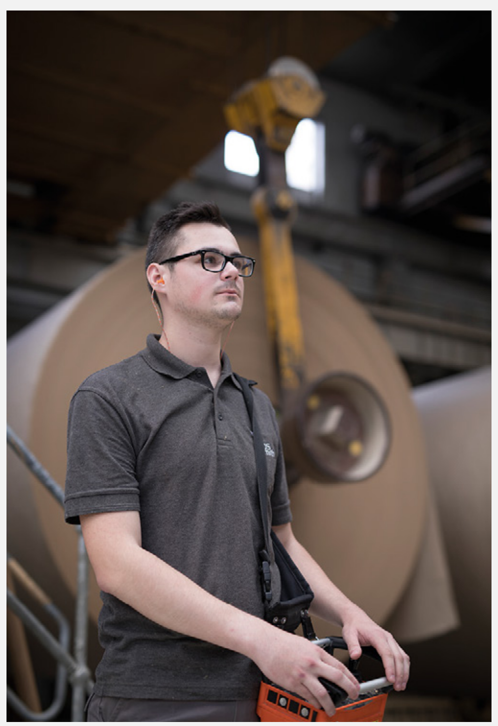
Annual Report 2020

DS Smith

Contents

Please note: All of the images in this report were taken before the Covid-19 pandemic and the need for social distancing.

p.20
Group Chief Executive's interview



p.51
Our principal risks

Highlights

Revenue (£m)[3]
£6,043m

	Revenue (£m)
2020	6,043
2019	6,171
2018	5,518

Return on sales (%)[1,2]
10.9%

	Return on sales (%)
2020	10.9
2019	10.2
2018	8.9

Operating profit (£m)[1,3]
£455m

	Operating profit (£m)
2020	455
2019	427
2018	329

Adjusted operating profit (£m)[1,2,3]
£660m

	Adjusted operating profit (£m)
2020	660
2019	631
2018	492

Earnings per share (p)[1,3]
21.2p

	Earnings per share (p)
2020	21.2
2019	19.7
2018	21.2

Adjusted earnings per share (p)[1,2]
33.2p

	Adjusted earnings per share (p)
2020	33.2
2019	33.3
2018	30.7

Net debt/EBITDA (x)[2,3]
2.1x

Year	Net debt/EBITDA (x)
2020	2.1
2019	2.3
2018	2.2

Free cash flow (£m)[2]
£354m

Year	Free cash flow (£m)
2020	354
2019	339
2018	184

Record return on sales[1,2]

and adjusted operating profit[1,2]

8%

reduction in accident frequency rate

New US corrugated packaging site

opened November 2019

Circular economy leader

We manage more packaging for recycling than we make

100%

of paper from certified sustainable sources

40%

reduction in defect rate

1. Comparatives have not been restated for the adoption of IFRS 16 *Leases* - see note 31 to the consolidated financial statements.
2. Based upon continuing operations, before adjusting items and amortisation. These are all non-GAAP performance measures - see note 33 to the consolidated financial statements.
3. From continuing operations.

GROUP CHIEF EXECUTIVE'S INTRODUCTION

Welcome

"In this report we set out what we have achieved in the year 2019/20, and how we are well positioned to respond to the evolving global landscape."

We have made significant progress in the implementation of our strategy over the past 12 months, further establishing ourselves as a market leader in the delivery of sustainable, fibre-based packaging. It has, however, been an unprecedented end to the financial year following the outbreak of Covid-19.

The safety and wellbeing of our people is our first priority, while recognising our responsibility to support our customers to keep essential goods such as food and pharmaceuticals moving. All our sites have continued to operate through the pandemic, with modified working practices where necessary.

In these uncertain times, our long-term vision drives us to realise the growth opportunity within the changing world in which we operate. We partner with our customers and stakeholders to meet new challenges, from Covid-19 to the accelerating climate crisis, evolving retail formats and diversifying supply chains, through to new consumer behaviours driven by digitalisation and legislative change.

Importantly, we completed the sale of our Plastics division in the past year - a vital step in our strategy to provide sustainable, fibre-based packaging. We have also fully integrated our Europac acquisition in Iberia and France and further expanded our operations in North America with the opening of a new greenfield site in Indiana.

We have continued to win awards for our packaging innovation and our safety statistics have again improved, for the 11th year in a row. Embracing the diversity of our people and creating fair opportunity for them to grow and develop has seen several new programmes introduced, including our Aspire programme for future leaders. Meanwhile, our community programme has been delivered across all of our sites with more than 50 employees, which is more important than ever as we respond to Covid-19 together.

In this report we set out what we have achieved in the year 2019/20, but also how we are well positioned to respond to the uncertain outlook facing the global economy. We explain the underlying growth drivers for the corrugated industry, and why DS Smith is ready to take advantage of those opportunities - from plastic replacement to the continued growth in e-commerce.

As a company we take pride in responding to the world around us for the benefit of our customers, employees, suppliers and stakeholders – we are 'Redefining Packaging for a Changing World'.

On a personal note and on behalf of everyone at DS Smith, I would also like to take this opportunity to thank Gareth Davis, our outgoing Chairman, for the enormous contribution he has made to DS Smith and for his wise counsel over the past decade. We look forward to welcoming Geoff Drabble as Chairman Designate.

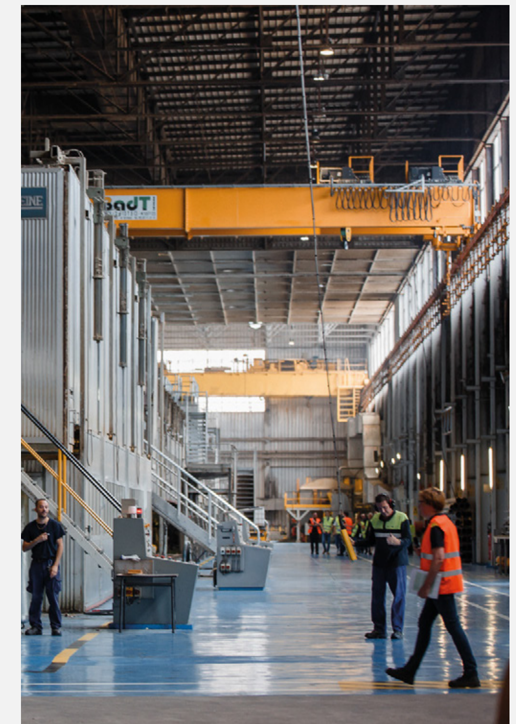
Miles Roberts
Group Chief Executive

Capturing the opportunities of a changing world

The world is changing in many ways. Consumers are driving this change, calling for more convenience through e-commerce and a more dynamic retail experience, itself prompting changes in retail formats. Consumers are also driving the move towards sustainability, putting pressure on brand owners and retailers to do more. We are ambitious when it comes to tackling some of the world's most complex sustainability challenges. By investing in our leading position at the forefront of these drivers, we are not only responding to today and tomorrow's world but also growing our business.

p.8
The changing consumer world

p.10
The evolving landscape of sustainability



p.12
Investing for growth

OUR BUSINESS

Redefining Packaging for a Changing World

Our Purpose

Our Purpose is 'Redefining Packaging for a Changing World'.

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

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

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

Redefining Packaging for a Changing World

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

We deliver our Purpose by:

Developing the right strategies

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

Thinking differently

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

Innovating together

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

Putting sustainability at the heart

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

Our vision

To be the leading supplier of sustainable packaging solutions

Our values

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.

Our stakeholders

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

Our people

We employ around 30,000 people across 34 countries worldwide, speaking 28 languages.

By giving all employees a voice, we create the opportunity to improve their work experience and feel pride in working for DS Smith. We engage people in a number of ways: on site through team briefings and leadership visits, online and in print through newsletters and providing mechanisms for feedback through our employee works councils, biennial employee survey and more regular pulse surveys, which inform local action plans and sharing of best practice. We also have a confidential hotline known as 'Speak Up!' for employees to report concerns where they do not wish to go through their line manager.

On a more formal basis, our European Works Council (EWC) brings together employee representatives from the different European countries where we operate and provides a forum for information sharing and consultation. The EWC Executive meets with senior management regularly and the full EWC meets with the Group Chief Executive and Group Operating Committee members twice a year. An example of our partnership approach has been the co-creation of an employee charter setting out our shared values and principles on issues that matter to our people.

Read more on page 24

Our customers

We work with some of the world's most visible and iconic brands. Our customer base is largely fast moving consumer goods (FMCG) companies that produce goods typically sold in supermarkets and increasingly via e-commerce channels. We make corrugated packaging for some of the largest global food brands. We also make packaging for online retailers, industrial customers, such as pharmaceutical companies, and we also sell paper and recycling to third parties.

Engagement with customers is the lifeblood of our business, and takes place via the sales, marketing and innovation teams. We encourage customers to visit our design and innovation hubs, known as PackRight Centres and Impact Centres, where we can share insight and develop value-adding packaging solutions to support their business objectives.

Read more on page 22

Our investors

DS Smith equity is listed on the London Stock Exchange, and we raise our debt from a selection of banks and through listed bonds.

Our equity and bonds are owned by a wide range of investors in the UK, Europe, the US and beyond, including pension funds, insurance groups, sovereign wealth funds, private investors and employees. We engage with equity investors and analysts through regular meetings and conferences, and similarly engage with our banking syndicate, fixed income investors and ratings agencies periodically.

The environment and communities

DS Smith engages with those communities it touches, ranging from local initiatives such as sponsoring local educational projects, to larger initiatives such as donations by our Charitable Foundation to environmental and education-focused charities, such as the Arkwright Foundation. Since its establishment in 2011, the DS Smith Charitable Foundation has donated over £2 million to causes aligned with our Purpose.

DS Smith manages more packaging for recycling than it makes, meaning we are a net recycler of packaging. We have testing environmental targets so that we continue to improve our impact on the environment.

Read more on page 30

Governments and non-governmental organisations

We engage in detailed consultation with governments to promote efficient fibre recycling and the acceleration of the circular economy, and we participate in industry organisations to combine our influence. We take a leadership role with relevant non-governmental organisations, such as our global partnership with the Ellen MacArthur Foundation.

Read more on page 11

Our suppliers

We have approximately 40,000 suppliers, ranging from small suppliers of goods and services, to large paper manufacturers from whom we source substantial volumes of paper for our corrugated board. We engage with suppliers to enforce our established supplier standards and supplier code of conduct, which set out our ways of working, including for example, in relation to our obligations under anti-modern slavery laws.

OUR BUSINESS

At a glance

We have created a circular business focused on sustainable packaging.

Packaging

We are a leading international sustainable packaging company, delivering innovative corrugated products with a high quality service across Europe and North America. Our product portfolio includes packaging for consumer products, e-commerce, promotion, transit and industrial packaging.

We partner with customers to provide innovative packaging solutions. Not only do we help specify packaging solutions to generate more sales, but we do so while ensuring lower cost and meeting performance criteria. We complement our product range with consultancy services on supply chain optimisation and creative design.

Corrugated packaging is fully sustainable and made from recycled and/or recyclable material, which means the packaging we produce helps our customers to achieve their own sustainability targets. Corrugated packaging is typically produced within c. 200km of its destination due to the requirements for just-in-time delivery and the increased focus on sustainability.

c. 24,700 employees

c. 8.6 billion m² corrugated board sold in 2019/20

Paper

We are a leading international manufacturer of corrugated case material (CCM), which is the paper used for conversion into corrugated board. We also manufacture some specialist paper grades such as plasterboard liner. DS Smith is overall 'short paper', meaning we are a net buyer of paper for our packaging requirements. We operate a paper sourcing platform that ensures we procure the paper that is right for our customers' packaging. We determine whether we make or buy our required paper, and then we sell some of our paper output. Paper is readily transportable and is traded globally, so in some cases it is more efficient to sell our paper and buy in other regions, depending on local pricing.

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

c. 3,500 employees

c. 4.3 million tonnes CCM produced in 2019/20

Recycling

We provide a full recycling and waste management service, ranging from simple recycling collections through to full recycling and waste management solutions, which help us take responsibility for the collection of used packaging.

We are Europe's largest cardboard and paper recycler and are also one of the leading full service recycling and waste management companies in Europe. We collect quality paper and cardboard for recycling from a range of sectors, including retailers, manufacturers, local authorities, and other recycling and waste management companies. The used paper and board we collect provides the most cost efficient raw material for the Group's recycled paper making processes. We also sell used fibre to third parties globally.

c. 1,000 employees

c. 6 million tonnes fibre managed in 2019/20

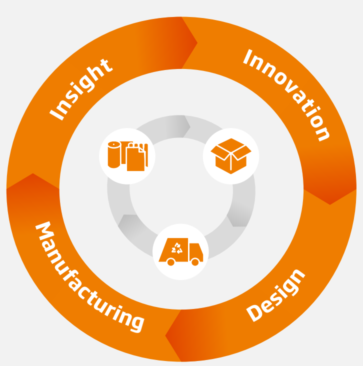
Our business model overview

Find out more on page 16

Our resources → **What we do – supported by our values** → **The value we create**

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

What we do – supported by our values



The value we create

For our business

Packaging that adds value for our customers and returns to our equity and debt providers

For our people

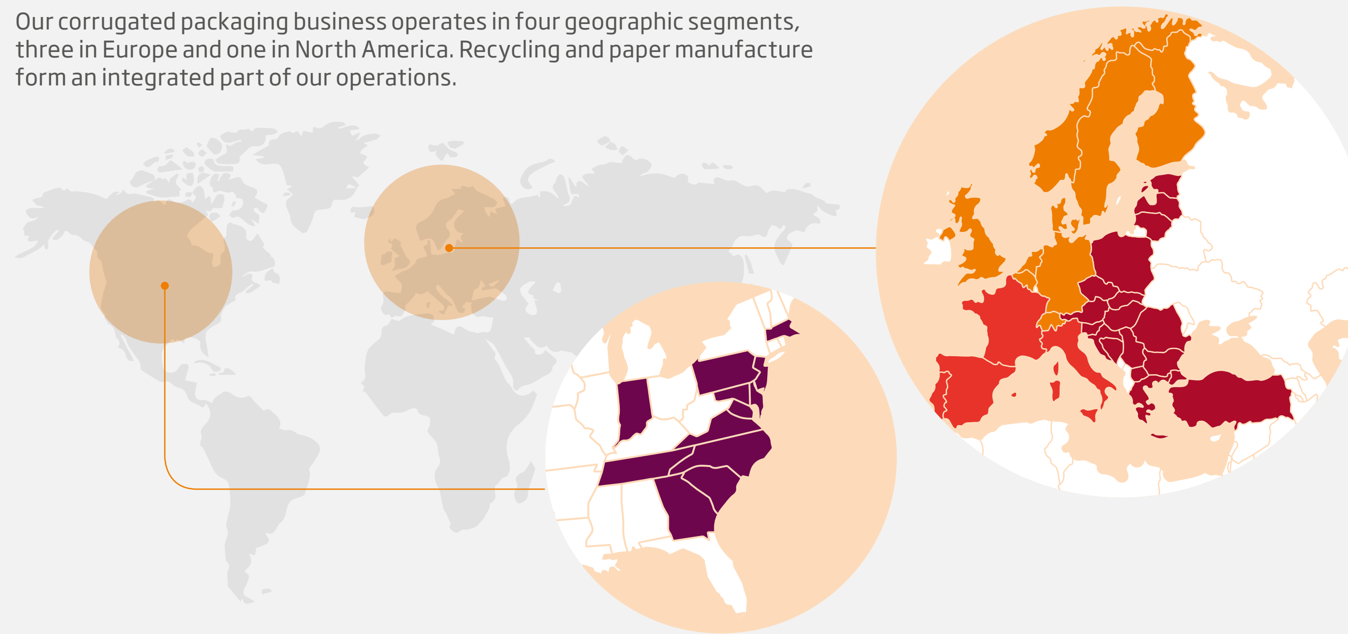
Opportunity, supportive culture, and a share in the future of the Group

For our environment

Leadership in sustainability and supporting local charities

Where we operate

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



Northern Europe
£2,333m
2019/20 revenue
c. 11,000 employees
Belgium, Denmark, Finland, Germany, Netherlands, Norway, Sweden, Switzerland and United Kingdom

Southern Europe
£2,214m
2019/20 revenue
c. 9,000 employees
France, Italy, Spain and Portugal

Eastern Europe
£892m
2019/20 revenue
c. 7,300 employees
Austria, Bosnia-Herzegovina, Bulgaria, Croatia, Czechia, Estonia, Greece, Hungary, Latvia, Lithuania, Macedonia, Poland, Romania, Serbia, Slovakia, Slovenia and Turkey

North America
£604m
2019/20 revenue
c. 1,900 employees
United States

We also have offices in India and China where we offer sourcing and consultancy services and a packaging sales site in Morocco.

Our strategy

To be the leading supplier of sustainable packaging solutions.

This is delivered via four strategic goals:

To delight our customers
- Delivering on our commitments for quality and service
- Providing value-adding packaging
- Driving innovation, rolled out internationally

Read more on page 22

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

Read more on page 24

To lead the way in sustainability
- Closing the loop through circular design
- Protecting natural resources by making the most of every fibre
- Reducing waste and pollution through circular solutions

Read more on page 30

To double our size and profitability
- Driving organic market share gains
- Maximising the opportunities from businesses that we have acquired
- Investing behind growing areas of the corrugated packaging market

Read more on page 36

REDEFINING PACKAGING FOR A CHANGING WORLD

The changing consumer world

The retail and consumer environment is changing fast, and packaging has an important role to play.

E-commerce

E-commerce continues to grow fast and high quality packaging is an essential element of this supply chain. Changing demographics, the penetration of fast broadband, advances in artificial intelligence and improving delivery infrastructure are all contributing to this growth, which is expected to help drive demand in corrugated packaging. At present, a product fulfilled by e-commerce requires more packaging than fulfilment via the traditional retail channel, due to the need for protection, single-product shipments and direct delivery. This creates logistical challenges for customers and retailers, and in some cases criticism from consumers, which puts us in a unique position to develop solutions.

Sustainable packaging

Packaging is growing in the consciousness of consumers, due to campaigns by environmental pressure groups and the increase in e-commerce, where more packaging arrives in the home environment. Where products are over-packaged or delivered in materials that are non-recyclable, this is leading to strong criticism and active public debate. Plastics are perceived to be the least sustainable form of packaging and are the subject of constant media attention around the world. Governments are responding with more stringent policy, including in the European Union where all plastic must be fully recyclable by 2030. Brands, retailers and food producers are in turn responding with their own targets, for example, Iceland supermarket's pledge to go plastic free in its own label goods by 2023.

Corrugated packaging is an obvious natural substitute for plastic packaging, being 100 per cent recyclable and with the highest recycling rate of any packaging material of 86 per cent in Europe, versus 42 per cent for plastic (source: Eurostat).

CASE STUDY

How DS Smith is leading

Our designers have developed over 650 designs focused specifically on plastic replacement that are already available to our customers. Over 50 per cent of these designs are being used to support our retail customers, while we also have over 100 designs for our e-commerce market.

DS Smith ECO Bowl

As part of our response to decreasing plastic across supermarket aisles, DS Smith has partnered with MULTIVAC to launch ECO Bowl (pictured above), an innovative packaging solution first rolled out in Germany with Amidori, the plant protein food manufacturer. The product consists of a DS Smith corrugated cardboard tray produced entirely from recycled papers, a film lining and a lid. The film and corrugated cardboard tray can be easily separated after use and recycled and it can reduce plastic by up to 85 per cent compared to a traditional tray made from polypropylene.

The idea for our ECO Bowl solution was submitted through our internal 'Ideas Challenge' launched in 2019.

Covid-19 pandemic response

Since the beginning of the Covid-19 pandemic, we have focused our efforts on providing critical support to keep goods moving across the supply chain and utilise our expertise in e-commerce and FMCG to support our customers and the communities in which we operate. In partnership with the charitable organisation SalutetheNHS.org, we developed, produced and donated 75,000 boxes, adapted from our e-Pack range, to ship personal care packs to frontline NHS staff in the UK. The boxes included personal care products donated by Unilever. Meanwhile, in Germany we partnered with Nestlé to donate a total of 9,000 'Thank You' boxes for hospitals across the country, which were filled with products from Nestlé's brand range.

To support our retail customers in Europe, we designed a new packaging solution that would maximise efficiency and provide everyday essentials to many of society's most vulnerable. We worked closely with our customers to design and produce a solution which allows for a 'stack, drop and go' approach that is more time efficient, more hygienic and allows for more deliveries. Our sustainably-designed solution is also fully recyclable at home.

Changes in the retail environment

Retail channels continue to evolve, led by the ongoing decline of traditional formats and rise in discount and convenience stores. The rapid growth in e-commerce has been further accelerated by the Covid-19 pandemic.

As brands and retailers continue to adapt to changing formats, there is a risk of considerable inefficiency in the supply chain. With each format requiring differentiated solutions, products packed for traditional formats are having to be unpacked and re-packed to meet them.

While brand owners are looking for more connectivity with consumers, sustainable packaging and on-shelf differentiation, retailers are responding to the changes in the retail environment by seeking to optimise their supply chains and store layout, shelf allocation and pricing. Retailers also expect sustainable packaging in order to help them meet their own environmental targets.

In addition, many fast moving consumer goods (FMCG) producers are now selling direct to consumers, rather than via a retailer, which is a completely different way of working for them. The growth rates are impossible to ignore – for example, Unilever reported a 30 per cent increase in e-commerce sales in 2019, accounting for 6 per cent of its turnover.

Grocery e-commerce looks set to evolve rapidly, with changes to the way consumers shop as a result of the Covid-19 pandemic. The pandemic has led to a significant increase in retail e-commerce capacity, accelerating the transition to online formats as lockdown measures were introduced across multiple markets and shoppers became used to different formats.

REDEFINING PACKAGING FOR A CHANGING WORLD

The evolving landscape of sustainability

We place sustainability at the heart of our business model.

Our world is changing rapidly, with the pace of this change accelerating. Consumer shopping habits are being transformed, from high street to hyperlinks. The circular and sharing economies, catalysed by a new generation of more conscious consumers, are challenging the status quo. Digitalisation, personalisation and an 'always on' culture are reshaping the way we live, shop and consume.

At the same time, we have never been more aware of the impact our choices are having on the environment. We want more choice and flexibility, but with less impact on the world around us.

Brands and sustainability

The media, supported by social media conversation, is driving consumers' awareness of the growing environmental crisis, shining a light on corporate performance and propagating new, low carbon, circular solutions.

In parallel, consumers are looking to brands to respond to their changing demands. Not only do they want competitively-priced convenience, they want companies to take responsibility for their products from supply chain sourcing to end of life solutions.

The decline of traditional advertising means that packaging has an essential role to play in successful sales strategies. Combined with growing consumer demand for sustainability, the case for sustainable packaging is clear.

Major brands are also responding to the climate emergency by setting ambitious short and long-term commitments on carbon reduction. Increasingly, organisations are aligning with the scientific consensus on needing to reduce emissions by 80 per cent by 2050, with some setting earlier deadlines or aspiring to 'net zero' emissions.

Evolving policy landscape

Governments are placing the circular economy at the heart of legislation. The European Union's (EU) Circular Economy Action Plan is just one example of the progressive policy agenda. It will be instrumental in delivering the EU's ambitious goal to be climate neutral by 2050, with circularity an essential part of industrial transformation. A critical part of this will be the design phase, with the action plan noting that 80 per cent of a product's impact is determined at this stage. The plan also acknowledges that the separate collection of waste is key to high-quality recycling and introduces an outline of an EU-wide labelling system for separate collection, with a review of the legislation relating to shipments of waste to boost the growth of the European recycling industry.

Regulators are also challenged by a demand for stronger legislation on extended producer responsibility – ensuring producers of packaging contribute fairly to waste and recycling infrastructure, with greater demands likely to be placed on producers of material with poor recycling rates.

CASE STUDY

How DS Smith is leading

Partnering for change

In May 2019, we became one of a small number of Strategic Partners of the Ellen MacArthur Foundation (EMF) and the only packaging company to be a Strategic Partner. EMF is an organisation at the forefront of the acceleration towards a circular economy. Our partnership is instrumental in supporting innovation across the business and leading the way in sustainability. Our partnership also enables us to further embed circular economy thinking into our business, through training, awareness and new ways of working. It has been a successful collaboration, with the initial focus on a number of distinct workstreams to support us to lead in the circular economy. Examples of joint projects include:

Circulytics – Working alongside a small number of other Global Partners, we collaborated with the EMF to develop a leading measurement tool to assess an organisation's progress towards, and contribution to, the circular economy. The tool acts as a guide to enable organisations to identify key areas of improvement when adopting the principles of the circular economy.

Circular design guidelines – Our Design Principles, developed in collaboration with the EMF, ensure that we design packaging that can be recycled, uses no more material than necessary and, by considering the full supply chain, creates a series of sustainability benefits. For example, we can increase the impact of customers' unboxing experience through new design and digital print, while reducing fibre and ensuring that it is recycled or reused in practice, not just in theory. We have hosted 2,000 customer engagements this year at our PackRight Centres and Impact Centres around the world, with weekly sessions to advise our customers on the sustainability impacts of their packaging and supply chain, creating bespoke designs to respond to these challenges.

Engaging with policy

DS Smith is engaging with policy makers around the world to tackle big issues, from hosting an Indonesian delegation to discuss quality materials for export to our engagement with US Senator Ben Allen of California on the topic of plastic replacement. We regularly consult with the UK Department for Environment, Food and Rural Affairs, attend EU Council Workshops on the development of European legislation, particularly the concept of Extended Producer Responsibility for packaging, and have hosted EU consulting company Eunomia at our Brussels design laboratory as part of its fact-finding work for the EU Commission.

REDEFINING PACKAGING FOR A CHANGING WORLD

Investing for growth

Our vision is to be the leading supplier of sustainable packaging solutions.

Over the past ten years we have grown the business across Europe and into the US through a mix of acquisitions, capital expenditure on new capacity, and market share gains. In the year 2019/20, our focus has been on realising the opportunity from our acquisition in January 2019 of Europac, a paper and packaging business in Portugal, Spain and France, and from the development and opening of a new corrugated packaging site in Indiana, US.

Europac

The Europac operations comprise a large kraftliner (virgin fibre) paper mill, three testliner paper mills, 13 corrugated packaging sites and a small amount of forestry assets. Having acquired the business in January 2019, the year 2019/20 has been the first full year of ownership. As with all acquisitions, the business has been rebranded as DS Smith and staff given training on our values as well as sharing of best practice. Our task for Europac is twofold. First, we are maintaining and building on the high standards already achieved at the paper mills, and have integrated these into our Group-wide paper sourcing operations. Second, our task has been to turn around the corrugated packaging operations which had historically underperformed. We are delighted to see corrugated box volume growth from Q2 2019/20 onwards, and the packaging business turning to profitability.

Indiana

We have two paper mills and 16 corrugated packaging sites in the US, with the tonnage of paper produced in excess of our corrugated production. As a packaging business, we plan to build up the corrugated operations to the point where the businesses are balanced, in the medium-term. We first entered the US market with the acquisition of Interstate in 2017, and as the positive customer reaction built up, demand started to outstrip packaging capacity.

CASE STUDY

How DS Smith is leading

High performance team building in Indiana

In North America our new box production facility opened on time and to budget thanks to the huge effort, dedication and commitment of our people. The technology and production capability, together with the onsite engineering, maintenance expertise and level of automation, enables our people to deliver unparalleled production quality and to focus on working directly with customers to deliver customised and sustainable solutions. By the end of December 2019 the facility employed 43 people who had received nearly 4,700 hours of training covering induction, classroom and on the job training and cross-facility training, all supported by individual development plans that fully integrate safety, quality and team skills, and support their continuous learnings.

Europac integration

Europac's acquisition and integration has exceeded initial expectations. The integration process, 'Stronger Together', benefited from the expertise of the management teams across both businesses. As a result of the collaboration between the two parties the combined operation has delivered substantial improvements. Synergies have been achieved by leveraging DS Smith's divisional model, while Europac's capability in paper has supplemented our packaging divisions in Iberia, creating a pan-European network focused on the circular economy. Our goal is to grow organically, growing market share with new clients and differentiating through the creation of innovative solutions. The rise in e-commerce in Iberia, supplemented by an increased focus on the environment, puts us in the perfect position to provide new customers with the necessary economies of scale and sustainable solutions.

The integration has also been very successful from a people perspective. Through workshops and meetings, we have shared the DS Smith values and, although building a shared culture takes time, we can see these behaviours becoming embedded. We continue to build a shared DS Smith culture and have seen a significant number of former Europac employees progressing into key roles at country, regional and division level. Another good example of integration has been the piloting of key people development initiatives in former Europac plants, such as the new first line management training.

We therefore built a new state-of-the-art corrugated site in Indiana, well placed to serve customers in the region with high quality, value-added packaging. When running at full capacity this will increase our corrugated capability in the US by around one-third and significantly reduce our long paper position in that region. The site started operations in November 2019 on time and on budget and will build-up to capacity over the coming two years. We are delighted with the strong customer interest and have been fulfilling orders from the site from the start of 2020.

Chairman's statement

"In responding to the Covid-19 pandemic, we have been guided by our values and core priorities: firstly, to the health and wellbeing of our employees, and secondly to serving our customers in these challenging times."

- Gareth Davis, Chairman

A year of further progress

2019/20 has been a year of further progress for the business strategically and operationally. Key achievements include the continued integration of Europac (acquired in January 2019), completing the sale of the Plastics division, and opening a substantial new corrugated packaging site in the US.

Covid-19

The end of the financial year has seen us face the challenge of Covid-19 and the impact that it has brought to all aspects of the business. Throughout this time, we have been guided by our values and core priorities: firstly, to the health and wellbeing of our people; and secondly, to serving our customers. Our people have responded magnificently, adopting changed ways of working where needed. This has enabled us to continue to serve our customers, the majority of whom are key to the supply chain for food, drink and other essential supplies across Europe.

While we have continued to operate throughout the Covid-19 pandemic, as the initial phase wanes, it is clear that 'normal' is some while away. We are not immune to the impact of significant changes in consumer demand and in our way of operating. The Board is closely monitoring all aspects of the business, from people, operations and the consequential financial implications.

Performance

Our focus in the year has been on continuing to develop the business, and we are pleased with what we have delivered, in difficult market conditions. Our volume growth for the year of 0.6 per cent is a blend of positive momentum across the first 11 months of the year, with a dip in April as the impact of Covid-19 was felt, as explained in the operating review in more detail. This robust performance is due to our continued focus on fast moving consumer goods (FMCG) customers, where volumes tend to be more consistent, and the growing e-commerce market.

In addition to trading, we have continued to strengthen the business. Our colleagues who joined from Europac in January 2019 have now been with the business for a full financial year and I am delighted with the way we have come together to build a business that is stronger together. Our new packaging site in the US was a substantial undertaking and it is a testament to our people across the business that it has been delivered on time and on budget.

Sustainability

The past 12 months have seen an acceleration of interest in sustainability from consumers, policy makers, our customers and our employees. This presents a significant opportunity for our business. We have held around 30 sustainability-focused workshops with customers every month across our network of PackRight Centres and Impact Centres. We are helping our customers use packaging to take lorries off the road and carbon out of supply chains, designing solutions that are recycled in practice not just recyclable in theory. With over 650 innovative solutions for corrugated use as a replacement for plastics, we are seeing a significant opportunity in using fibre-based packaging. To highlight this acceleration and opportunity, in January 2018, 11 companies aligned with the Ellen MacArthur Foundation's Global Commitment, focused on reducing plastic packaging. As of April 2020, over 450 organisations had committed to the programme.

DS Smith seeks to be a sustainable employer and to embrace best practice. As a Board we look at diversity and inclusion in its widest sense and continue to challenge ourselves to progress in this area, across the Company.

The Board

At the AGM in September 2019, Rupert Soames moved to the position of Senior Independent Director and David Robbie moved to the role of Chairman of the Audit Committee, both having joined the Board earlier in that year, replacing Jonathan Nicholls who retired from the Board and from both roles at the 2019 AGM. In October 2019, Celia Baxter joined as Chairman of the Remuneration Committee, replacing Kathleen O'Donovan who stepped down in September 2019. Subsequent to the year end, Alina Kessel was appointed to the Board as a non-Executive Director, and Chris Britton has announced his intention to step down at our 2020 AGM. I am delighted to welcome Rupert, David, Celia and Alina to their new roles and the Board is benefiting from the expertise that they bring. I would like to thank Jonathan, Kathleen and Chris for their excellent service to the Board and to the Group, in a period that saw the business transformed from a FTSE 250 business to a member of the FTSE 100.

Chairman succession

It was announced last year that I would seek to retire from the Chairmanship of DS Smith in January 2021, having completed 10 years on the Board. I am delighted that Geoff Drabble has been appointed to the Board, as Chairman Designate and a non-Executive Director, with effect from 1 September 2020 and will be put forward for election at the September AGM. Geoff has extensive corporate experience, particularly as Chief Executive of Ashtead Group plc (a FTSE 100 company) for 12 years. I wish him every success in the role and will work closely with him during the autumn to secure a smooth handover.

It has been an honour to serve as DS Smith's Chairman during a really exciting stage of the Group's development. I would like to take this opportunity to thank my fellow Board members, the leadership team and, above all, our incredible colleagues for their passion, commitment and hard work which have been instrumental to our success.

Dividend

The Board considers the dividend to be a very important component of shareholder returns. On 8 April 2020, in light of the unprecedented uncertainty due to the Covid-19 pandemic, we announced that the Board had decided that it was prudent to not pay the interim dividend due for payment on 1 May 2020, despite our strong liquidity profile and resilient trading to that date. The Board has since considered the overall dividend payment for this financial year and, taking into consideration the interests of all stakeholders, concluded that the outlook remains too uncertain to commit to a resumption of dividend payments in the short term. Recognising the importance of dividends to all shareholders, the Board will actively consider the resumption of dividend payment, when we have greater clarity over outlook.

Outlook

On behalf of the Board I would like to welcome colleagues who have joined DS Smith during the year and to thank everyone for their commitment and hard work. Covid-19 presents a huge challenge to us all individually and as a business, but we are excited about the longer-term opportunities from our customers' changing needs. It has been a year where we have continued to move the business forward despite tough conditions, where our corporate value of tenacity has been ever more relevant. The Board remains confident in the future prospects of the business.

Engaging with stakeholders: Section 172 statement

The Board aims to promote the success of the Company for the benefit of its shareholders as a whole, taking into account the long-term consequences of its decisions and looking at those decisions through a variety of lenses. This involves the Board and management thinking about the interests of the Company's stakeholders, including our people, our customers, our investors, local communities and non-governmental organisations and our suppliers; about the importance of maintaining our reputation for high standards of business conduct; and about the environment. Examples of what that has looked like in practice over the past year can be found as follows:

Stakeholder	Strategic Report	Governance
Our people	Pages 5 (engagement), 27 (how we measure employee engagement), 28 (decisions made in consultation with employees), 28 (consultation on diversity and inclusion)	Pages 68 (engagement with our workforce), 69 (case studies), 75 (induction site visits), 87 (EWC representative attending Remuneration Committee meetings)
Our customers	Pages 5 (engagement), 22 – 23 (collaboration)	Page 68 (engagement with our customers)
Our investors	Pages 5 (engagement), 15 (dividend decision)	Pages 68 (engagement with our shareholders), 68 and 91 (consultation with shareholders)
The environment and communities	Pages 5 (engagement), 17 (charitable giving), 33 (engagement with ESG rating agencies)	Pages 68 (engagement with other stakeholders) and 69 (case studies)
Governments and non-governmental organisations	Pages 5 (engagement), 11 (engagement and actions on circular economy)	Page 68 (engagement with other stakeholders)
Our suppliers	Pages 5 (engagement), 32 (engagement on supplier standards)	Page 68 (engagement with our suppliers)

This statement is made in conformity with the requirement to explain how directors fulfil section 172 of the Companies Act 2006.

OUR BUSINESS MODEL

To be the leader in sustainable packaging solutions

Our business model is focused on value-adding corrugated packaging and supported by upstream paper production and recycled paper collection.

Short paper strategy

Corrugated packaging is our primary product and we are 'short paper', i.e. a net buyer of paper. In 2019/20 we were approximately 80 per cent integrated in Europe, while in the US we are over 100 per cent integrated. We choose to be short paper in order to reduce our exposure to the variability typical in paper pricing and instead to focus on corrugated where we can best add value. Our medium-term target is to be c. 60 per cent integrated in Europe and to be balanced in the US.

Our resources

Our people and values

We employ around 30,000 people globally and develop them so they can realise their potential. Our values and management standards guide how we operate.

Manufacturing and other physical assets

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

Our relationships and brand

We have developed trusted relationships with our stakeholders including colleagues, customers, capital providers, suppliers, communities, governments and regulators. We seek to interact in a way consistent with our corporate values in order to keep our relationships strong.

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

Intellectual capital

We have substantial business know-how which is used throughout the Group. We have c. 700 designers and have numerous patents for packaging design and innovation, and developments in paper manufacturing.

Financial capital

We are funded by a combination of shareholder equity, debt and cash flow generated by our operations.

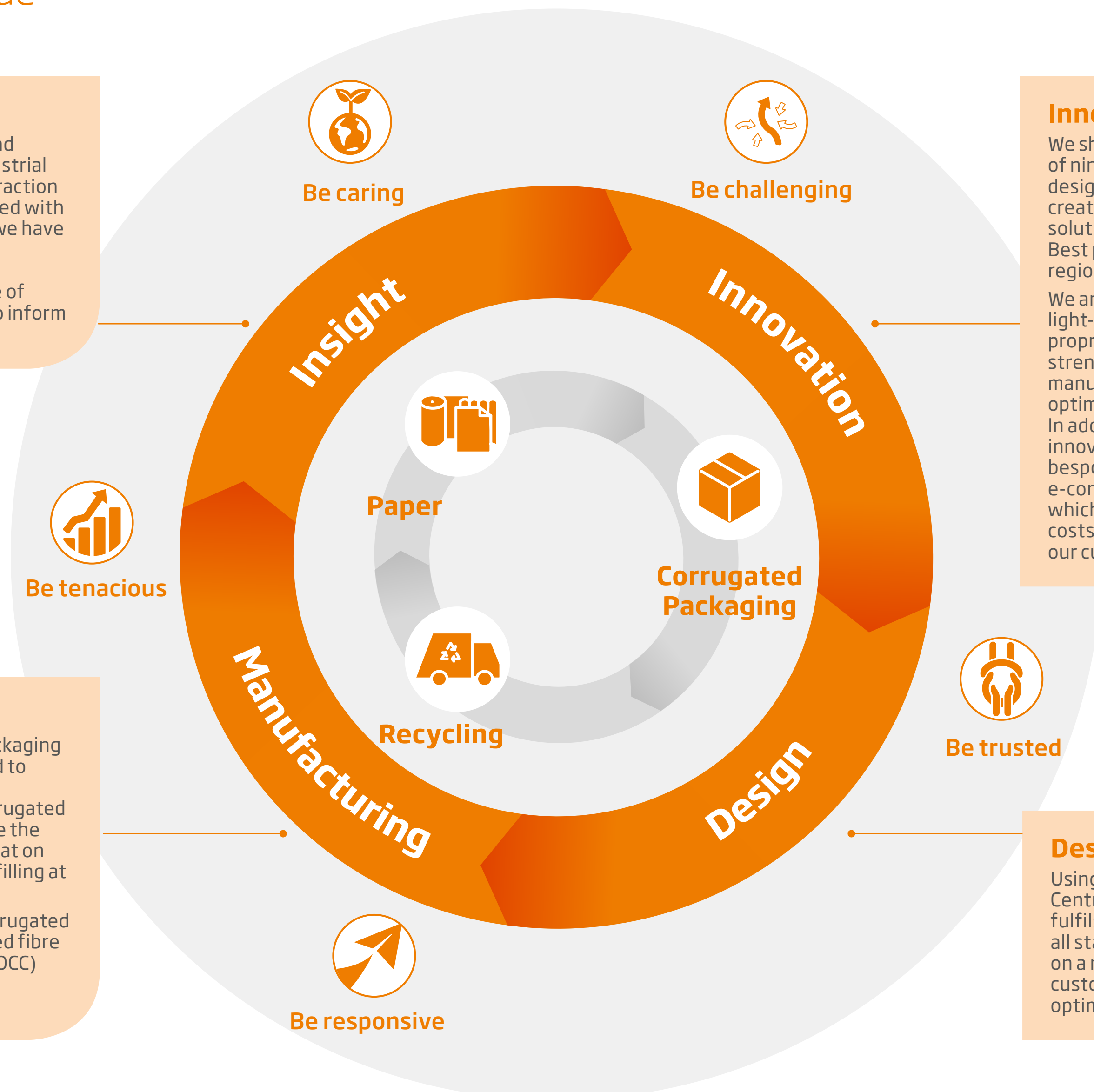
Natural capital

We operate a highly sustainable model through the recycling of natural material, in particular wood fibre. We also source pulp from newly harvested trees, including from our own forestry assets to provide pulp for our kraft mills, and use water in the paper manufacturing process.

→ How we create value

Insight

We work with leading FMCG brand owners, major retailers and industrial companies. This breadth of interaction on a multinational basis, combined with our own expertise, means that we have considerable knowledge of how changing consumer, retail and regulatory trends affect the use of packaging. We use this insight to inform our innovation.



Innovation

We showcase our insight in our network of nine Impact Centres where our designers work with customers to create inspiring, innovative packaging solutions to meet their requirements. Best practice is shared across all our regions.

We are also innovators in the use of light-weight corrugated board. 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 bespoke boxes correctly sized for e-commerce orders at high speeds, which can significantly reduce logistics costs and improve sustainability for our customers.

Manufacturing

We manufacture corrugated packaging and paper to a high standard and to short lead times. For corrugated packaging, we manufacture corrugated board and print, cut and pre-glue the boxes, which are then shipped flat on pallets, ready for assembly and filling at our customers' factories.

Our paper mills manufacture corrugated case material (CCM) from recycled fibre including old corrugated cases (OCC) (for testliner) and from pulp (for kraftliner).

Design

Using our network of 36 PackRight Centres, we design packaging that fulfils our customers' requirements at all stages. We work collaboratively and on a multi-disciplinary basis with our customers to come up with the optimum solution.

→ The value we create

- Packaging that adds value
  We develop packaging that helps our customers sell more, reduce costs and manage risks.
- Packaging that is sustainable
  Packaging can reduce product waste through the supply chain, at the retailers and in the home environment. Our packaging is usually fully recyclable and made from largely recycled material.
- A positive experience for our customers
  By living our values, we seek to build trust with customers.
- Returns to our capital providers
  Investors benefit from strong operational and financial performance.
- Safety and opportunity for our people
  Keeping people safe is our first priority under our vision of 'zero harm'. We aim to create equality of opportunity for people to grow and develop throughout their career.
- Leadership in sustainability
  We are leading the debate on packaging sustainability through our engagement with governments and major organisations such as the Ellen MacArthur Foundation.
- Local community involvement
  The DS Smith Charitable Foundation donated £313,000 in 2019/20 to charities. All of our sites (of 50 people or more) are engaged in local community programmes.

We show here some of the non-financial impacts of the business. Please refer to the table on pages 60 and 61 to see how we comply with the Non-Financial Reporting Directive requirements.

DIFFERENTIATION

Our differentiation

DS Smith is in a strong position to capitalise on the opportunities that current market changes present. Scale is the most material differentiator, which then drives our ability to invest in our people and in innovation, hence fulfilling our customers' expectations.

Scale

Our packaging and paper operations cover 34 countries giving the widest coverage of any packaging company across Europe. We have around 30,000 employees and over 200 manufacturing sites, including our growing operations in the US.

The breadth of our offering matters because it matches our customers' requirements. Our large customers are multinational, so require a multinational, consistent approach to their packaging. For example, over 50 per cent of our boxes are for customers served in more than one country.

Customers looking for a partnership with their suppliers need to work with fewer, more sophisticated suppliers.

Innovation

DS Smith is a leader in packaging innovation, with c. 700 designers and innovators. We operate a system where innovation and know-how is shared though our network of nine Impact Centres and 36 PackRight Centres, supported by designers who operate in our manufacturing sites. Impact Centres are our innovation hubs, and PackRight Centres are where innovation is put into practice in conjunction with customers.

Innovation is delivered by DS Smith and then applied across our wide customer base. Examples of where innovation is driving growth are performance packaging, plastic replacement, and e-commerce solutions.

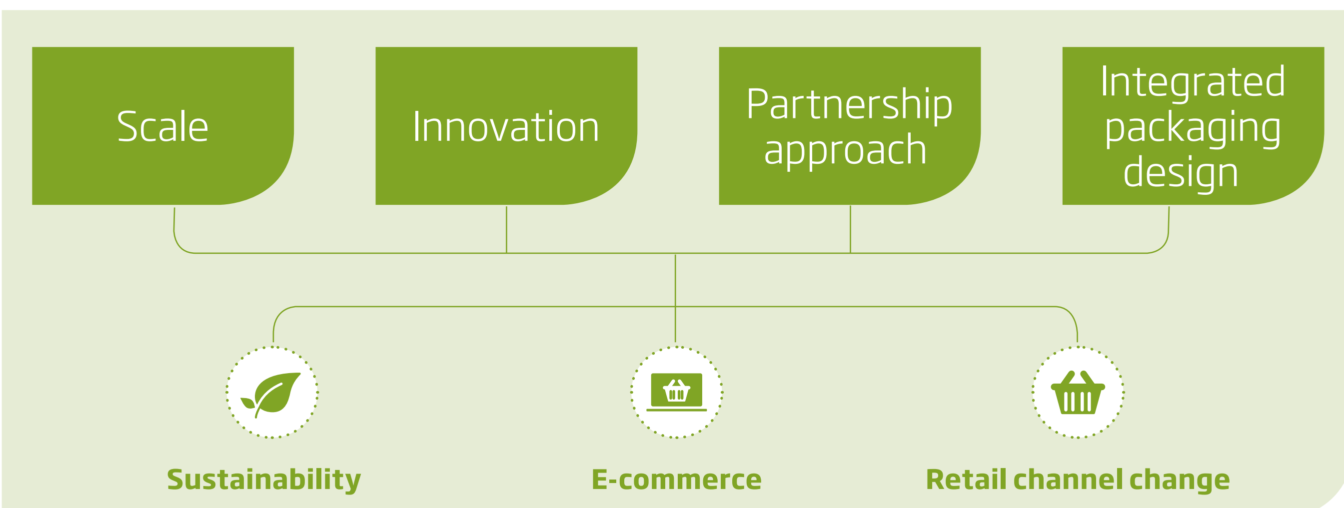
Performance packaging

Performance packaging is a different way of selling packaging and engaging with customers. At the centre of this is the understanding that customers want packaging that delivers a certain performance depending on the product and its supply chain. We agree and guarantee this performance. Then, using proprietary technology, we measure the board strength throughout the corrugated board and box-making process to optimise the use of fibre. We then deliver cost, efficiency and carbon savings for our customers. For example, our customer Orkla Foods adopted our performance packaging programme to assist in meeting its sustainability targets, resulting in a 10 per cent reduction in packaging weight.

Solutions for e-commerce

E-commerce presents many challenges for packaging, including: damage; product returns; packing speed; void space in packaging; customer attitudes to packaging/sustainability; brand support; and personalisation. We estimate that there is ten times the chance of product damage in the home delivery route versus the traditional supply chain to a store.

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



The question of void space – the amount of empty space in an e-commerce package – is important because of the cost of shipping void space as well as the potential impact on damage and customer satisfaction. DS Smith is developing packaging solutions that minimise void space efficiently and hence reduce supply chain costs.

Partnership approach

Our people have a deep understanding of our customers as a result of working closely with them over many years, combining this understanding with creativity to develop innovative, sophisticated packaging that improves the efficiency of supply chains, saving customers money and improving their security of supply. We seek to develop our relationships further, for example by extending the ranges and categories that we work on with each. As a demonstration of this success, our average rate of box volume growth among large customers has been 9 per cent over the last three years, considerably ahead of Group volume growth.

Integrated packaging design

Packaging is vital to keep supply chains running, providing consumers and businesses the products they need.

We strive for solutions that are made of recycled materials, and are easy to be recycled in a closed loop system.

With supply chains becoming more integrated and demanding, we make sure that our solutions are constantly up to date to meet the evolving demands from our customers and offer the right protection and functionalities in the most efficient way.

We strive to maximise the performance of our packaging, while reducing costs and the amount of material used. We have continuous programmes to optimise our packaging design structures, materials and methods of designing, testing and manufacturing.

As our packaging is not travelling alone, we make sure it performs in harmony with the products it carries as well as the infrastructure it has to endure.

This is what we call 'integrated packaging solutions', making sure that we eliminate excess of space and material usage.

Advising global brands, we engage with their engineers and marketing teams early in their product development process.

This includes providing design input on the development of their primary packaging with a focus on sustainability (design for recyclability), efficiency and brand consistency throughout all the packaging touch points.

It is to the benefit of all in the supply chain (brands, logistics providers, shoppers and consumers) that we streamline both primary packaging, retail packaging, e-commerce packaging and point of sale.

We call this the 'one packaging' approach.

GROUP CHIEF EXECUTIVE'S INTERVIEW

Q&A: Driving circularity

"Our business is inherently circular and with the support of our Purpose, we are well positioned for today's and tomorrow's changing world."

– **Miles Roberts,** Group Chief Executive

Q. You launched your Purpose, 'Redefining Packaging for a Changing World', in 2018/19. How has this been embedded in your business over the past year?

Following the launch of our Purpose, we have worked hard to ensure it sits at the very heart of our business model. It informs our strategic decisions and strengthens our operations to ensure our business is ready to meet the challenges of a changing world. It helps us to identify key growth drivers and delight our customers with the innovation needed to meet them, including responding to Covid-19, leading plastic replacement and reusable e-commerce solutions.

Through a continuous programme of engagement, our Purpose has been deeply embedded across our global workforce, driving pride and ownership, while allowing us to grow closer to our communities as we support them to meet the challenges presented by Covid-19.

Q. How has DS Smith responded to Covid-19?

As we continue to respond to the global Covid-19 pandemic, I am immensely proud of our people who have remained steadfast in these challenging times. Their continued health and wellbeing is my priority and we have put in place stringent health and safety measures across all of our sites. I also recognise the critical role DS Smith and the wider packaging industry has right across global, national and regional supply chains. Our packaging is predominantly used to transport and protect food and personal care items or to deliver goods to people's homes through e-commerce. We also serve the vitally important pharmaceutical sector.

It is the continued production of paper and packaging that allows these goods to get to where they are most needed and that is why our teams continue to go to work every day to run these operations and support our customers' businesses. I am very appreciative of the way in which they responded to this challenge. While we have not faced significant disruption, our sites are working together to support each other, to transfer orders and ensure we do not let our customers down. This is a testament to the values we have embedded right across the business.

Q. How important are the communities in which you operate?

Our communities sit at the heart of our Purpose and over the course of 2019/20, we have engaged with 100 per cent of our local communities where we have sites with over 50 employees, covering a range of activities from community litter picks and school visits to cardboard boat races. Meanwhile, our Charitable Foundation continues to make a significant impact in the local communities we operate in, focusing its support on responding to Covid-19 through donations and innovative packaging for vulnerable citizens, alongside sustainability or education-focused community initiatives around the world.

Q. Consumer engagement in the challenges of sustainable packaging is increasing. How is DS Smith responding?

Our sustainable, fibre-based strategy has positioned us at the forefront of this trend and we continue to partner with our customers to lead the response across all industries. In particular, our fast moving consumer goods (FMCG) and e-commerce customers are facing increasing calls from their own consumers to decrease the amount of unnecessary packaging and move away from materials like single-use plastic. Many have set ambitious goals to ensure their packaging is reusable or recyclable within the next five years. As their partner, we are constantly innovating to support them to do this.

Our 'Circular Design Principles', alongside our approach to 'right-sized' and inclusive packaging, are a few of many examples of our response.

Our design principles, which received expert input from the Ellen MacArthur Foundation, ensure that we use the least amount of fibre possible without impacting performance. For example, we can increase the impact of customers' unboxing experience through new design and digital print, while reducing fibre and ensuring that it is recycled or reused in practice, not just in theory.

As one of Europe's largest recyclers of fibre, we believe it is our responsibility to manage this valuable resource as part of a wider approach to the circular economy. We are actively developing solutions for hard to recycle items such as coffee cups and recently expanded this scheme into Europe.

Q. How is DS Smith driving forward its commitment to the circular economy?

Our business model is inherently circular and our box-to-box model in 14 days is representative of our commitment to this. We are also a net positive recycler, meaning we manage the recycling of more material than we put on the market.

To further this commitment, our partnership with the Ellen MacArthur Foundation has included collaboration on a number of innovation challenges, including urban recycling and plastic replacement. Importantly, we were also a pilot partner for its new circular economy measurement tool, Circulytics. We believe this will offer significant strategic insight, providing us with the data to improve our processes, reuse even more fibre and drive our internal performance indicators to accelerate the shift to a more circular economy.

Q. Why do you consider plastic replacement to be an opportunity for DS Smith?

In a recent study commissioned by DS Smith an overwhelming majority of those surveyed – 86 per cent – say that environmental issues are the major concern facing society today, with plastic packaging a major worry for consumers right across Europe.

We have identified a number of replacement opportunities around plastics and our report, 'Transforming the Supermarket Aisle' found that 1.5 million tonnes of plastic could be replaced each year from just five areas within supermarkets across Europe. Our designers have developed over 650 designs focused specifically on plastic replacement and are now available to our customers, with over 50 per cent of these designs used to support our retail customers. This commitment to innovation and circular design has created opportunities in the short-term, but also positioned us well to capitalise on changing consumer behaviours towards packaging and the evolving policy landscape.

Q. 2019/20 has seen continued volume growth. How have you achieved this in challenging market conditions?

The business has continued to grow volumes despite challenging macro-economic conditions.

Our strategy

Our strategy is based on balancing the requirements of our core stakeholders:

To delight our customers
How we engage with customers
See more p.22

To lead the way in sustainability
How we engage with society
See more p.30

To realise the potential of our people
How we engage with our people
See more p.24

To double our size and profitability
How we engage with our investors
See more p.36

Our strategic customer partnerships and solution-oriented approach have been key drivers of our margin performance, which has grown from a reported 4.5 per cent in 2010 to 10.9 per cent in 2020. This is the result of packaging being increasingly high-value and the scale benefits derived from being a larger group – with a focus on growth industries such as FMCG and e-commerce. We have also benefited from the integration of Europac, and the synergies delivered from it.

Q. What do you see the coming year bringing for DS Smith?

The past year has seen us focus on the continued integration of Europac, the sale of our Plastics division to focus on sustainable fibre-based packaging, which completed in March 2020, and the expansion of our operations in the US through the Indiana facility. We are facing an uncertain macro-economic outlook for the coming year as economies around the world respond to the challenges posed by Covid-19. However, our focus on resilient FMCG and e-commerce markets, as well as our position within these critical supply chains, will give us the platform to drive market gains and reinforce our strategic customer partnerships across our integrated footprint.

Meanwhile, the DS Smith strategy continues to be a net buyer of paper. We now have improved security of supply following recent acquisitions, but work continues to ensure we have the right assets in the right places.

OUR STRATEGY

To delight our customers

We work with some of the world's most visible and iconic brands. Our job is to add value to these brands by making them attractive to new consumers, available when shoppers look for them online or in-store, and helping our customers' products to be sold at the targeted price-position. In addition, we focus on transforming the design of point-of-sale, to shorten supply chain complexities, allowing our customers to be quicker to market and respond better to changing retail channels, both online and in-store. Our end-to-end approach is adopted by many of our multinational accounts, and has been a real source of value growth in these relationships. Our packaging and display strategists, with their cross-industry experience, engage by working in partnership with our customers and use that insight to develop packaging that helps deliver increased sales, lower costs and managed risks.

We do this by:

- Delivering on our commitments for quality and service
- Providing value-adding packaging
- Driving innovation, rolled out internationally

Our performance

In 2019/20 we delivered:

- The opening of our new greenfield packaging site in Indiana, US
- The integration of the sales and marketing approach for the Europac packaging assets
- A focus on and improvement of our service levels

In 2020/21 we will:

- Build market share based on our security of supply offering
- Accelerate the scaling up of our innovation programmes
- Sustain the continuous improvement of service levels

OUR KPI

On-time, in-full deliveries (OTIF)

Definition

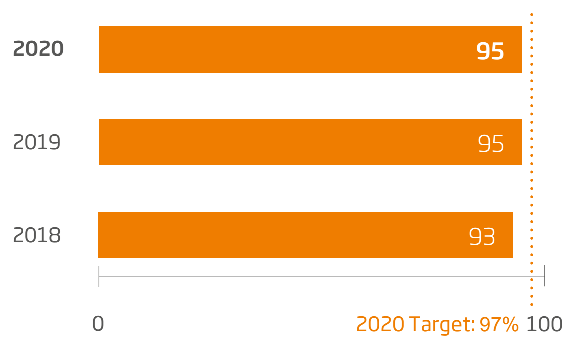
The proportion of our orders that are delivered on-time, in full across our businesses.

Why this is a KPI

Packaging is an essential part of an efficient supply chain. Delivering as promised is a critical component to ensuring we remain a trusted partner to our customers.

2019/20 performance

In the year 2019/20 our overall OTIF remained at 95 per cent, close to our overall target of 97 per cent. We continue to strive for higher service levels and have seen improvements in our underlying operations, partially diluted by lower OTIF levels in recently acquired businesses.



Our packaging customer profile

Our customer base is made up of approximately 72 per cent resilient fast moving consumer goods (FMCG) and food, with an additional 11 per cent other consumer products, such as packaging for retailers and pharmaceuticals and the remainder industrial. This compares to the market in Europe which is c. 60 per cent FMCG. As a result, our market share in the dynamic FMCG category is well above the corrugated industry average. This is important to our business model for a number of reasons:

- The food, drink and personal care markets are resilient. These are goods that consumers use in their everyday lives and purchase regularly from supermarkets. Our strong position in these segments ensures consistent volumes of consumption.
- To stand out, consumer goods packaging is diverse and creative, and packaging can increasingly be leveraged to market a product within a competitive retail environment beyond simply providing protection. Packaging can therefore add real value to the brand experience.

FMCG customers demand quality. To meet the needs of consumers, FMCG companies require high quality, innovative, value-adding packaging. We invest in the insights and innovation needed to meet this demand; and deliver this on a global scale.

FMCG customers drive brand loyalty. The products in our stores are frequently evolving and so is the packaging. It must therefore be an extension of the brand through inclusive and smart designs.

FMCG customers want value. We approach packaging at every step of the supply chain to ensure that it provides sustainable, optimised performance from end-to-end.

FMCG customers have a global outlook. Our multinational customers require a partner that has a geographic footprint which matches their own. DS Smith is exceptional in having the scale, expertise and innovative approaches to support our customers around the world.

Our recycling and paper customers

Our recycling customers range from small and medium-sized enterprises through to large scale manufacturers, wholesalers, printers and some of Europe's best-known retail brands. We also recycle materials from municipal and household collections. With a full recycling and waste management service, we work with our customers to reduce waste and maximise the efficiency of their recycling collections. Many of our big brand customers have been with us for over ten years. The paper we collect for recycling serves our own paper mills as part of our closed loop recycling business model, while also being sold into our global network of third-party paper mills.

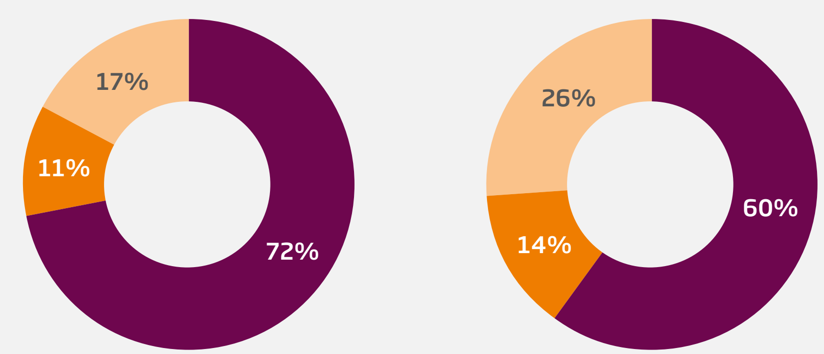
We are a leading manufacturer of sustainable corrugated case materials, made from recycled and sustainably sourced fibres. These high performing packaging papers supply our own packaging division, again as part of our closed loop recycling business model. We also sell corrugated case materials to a range of third-party packaging businesses, and we manufacture and supply speciality papers that are used in construction, printing and a range of other markets.

DS Smith helps Bloom & Wild delight with fresh e-commerce packaging

Standout design and print of its packaging was vital for the Bloom & Wild fresh flowers brand, which was the UK's second fastest growing brand in 2019. However, it also wanted to work with a packaging innovator that shared its views on sustainability – which made DS Smith the perfect fit. Through our unique print and manufacturing capabilities, recyclable packaging solutions and our stock and serve service, we are delighted that we can help deliver the renowned customer experience that Bloom & Wild has at its foundation.

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

Our corrugated packaging customers by volume | **European industry average corrugated packaging by volume**



- **FMCG and food**
  - Grocery
  - Home and personal care
  - Beverages
  - Agriculture
- **Other consumer related products**
  - Pharmaceutical
  - Retailers
- **Other industrial**
  - Machinery
  - Chemicals
  - Construction
  - Automotive

OUR STRATEGY

To realise the potential of our people

We do this by:

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

Our performance

In 2019/20 we delivered:

- 8 per cent like-for-like reduction in accident frequency rate
- A successful integration of Europac – welcoming c. 2,000 colleagues to DS Smith
- The launch of our greenfield site in Indiana, US, including a new workforce
- A second Global Leadership cohort and a new high potential leadership programme in partnership with the Oxford Saïd Business School
- Action across 385 sites and offices following the 2018 engagement survey
- Our new global recognition programme – 'The Smithies', celebrating the individuals and teams who go above and beyond and excel

In 2020/21 we will:

- Continue to develop our health and safety (H&S) professionals
- Embed our refreshed and simplified Management Standards that underpin our performance culture
- Build consistent capability across our first line management population
- Continue to build an inclusive and diverse workplace and a strong pipeline of diverse future leaders
- Open up development opportunities even further with the launch of the DS Smith Learning Portal

To realise our Purpose of 'Redefining Packaging for a Changing World' we need a modern, diverse, motivated and engaged workforce where everyone has the opportunity to realise their potential. We are passionate about working together, sharing ideas and exploring new ways to innovate and delight our customers; it is fundamental to our business success. These values have been at the forefront of the incredible response during the Covid-19 crisis from our people across the business who have maintained operations in our factories, kept our functions running and looked after each other in difficult circumstances. At all times our priority has been the health and wellbeing of our people, continuing to serve our customers and to support the communities we serve.

Taking the initiative to support the communities we serve:

DS Smith in Poland supports retired colleagues

Our teams in Poland have been an inspiring example of this. The elderly have been one of the groups most vulnerable to Covid-19. Many countries implemented stricter social distancing rules for those of a certain age, with some advised not to leave their homes at all. This made life even more difficult during an already challenging time.

In Poland the teams wanted to do something to help, so employees came together and reached out to their former colleagues now in retirement with offers of support and assistance. From shopping and delivering groceries, to sourcing vital medicines, they helped with any day-to-day support needed.

DS Smith donates 10,000 corrugated board tables to field hospital in Spain

As the Covid-19 pandemic continued to affect societies, some cities built huge hospitals at record speeds to cope with the ongoing waves of patients. In Madrid, the city built the largest pop up 'hospital' in Spain. Using the space at IFEMA, one of Europe's largest convention centres, a temporary hospital was built in a matter of days, capable of housing up to 5,500 patients.

Workers at our plant in Madrid were keen to play their part. Using the resources available, they manufactured and donated 10,000 individual bedside tables for patients at the IFEMA hospital. Made from corrugated cardboard, the furniture could be used immediately, as it did not need to be disinfected or cleaned, and could be easily recycled after use. The teams developed the slogan '#westopthisvirustogether' which was printed on the tables as encouragement to health workers and patients. The initiative was welcomed by the Madrid Health Agency who congratulated everybody involved.

OUR KPI

Accident frequency rate (AFR)

Definition

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

Why this is a KPI

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

2019/20 performance

A healthy and safe working environment and culture is the cornerstone of any responsible, sustainable and profitable business. In the context of our health and safety aim of zero harm, our target AFR is zero.

Our legacy businesses performed well, however our North America Paper & Packaging (NAPP) division struggled to maintain the excellent improvements gained last year. We are confident that the re-organisation of NAPP into our wider Packaging and Paper divisions will ensure the support and direction needed for sustainable improvement. As such we are pleased with our reductions in both LTAs and AFR this year.

Health and safety key performance indicators	2019/20	2018/19 Reported	2018/19 Pro forma[3]	Variance vs. pro forma
Total LTAs[1]	**97**	112	106	-8%
AFR[2]	**2.08**	2.3	2.26	-8%

1. Lost time accident (LTA): number of accidents resulting in lost time of one shift or more.
2. Accident frequency rate (AFR): number of LTAs per million hours worked.
3. Pro forma data based on the exclusion of businesses sold in 2019/20 but included in 2018/19 and inclusion of the businesses acquired and not included in the previous reporting year.

Ensuring the safety of all

We are highly ambitious about health and safety (H&S) with a focus on continual improvement and high standards to achieve our target of zero harm.

Health and safety – Vision Zero

Our vision is to provide a working environment and culture where H&S is integral to our business and all our people actively engage in our drive to continuous H&S excellence.

The campaign for zero harm focuses on our four main strategic goals:

Leadership – Our successful H&S onboarding programme has continued this year, inducting all new and promoted site managers into the behaviours and mindsets required to perform as H&S leaders. However, we are acutely aware that to drive H&S leadership further into the organisation, we need to grow and develop all our operational managers. Therefore, in conjunction with our Group learning and development team, we have integrated H&S onboarding training into the new fundamentals of first line management programme dedicated to our people in their first line manager role. This was piloted with 'train the trainer' sessions held in Q4 2019/20. The combined programme will start deployment in the first quarter of 2020/21.

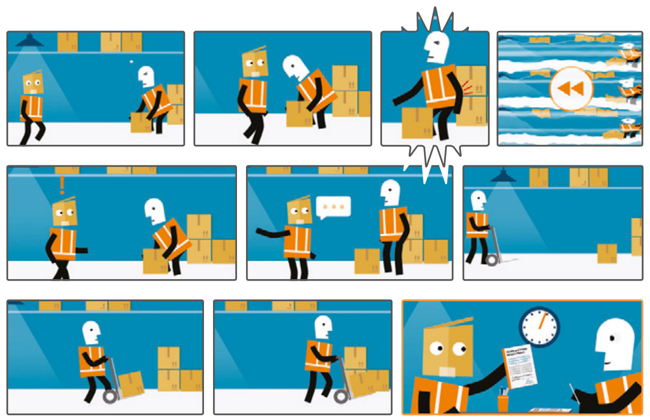
In 2020/21 we also plan to develop our H&S professionals and deploy Group-wide training programmes to advance their leadership and technical skills. This is essential if we are to ensure a consistent and professional service across all our sites.

Engagement – Our new proactive internal KPI, the H&S engagement rate (measuring the number of near misses/safety observations per person) has increased significantly this year, up by 15 per cent.

We are particularly pleased with this, as it reflects our people's engagement with seeing and raising health and safety standards.

To further develop the engagement of our people, we launched an initiative this year based on encouraging people to actively speak out and have a conversation with their colleagues about health and safety conditions and behaviour. 'Choose to Challenge' (pictured below) was introduced by our mascot, Boxy, and gave tools and techniques for having a successful safety conversation.

Processes – Our H&S teams spent time this year visiting our new Europac plants, meeting our new colleagues, conducting audits to identify improvement opportunities and explaining our DS Smith standards and processes.



#choosetochallenge

vision zero

OUR STRATEGY

To realise the potential of our people (continued)

Action plans for the improvements required, including implementation of our guidelines and requirements on areas such as machinery guarding, work at height, vehicle/pedestrian segregation and behaviour, are currently being implemented, with support from our divisional teams.

This improvement work has improved lost time accidents (LTA) results by 50 per cent since the start of the Europac integration.

Culture – All our work on leadership, engagement, systems and processes is designed to drive a culture of continuous improvement and setting high standards. We firmly believe that we are building the foundations to drive the change in our culture to achieve sustainably excellent performances, year-on-year.

This commitment and drive has resulted in us achieving all our annual Vision Zero goal KPIs and consequently an 8 per cent reduction in our lost time accidents, with 265 sites achieving zero accidents.

In 2020/21, our aim is to build on our foundations and focus on achieving sustainable world-class performances across our Group.

The first line management programme will cascade understanding, ownership and accountability for H&S further down the organisation. The H&S professional training initiatives will provide our teams with the skills to further raise our standards and expectations, driving H&S further into the organisation, supporting our vision of zero harm.

We will continue with our focus on employee engagement, as we firmly believe this is the key to changing our culture and achieving our vision.

Development for all

We continually review and evolve the development opportunities we provide to our people for both their personal development and operational training. During 2020/21 we will launch 'DS Smith Learning', a virtual home for our learning portfolio, and a range of initiatives which support our varied development paths.

Enabling our managers

Having capable managers who enable our people to thrive and perform at their best is a core pillar of our strategy and is reflected in our strategic people risk priorities outlined on page 59. Our Group Values and Management Standards provide clarity around expectations and consistency in our management practices across the Group. These standards are embedded in our performance management approach and underpinned with guidance and training to equip our managers to bring these to life with their teams and to measure their progress.

The Management Standards were launched in 2018 and we have gathered feedback from our people on what has been most helpful and relevant in their roles.

Global leadership programme project team

"I found the whole experience of working in a cross divisional, cross functional team enlightening and hugely enjoyable. Structuring the project around our individual skills and competencies whilst ensuring each one of us was challenged enabled us to grow as a team and as people. We are immensely proud of our idea, concept and the potential of WirePack to reduce plastic and produce a sustainable solution."

(Global leadership programme participant)

In response, we are refreshing and simplifying the Standards for the 2020/21 performance year with four core standards on Health, Safety and Environment, Customer, Team Management and our focus on continuous improvement – 'the DS Smith Way'.

The first step into management is often the most challenging for people which is why, in 2019/20, we piloted a new fundamentals of first line management programme. Targeted at our management population of 3,000, delivered locally at sites and in multiple languages, it focuses on the transition into management and the core skills needed as a leader and people manager. So far 250 managers have attended and the year ahead will see this fully roll out across our businesses and geographies, often integrated with our H&S onboarding training.

Developing diverse leadership talent

We continue to take action to grow a strong and diverse pipeline of leadership talent. 40 leaders from across the organisation have now completed our global leadership programme designed in partnership with Oxford University's Saïd Business School.

With direct sponsorship from our Executive team, the programme focuses on the changing environment we operate in, leading for competitive advantage, growth, innovation and what it takes to lead in a FTSE 100 company.

Building on the success of the programme, we launched a high potential leaders programme in the year, again in partnership with the Oxford Saïd Business School. The Aspire Programme aims to accelerate the transition from capable manager to future leader. To date 60 delegates have started their development journey and a further 30 will join the programme during 2020.

Engagement

By giving all employees a voice, we create the opportunity to improve their work experience and feel pride in working for DS Smith. Our biennial employee survey acts as a listening tool to get honest feedback from our employees on what matters to them, and provides team managers with important data and commentary on what is driving their engagement and what best enables them to perform well.

The survey was completely digitised last year, increasing the pace and reducing the environmental impact compared to a paper-based process. We also introduced new, robust action identification and planning tools, enabling managers to record and track their commitments, to drive meaningful change. 385 sites and offices identified actions, with nearly 70 per cent falling within the shared themes of learning and development, communication, performance management, work organisation and reward. Progress is reviewed quarterly by senior leadership teams and the Executive team.

In addition to the local focus, the survey enabled us to identify two key themes that, across the entire organisation, were having a significant impact on both the engagement and enablement of large numbers of employees; recognition for good performance and the opportunity for development.

As a result, we have launched a global recognition programme – The Smithies, to recognise and celebrate individuals and teams who go above and beyond and excel at what they do – our hidden gems of DS Smith. The programme encourages line managers to take ownership for recognising their people.

CASE STUDY

Engagement in wellbeing improves sustainable employment

Our priority to 'lead the way in sustainability' doesn't end with our products, it is applicable to all aspects of our business, including our people. Sustainable employment, supporting people to stay in work and develop, is beneficial for us as a business and for employees. It supports our approach to building workforce capability for the future and the mitigation of our strategic people risk priorities outlined on pages 57 and 59.

Netherlands and Finland, two countries where we operate, have long been at the forefront of sustainable employment. They both saw the shift in the age profile of their workforce as an opportunity to engage employees and fully embrace their knowledge and skills. Better and longer-term wellbeing management means employees are more able to continue working.

Involving employees in discussions on which actions to take built a sense of shared ownership and made a greater impact.

The Netherlands identified five key areas to focus on: healthy workload, learning and development, ergonomics, lifestyle and management style – all involved supporting individuals to make better informed choices for themselves.

Success is measured through a Sustainable Employability Index using responses from our most recent employee survey on questions including 'health and vitality', 'workability and skills' and 'wellbeing and work pride'.

In Finland, discussions with employees and the Trade Union defined a flexible programme that could be tailored for the individual. Activities and training that could be chosen included: physical wellbeing lessons with a personal trainer, life and career coaching, managing mental health, trans-generational mentoring, age management training, and a supervisor toolkit to support performance conversations and ideas on balancing workload.

Success is measured by a broad range of measures including work ability, survey scores, number of wellbeing discussions and reduced absenteeism. "The work atmosphere is improving because of the wellbeing community" (Trade Union representative).

Following the successes in Finland and the Netherlands, we are exploring how to extend the approach within the business.

OUR STRATEGY

To realise the potential of our people (continued)

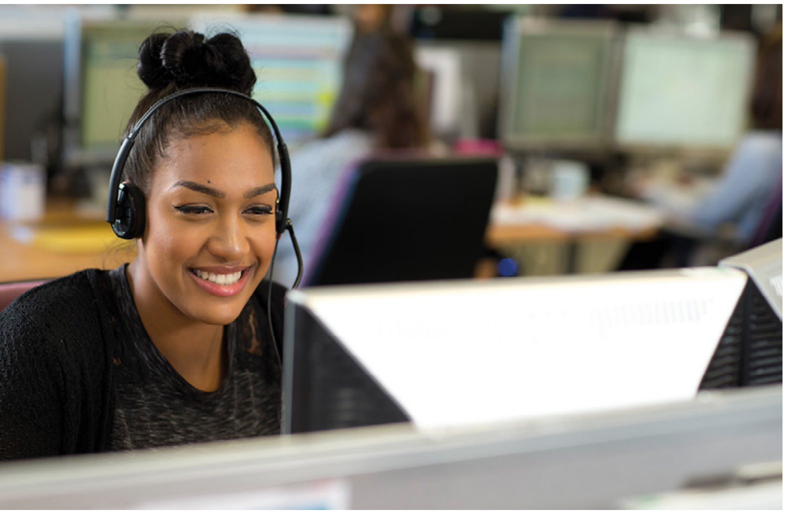
A tiered approach provides the opportunity for recognition at a regional and Group-wide level where we will celebrate the best of the best.

We are also investing in our technology capability to get real time feedback from our people through pulse surveying, enabling deeper insight on what matters to them most and increasing the speed of our leadership response. A recent pulse survey reached 3,700 employees with a 71 per cent response rate and we continue to deploy this capability, alongside our biennial survey, to support leaders in prioritising their engagement efforts.

European Works Council

The purpose of our European Works Council (EWC) is to bring together employee representatives from the different European countries where we operate. The aim of the EWC is to engage employees through an effective information and consultation process focused on business decisions which affect the workforce and impact on the interests of employees. This improves business outcomes, individuals' contribution to the business and development opportunities.

We worked closely with the EWC members to prioritise areas where we can jointly improve policies and processes. We have put in place additional support to our regions on priority areas of Health and Safety and Diversity and Inclusion. Our 2019 EWC Agreement has the flexibility to adapt as we continue to grow to meet the changing needs of our customers. One of the priority areas identified by the EWC representatives was the process to support employees returning to work after illness. A protocol for returning to work on light and restricted duties was developed in partnership with the EWC based on the fundamental principle that a managed return to work using light and/or restricted duties can be beneficial for both employee and Company.



Creating a modern, inclusive and diverse culture

For us, inclusion starts with the belief that everyone, regardless of background, is valued, respected and has the opportunity to flourish. It is about embracing our differences and valuing the creative opportunities that brings for our business and customers. These principles of fairness, respect and value are so fundamental that we have included them in our Employee Charter, co-created with our EWC colleagues. We know there is more to do to achieve our ambition and that action speaks louder than words. That is why we have a diversity and inclusion plan, regularly reviewed by our Executive team, with clear actions to build awareness and ownership and embed the principles of inclusion and diversity in all aspects of our people policies and practices. An early step has been the development of unconscious bias training, with our Executive team taking a lead in participating. 2020/21 will see this training roll out and become embedded in our core learning offering.

We understand that with such an international and diverse business, the specific diversity and inclusion challenges will differ between regions. This is why we have established a Diversity and Inclusion forum with representation from across the business, sponsored by the CEO of Packaging. Working with the forum and other employee representative groups we can build the inclusive networks and local action plans that will have the biggest positive impact for our people and the communities they serve.

One obvious area of collective focus is continuing to improve the representation of women at all levels in the business through our targeted action on talent attraction, development and agile working practices.

Diversity of Executive team

Meaningful change starts at the top. We voluntarily take part in the Hampton-Alexander Review which sets out recommendations for FTSE 350 companies to improve the representation of women both on their executive committees and the direct reports to those committees. DS Smith has three committees that together comprise our Executive Committee, being the Group Operating Committee, Group Strategy Committee and the Group Health, Safety, Environment and Sustainability Committee, as described on page 71.

The Hampton-Alexander Review has set a target of 33 per cent female representation on FTSE 350 boards by 2020. The 2019 report was published in November 2019 and represents the women on our Board and Executive Committee as of 30 June 2019.

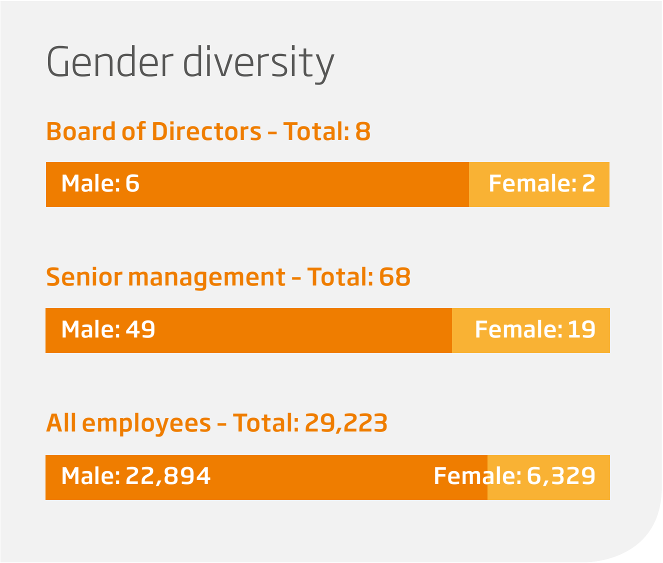
Our position at that date is outlined below:

Ranking in industry sector (manufacturing)	2nd
Overall FTSE 100 ranking	81st
Women on plc Board	25%*
Female Executive Committee and direct reports	26%**

* Compared to FTSE 100 average of 32.4%
** Compared to FTSE 100 average of 28.6%

As of 1 May 2020, following Alina Kessel's appointment, 33 per cent of the Board are women. We also continue to make progress on the gender diversity of our senior management population; as at June 2020 our female representation for our Executive Committee and direct reports was 28 per cent.

Our gender split as of 30 April 2020 is outlined in the table below:



We have adopted the Hampton-Alexander Review definition of senior management to provide a consistent and comparable measure of progress on gender diversity.

It has been historically challenging to attract women into our industry but we are determined to make progress. As a result of our targeted actions on graduate recruitment over the last two years, 40 per cent of our graduate population are now female and we will continue to drive towards gender parity. We are also reviewing our broader talent attraction strategy and developing external partnerships to engage with women at all stages of their careers to understand what they want from a modern workplace and encourage them to consider joining us.

The best insight into how we build an inclusive workplace comes from our own people. That is why we are undertaking research internally, starting with our senior female leaders across the business, to explore their career experiences within DS Smith and in other organisations. This will inform the action plan to address any barriers to progression identified and how best to target our development support.

For Gender Pay Gap Reporting we choose to report not only on he UK legal entities where headcount is above 250, but on the UK total figures to provide a comprehensive view. This year the mean gender pay gap was 4.7 per cent (10.2 per cent in 2018) whilst the median gender pay gap was 6.7 per cent (10.3 per cent in 2018). The improvement is encouraging but to move the dial further we need more women in senior positions and are working hard to deepen the leadership pipeline. We currently have 28 per cent in our global senior management population. 38 per cent of our second global leadership programme cohort and 43 per cent of our first high potential leaders programme (Aspire) cohort are female, reflecting committed leadership focus on this. All cohort members can benefit from the support of a senior mentor.

You can find our detailed UK gender pay gap report on dssmith.com by searching 'gender pay gap report'. This explains the reasons for the gap and information on the actions we have in place to help close the gap. However, the UK only represents a small proportion of our total workforce and our policies and practices are applied globally.

OUR STRATEGY

To lead the way in sustainability

We do this by:

- Closing the loop through better circular design
- Protecting natural resources by making the most of every fibre
- Reducing waste and pollution through circular solutions

Our performance

In 2019/20 we delivered:

- 5 per cent reduction in net CO_2e compared to 2018, like-for-like
- 100 per cent of our sites (of 50 employees or more) have supported their local communities in the past year
- Improved scores in the CDP assessment of 'Leadership A-' in each of the Climate Change, Forests and Water Security questionnaires

In 2020/21 we will:

- Launch a new, long-term sustainability strategy
- Align key programmes with the Ellen MacArthur Foundation with the priorities of our new strategy
- Continue to improve our performance in environmental, social and governance (ESG) assessments

To further explore how we are putting sustainability at the heart of our business please see our Sustainability Report 2020.

The need for more sustainable packaging solutions is clear, with demand coming from consumers, brands, retailers, shareholders and the media. The transition to and establishment of a more circular global economy will be key to a thriving society that operates within our environmental boundaries and responds to this demand.

Fibre-based packaging is a great example of the circular economy in action. It is an industry built on a renewable material that can be recycled and is recycled in practice with fibres going round the loop up to 25 times, retaining the value in the raw material for as long as possible.

However, the right packaging can also do more to facilitate a circular economy. Transport emissions, now the UK's biggest carbon emitter, can be reduced in e-commerce supply chains using smart packaging solutions. Delivery vehicles can be taken off the road through better decision making in product and pack design. Single-use plastics and emissions can be avoided through innovative fibre-based alternatives. Optimised quality recycling of corrugated packaging reduces the need for virgin fibre inputs.

Putting sustainability at the heart

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

Our primary raw material – fibre – is a renewable biomaterial sourced from either recycling streams or from sustainably managed forests.

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

In our research and development community we are focused on doing more from less, finding ways to use less fibre to better protect products and resources.

Across our operations we are reducing our environmental impact through investment in innovative energy reduction technologies, switching to cleaner fuel, turning waste streams into resources and managing our water impact. Our Recycling division plays a key role in this, managing c. 6 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.

Our sustainability approach, strategy, focus and targets

Our business

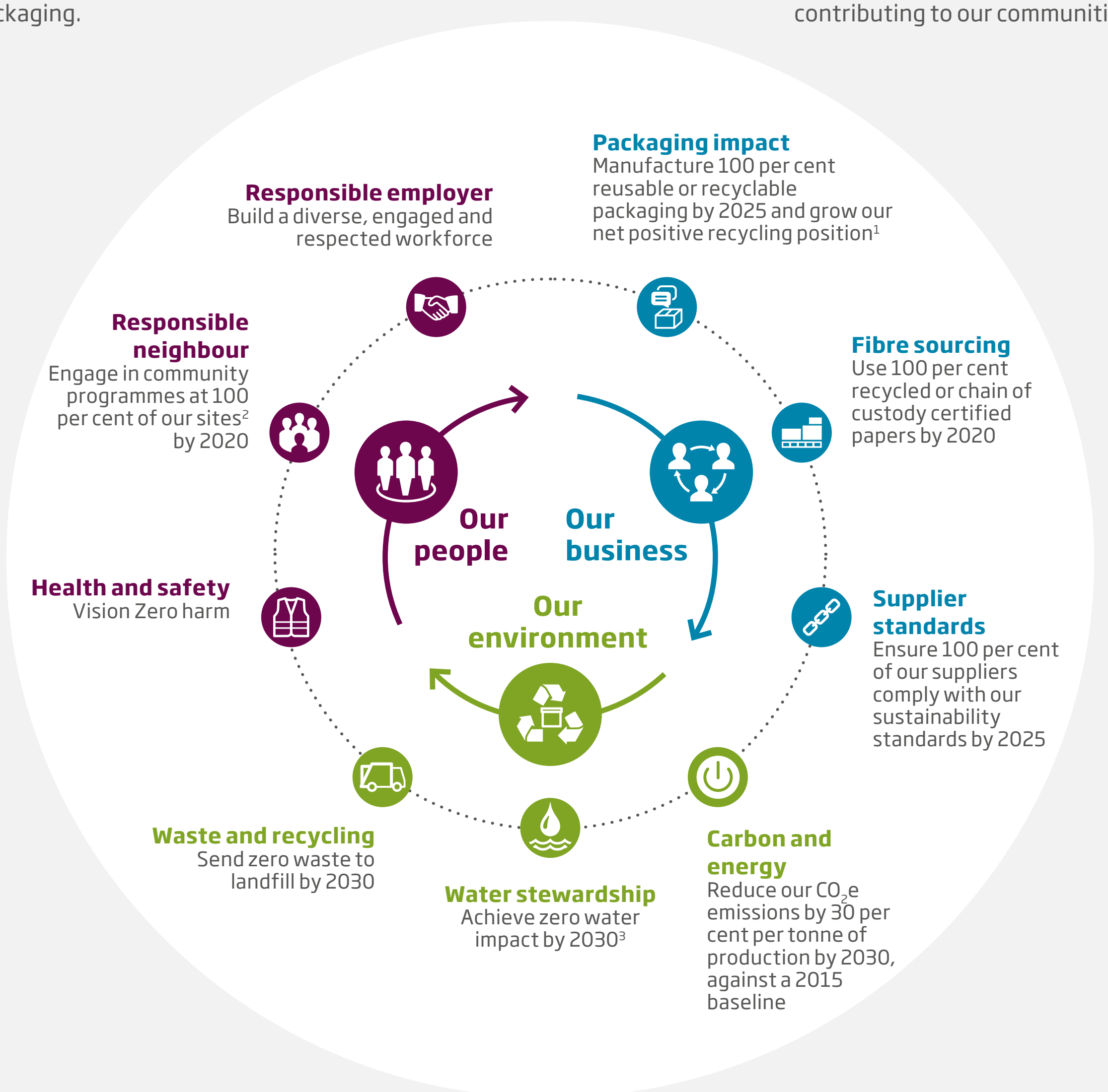
Creating shared value through responsible recycling, paper and packaging.

Our environment

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

Our people

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



1. 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 division.
2. Sites with more than 50 employees.
3. Including water quality, water stress improvements and water efficiency (where feasible).

OUR STRATEGY

To lead the way in sustainability (continued)

Performance

Performance against our targets

In our data collection, acquired businesses are included in the first full calendar year following acquisition. Accordingly, our calendar year 2019 data includes EcoPaper and EcoPack. Europac was acquired part way through 2019 and therefore is not included and will be reported for the first time next year, for calendar year 2020. Our Plastics business, disposed of in March 2020, is included in both the 2018 and 2019 figures. For targets with a 2020 deadline, recently acquired businesses have an extended deadline.

Packaging impact

We continue to lead industry conversations in agreeing and setting standardised ways of defining and measuring what 'recyclable' means. Over 450 organisations have now set a target to have 100 per cent reusable, recyclable or compostable packaging by 2025 and we are supporting our customers in hitting this ambitious goal.

98 per cent of our packaging is reusable and/or recyclable and we will be working to quickly ensure this is 100 per cent as per our 2025 target.

For those packaging solutions that we do not believe are recyclable, we are already exploring how we can use design, innovation and research and development to find innovative solutions.

We have an ambition to grow our net positive recycling position. We are proud of the fact that not only do we manufacture predominantly recyclable packaging, but we also play an active role in that recycling through our Recycling division, and hence play a net positive role in the circular corrugated system.

Fibre sourcing

We have achieved our target of 100 per cent of the papers we use to be either recycled or chain of custody certified.

Supplier standards

We have two workstreams for ensuring our suppliers comply with our sustainability standards. For strategic suppliers or those that we perceive to be of high risk or critical to our business operations we have engaged leading supplier ratings agency EcoVadis, which supports our supplier assessments. For the remainder of our suppliers we have embedded our Global Supplier Standards and Global Supplier Requirements in our new supplier onboarding processes.

We have prioritised strategic and perceived high-risk suppliers with 74 per cent of them confirming compliance with our sustainability standards. In total 11 per cent of suppliers representing 28 per cent of total spend are compliant with our sustainability standards, and we will continue to roll this requirement out in the coming year.

Carbon and energy

We have made continued progress in our legacy operations and have shown an 11 per cent reduction in emissions relative to production when comparing the business footprint as it was in our 2015 baseline year with the same footprint in 2019. The reduction since 2015 is driven largely by a 14 per cent reduction in emissions relative to production in our European paper mills.

On a like-for-like basis, our Group net carbon figures for 2019 have decreased by 5 per cent against 2018 values and emissions relative to production have fallen by 3 per cent, with reduction of 4 per cent in both our Packaging and Paper divisions. This reduction is driven by both continued investment in fuel switching and energy efficiency technologies and also by significant changes to grid emission factors in some regions.

The globally recognised ISO 50001 standard is our DS Smith Group energy management system, enabling a coordinated approach for monitoring all progress against targets at a site level, improving performance and reducing costs. In the past 12 months we have achieved certification in our Packaging sites across France and Nordics resulting in over 90 per cent of our energy consumption now occurring at ISO 50001 certified sites. Next year we will roll out to Iberia, Benelux and Eastern Europe.

Including acquisitions, we have seen a 2 per cent increase in net carbon emissions and 1 per cent increase relative to production, compared to 2018. This increase is driven largely by the inclusion of our Zarnesti paper mill which we include in our reporting for the first time. Whilst in our legacy operations we have made excellent progress in carbon reduction the inclusions of a number of acquisitions in recent years means our overall position is flat when comparing 2019 performance against the 2015 baseline year. Over the past year we have continued to develop our long-term carbon reduction roadmap which focuses on efficiency projects in our paper mills. This roadmap is under continual review as we explore new ways to deliver against our long-term carbon reduction commitments.

The long-term nature of paper machinery investments and assets makes consistent annual carbon reduction a challenge. Projects take several years to plan, finance, implement and commission. Our 10-year plans and attracting partners for joint investment are therefore our biggest focus. Energy innovation is key for unlocking future carbon reduction. We continue to be involved in the Future Energies Forum of the Confederation of Paper Industries (CPI).

Waste and recycling

Over the past year our net landfill figures have increased by 2 per cent on a like-for-like basis predominantly due to short-term changes at our Kemsley mill as part of the ongoing investment in combined heat and power (CHP) and energy from waste facilities. We expect this to reduce as the energy from waste facility becomes fully operational. There is however strong underlying performance. Our Kaysersberg and Coullons paper mills have achieved zero waste to landfill during 2019. Our North American packaging operations have reduced landfill waste by 15 per cent.

The major driver behind the increase in waste to landfill in recent years is the continued acquisition and integration of new operations. Including acquisitions, our waste to landfill has increased by roughly 45 per cent in 2019 compared with 2018, driven largely by our Zarnesti paper mill. We have recently commissioned several waste projects at Zarnesti mill and anticipate a very significant reduction in waste to landfill volumes here in the coming year. This challenge highlights how our continued growth through acquisition means we often integrate businesses with lower environmental standards and drive rapid improvements as part of our integration process.

Water stewardship

We are focusing on three areas that we believe will deliver net environmental benefits. They are water efficiency, water stress and water quality.

In the past year in our European operations we reduced water consumption by 2 per cent, with our mills in Witzenhausen, Coullons and Belišće all reducing water consumption by 10 per cent. In the past year we have seen zero major non-conformances with consent to discharge and 100 minor non-conformances. The biggest improvements this year have been seen in North American packaging plants where non-conformances are down by 75 per cent.

Regarding water stress, 24 out of 250 of our sites (four mills and 20 corrugators) are located in current or potentially future water stressed regions according to the World Resources Institute (WRI) tool. 70 per cent of these sites have a mitigation plan in place and we expect to achieve 100 per cent by the end of 2020.

Responsible neighbour

We have achieved our target of 100 per cent of our sites with 50 employees or more engaging in local community programmes in the past year. These activities have been aligned with our strategic aims to reduce environmental impact and to provide education opportunities for young people.

Health and safety and responsible employer

For information on the year's health and safety performance and our ongoing work to be an ever more responsible employer please see pages 24 to 29.

External recognition

We continue to submit to a wide range of highly reputable third-party platforms in order to demonstrate to a range of stakeholders our continued strong sustainability performance. These include:

- **CDP** - Current rating: A- for each of the three assessments (Climate Change, Forests and Water Security)
- **MSCI** - Current rating: A
- **Sustainalytics** - Current rating: 72
- **EcoVadis** - Current rating: Gold
- **FTSE4Good** - Included in the Index since 2012
- **ISS** - Current rating: 'Prime'
- **Circulytics** - Sounding Board member, involved in the development and testing of the most comprehensive circularity measurement tool for companies created by the Ellen MacArthur Foundation
- **LSE Green Economy mark** - Awarded this accreditation
- **UN Global Compact** - Member since 2013

United Nations Sustainable Development Goals

We support the UN Sustainable Development Goals (SDGs), an ambitious plan to create a better world by 2030. We have identified four of the SDGs that are most relevant to our business and an additional seven where we are also making a significant contribution:

SDG 8 - Decent Work and Economic Growth: our commitment to being a responsible employer and neighbour underlines our ethical, labour and employment standards.

SDG 12 - Responsible Consumption and Production: our circular business model ensures that materials stay in use for longer.

SDG 13 - Climate Action: our investments in energy reduction are helping to combat climate change and its impacts.

SDG 15 - Life on Land: our fibre is sourced from sustainably managed forests, protecting and restoring ecosystems.

You can find out more about how we support the SDGs as well as our alignment with the Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB) frameworks in our Sustainability Report.

OUR STRATEGY

To lead the way in sustainability (continued)

Sustainability governance

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

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

DS Smith subscribes to several international standards and guidelines relevant to corporate responsibility and business conduct, including:

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

For more information on our policies, procedures and performance in any of these areas please see our Sustainability Report 2020.

Data

KPI	Unit of measure	2015 (baseline)	2018 (restated)	2019	2019 vs 2018 %	2019 vs 2018 % (like-for-like)	% variance (2019 vs 2015 baseline like-for-like)
Direct (Scope 1) CO_2 emissions	kt CO_2e	1,678	1,758	1,833	+4%	0%	-6%
Indirect (Scope 2) CO_2 emissions	kt CO_2e	355	525	510	-3%	-14%	+12%
Emissions from energy exports	kt CO_2e	348	381	398	+5%	+5%	+11%
Total CO_2e (net energy export)	kt CO_2e	1,686	1,902	1,944	+2%	-5%	-7%
Energy exported	GWh	962	861	910	+6%	+6%	-10%
Total production	kt nsp	8,059	9,204	9,307	+1%	-3%	+4%
Waste to landfill	kt	87	199	289	+45%	+2%	+54%
CO_2e per tonne of production	kg CO_2e/tonne nsp	209	207	209	+1%	-3%	-11%
Energy consumption*	GWh	–	11,835	12,176	+3%	-2%	–

* UK data: 19 per cent for energy consumption and 25 per cent for carbon emissions

Methodology:

1. 2019 (with acquisitions and disposals) data based on data from 254 in-scope sites.
2. 2018 (restated) data based on data from 248 in-scope sites. We have restated this data because we now have more accurate data available for the North American market than we had in 2018, which was the first year of ownership. In 2018, to report our performance it was necessary to estimate some data and we have since closed that gap with real data. This decision was taken to provide a useful comparison to the 2019 numbers reported.
3. Figures from all years are based on data from sites we owned for the entirety of that year. The 2019 (with acquisitions and disposals) data is based on sites we have owned since 1 January 2019. We have included the data from our Plastics business, which we have now disposed of, in both the 2018 and 2019 column.
4. Total production is the sum of printed reels and paper reels from our paper mills; plastics production (all types) from our Plastics sites; recovered fibre and other materials collected and processed through our Recycling depot network; finished wood products from our timber business and boxes and sheets sold to third parties from our Packaging sites and other types of packaging production from these sites.
5. DS Smith collects and reports environmental data in accordance with the guidelines of the Global Reporting Initiative and the Greenhouse Gas Protocol (GHGP).
6. The CO_2e emissions were calculated using the UK DECC 2017 factors for all fuels.
7. Where available, we use the emissions factor for bought electricity from the supplier of energy to our business (Scope 2 Market Value). If this figure is not reported, the country's emissions factor from the IEA is used instead (Scope 2 Location Value). Emissions from national grids use the AIB Residual Grid Emissions Factors for those European countries for which they are available, otherwise they use the previous location emissions factors from the International Energy Agency (IEA) 2017 v1.03 (AR5 Applied).
8. The CHP that supplies our Witzenhausen paper mill with steam is fired predominantly by refuse-derived fuels. The emissions factor for this site has been estimated as 32.77 kg/MWh of CO_2e.
9. The CHP that supplies our Belišće paper mill and corrugator with steam and electricity is fired by a combination of natural gas and flare gas. The emissions factor for flare gas is estimated to be 240 kg/MWh of CO_2e.
10. The waste figures relate to waste generated by our operations; they do not include waste that is collected from external sources for recycling.
11. The 2015 vs 2019 comparison is based on exclusion of all disposals made in the period with the exception of the legacy Plastics Division.

Verification Statement from Bureau Veritas UK Ltd

Bureau Veritas UK Limited (Bureau Veritas) has been commissioned by DS Smith Plc (DS Smith) to provide an independent opinion on the following environmental performance indicators: total energy consumption; total energy exported; Scope 1 and 2 greenhouse gas (GHG) emissions; raw material usage; water consumption; total water effluent; landfill waste; discharge to air and water; and total production, for calendar year 2019. The reporting boundaries cover DS Smith's global operations.

Based on our verification activities and scope of work, nothing has come to our attention to suggest that the reported data does not provide a fair representation of environmental performance across the DS Smith group for the defined period.

A full verification statement including methodology, limitations and exclusions can be found on the DS Smith website at https://www.dssmith.com/company/sustainability/our-environment/performance.

Taskforce on Climate-related Financial Disclosures (TCFD)

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

	Disclosure	Reference
Governance		
Describe the Board's oversight of climate-related risks and opportunities.	Currently disclosed	p 34
Describe management's role in assessing and managing climate-related risks and opportunities.	Currently disclosed	p 34, 58
Strategy		
Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long-term.	Currently disclosed	Website and CDP Climate Change disclosure
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Currently disclosed	Website and CDP Climate Change disclosure
Describe the potential impact of different scenarios, including a 2°C scenario, on the organisation's businesses, strategy, and financial planning.	In progress Plans to disclose in 2021	–
Risks and opportunities		
Describe the organisation's processes for identifying and assessing climate-related risks and opportunities.	Currently disclosed	Website and CDP Climate Change disclosure
Describe the organisation's processes for managing climate-related risks and opportunities.	Currently disclosed	Website and CDP Climate Change disclosure
Describe how processes for identifying, assessing, and managing climate-related risks and opportunities are integrated into the organisation's overall risk management.	Currently disclosed	Sustainability Report
Metrics and targets		
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Currently disclosed	Website and CDP Climate Change disclosure
Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	Currently disclosed	p 34
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Currently disclosed	p 31

This year we have continued to build on our strong governance of climate risks by focusing on short, medium and long-term risks and opportunities. Our process for managing these, including definition of metrics in line with our wider strategy and risk management processes, has been further developed. Aiming for complete disclosure under all TCFD recommendations by 2021, this year we will conduct analysis of the potential impact of various reference scenarios on our business, strategy and financial planning.

More details on our approach to TCFD and climate risk are available on our website and in our Sustainability Report 2020.

OUR STRATEGY

To double our size and profitability

We do this by:

- Driving organic market share gains
- Maximising the opportunities from businesses that we have acquired
- Investing behind growing areas of the corrugated packaging market

Our performance

In 2019/20 we delivered:

- 0.6 per cent like-for-like corrugated box volume growth – ahead of our target
- 70 basis points increase in return on sales margin
- 4 per cent adjusted operating profit growth (constant currency)
- A strengthened European packaging operation with the integration of Europac
- The opening of a new packaging site in Indiana, US

In 2020/21 we will:

- Continue to drive growth through organic investment
- Drive volume growth and profitability of the new packaging site in the US
- Maximise efficiency of operations and procurement

OUR KPIS

Adjusted return on average capital employed[1]

Definition

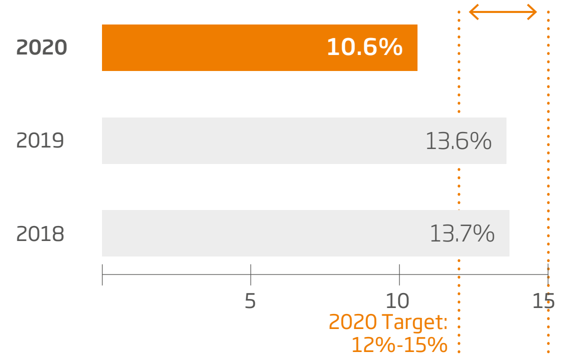
Earnings before interest, tax, amortisation and adjusting items as a percentage of average capital employed, including goodwill, over the prior 12 month period.

Why this is a KPI

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

2020 Performance

In 2020 we achieved a ROACE of 10.6 per cent, under our target range and above our cost of capital. This reflects the expected initial dilutive impact of the two recent and large acquisitions and a disposal: Interstate Resources, for which this year is the second full year of ownership, Europac, for which this year is the first full year of ownership; and the disposal of Plastics, which was completed this year. The current year performance also includes, for the first time, the slight adverse effect of the adoption of IFRS 16 *Leases* of 30 basis points.



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

1. Results for 2020 reflect the adoption of IFRS 16 *Leases*. Comparatives have not been restated – see note 31 to the consolidated financial statements.

Like-for-like corrugated box volume growth

Definition

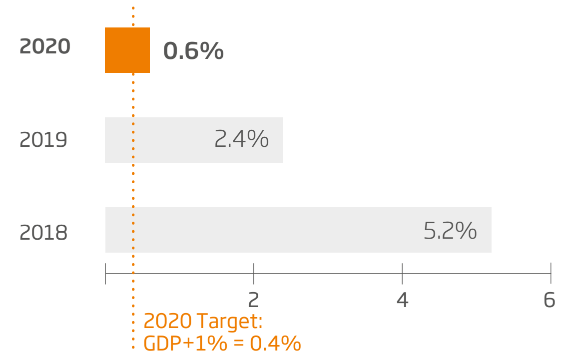
Like-for-like volume of corrugated box products sold (excluding the effect of acquisitions), measured by area.

Why this is a KPI

We target volume growth above GDP because we expect to win market share by delivering value to our customers across their supply chain on a multinational basis.

2020 Performance

In 2020 our corrugated box volumes grew 0.6 per cent, ahead of our target of GDP + 1 per cent (being 0.4 per cent). The +0.6 per cent is the net effect of good growth in the first 11 months of the year and a contraction in April due to the Covid-19 pandemic.



Net debt/EBITDA[1]

Definition

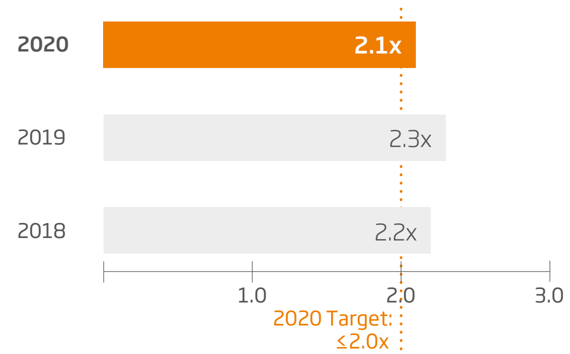
Adjusted net debt (calculated at average FX rates and after deducting IFRS 16 lease liabilities) over earnings before interest, tax depreciation, amortisation, and adjusting items for the preceding 12 month period (adjusted for acquisitions and disposals made during the financial year, and to remove the income effect of IFRS 16 *Leases*). This definition is in accordance with the Group's covenants.

Why this is a KPI

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

2020 Performance

Net debt/EBITDA at 30 April 2020 is 2.1 times. This is a reduction on 2.3 times as at 30 April 2019, driven by the proceeds of the sale of the Plastics business and organic free cash flow growth.



Return on sales[1]

Definition

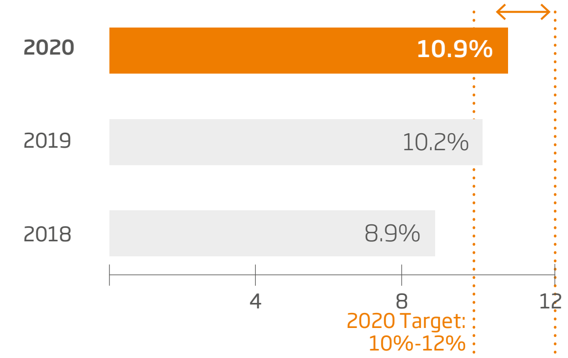
Earnings before interest, tax, amortisation and adjusting items as a percentage of revenue.

Why this is a KPI

The margin we achieve reflects 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.

2020 Performance

In 2020 we achieved a return on sales of 10.9 per cent, around the middle of our upgraded target range and despite the impact of Covid-19 in the final quarter. This performance is due to our drive for more value-added packaging and the benefit of the inclusion for a full year of our Europac business, which has a higher margin on average.



Cash conversion

Definition

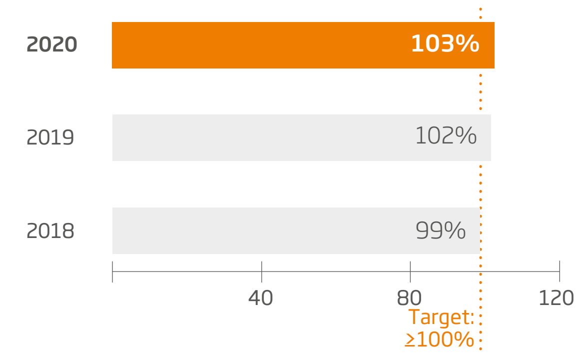
Free cash flow before tax, net interest, growth capex, pension payments and adjusting items as a percentage of earnings before interest, tax, amortisation and adjusting items. Free cash flow is the net movement on debt before cash outflow for adjusting items, dividends paid, acquisition and disposal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

Why this is a KPI

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

2020 Performance

In 2020 we achieved cash conversion in line with our target of 100 per cent or greater.



Operating review

Overview

In 2019/20 we have continued to progress our core business with good volume growth in our key FMCG and e-commerce businesses, which together comprise c. 83 per cent of our corrugated box volumes. Whilst the onset of the Covid-19 global pandemic has caused widespread disruption and economic uncertainty, our business has demonstrated its resilience and the strategic building blocks of the last 10 years ensured we played a key role in all the countries we serve. Our FMCG and e-commerce focus and the flexibility and commitment of all our employees ensured all our factories remained open during the crisis and we were able to support our customers keeping essential supplies, particularly food, drink and pharmaceutical products, available. Whilst this pandemic has clearly had an impact on the momentum within the business it has provided an opportunity to demonstrate both the strength of our business and the resilience of our business model and drive longer-term opportunities. The performance of the European operations, including the integration of Europac, was once again strong whilst our North American business continued to feel the impact of ongoing weakness in the export paper market despite some significant steps taken in the packaging operations, not least the opening, on time and in budget, of our new box plant in Indiana, US.

Performance for the first 10 months of the financial year was robust, with an impact, albeit relatively limited (c. £15 million), in the final two months of the year from the Covid-19 pandemic. 2019/20 has also seen us complete the disposal of our plastic packaging business (for £436 million), reinforcing our focus on sustainable fibre-based packaging, and begin operations in our new build corrugated packaging plant in Indiana, US – both important strategic steps.

Our corrugated box volumes in the first five months of H2 grew as anticipated, significantly ahead of the first half of the year, ahead of the market, and we have delivered record return on sales margins of 10.9 per cent in the middle of our recently upgraded target range. On an organic basis, profit growth in Europe of £7 million was more than offset by reduced profit in North America, down £67 million. The business benefited from the acquisition of Europac, for which this has been the first full year of ownership. Europac has performed very well, with synergies (upgraded last year) realised as expected and the packaging operations are now profitable as planned. Europac has been an exceptional scale opportunity to enhance our customer offer in Iberia, a key packaging growth region, and strengthen our global supply platform, in particular with the addition of a strategically important kraftliner mill.

Covid-19

Since the start of the Covid-19 pandemic our primary focus has been on the health and wellbeing of our c. 30,000 employees, who have responded magnificently to the challenge. Secondly, we have focused on maintaining an uninterrupted supply to our customers, the majority of whom are FMCG companies which are essential in the food supply chain. As such, our factories have generally been classified as essential operations and we are extremely proud that all our paper and packaging sites have remained operational throughout the pandemic to date. New ways of working have been implemented to reflect the latest guidance on safe operations and changes in demand, which has obviously led to some additional costs. We also saw a reduction in our overall box volumes during April and May due to weakness in the industrial customer categories when the crisis was at its peak. We estimate the direct impact to operating profit in 2019/20 to be in the region of £15 million. In the new financial year, the recent spike in OCC is expected to have the largest ongoing impact.

In response to the pandemic, and conscious of the likely global recession in the coming months, we have undertaken measures to reinforce our financial position and ongoing performance through conserving cash and managing costs. Capital expenditure will be reduced by c. 20 per cent from last year, all non-essential expenditure deferred and headcount flexed. Additionally we have taken the extremely difficult decision to postpone payment of dividends until we are clearer on the economic outlook. Our balance sheet remains robust, with substantial headroom on our banking facilities (c. £1.4 billion) and no substantial debt refinancing until 2023.

Strong organic growth momentum

Organic corrugated box volumes have grown 0.6 per cent across the year, reflecting progressive growth from H1 (+0.7 per cent) into H2 (+1.5 per cent period on period for the four months to 29 February 2020), reducing to 1.0 per cent in March 2020 and a fall in April of 4.5 per cent due to the Covid-19 pandemic. The progression in the first four months of H2 was driven by strong growth from the Europac business in Southern Europe, progress versus H1 in the North America packaging business, and continued good performance in Eastern Europe. Growth once again has been particularly strong from our multinational customers, particularly e-commerce, where we continue to take an increased share of their business.

In the final month of the year, April, corrugated box volumes fell by 4.5 per cent overall relative to the comparable period in the prior year. Whilst FMCG and e-commerce categories continued to grow, the industrial sector fell heavily. On a regional basis our Northern Europe region, the largest of our regions by volume, saw volumes increase by 7 per cent in the month, as the pandemic hit later and we benefited, in particular, from our very strong e-commerce customer base. However, we saw a significant negative impact in Southern Europe where the lockdown was particularly extreme and many of our customers remained closed for a significant time period. Eastern Europe saw an 8 per cent fall in volumes in the month as supply chains were emptied and industry disrupted although it has also been quick to rebound with supply chains filling again towards the end of May and through June. In North America, whilst again all our factories remained open, we have seen much more disruption due to significant variations in activity levels between different customers and different states and the April impact was a fall in packaging volumes of c. 16 per cent. Volume progression in May 2020 (compared to May 2019) showed a similar pattern to that in April. Importantly June has seen an improving trend with many customers re-opening production.

The core market growth drivers of e-commerce, consumer and retail channel evolution and plastic substitution are more relevant than ever in the post-Covid-19 environment. In particular, public awareness of the importance of alternatives to plastic packaging has continued to grow over the past 12 months and we have continued to develop corrugated packaging alternatives to take advantage of this opportunity. Our differentiators of scale, innovation, end-to-end solutions and partnership approach continue to resonate with customers as we help them to increase their sales, reduce their costs and manage their risks.

For the full year, revenue (continuing operations) declined 2 per cent on a constant currency basis. There was a positive contribution from European corrugated box volumes (£22 million) and an incremental c. nine month contribution from Europac (which was acquired in mid January 2019) of £376 million, offset in Europe by reduced pricing of external paper, recyclate and box prices, (together down £285 million year on year), and a decline in other volumes, particularly due to increased paper and recyclate integration and some reduction in volumes of corrugated sheet (down £175 million). The reduced sales price across the European operations was driven principally by a fall in testliner and kraftliner pricing, which partly fed through into corrugated packaging pricing progressively through the year as indexed contracts adjusted for the market price of paper, the main input cost. The North America business also recorded a fall in revenue (down £63 million), principally reflecting lower paper prices into the export market.

Operating profit improved 6 per cent (constant currency) to £455 million (2018/19: £427 million). Adjusted operating profit (continuing operations) increased by 5 per cent on a constant currency basis to £660 million (2018/19: £631 million), as we continued to focus on the margin within the business, reflected in a record return on sales for the Group of 10.9 per cent (2018/19: 10.2 per cent).

Despite the challenging economic and pricing environment and the impact of Covid-19 the European business delivered organic growth in profitability of 1.5 per cent. The benefit from our tight control on cost, together with the decline in OCC and paper pricing, reduced our input costs by £321 million, which more than offset the revenue price and mix impact of £280 million described above. Corrugated box volumes contributed £7 million to operating profit, and the decline in other volumes (as described above) contributed a £41 million decline. There was also a positive contribution from the c. nine months additional contribution from Europac which, including synergies of £35 million, returned an incremental £85 million, partially offset by challenging conditions in the North America segment, down £67 million where profitability was impacted by prevailing low export paper prices and the start up costs of the new Indiana site (c. £15 million).

As previously noted we estimate the impact on the financial year 2019/20 from Covid-19 to be approximately £15 million, including direct additional costs such as overtime to cover increased absenteeism, shielding and sanitation costs, increased haulage costs due to restricted labour supply, and a spike in input prices and other costs associated with a sudden shift in demand patterns.

Basic earnings per share for continuing and discontinued operations increased 87 per cent to 38.5 pence (2018/19: 20.6 pence). Adjusted basic earnings per share for continuing operations of 33.2 pence remained in line with the prior year on a constant currency basis (2018/19: 33.3 pence), reflecting the benefit of profit growth, offset by the increase in average number of shares in issue as 2019/20 was the first full year following the rights issue in June 2018.

The resilience of our business

Our corrugated box business is c. 72 per cent weighted by volume to the resilient FMCG sector, with c. 11 per cent comprising other consumer volumes, and the remaining 17 per cent serving industrial customers, such as automotive and chemicals. E-commerce volumes are split across FMCG and the other consumer categories, depending on the product sold. The benefit of this end-customer profile is the resilience of volumes in difficult economic times. This has been borne out by the volume progression seen in the year. FMCG and other consumer, combined, have remained positive throughout the year, with a particular spike in March and April as both FMCG and e-commerce peaked. Industrial had been in decline by mid single digits throughout the year due to general macro-economic factors, and was impacted significantly by Covid-19 in April, down c. 25 per cent, with automotive, for example, down c. 50 per cent in April and electronics down c. 25 per cent. Overall, our business model has delivered as expected, in the context of an unprecedented economic contraction. May has seen a similar rate of volume decline, as the impact of Covid-19 peaks, and we have seen a reduction in the decline in June.

Optimisation programme in paper

Over the last three years, our paper capacity has grown as a proportion of our business, as we have improved our network of high-quality paper mills, both geographically and from a product perspective. Our strategy has consistently been to be 'short' paper, i.e. a net buyer of paper in the market, in order to maintain the consistency of our profitability and accordingly, in 2019, we announced that we would conduct a review in order to optimise our paper operations. While the Covid-19 pandemic has clearly slowed this activity due to practical restrictions, we continue to seek to optimise our footprint and have made substantial progress this year in evaluating assets in our portfolio which are not core to our packaging operations.

Operating review (continued)

At present, DS Smith in Europe is around 80 per cent integrated, and our target remains to reduce integration to towards 60 per cent, in the medium-term.

Dividend

The Board considers the dividend to be a very important component of shareholder returns. On 8 April 2020, in light of the unprecedented uncertainty due to the Covid-19 pandemic, we announced that the Board had decided that it was prudent to not pay the interim dividend due for payment on 1 May 2020, despite our strong liquidity profile and resilient trading to that date. The Board has since considered the overall dividend payment for this financial year and, taking into consideration the interests of all stakeholders, concluded that the outlook remains too uncertain to commit to a resumption of dividend payments in the short-term. Recognising the importance of dividends to all shareholders, the Board will actively consider the resumption of dividend payment, when we have greater clarity over outlook.

Our medium-term targets and key performance indicators

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

As set out above, like-for-like corrugated box volumes grew by 0.6 per cent, ahead of our target of GDP+1 per cent of 0.4 per cent. As described earlier, volume growth has been led by growth in e-commerce and the resilient FMCG customer base, while industrial has been weak. Underlying the segmental performances has been the strong growth of our pan-European customer base, where we continue to grow substantially ahead of the group average, demonstrating the ongoing demand for a high quality pan-European supplier of corrugated packaging, operating on a co-ordinated multinational basis.

Adjusted return on sales increased 70 basis points to 10.9 per cent (2018/19: 10.2 per cent), a record for the Group and in the middle of our target range of 10 to 12 per cent, which had been upgraded from 8 to 10 per cent last year, principally due to the strong performance in Europe which benefited from the positive impact of integrating the Europac business and the delivery of the planned synergies.

Adjusted return on average capital employed (ROACE) is 10.6 per cent (2018/19: 13.6 per cent), below our medium-term target range of 12 to 15 per cent while remaining comfortably above our cost of capital. ROACE is also adversely impacted by 30 basis points from the introduction of IFRS16 *Leases*, and the c. £15 million of direct Covid-19 costs in the period of c. 20 basis points. The reduction was as expected and reflects the recent large acquisitions of Interstate Resources in North America and of Europac in Europe, which are initially dilutive to return on capital, and the very recent disposal of our Plastics business. This pattern was also seen at the time of the SCA acquisition in 2012, where ROACE initially dipped and then built up as the acquisition synergies were fully realised and our expectations are for ROACE to improve into the target range in the medium-term. We maintain a continuous focus on an efficient capital base, in addition to profitability.

Net debt as at 30 April 2020 was £2,101 million (30 April 2019: £2,277 million), with the reduction principally due to the receipt of proceeds for the Plastics business disposal and remedy disposals, net of cash and cash equivalents, of £484 million. Cash generated from operations before adjusting cash items of £889 million was used to invest in net capex of £364 million which included £53 million in relation to Europac. Adjusting items of £53 million primarily related to the acquisition and integration of the new businesses. Net debt/EBITDA (calculated in accordance with our banking covenant requirements) is 2.1 times (2018/19: 2.3 times). This reflects the proceeds from the disposal of the Plastics business, ongoing tight cash management and control throughout the business. With regard to the Interstate put option, we were notified during the year that half of the put option was exercised, and initial settlement took place on 26 June 2020. The Group remains fully committed to its investment grade credit rating.

During the year, the Group generated free cash flow of £354 million (2018/19: £339 million). Cash conversion, as defined in our financial KPIs (note 33), was 103 per cent, in line with our target of being at or above 100 per cent.

DS Smith is committed to providing all employees with a safe and productive working environment. We are pleased once again, for the 11th consecutive year, to report improvements in our safety record, with our accident frequency rate (defined as the number of lost time accidents per million hours worked) reducing by a further 8 per cent from 2.26 to 2.08, reflecting our ongoing commitment to best practice in health and safety. We are proud to report that 265 sites achieved our target of zero accidents this year and we continue to strive for zero accidents for the Group as a whole.

The Group has a challenging target for customer service of 97 per cent on-time, in-full deliveries. In the year we achieved over 95 per cent, which is driven by an underlying improvement in the packaging operations while some more recently acquired parts of the business, while improving, are dilutive to our group average. While there has been improvement, we are still below our target and management remains 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. Other markers of quality such as our defects rate (measured in parts-per-million) have improved significantly, falling 39 per cent in the year.

One key part of the DS Smith strategy is to lead the way in sustainability. Corrugated packaging is a key part of the sustainable economy, providing essential protection to products as they are transported and, at the end of use, it is fully recyclable. Corrugated packaging is also substantially constructed from recycled material. Our Recycling business works with customers across Europe to improve their recycling operations and overall environmental performance. In calendar year 2019, compared to calendar year 2018, on a restated basis to reflect acquisitions, our CO_2 equivalent emissions have reduced by 5 per cent. We have also developed our collaboration with the Ellen MacArthur Foundation in our position as their only packaging Strategic Partner, in line with our corporate Purpose of 'Redefining Packaging for a Changing World'.

Operating review

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

Group

£m	Year ended 30 April 2020	Year ended 30 April 2019	Change - reported	Change - constant currency
Revenue	**£6,043m**	£6,171m	(2%)	(2%)
Adjusted operating profit[1]	**£660m**	£631m	5%	4%
Operating profit	**£455m**	£427m	7%	6%

1. Adjusted to exclude amortisation and adjusting items.

A revenue increase principally from the additional nine month contribution of Europac, offset by a reduction in sales price and mix, resulted in revenue falling 2 per cent to £6,043 million. Operating profit increased by 6 per cent to £455 million due to the inclusion of Europac and the fall in input costs, partially offset by the fall in sales price and mix.

Northern Europe

£m	Year ended 30 April 2020	Year ended 30 April 2019	Change - reported	Change - constant currency
Revenue	**£2,333m**	£2,575m	(9%)	(9%)
Adjusted operating profit[1]	**£219m**	£263m	(17%)	(16%)
Return on sales[1]	**9.4%**	10.2%	(80bps)	(80bps)

1. Adjusted to exclude amortisation and adjusting items.

The Northern Europe division has seen corrugated box volume growth slightly under the Group average for the year, reflecting a consistently good level of growth in the UK and more difficult conditions in industrial customers in Benelux and Germany. The region benefited from additional demand as Covid-19 'lockdown' began in March for FMCG and into April for e-commerce, with overall volumes in e-commerce experiencing double digit growth for the year. This was partially offset by weakness in the industrial market, which fell materially in the final month of the year.

The decline in revenue was largely driven by paper prices and the deflationary impact on box prices as well as a higher level of paper integration in the business and the consequential reduction in external paper sales. The reduction in adjusted operating profit reflects good price retention within the packaging operations, offset by a decline in the profitability of upstream assets due to the decline in the paper price. Return on sales reduced by 80 basis points to 9.4 per cent. The adjusting restructuring costs of £24 million (see note 4 of the consolidated financial statements) were primarily incurred in Northern Europe.

Southern Europe

£m	Year ended 30 April 2020	Year ended 30 April 2019	Change - reported	Change - constant currency
Revenue	**£2,214m**	£2,024m	+9%	+10%
Adjusted operating profit[1]	**£314m**	£186m	+69%	+70%
Return on sales[1]	**14.2%**	9.2%	+500bps	+500bps

1. Adjusted to exclude amortisation and adjusting items.

Volumes in the year have grown across the region, driven by good volume growth in Italy and Iberia, partially offset by more difficult conditions in France. Volumes in the final two months of the year were challenged, with Covid-19 related incremental c. nine months, partially offset by reduced paper reductions due to widespread disruption amongst our customers. Volumes in the Europac business continued to grow well through the year, well ahead of the Group average, reflecting the commercial focus we have applied to the Europac packaging operations since ownership. Revenues grew 10 per cent due to the inclusion of Europac, for an incremental c. nine months, partially offset by reduced paper prices and the deflationary impact on box prices as well as a higher level of paper integration in the business and the consequential reduction in external paper sales.

Adjusted operating profit increased by 70 per cent, reflecting the contribution both from the incremental nine months ownership of Europac and from good price retention in the packaging operations, partially offset by reduced paper prices in the region. Consequently, return on sales increased to above our target range at 14.2 per cent. Adjusting integration costs of £19 million were incurred in respect of Europac (2018/19: £14 million).

Eastern Europe

£m	Year ended 30 April 2020	Year ended 30 April 2019	Change - reported	Change - constant currency
Revenue	**£892m**	£933m	(4%)	(3%)
Adjusted operating profit[1]	**£88m**	£76m	+16%	+17%
Return on sales[1]	**9.9%**	8.1%	+180bps	+170bps

1. Adjusted to exclude amortisation and adjusting items.

Volumes in this region have again been good throughout the period, well ahead of Group growth, with particularly strong performance operations in Poland and the Baltics. Revenues declined by 3 per cent, driven by the decline in packaging pricing partially offset by growing volumes.

Operating review (continued)

Adjusted operating profit increased 17 per cent, reflecting good price retention by packaging operations, only partially offset by the decline in paper prices. As a result, return on sales increased by 170 basis points.

North America

£m	Year ended 30 April 2020	Year ended 30 April 2019	Change – reported	Change – constant currency
Revenue	**£604m**	£639m	(5%)	(9%)
Adjusted operating profit[1]	**£39m**	£106m	(63%)	(65%)
Return on sales[1]	**6.5%**	16.6%	(1,010bps)	(1,030bps)

1. Adjusted to exclude amortisation and adjusting items.

The performance of the North America Packaging and Paper division has been impacted substantially by the decline in the US export paper price, to which approximately a third of paper manufactured is sold. In the corrugated packaging operations, volumes were broadly flat across the year with an improving trend in H2, before a very challenging final month due to Covid-19. The new packaging site in Indiana, US opened on time and to budget at the beginning of the H2 period and is now delivering packaging for customers, increasing volumes in-line with the start-up plan. Full ramp up remains on track to be completed over the next 24 months.

Revenue fell 9 per cent principally due to the fall in the price for exported paper. Adjusted operating profit for the division fell by 65 per cent, largely reflecting the decline in profitability of the paper operations from the export sales pricing and the one-off costs of the Indiana site start-up, offset by the remaining $7 million cost synergies from the acquisition of Interstate, as announced at the time of acquisition, being delivered in the period. As a result, return on sales fell to 6.5 per cent. H2 profitability remained broadly in line with H1, excluding start-up costs relating to the Indiana site and the impact of Covid-19. Adjusting integration costs of £11 million were incurred in respect of Interstate (2018/19: £9 million).

Brexit

The UK left the EU at the start of this calendar year and the transition period is expected to end on 1 January 2021. The UK comprises c. 15 per cent of Group revenue with the majority of our operations in continental Europe. Product for UK customers is largely manufactured within the UK and materials sourced within the UK, and as such we do not expect a substantial disruption in the event of an orderly transition to new trading arrangements between the UK and EU. In the event of a disorderly transition, there could be short-term consequences, for example, disruption to haulage costs, but we would anticipate this effect to be relatively contained. Discussions and planning have taken place with key trading partners to mitigate against any potential disruption to the supply chain.

Outlook

Our business model is resilient, built on our consistent FMCG and e-commerce customer base. In the short-term, however, the impact of Covid-19 on the economies in which we operate is likely to impact volumes to industrial customers and add to operating costs. In particular, infrastructure constraints have driven elevated OCC prices, although we expect the impact to be limited to H1. With the current economic uncertainty, we continue to focus on our employees, our customers, our communities and on the efficiency and cash generation of our business and stopping unessential expenditure.

In the medium-term, the growth drivers of e-commerce and sustainability are as strong as ever. The Covid-19 crisis is also expected to accelerate a number of the structural drivers for corrugated packaging and our scale and innovation led customer offering positions us well and gives us confidence for the future.

Non-GAAP performance measures

The Group presents non-GAAP measures alongside reported measures, in order to provide a balanced and comparable view of the Group's overall performance and position. Non-GAAP performance measures eliminate 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 comprising targets against which compensation is determined. Amortisation relates primarily to customer contracts and relationships arising from business combinations. Unusual or non-operational items include business disposals, restructuring and optimisation, acquisition related and integration costs, and impairments, and are referred to as adjusting items.

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

Note 33 of the consolidated financial statements explains further the use of non-GAAP performance measures and provides reconciliations as appropriate to information stemming directly from the financial statements. Where a non-GAAP measure is referred to in the review, the equivalent measure stemming directly from the financial statements (if available and appropriate) is also referred to.

FINANCIAL REVIEW

Strong performance demonstrating resilience

"Whilst this unparalleled economic disruption had an impact on overall box volume growth, it also demonstrated the resilience of the business and the past strategy of building the business model around FMCG customers and taking a leadership position in e-commerce packaging solutions."

– **Adrian Marsh,** Group Finance Director

Overview

2019/20 presented a variety of economic challenges, yet despite these, the overall performance of the Group has been strong. After achieving record profitability and return on sales in the first half, the second saw European box volumes growing steadily through Christmas and the new calendar year, as well as the start-up of the new box plant in North America, on time and in budget. The start-up losses for this new facility were in line with forecasts and a good early sales pipeline is being realised. The fourth quarter was completely overshadowed by the impact of the global Covid-19 pandemic on our customers in Europe and North America. Whilst this crisis required radical changes to working practices for office and factory-based employees, the business continued without interruption to provide essential products and services to our customers in all regions, a tribute to everyone concerned.

The integration of Papeles y Cartones de Europa, S.A. (Europac), acquired in January 2019, continued to make excellent progress, with the packaging segment of the acquisition benefiting from the Group's established manufacturing and commercial best practice programmes.

Net proceeds from completion of the sale of the Plastics business of £422 million were received in February 2020 and used to contribute towards de-leveraging in the period.

During this significant period of macro-economic uncertainty, the Group remains committed to achieving its medium-term financial measures and key performance indicators, as established by the Board. The reported results do not make any adjustments for the impact of Covid-19 and these are described on page 45.

- Revenue down 2 per cent on a constant currency and reported basis to £6,043 million (2018/19: £6,171 million)
- Adjusted operating profit before adjusting items and amortisation of £660 million, an increase of 5 per cent on a reported basis and 4 per cent on a constant currency basis (2018/19: £631 million)
- 7 per cent growth in operating profit to £455 million on a reported basis; 6 per cent growth on a constant currency basis (2018/19: £427 million)
- 5 per cent growth in profit before tax to £368 million on a constant currency and reported basis (2018/19: £350 million)
- Organic corrugated box volume growth of 0.6 per cent (2018/19: 2.4 per cent)
- Growth in adjusted return on sales of 70 basis points to 10.9 per cent (2018/19: 10.2 per cent)
- Adjusted return on average capital employed of 10.6 per cent (2018/19: 13.6 per cent)
- Net debt to EBITDA ratio of 2.1 times (2018/19: 2.3 times)
- Cash conversion 103 per cent (2018/19: 102 per cent).

Financial review (continued)

Unless otherwise stated, the commentary below references the continuing operations of the Group. Comparatives have been re-presented following the finalisation of the acquisition accounting for Europac and to disclose lease liabilities separately. There have been no other restatements following the adoption of IFRS 16 *Leases*.

Trading results

Revenue decreased by 2 per cent on a reported basis to £6,043 million (2018/19: £6,171 million), driven by a reduction in selling prices realised on packaging sales reflecting the decline in paper price benchmarks during the year, the impacts of paper and recyclate prices in Europe and the export pricing of paper from North America, which were partly offset by volume growth and the impact of a full year of Europac trading results, which contributed £376 million in incremental revenues in the year. Revenues have also decreased as a result of greater integration of paper produced in the Group's own paper mills into the Group's European box plants, thereby decreasing the volume of paper sold on the external market and the volume of paper purchased on the open market.

Reported revenues are subject to foreign currency translation effects. In the year, the euro accounted for 59 per cent of Group revenue. As such, the movements of the euro against sterling during the year constituted the majority of the £3 million of negative revenue currency impact. On a constant currency basis, revenues decreased by 2 per cent.

Corrugated box volume growth of 0.6 per cent (2018/19: 2.4 per cent growth) was adversely impacted in the fourth quarter by the enforced closure of a number of customer facilities across Europe following the global outbreak of the Covid-19 pandemic. Whilst this unparalleled economic disruption had an impact on overall box volume growth, it also demonstrated the resilience of the business and the strategy of building the business model around FMCG customers and taking a leadership position in e-commerce packaging solutions. The Group target of volume growth of GDP+1 per cent was achieved, with GDP (weighted by the countries we operate in) estimated at -0.6 per cent for the 12 months to April 2020, considerably influenced by the last month. As a Group, c. 72 per cent of our corrugated box volumes are sold to FMCG customers, substantially ahead of the industry average, an indicator that the continued development of tailored and innovative packaging solutions is regarded as a differential offering in the market.

Operating profit increased to £455 million, a 6 and 7 per cent growth on a constant currency and reported basis, respectively (2018/19: £427 million). The business benefited from a strong performance of the Packaging business in balancing various commercial factors, including the headwinds of cost inflation prior to Covid-19 and the tailwinds of lower paper prices. In addition, the strong focus on value-added packaging and the benefit of a full 12 months' contribution from the Europac acquisition of £85 million more than offset the reduced margins in North America from lower pricing for exported paper and the start-up costs associated with the commissioning of the new facility in Indiana, US.

Growth in adjusted operating profit of 5 per cent to £660 million on a reported basis (2018/19: £631 million) is largely attributed to the strong contribution from Europac which, after a successful integration, is on track to deliver synergy benefits in line with targets. The adoption of IFRS 16 *Leases* improved adjusted operating profit by £8 million. Adjusted operating profit grew 4 per cent on a constant currency basis.

Excluding Europac, the impact on profit from higher European box volumes (£7 million) and the net benefit of commercial programmes (£41 million) were partially offset by lower other volumes (£41 million). The Group manages its exposure to fluctuations in input costs through the combined efforts of operations, commercial, finance and procurement teams and continued capital investment targeting production efficiencies.

Depreciation increased to £296 million on a reported basis (2018/19: £189 million), representing a £72 million increase owing to the adoption of IFRS 16 *Leases*, the impact from a full year of ownership of the Europac business, and the depreciation of additional capital commissioned during the year to support the Group's growth programme. Before adjusting items, amortisation increased by £29 million to £143 million, principally due to the amortisation of acquired intangible assets associated with the Europac acquisition.

In the prior year, the Group raised the medium-term adjusted return on sales margin target to 10 to 12 per cent. With the continued focus on margin recovery through commercial disciplines and ongoing cost management and efficiency programmes, adjusted return on sales grew 70 basis points to 10.9 per cent (2018/19: 10.2 per cent). This is regarded as a strong performance during a year where the Group faced a variety of economic challenges, including the unprecedented Covid-19 impact. The adoption of IFRS 16 *Leases* resulted in a marginal 10 basis points improvement.

The return on average capital employed (ROACE) decreased to 10.6 per cent (2018/19: 13.6 per cent), impacted by the prior year acquisition of Europac. The adoption of IFRS 16 *Leases* reduced ROACE by 30 basis points. Although the ROACE falls below the target set by the Board of 12 to 15 per cent, the rate remains above the Group's cost of capital.

Income statement – from continuing operations (unless otherwise stated)	**2019/20 £m**	2018/19[1] £m
Revenue	6,043	6,171
Adjusted operating profit[2]	660	631
Operating profit	455	427
Adjusted return on sales[2]	10.9%	10.2%
Net financing costs	(87)	(71)
Share of profit of equity-accounted investments, net of tax	7	9
Profit before income tax	**368**	**350**
Adjusted profit before income tax[2]	**580**	**569**
Adjusted income tax expense[2]	(125)	(127)
Adjusted earnings[2]	**455**	**442**
Basic adjusted earnings per share[2]	33.2p	33.3p
Profit from discontinued operations, net of tax	237	12
Profit for the year attributable to owners of the parent (including discontinued operations)	527	274
Basic earnings per share from continuing and discontinued operations	38.5p	20.6p
Basic earnings per share	21.2p	19.7p

1. Comparatives have not been restated following the adoption of IFRS 16 *Leases*.
2. Adjusted to exclude amortisation and adjusting items (see note 4 to the consolidated financial statements).

Covid-19

The Group's operations across all its regions were affected throughout the fourth quarter by the Covid-19 pandemic. As an essential supplier for critical supply chains in areas such as FMCG food and pharmaceuticals, the Group's sites remained fully operational throughout the period. Whilst the Group benefited from improved volumes in certain sectors and regions, overall box volumes declined by a low, single-digit percentage. Inventory on hand mitigated the increase in material costs in March, however the disruption to waste collections during lockdown has seen increased prices for OCC realised from April. Together with directly identifiable additional cash costs in labour, cleaning and protective equipment, offset by some government support, the overall impact of Covid-19 was a reduction in operating profit by c. £15 million. Group working capital performance remained resilient, in particular around receivable collections. The postponement of the 2019/20 interim dividend did not impact year end debt due to the planned date of payment being May 2020. Management's response in respect of planning for the coming year and beyond is set out the going concern and viability disclosures on pages 53 to 55.

Adjusting items

Adjusting items before tax and financing costs were £62 million (2018/19: £90 million).

The costs primarily consisted of ongoing integration programmes relating to acquisitions made in prior years of £30 million (2018/19: £27 million). Of these, £19 million relates to the Europac integration programme, including costs to deliver synergy projects implemented during the year, IT operational costs and site rebranding, and £11 million related to the North American integration programme, which includes the establishment of a shared service centre in that region and the recognition of an onerous contract provision. Merger and acquisition-related costs of £10 million (2018/19: £32 million) were incurred, being predominantly professional advisory fees, and contractual deferred consideration payments on prior year acquisitions.

Restructuring costs of £24 million principally relate to a material restructuring in Germany and a holistic review of the underlying, indirect cost base of the European packaging business. Impairment costs of £4 million have been recognised as a consequence of specific restructuring programmes in Europe.

Gains on acquisitions and divestments from continuing operations of £6 million were obtained through the completion of the Europac remedy disposals in June 2019.

Within discontinued operations, net profit after tax on the disposal of the Plastics business was £230 million, after costs incurred to complete the sale (including directly-attributable staff costs and legal and professional advisory fees) and other related costs.

Adjusting items before tax and financing costs in the 2020/21 financial year are estimated to be c. £50 million.

Interest, tax and earnings per share

Net finance costs were £94 million (2018/19: £86 million). The increase of £8 million on last year is primarily a result of the inclusion of finance costs on lease liabilities, due to the adoption of IFRS 16 *Leases*. The employment benefit net finance expense of £3 million has remained at a similar level to the prior year.

Adjusting financing costs of £7 million (2018/19: £15 million) contain an element of the unwind of the Interstate Resources put option and have reduced compared to the prior year due to acquisition finance costs related to the Europac acquisition in 2018/19.

The share of profits of equity-accounted investments was £7 million (2018/19: £9 million).

Financial review (continued)

Profit before tax increased by 5 per cent on a reported basis to £368 million (2018/19: £350 million), due to increased operating profit, partly offset by an increase in amortisation and financing costs and a decrease in share of results of associates. Adjusted profit before tax of £580 million (2018/19: £569 million) grew 2 per cent on a reported basis, owing to an increase in the underlying adjusted operating profit.

The tax charge of £78 million (2018/19: £88 million) reduced due to one-off benefits following the restructuring of financing activities and a separate claim in the US, partially offset by increased adjusted profits and provisions recognised in relation to uncertain tax positions. The Group's effective tax rate on adjusted profit, excluding amortisation, adjusting items and associates was 22.0 per cent (2018/19: 22.8 per cent). The tax credit through adjusting items was £14 million (2018/19: £13 million).

Profit for the year from discontinued operations until the date of completion of the sale was £237 million after tax (2018/19: £12 million) and includes the £230 million net after tax gain on sale and £7 million from pre-completion trading.

Reported profit after tax, amortisation and adjusting items was £527 million (2018/19: £274 million).

The growth in the operating profit drove an 8 per cent increase in basic earnings per share on a reported basis, to 21.2 pence (2018/19: 19.7 pence), with adjusted earnings per share remaining flat at 33.2 pence (2018/19: 33.3 pence). Total earnings per share, including discontinued operations, were 38.5 pence (2018/19: 20.6 pence).

Acquisitions and disposals

In recent years, the Group's strategy has focused on growth in order to support our global customers in more regions in which they operate. Throughout 2019/20, the Group continued to successfully integrate earlier acquisitions, including Europac in Iberia and Corrugated Container Corporation in North America, both acquired in 2018/19 and Interstate Resources in North America, acquired in 2017/18.

The Group announced the completion of the sale of the Plastics business on 27 February 2020 for net cash proceeds after transaction adjustments and expenses of £422 million, delivering a profit on disposal, after tax of £230 million. The sale reinforces the Group's strategic desire to lead the way in sustainability and is a key step within the Group's deleveraging and organic cash flow delivery programmes. Additional net proceeds of £62 million (including the finalisation of the completion accounts mechanism payment, settled in January 2020) were realised from the completion of the Europac acquisition remedy disposals of three operations across Portugal and north-west France, as announced in the prior year.

During the year, the Group agreed to the purchase of a further 10 per cent holding in Interstate Resources for £106 million, following the exercise of part of the pre-existing put option by the former owners of that business. A cash settlement of £82 million was made in June 2020 with the balance to be paid in October 2021. The final 10 per cent stake remains subject to the put option conditions.

Cash flow

Reported net debt of £2,101 million (30 April 2019: £2,277 million) has decreased from the prior year, driven by higher cash inflows from operating activities, the proceeds from the sale of the Plastics business and completion of the Europac remedy disposals, partially offset by the recognition of lease liabilities following the adoption of IFRS 16 *Leases* at the beginning of the year of £242 million. The definition of adjusted net debt defined by the Group's banking covenants excludes IFRS 16 lease liabilities.

Net working capital outflows of £30 million are driven by the reduction in paper and input prices during the year, which ultimately decreased trade payables and the value of inventory, and a reduction in factored receivables of £97 million. Improved cash collections and inventory management across the Group partially offset the net outflow, along with the reduction in trade receivables owing to the decreased average selling prices for packaging products.

Net capital expenditure after proceeds from disposals increased by £75 million to £364 million in the year, principally due to the construction of the new greenfield site in Indiana, US and investment in the Europac business to support synergy delivery. The Group continued to focus on growth and efficiency capital projects, which represented 55 per cent of the reported spend in the year. Proceeds from the disposal of property, plant and equipment were £12 million (2018/19: £14 million), generating profits of £2 million (2018/19: £4 million). Given the uncertainty in the global economic outlook for the next year, capital expenditure is expected to decrease to c. £300 million as part of the Group's cash management strategy during this unprecedented time.

Net interest payments of £77 million increased by £16 million over the prior year, reflecting the impact of the adoption of IFRS 16 *Leases* of £12 million. The balance is principally comprised of interest on the euro medium-term notes, with amortisation of debt issue and other finance costs accounting for the majority of the difference between the cash interest paid and finance costs reported in the income statement.

Cash outflows associated with adjusting items decreased by £40 million to £53 million, and include restructuring and integration costs. The current year reduction is driven by a decrease in merger and acquisition costs incurred in the prior year primarily in relation to the Europac acquisition. Net proceeds from the disposal of the Plastics business and the Europac remedy disposals were £480 million (net of small acquisition-related payments).

There were no new acquisitions made during the year.

Total dividend payments of £222 million relating to the 2018/19 interim and final dividends were made during the year.

Cash generated from operations before adjusting cash items increased by £115 million to £889 million, with net cash inflow of £561 million, a £2,006 million increase on prior year, driven by the proceeds from disposals in the current year compared to significant acquisition costs related principally to Europac in the prior year.

Cash flow	2019/20 £m	2018/19 £m
Cash generated from operations before adjusting cash items	889	774
Capital expenditure (net of disposal of fixed assets)	(364)	(289)
Tax paid	(94)	(85)
Net interest paid	(77)	(61)
Free cash flow	**354**	**339**
Cash outflow for adjusting items	(53)	(93)
Dividends	(222)	(187)
Acquisitions and disposals of businesses, net of cash and cash equivalents	480	(1,498)
Other	2	(6)
Net cash flow	**561**	**(1,445)**
Issue of share capital	2	1,006
Loans and borrowings divested/ (acquired)	2	(204)
Foreign exchange, fair value and other movements	(118)	49
Net debt movement – contining operations	**447**	**(594)**
Net debt movement – discontinued operations	(29)	(3)
IFRS 16 right-of-use obligation at 1 May 2019	(242)	–
Opening net debt	(2,277)	(1,680)
Closing net debt	**(2,101)**	**(2,277)**

Statement of financial position

At 30 April 2020, shareholder funds increased to £3,350 million, from £3,111 million in the prior year. Profit attributable to shareholders of £527 million contributed to the growth (2018/19: £274 million), which was partly offset by a net change in cash flow hedges of £31 million (2018/19: £29 million gain), actuarial losses on employee benefits of £46 million (2018/19: £62 million loss), the reclassification of foreign exchange on divestment of Plastics of £30 million and dividends paid of £222 million (2018/19: £187 million). Equity attributable to non-controlling interests remained consistent with that reported in the prior year, at £1 million.

The Group's bank and private placement debt covenants stipulate the methodology upon which the net debt to adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) ratio is to be calculated. Factored receivables, and the effects of IFRS 16 *Leases*, adopted since 1 May 2019, are excluded from the ratio's determination. The net proceeds obtained through the sale of the Plastics business, along with the Europac remedy disposals, has resulted in a decrease in the ratio to 2.1 times, down from 2.3 times at 30 April 2019. The ratio remains compliant with the covenant requirements, which at the year end specified a maximum ratio of net debt to EBITDA of 3.25 times. Subsequent to the year end, on 26 June 2020, the banking covenant was permanently amended to 3.75 times. As the exercise of the first tranche of the Interstate Resources put option was yet to be settled at 30 April 2020, this has not been factored in to the calculated ratio. If the exercise of the 20 per cent stake subject to the put option was included, the ratio would increase to c. 2.3 times. The Groups publicly traded euro and sterling bonds are not subject to any financial covenants. The bonds are, however, subject to a coupon step up of 125 basis points for any period the Group falls below an investment grade credit rating.

The Group is also compliant with a second covenant requiring an EBITDA to net interest payable ratio of not less than 4.50 times.

The covenant calculations also exclude income statement items identified as adjusting by the Group and any interest arising from the defined benefit pension schemes. At 30 April 2020, the Group has substantial headroom under its covenants, with the future outlook assessed as part of the going concern review on pages 54 and 55. The Group's investment grade credit rating from Standard and Poor's remains stable at BBB-, which takes into account all the items excluded from covenant calculations and working capital.

The Group adopted IFRS 16 *Leases*, from 1 May, which required the recognition of right-of-use assets and corresponding lease liabilities which, at 30 April 2020, had net carrying values of £256 million and £255 million, respectively.

The fair valuation exercise following the acquisition of Europac was completed during the year, the results of which are reflected in the reported property, plant and equipment at 30 April 2020 and, where material, re-presented in the 2018/19 comparative balances. There were no subsequent updates to the intangible asset valuation which was completed ahead of the 30 April 2019 reporting date.

Financial review (continued)

Statement of financial position	2019/20 £m	2018/19 £m[1]
Intangible assets	3,197	3,262
Property, plant and equipment	3,042	2,934
Right-of-use assets	256	–
Inventories	518	584
Trade and other receivables	772	923
Cash and cash equivalents	595	382
Assets held for sale	3	237
Other	242	189
Total assets	**8,625**	**8,511**
Bank overdrafts	(90)	(129)
Borrowings	(2,398)	(2,615)
Trade and other payables	(1,723)	(1,871)
Provisions	(70)	(33)
Employee benefits	(199)	(170)
Lease liabilities	(255)	(10)
Liabilities classified as held for sale	–	(93)
Other	(539)	(478)
Total liabilities	**(5,274)**	**(5,399)**
Net assets	**3,351**	**3,112**
Net debt	**2,101**	**2,277**
Net debt to EBITDA ratio	**2.1x**	**2.3x**

1. The 2018/19 comparatives have been re-presented for finalisation of the Europac acquisition accounting during the year and to show lease liabilities separately.

Energy costs

Production facilities, in particular paper mills, are energy-intensive, therefore energy costs are significant for the Group. In 2019/20, costs for gas, electricity and other fuels, net of periodic local incentives, were £318 million (2018/19: £318 million). The increased consumption in the year owing to a full 12 months of ownership of Europac was partially offset by a reduction in market prices for natural gas during the period. The Group continues to invest in energy efficiency projects and limits the exposure to volatile energy pricing by hedging energy costs with suppliers and financial institutions, managed by the Group's Energy Procurement team.

Capital structure and treasury management

In addition to its trading cash flow, the Group finances its operations using a combination of borrowings, property and equipment leases, shareholders' equity and, where appropriate, disposals of non-core businesses. The Group's funding strategy is to achieve a capital structure that provides an appropriate cost of capital whilst providing the desired flexibility in short and medium-term funding to enable the execution of material investments or acquisitions, as required.

The Group aims to maintain a strong balance sheet enabling significant headroom within the financial covenants and to ensure continuity of funding by having a range of maturities from a variety of sources. The Group has an investment grade rating from Standard and Poor's of BBB – stable outlook.

The Group's overarching treasury objective is to ensure sufficient funds are available for the Group to execute its strategy and to manage the financial risks to which the Group is exposed.

In November 2018, the Group signed a £1.4 billion five year committed syndicated revolving credit facility (RCF) with its core banks. The first extension option was exercised in November 2019 taking the maturity to 2024 with one further extension option available.

Available cash and debt facilities are reviewed regularly to ensure sufficient funds are available to support the Group's activities. At 30 April 2020, the Group's committed facilities totalled £3.8 billion, of which £1.4 billion remained undrawn and £3.7 billion matures beyond one year or more. Undrawn committed borrowing facilities are maintained to provide protection against refinancing risk. Committed facilities acquired with Europac of €206 million were repaid and cancelled during the year.

At 30 April 2020, the committed borrowing facilities had a weighted average maturity of 4.5 years (30 April 2019: 4.6 years). Additional detail on these facilities is provided below. Total gross borrowings at 30 April 2020 were £2,398 million (30 April 2019: £2,615 million). The committed borrowing facilities described do not include the £492 million of three-year committed factoring lines, which allow the sale of receivables without recourse. In November 2019, the Group established a €1 billion Euro Commercial Paper Programme. At 30 April 2020, the programme was undrawn due to the positive cash position in the Group.

Trade receivables have been sold without recourse by the Group for many years. Upon realisation, the trade receivable is de-recognised, with proceeds presented within operating cash flows. Such arrangements have systematically reduced early payment discounts, thereby providing the Group with more economic alternatives to facilitate the timely receipt of monies owed. The facilities utilised are generally committed for three years and are not relied upon by the Group for liquidity management purposes.

The balance of trade receivables sold as part of the factoring programme decreased £97 million to £428 million at 30 April 2020 (30 April 2019: £525 million).

Facilities	Currency	Maturity Date	£ million equivalent
Syndicated RCF 2018	Various	2024	1,400
Euro medium-term notes	EUR	2022-26	1,608
Sterling bond medium-term note	GBP	2029	250
Euro term loans	EUR	2021-22	182
Euro private placement	EUR	2020	51
US dollar private placement	USD	2020-22	246
Euro term loan	EUR	2025	38
Committed facilities at 30 April 2020			**3,775**

Impairment

The net book value of goodwill and other intangibles at 30 April 2020 was £3,197 million (30 April 2019: £3,262).

IAS 36 *Impairment of Assets* requires annual testing of goodwill and other intangible assets, as well as an assessment any other assets for which there may be indicators of impairment. As part of this testing, the Group compares the carrying amount of the assets subject to testing with the higher of their net realisable value and value-in-use to identify whether any impairment exists. The asset or group of assets value-in-use is determined by discounting the future cash flows they expect to generate by the assumed pre-tax discount rate of 9.5 per cent, which represents a basic weighted average cost of capital (WACC) of 8.8 per cent, plus a blended country risk premium of 0.7 per cent. Asset values were tested as at 30 April 2020, with no impairment identified as a result of the testing performed.

Pensions

The Group's primary funded defined benefit pension scheme, based in the UK, is closed to future accrual. There are a variety of other post-retirement and employee benefit schemes operated locally for overseas operations, and an additional unfunded scheme in the UK relating to two former directors which is secured against assets of the UK business. In accordance with IAS 19 *Employee Benefits (Revised 2011)*, the Group is required to make assumptions surrounding rates of inflation, discount rates and current and future life expectancies, amongst others, which could materially impact the value of any scheme surplus or liability. A material revaluation of the relevant assets and liabilities could result in a change to the cost to fund the scheme liabilities recognised through the income statement and, as such, the assumptions applied are subject to periodic review.

A summary of the balance sheet position as at 30 April is as follows:

	30 April 2020 £m	30 April 2019 £m
Aggregate gross assets of schemes	1,164	1,102
Aggregate gross liabilities of schemes	(1,363)	(1,272)
Gross balance sheet deficit	199	170
Deferred tax assets	45	37
Net balance sheet deficit	154	133

The increase in the deficit is driven largely by the impact of Covid-19 on underlying discount rate assumptions at 30 April 2020, driving variations in the valuation of the scheme liabilities, as well as the outcome of the updated triennial valuation of the main UK scheme, conducted at 30 April 2019. This is partially offset by an increase in the main UK scheme asset values which, as part of the investment strategy, are closely aligned to the movement in liabilities.

The 2019 triennial valuation of the main UK scheme incorporated updates to underlying scheme assumptions, including demographic and life expectancy rates, which, along with updates surrounding mortality and proportions married assumptions and future improvements, resulted in a net c. 2 per cent increase in the valuation of the scheme liabilities. No changes were made to the previously approved funding plan following the triennial valuation.

Total cash contributions paid into the Group pension schemes, reported within cash generated from operations in the cash flow, were £20 million in 2019/20 (2018/19: £20 million), which primarily constitutes £19 million towards the agreed contributions under the UK defined benefit scheme deficit recovery plan (2018/19: £19 million).

Financial review (continued)

IFRS 16 *Leases*

The Group adopted IFRS 16 *Leases* at 1 May 2019, electing to apply the modified retrospective approach with practical expedients. As such, comparative amounts have not been restated and continue to present lease accounting as previously required under IAS 17 *Leases*.

The Group's most significant leased assets are property and production equipment. On transition, right-of-use lease liabilities for continuing operations of £242 million were recognised, along with a corresponding increase in right-of-use lease assets of £239 million, the latter reflecting the effects of related onerous lease provisions.

The indicative impact of the adoption of IFRS 16 *Leases* disclosed in the pre-transition 30 April 2019 Annual Report was a right-of-use asset and corresponding liability of c. £235 million. As a result of the implementation finalisation, particularly in recently acquired businesses and the finalisation of accounting judgements around lease terms, the final adjustments to the previously disclosed estimate are as follows:

	£m
Non-cancellable operating lease rentals reported as at 30 April 2019	259
Additional commitments recognised in final implementation, including extension options reasonably certain to be exercised (undiscounted)	30
Other, including leases outside the scope of IFRS 16 *Leases* (undiscounted)	(7)
Impact of discounting liability under IFRS 16 *Leases*	(40)
Lease liability recognised on transition to IFRS 16 at 1 May 2019	**242**
Onerous lease provision impact	(3)
Lease asset recognised on transition to IFRS 16 at 1 May 2019	**239**

An increase in depreciation expense of £72 million and interest expense of £12 million, the latter recognised within finance costs, have replaced what was previously reported as an operating lease expense. Further information on the adoption of the new accounting standard is provided in note 31 to the consolidated financial statements.

At 30 April 2020, the adoption of IFRS 16 *Leases* has had the following impact on the Group's reported results:

Right-of-use assets	Increase	£256 million
Net debt	Increase	£249 million
EBITDA	Increase	£80 million
Profit before tax	Decrease	£4 million
Return on average capital employed (ROACE)	Decrease	30 bps

Right-of-use liabilities are currently excluded from the definition of adjusted net debt within the Group's banking covenant requirements. Similarly, adjusted EBITDA is calculated prior to the effects of IFRS 16 *Leases* and, as such, for the calculation of the net debt to EBITDA ratio, an adjustment is made to reflect the former IAS 17 *Leases* accounting basis on the calculation. Further information is provided in note 33 to the consolidated financial statements.

Discontinued operations

During the year, the sale of the Plastics business was successfully completed, with the trading results up until the date of the sale's completion, as well as the profit on sale, reported as a discontinued operation within the consolidated income statement. The consolidated statement of cash presents a single amount of net cash flow from discontinued operations.

PRINCIPAL RISKS

Emphasising our value by how we manage risk

Our Group risk policy

Our Group risk policy continues to provide the framework to ensure there is a common understanding of risk management practices across all divisions within the Group. It ensures we identify, measure and make informed decisions to manage the specified risks as part of our annual corporate planning process. The policy also provides our management executive team assurance that there is a robust process to evaluate and accept those risks that we believe we have the capacity, know-how and experience to manage; or to understand and tolerate those risks that we cannot influence; in order to realise the potential opportunities for growth and development.

Changes in 2019/20

With member changes to the composition of the Board, Audit Committee and Group Operating Committee (GOC) during 2019/20, the opportunity has been taken to review and further improve the risk process to obtain better quality output from the corporate planning process and year-end risk assessments. Changes include:

- Simplified assessment of downside risk and associated controls
- Greater focus on the risk reward assessment of key initiatives that are set out in the corporate plan
- Stronger emphasis on identifying the specifics of key risk factors, including improved descriptions of key risks
- Additional training of our governance and compliance teams on business risk management.

Risk governance

The Group continues to strengthen the relationship between its strategic priorities and day-to-day risk management activities. It does this through a governance framework that remains robust and unchanged in the past year, which has also proven pivotal in managing the business impacts of the unprecedented Covid-19 pandemic. In summary:

- The Board sets out the Group's risk appetite annually, based on the level of risk it is willing to accept in pursuit of corporate targets. The Group's defined risk appetite is the translation of its strategy into explicit statements on the level of risk it is willing to take
- This risk strategy and the setting of objectives is executed by the GOC with oversight from the Audit Committee and Board
- Our GOC, management committees and specialist Group functions provide guidance to the businesses on how to better integrate risk management processes into day-to-day activities
- Risk management is undertaken at all levels within the Group to support its growth and performance aspirations.

The Group's risk policy sets out how this translates into the annual governance cycle and couples with our internal audit cycle.

Report on our principal risks

2019/20 was a year where our confidence in the fundamentals of our Group's portfolio remained strong, with opportunities arising from the innate circularity of our operations, growing interest in plastic-substitution packaging, our design-led value creation and ability to simplify the way our customers engage with us throughout our network. Our ability to continue to operate and serve our customers during the Covid-19 pandemic also provided reassurance that our corporate plan is resilient and our operations have a strong and relevant purpose to meet customer needs. Despite these positives, we have recognised the external challenges that exist in key risk areas that can disrupt or delay the results of our efforts and our ability to remain on our strategic path. One example is the negative impact the pandemic has had, and continues to have, on industrial production and therefore demand for our industrial packaging solutions. We continue to assess the short and longer-term impacts of Covid-19 to ensure our risk management efforts are supported with appropriate and timely levels of investment.

Like many other businesses we are subject to general risks such as changes in socio-economic conditions, political, financial, regulatory and legislative changes. Our principal risks and uncertainties are those that may have the greatest impact on our key priorities when assessed by considering our controls on a net risk basis. They have been discussed at Audit Committee meetings during 2019/20. They are summarised with details of our key mitigating activities on pages 56 to 59.

Risks identified

Our risks continue to follow a similar theme to previous years, with 13 principal risks being identified across strategic, operational, financial, legal, technology and talent risk categories. Changes compared to 2018/19 are focused around the following risk areas:

- Structural governance and organisation flexibility
- Skills and capabilities of our workforce
- Implications of cyber attacks on our information technology and operational technology systems
- Reduction in acquisition activity, demoting the risk
- A closer focus on the implications of the cyclical nature of paper prices (paper for recycling and corrugated case material)
- Increased regulatory risk and scrutiny.

PRINCIPAL RISKS

Emphasising our value by how we manage risk (continued)

Risks assessed

This year's risk assessment highlighted that despite a growing number of strategic priorities targeted at mitigating the effects of our principal risks, four risks remain most severe or most likely to disrupt our plans. This is where we have an increasing area of focus to ensure our corporate plan remains robust and that our mitigation efforts remain effective:

- Macro-economic and political environments in Europe and the broader world economies continue to be a prominent risk given the international nature of our supply chain, the competitive nature of the markets within which we operate and the effects of Covid-19 with the expected contraction of many economies over the short-term
- Volatile paper price cycles continue to put pressure on our integrated paper and packaging business model and our ability to recover input costs at appropriate margins
- Disruptive behaviours in our chosen markets can materially affect the supply of critical materials and create step changes in the demand for our products and services
- Changes in our ability to minimise the effect of liquidity constraints on our business are of increased concern.

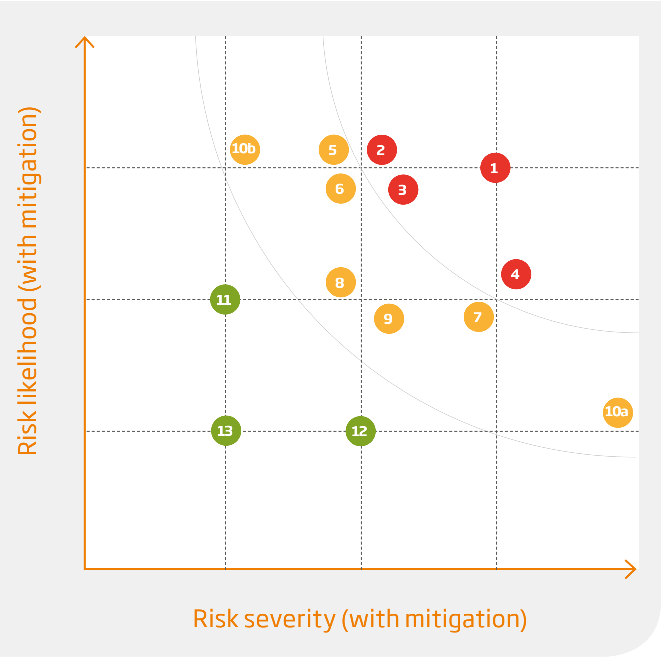
Prioritising our risk management effort

Mitigating and/or preventing the effect of risk on our corporate plans remains a cornerstone of our Executive management and operational management teams' efforts. Our risk heat map provides a summary of how we assess and evaluate the relationship between the likelihood and severity of our principal risks and uncertainties and informs where the Group should prioritise investments to manage them. In this uncertain time and as a result of Covid-19, additional detail on the downside assessment of risks has been disclosed, as shown in the risk heat map, as we continue to evaluate the implications of Covid-19 on our business strategy.

Emerging risks update

Our risk management process includes a formal review of emerging risks. Our aim is to identify those risks that are not meaningfully impacting the Group's strategy today but are highly uncertain because their evolution is either rapid or complex and the implications are unclear. Noting this and given the varying implications of Covid-19 on our workforce and critical supply chains this year, we have treated Covid-19 as a trigger event that affects many of our existing risks or creates a heightened awareness of new/emerging risks, rather than as a separate emerging risk. Our Group strategy team has been working with our Group functions and divisions to produce new 'what if' scenarios of what a post Covid-19 future might look like for DS Smith, our customers and suppliers; these scenarios are informing our ongoing evaluation of a new range of emerging risks.

Net (mitigated) risk heat map



Key

Bubble colour reflects risk relative priority (red highest risk, amber second level, green third level priority)

List of risks

1 Eurozone and Macroeconomic
2 Paper Price Volatility
3 Disruptive Markets
4 Liquidity
5 Shopping Habits
6 Organisation Flexibility
7 Regulation and Governance
8 Sustainability Promise
9 Security of Paper Supply
10a Cyber – ransomware
10b Cyber – phishing
11 Workforce Capability
12 Packaging Transformation
13 Fibre Technology Changes

Viability statement

Context

The Group's strategy and key differentiators are detailed on pages 18 to 19 and 22 to 37 and our risk management framework is described on pages 78 to 79. 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 planning cycle is the primary annual strategic and financial planning activity through which the Board assesses the prospects of the Group, extending for the three successive financial years that follow beyond the assessment date.

The planning process involves modelling under a series of assumptions surrounding both internal and external parameters, with key assumptions including economic growth projections, input pricing (including paper, fibre, energy and labour), foreign exchange rates and packaging volume growth, combined with the effects of major capital initiatives. The robust corporate planning process is led by the Group Chief Executive, the Group Finance Director and the Head of Strategy, in conjunction with divisional management. The Board undertakes a detailed review of the corporate plan during its December Board meeting.

Whereas ordinarily the corporate plan provides the base case from which to perform the Group's viability assessment, the impact of Covid-19 and the uncertainty around the duration and severity of economic consequences on the Group's customers, production sites and supply chain, as well as evolving government mitigations, has resulted in a detailed re-forecast over the three-year planning period being performed, with the updated scenarios presented to the Board for detailed review and approval in June. The details of this re-forecast and the scenarios are set out in the going concern section that follows.

The Group's trading performance will be reviewed by the senior management team and the Board in the context of the objectives and targets of the re-forecast, within which the Group's strategy remains embedded.

Although the Directors have no reason to believe that the Group will not be viable over a longer period, the three-year period was chosen for this assessment, having considered 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.

Assessment of longer-term viability

In accordance with the UK Corporate Governance Code, the Directors have assessed the viability of the Group over a three-year period to 30 April 2023, which is a longer period than the 12-month outlook required in adopting the going concern basis of accounting. This assessment period remains appropriate given the timescale of the Group's planning and investment cycle, including the impacts in the short term caused by the Covid-19 pandemic.

The Directors confirm that they have performed a robust assessment of the principal risks facing the Group as detailed on pages 56 to 59, including those that will threaten its business model, future performance and solvency or liquidity.

The assessment of the Group's viability considers severe but plausible scenarios aligned to the principal risks and uncertainties set out on pages 56 to 59 where the realisation of these risks is considered remote, considering the effectiveness of the Group's risk management and control systems and current risk appetite.

The degree of severity applied in these scenarios was based on management's experience and knowledge of the industry to determine plausible movements in assumptions. The Directors note that the Group's operations are significantly in categories considered essential against a backdrop of a global response to Covid-19 and, as such, the Group enjoys a large degree of resilience to consequential downturns.

The Group has significant financial resources including committed and uncommitted banking and debt facilities, detailed in note 20. 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 dividend suspension or restriction on dividend levels. 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.

Going concern

Overview

In considering the going concern basis for preparing the financial statements, the Directors consider the Company's objectives and strategy, its principal risks and uncertainties in achieving its objectives and its review of business performance and financial position, which are all set out in the strategic report, operating review and financial review sections of this Annual Report. Given the global economic uncertainty of the Covid-19 pandemic, and taking into account the recent guidance issued by the FCA and the FRC, the Directors have considered a more comprehensive going concern review than in previous years. Further details, including the analysis performed and conclusion reached, are set out below.

Liquidity and financing position

The Group's liquidity and funding arrangements are described in notes 19 and 20 to the consolidated financial statements, as well as in the capital structure and treasury management section of the strategic report. The total drawn debt facilities at 30 April 2020 were £2.4 billion, £1.9 billion is publicly listed debt with no attached covenants and £0.5 billion carries a covenant of net debt/EBITDA[1] of less than 3.25 times. In addition, the Group has access to c. 1.4 billion committed bank facilities, which were undrawn at 30 April 2020, which provide liquidity to the Group and carry the same covenant of net debt/EBITDA of less than 3.25 times. The Group is not forecast to increase net debt in the going concern analysis to 30 April 2022.

There is significant liquidity/financing headroom (in excess of £1 billion) across the going concern forecast period in all three scenarios considered and outlined in more detail below. For this reason, the going concern review has focused more on forecast covenant compliance which is considered further below.

Operational and business impact of Covid-19

As a critical part of the supply chain across each of the geographies in which the Group operates the businesses were designated as an 'essential business' throughout the lockdown periods and have continued to trade throughout. Changes have been made to operating processes and practices to ensure the business can respond to and meet the specific local government requirements in each country in which it operates.

Although the duration and severity of the lockdown restrictions have varied from country to country, in general Covid-19 has impacted trading through March to May 2020. Overall, Group packaging box volumes were up 1 per cent year-on-year in March 2020, down 5 per cent in April 2020 and down 5 per cent in May 2020. This reflects a complex picture across geographies and industries and reflects the business mix of the Group with the heavy weighting on supplying packaging for food and drink customers and also the strong e-commerce business that the Group has built. The actual experience of trading across the period of the most severe lockdown has been a key data point in our forecasting and modelling.

1. Earnings before interest, tax, depreciation and amortisation.

Financial modelling

The Group has modelled three scenarios in its assessment of going concern. These are:

- The base case
- The downside case
- The extreme downside case.

The base case:

The base case, which was approved by the Board in June 2020, takes into account the estimated impact of the Covid-19 pandemic across the going concern period and reflects the actual trading experience across March, April and early May 2020. The key inputs and assumptions in the base case include:

- On a Group basis, a low, single-digit decline in packaging volumes compared to 2019/20. This full year reduction in volumes was consistent with the reduction in volume experienced at the height of the crisis and is, therefore, felt by the Board to be a considered downside. This incorporates a range of differentiated increases and declines from +5 per cent to -23 per cent across the various customer segments. The resilience of packaging for the food and drink sector and a strong performance in e-commerce in the 12 weeks when some or all of Europe was in lockdown informed this scenario. The volume impacts are expected to be more pronounced in the first six months of 2020/21 with the significant negative impact driven by the heavily impacted agriculture and tourist seasons in southern Europe (forecast movement from 2019/20 ranges by sector from +27 per cent to -56 per cent) which is assumed to be only partially offset by continued strong performance in Northern Europe (forecast movement from 2019/20 ranges by sector from +21 per cent to -38 per cent) . It is expected that the second half of the year and 2021/22 will improve and the Group is well placed to again support all customers if there is a second wave in any part of Europe. However, the scenario neither considers such a second wave nor any positive effects of potential economic stimulus packages
- The price assumptions show price deflation reflecting paper price indices and the current and forecast mix of the business, with a further shift towards the food and drink and e-commerce sectors as industrial segments are expected to recover from lockdown at a slower pace
- A temporary spike in the price of paper for recycling (PfR, the principal input cost in producing testliner) in the first quarter of 2020/21 of more than 70 per cent from pre-Covid-19 prices, the flow through impact of the above volume forecast on direct costs and a year-on-year reduction in capital expenditure.

Year to date trading to the end of May 2020 shows volumes in line with the base case forecast.

The downside case and the extreme downside case

In addition to the base case, two further scenarios have been modelled which build upon the base case:

- The downside case models a more pronounced decline in volumes in the first half of 2020/21 – an additional 4 per cent decline over the base case, and then reverts back to the base case forecast for the second half of 2020/21, with modest recovery into 2021/22
- The extreme downside case models a more pronounced 8 per cent year-on-year decline in volumes over the whole of 2020/21, with only modest recovery into 2021/22.

The purpose of the scenarios was to consider if there was a significant risk that the Group would breach its financial covenants on the committed bank facilities of net debt/EBITDA less than 3.25 times. Under all three scenarios the covenant is not breached at any of the forecast testing dates, being 31 October 2020, 30 April 2021, 31 October 2021 and 30 April 2022.

The extreme downside case has been used as a reverse stress test to consider the point at which covenants may be breached. Whilst the reverse stress test did not breach covenants (the lowest ratio being at April 2021), it did indicate that such a significant reduction in packaging volumes would require management to take further actions to conserve cash and reduce capital expenditure to minimum maintenance levels. Whilst the Board considers such a scenario to be extremely remote, a programme of further actions to mitigate the impact would be actioned should the likelihood of such a scenario increase. The Board consider the forecasts and assumptions used in the extreme downside case, as well as the event that could lead to it, to be extremely remote.

Mitigating actions

As outlined above, in addition to the cost actions that are built into the base case, and subsequently into the downside case and the extremes downside case, there a number of potential management actions that have not been included in the forecast. Examples of these potential actions are explained below and it is estimated that the total cost impact of these actions is in excess of £300 million on an annualised basis, before taking into account the cost of delivering them and the point at time at which they were delivered:

- The cost reduction on direct costs from the additional reduction in volumes (e.g. energy costs, logistics costs) is not currently reflected in the downside case and the extreme downside case
- Action in respect of variable and controllable costs such as discretionary bonuses, pay rises, recruitment freezes and wider labour force actions would be considered in response to higher levels of volume reductions
- Limiting capital expenditure to minimum maintenance levels
- Satisfaction of the outstanding Interstate put option for shares instead of cash
- Strategic actions in respect of the Group's asset base could be considered in respect of disposals, mothballing and closures.

There are also additional actions that the Group could consider, if required, in respect of net debt that would assist covenant compliance. These actions include increased utilisation of debt factoring facilities, optimising working capital by negotiating longer payment terms whilst continuing to pay suppliers in full and in line with contractual terms and reconsidering the level of dividends to be paid. Adjusted operating profit would need to fall by more than half from £660 million achieved in the year before the covenant would be breached.

Going concern basis

Based on the forecast and the scenarios modelled, together with the performance of the Group to date in 2020/21, the Directors consider that the Group has significant covenant and liquidity headroom in its borrowing facilities to continue in operational existence for the foreseeable future. Accordingly, at the June 2020 Board meeting, the Directors concluded from this analysis it was appropriate to continue to adopt the going concern basis in preparing the financial statements. The long-term impact of Covid-19 is uncertain and should the impact of the pandemic on trading conditions be more prolonged or severe than currently forecast by the Directors under the extreme downside case scenario, the Group would need to implement additional operational or financial measures.

PRINCIPAL RISKS

Emphasising our value by how we manage risk (continued)

Net risk tolerance key

Unacceptable	Re-assess	Acceptable
●	●	●

Risk impact key

Increased	Stable	Decreased
↗	↔	↘

Risk	**1. Eurozone and Macroeconomic** Multiple political/economic factors from Brexit to foreign exchange/interest rates significantly impact the level of consumer spend and customer demand for our packaging products	**2. Paper Price Volatility** Volatile commodity pricing for recovered paper and paper grades can create significant short-term challenges to capture appropriate margins by aligning raw material cost to packaging sales revenues	**3. Disruptive Markets** Disruptive behaviours from competition/new entrants in our key markets creates a vulnerable dependence on critical suppliers and an inability to manage material changes in sales volume and pricing strategies	**4. Liquidity** Financial market conditions have an adverse effect on our ability to finance the strategy for our supply cycle business through debt on attractive terms, impacting operating profit and cash flow flexibility
Risk Priority Classification	1	1	1	1
Inherent Risk Change	↗	↗	↗	↗
Key Mitigating Actions	• Focus remains on supplying packaging to fast moving consumer goods (FMCG) customers with a constant focus on quality and service, as these customers tend to show greatest resilience against GDP volatility • Investments in cost base efficiencies and working capital initiatives to balance macroeconomic trends with sustainable growth priorities • Divisional technical excellence and procurement transformations are creating a new operating model to meet efficiency and productivity requirements	• We operate sufficient paper manufacturing operations to support our packaging operations to ensure that we can balance the external effects of paper price volatility over the long term whilst being a net purchaser of paper for recycling • Initiatives to implement productivity improvements and emphasise customer differentiation through services, quality and innovation • Continual focus on contract management to fully recover input costs	• Activities broadened to develop long-standing relationships and embed a differentiated competitive position across our large FMCG, regional and local packaging customers • Projects to strengthen our current geographical footprint, improve procurement and supply chain processes for all paper grades and critical raw materials	• Maintain focus on cash generation across the Group as a priority, such as through our continuous working capital focus • Reducing acquisition activity and taking other strategic actions to reduce the use of debt and drive down debt levels as a per cent of total assets, reduce cost of borrowing and extending tenor of debt • Group Treasury team ensures that the Group has a range of different providers of liquidity and maturity profiles to avoid refinancing risks
Net Risk Change	↗	↗	↗	↗
Perceived Covid-19 Impact	More challenging economic conditions after pandemic	Supply/demand dynamics affected by changes to FMCG and Industrial markets	Many businesses in survival/recovery mode	After-effects of financial markets ability to support businesses
Key Risk Indicator	Eurozone GDP growth rate	Paper and paper for recycling market prices	Sales (organic) growth and volumes	Amount of headroom under committed facilities
Risk Tolerance to Corporate Plan Priorities	○ ● ○	○ ● ○	○ ● ○	○ ● ○
Opportunity Examples	Ability to reposition our business model outside of our traditional geographic markets and sources of supply	Accelerated improvement in commercial awareness and expertise of pricing fluctuations and strengthen the effectiveness of fibre and efficiency programmes	Investments in cost optimisation and footprint realignment in key markets to support volume growth in FMCG sector	Ability to secure access to suitable sources of debt capital through effective management of our core banking partners to support strategic investment opportunities
Alignment with Strategic Priority	To double our size and profitability	To double our size and profitability	To double our size and profitability	To double our size and profitability
Governance Oversight	The Group Chief Executive and Group Finance Director present reviews and forecasts on the impact of the macroeconomic environment at each Board meeting	The Group Chief Executive and Group Finance Director present to the Board with regular updates	The Group Finance Director provides the Board with regular updates on market and competitor activity	The Group Chief Executive and Group Finance Director regularly update the Board on financial status and finance options

Risk	**5. Shopping Habits** We fail to match expected growth in consumer spending across the full retail FMCG spectrum from the mega-large brands, micro-brands and omni-channel distribution networks of the big box superstores and discounters	**6. Organisation Flexibility** Our organisation is not fit for purpose and programmes to restructure could be disruptive, take too long to adapt or fail, resulting in a compromised or broken organisational model if not governed appropriately	**7. Regulation and Governance** Our governance model fails to support the way we are organised and our geographical spread, resulting in unauthorised, illegal, unethical or inappropriate actions
Risk Priority Classification	2	2	2
Inherent Risk Change	↗	↗	↗
Key Mitigating Actions	• Trend and Insight team working on understanding consumers' habits and behavioural changes • We are working on understanding key customers' needs and exploring business opportunities such as e-commerce, plastic replacements, social distancing essential solutions and end-to-end services • Applying a clear sales platform to serve new/different customer categories	• Human resources (HR) and other business transformation activities aim to consider new and foreseeable work realities, and HR and Operations leaders consider different types of support and non-traditional work options to deliver a step change in organisation flexibility • Technology investments assist in supporting employees and the way we are organised to enable more effective communication and flexible working patterns • Divisional and Group protocols operate to manage organisation changes to support cost/sales improvements and enhance the level of resilience to material changes in production requirements	• The Group continues to maintain detailed and extensive arrangements for the management of standards, domestic and international compliance rules and new regulations with clearly defined divisional reviews including health, safety, environment and product integrity/safety • Training of our employees on variety of compliance modules including anti-trust and anti-bribery and corruption to ensure that they fully understand the applicable laws and high standards expected • The Group operates a workplace malpractice helpline ('Speak Up!'), providing a confidential route for employees to report perceived malpractice of any type
Net Risk Change	↗	↗	↗
Perceived Covid-19 Impact	Change in shopping habits inevitable after prolonged restrictions	Many businesses will question their business as usual model given home/remote working	Additional resourcing needed to demonstrate compliance with business continuity from customers and suppliers
Key Risk Indicator	Reduction of CO_2e per tonne of production	Employee Survey results	Group and Divisions compliance training reviews
Risk Tolerance to Corporate Plan Priorities	○ ○ ●	○ ○ ●	○ ○ ●
Opportunity Examples	Changes in consumer needs and behaviours (fight plastic waste; social distancing) are leading to new opportunities for customers to actively engage on cardboard packaging solutions	Builds operational and internal reporting efficiencies that allow employees and the business to quickly adapt to changing environments and working practices	Ability to demonstrate a standard of ethics and behaviours beyond the standards requested of us and potentially influence how the regulatory landscape changes
Alignment with Strategic Priority	To double our size and profitability	To realise the potential of our people	To delight our customers
Governance Oversight	The Board regularly discusses trading including customer and consumer trends based on Group Chief Executive and Group Strategy reports	The Board receives regular updates on organisational transformation projects	The Audit Committee regularly reviews results of internal control reports and the Board receives internal corporate governance, ethics and compliance updates

PRINCIPAL RISKS

Emphasising our value by how we manage risk (continued)

Net risk tolerance key

Unacceptable ● | Re-assess ● | Acceptable ●

Risk impact key

Increased ↗ | Stable ↔ | Decreased ↘

Risk	**8. Sustainability Promise** We fail to deliver against growing expectations on large organisations to play a positive role in society, balancing the needs of our business, our environment and our people	**9. Security of Paper Supply** Large fluctuations in the cost and availability of fibre and paper can adversely affect our performance as the Group remains a net purchaser of specific grades of paper	**10. Cyber** a) A major cyber incident on our information or operational technology (i.e. ransomware) impacting short-term trading; and/or b) A failure to stop/identify sophisticated malicious cyber intruders on our IT infrastructure (i.e. phishing attacks) resulting in financial losses impacting us, our suppliers and customers. Both scenarios result in reputational harm	**11. Workforce Capability** Our internal strategic workforce planning process and talent and succession management approach fails to identify and resource for future capability needs, resulting in critical gaps in skills and knowledge across key business areas	**12. Packaging Transformation** We fail to dedicate adequate research and development (R&D) resources and/or gain customer interests towards higher value packaging products and service innovations to drive further integration between our customer products, developments in e-commerce and the growing demand for eco-friendly products	**13. Fibre Technology Changes** Inability to exploit major developments in the use of alternative types/sources of fibre for products or capitalise on breakthrough technology in fibre development and recovery for quality recycling
Risk Priority Classification	2	2	2	3	3	3
Inherent Risk Change	↗	↔	↗	↗	↔	↘
Key Mitigating Actions	• Focused action to reduce carbon emissions across all sites through our sophisticated project roadmap, ensuring we meet European and national legislation for disclosing greenhouse gas emissions and support our existing reporting to organisations such as the Carbon Disclosure Project • Managing supply chain risk in relation to forestry by ensuring we use recycled papers wherever possible and only source virgin papers derived from responsibly managed forests using credible chain of custody certification programmes • Ensuring we meet the growing consumer demand for sustainable packaging through a focus on packaging designed for the circular economy, and continually reviewing our sustainability priorities to ensure they align with the expectations of stakeholders and wider society	• Optimisation and integration for all paper mills and committed/ contractual supplies with open market purchases, reflecting the economic supply radius of our mills to deliver the 'best fit' alignment between paper production, quality fibre sourcing and performance packaging demand • Footprint alignment and capex investments for internal mill network to optimise internal supplies against forecasted future packaging needs	• Investments in specific IT Security controls including regular employee training as part of the Group's broader IT transformation plan improve our capability to detect, respond and prevent cyber attacks • Progress the maturity of Business Continuity/Disaster Recovery planning and testing to ensure operations' ability to recover from cyber incidents • A security baseline standard established for operational technology environments to identify gaps and implement a long-term improvement roadmap	• Performance, potential and succession management is formally reviewed and subject to challenge by senior management, and our divisional talent and learning and development community supports the identification of core skills gaps to inform a clear action plan to address key talent retention or attraction risks • Senior Talent Review takes place annually to address strategic workforce questions, review the capability profile of the senior leadership talent population and the bench-strength of the talent pipeline • Diversity and Inclusion (D&I) action plan in place and subject to regular GOC review on progress	• Sales, marketing and innovation organisation ensures our packaging services support customer brands behind the goods inside. Optimising how our packaging can influence both on the shelf, through e-retail and in the hands of the consumer is paramount • We adapt packaging solutions by combining resources and expertise to accelerate a positive contribution to the environment through better use of raw materials and processes as designed for, and the benefits of using, more eco-conscious products grows • We never lose sight that protecting the goods inside and the brand reputation of our customers is our number one priority	• Fibre yield efficiencies and fibre recovery optimisation activities using technical know-how and expertise • Specific project activities to evaluate the use of new fibre technology where there is an identified need and the cost is compatible with the potential volume of fibre • Exploration of alternative fibre sources based on clear criteria as 'useable with recipe/process change' and 'usable with technology change'
Net Risk Change	↗	↔	↗	↗	↔	↘
Perceived Covid-19 Impact	Available investments are reduced potentially leading to delays in sustainability projects	Likely more restricted supplier base for key paper grades	Increased threat potential given remote working and use of Covid-19 phishing attempts to infiltrate IT security controls	Potential opportunities to secure critical talent but disruption challenges our resilience and adaptability in terms of skills, culture and ways of working	No perceived direct impact on packaging innovations post Covid-19 pandemic	Lack of investments in our own and competitor R&D
Key Risk Indicator	Reduction of CO_2e per tonne of production	Paper for recycling volumes	IT security phishing campaign statistics	Employee turnover including external/internal hiring ratios and D&I metrics	PackRight Centre and Impact Centre metrics	Paper performance metrics
Risk Tolerance to Corporate Plan Priorities	○ ○ ●	○ ○ ●	○ ○ ●	○ ○ ●	○ ○ ●	○ ○ ●
Opportunity Examples	Capitalise on efficiencies in energy upgrade projects and growing societal demand for sustainable products in a circular economy	Our closed loop model and paper sourcing strategy offer significant customer opportunities and ability to generate a 'best fit' cost and quality solution	Strengthen technology infrastructure and operational resilience to enhance business continuity credentials for customer service excellence	Focuses our HR priorities in improving processes, productivity and ways of working to capture and enhance people skills/expertise	Increasing benefits from resource allocation to build capability and capacity in e-commerce and digital technology to support long-term customer partnerships and specific FMCG segments	Enables early identification of technology to support paper fibre efficiency improvements, including innovations for kraft substitute top products, quality fibre recovery, papermaking and performance packaging
Alignment with Strategic Priority	To lead the way in sustainability	To double our size and profitability	To double our size and profitability	To realise the potential of our people	To delight our customers	To double our size and profitability
Governance Oversight	The Board receives regular updates on the Group's sustainability performance and strategy	The Board discusses paper sourcing opportunities with specific focus on critical paper grades	The Audit Committee reviews Cyber Security assessment reports, IT network management and security reviews, and receives external advisory guidance on key cyber risks	The Nomination Committee regularly reviews Board succession planning and the Board receives updates on senior talent management programmes	The Board receives updates on innovation and reviews packaging transformation risks as part of the corporate plan process	The Board regularly discusses the security of supply of existing materials and recovery of quality fibre for recycling

Non-financial information statement

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

Reporting requirements	Some of the relevant policies	Where to read more in this report about our impact, including the principal risks relating to these matters	Page(s)
Environmental matters	• Group Sustainability policy[1]	• Our sustainability approach, strategy, focus and targets • Our sustainability performance • Our differentiators • Risk – sustainability	31 32-34 18 58
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 • Health and safety • Risk – workforce capability • Gender pay gap reporting • Our Purpose	24 28 24 25 59 29 4
Human rights	• Modern Slavery policy[2] • Code of Conduct[2]	• Sustainable governance • Risk – governance	34 51
Social matters	• Code of Conduct[2]	• Responsible neighbour • Charitable giving	33 35
Anti-Bribery and Corruption	• Anti-Corruption policy[2] • Gifts and Hospitality policy[2]	• Risk – governance	51
Business model		• Our business model	16
Non-financial KPIs		• Employees: accident frequency rate • Sustainability: CO_2 equivalent emissions • Customers: on-time in-full deliveries	25 34 22

1. Available to all employees through the DS Smith intranet. Not published externally.
2. Available both on our website www.dssmith.com and to employees through the DS Smith intranet.

Our policies

A combination of online and in person training on all the key policies is carried out across the Group and there is also a system of bi-annual certification for management positions and those employees who interact with customers or suppliers, certifying that they have read and understood the policies and are fully compliant. All employees, contractors and third parties are encouraged to report any circumstances where there is a suspected or actual breach of any of the DS Smith policies, applicable laws, or the high standards as set out in the Code of Conduct, either through their managers, the confidential 'Speak Up!' helpline or directly to the Group General Counsel and Company Secretary. All reported incidences of actual or suspected breach of any of the policies are promptly and thoroughly investigated. The Compliance Committee and the Audit Committee also consider any high-risk areas identified by the internal audit function, the legal team or the divisional compliance teams.

Policy	Description
Code of Conduct	DS Smith Plc (DS Smith) and its subsidiaries (the Group) are committed to the highest ethical standards in the way in which we engage with each other and our customers, employees, shareholders, suppliers and other stakeholders. Our Code of Conduct sets out what these commitments mean and the behaviours which are expected of all employees. Alongside the Code of Conduct we have an Employee Charter and other key Group policies outlined below, which serve to further expand upon the provisions in the Code of Conduct. We are firmly committed to both the principle and realisation of equal opportunities and our policies are designed to provide such equality.
Group Sustainability policy	Our sustainability strategy is supported by policies which align the management of sustainability issues across our organisation. Risks arising from sustainability issues are considered as being among the key risks to the Group's operations. To manage and mitigate such risks we have policies for existing and emerging sustainability issues. Our policies include Conflict Minerals, Carbon and Energy Efficiency, Community Engagement, Supplier Standards, Water Stewardship, Zero Waste to Landfill and Sustainable Forest Management and Fibre Sourcing. 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 and the Group Chief Executive is responsible for addressing sustainability-related issues. The Health, Safety, Environment and Sustainability Committee meets monthly and the Sustainability Steering Group oversees the process for addressing sustainability-related issues and sets and monitors internal targets and strategies to ensure sustainability-related risks and opportunities are appropriately managed.
Group Health and Safety policy	Health and safety is the top priority and DS Smith actively strives for the continuous improvement of health and safety in the workplace. We aim to provide a healthy and safe working environment for all our employees and to ensure the safety of others affected by our operations. The ultimate responsibility for health and safety rests with the Group Chief Executive, the Board members and the executive management team. This responsibility is cascaded through the organisation via divisional/regional CEOs and their leadership teams, enabling us to comply with local health and safety laws and regulations in addition to our own minimum standards and guidelines.
Compliance Framework policy	DS Smith's Compliance Framework Policy sets out compliance processes for Corporate Criminal Offence, to ensure there is zero tolerance regarding tax evasion or the facilitation of tax evasion, and processes in respect of Anti-Bribery and Corruption, Competition and Anti-Trust laws. These processes are applicable to employees, contractors and third parties providing services for or on behalf of the Group. DS Smith is committed to complying with the competition laws of all countries in which we operate and the standards that apply to our activities within the European Union and the US also apply across our wider geographies. Each divisional CEO is tasked with ensuring that all companies within their division are compliant with the compliance framework.
Anti-Slavery and Human Trafficking policy	DS Smith respects fundamental human rights and is committed to the principles set out in the United Nations Universal Declaration of Human Rights and this is documented in our Code of Conduct, Employee Charter and Anti-Slavery and Human Trafficking policy. Our progress in the area of modern slavery is set out in our annual Modern Slavery statement.
Anti-Bribery and Corruption policy	DS Smith has zero tolerance for any form of bribery or corruption and is committed to complying with all applicable anti-bribery and corruption laws. In addition to ensuring that our employees and contractors are compliant with the Group's Anti-Bribery and Corruption policy and the Compliance Framework policy for Anti-Bribery and Corruption and Anti-Trust, we require that all third parties engaging with any DS Smith entity complies with these policies in order to ensure compliance with applicable anti-bribery and corruption laws and preserve our own and our customers' reputations.
Gifts and Hospitality policy	We recognise that the act of giving and accepting gifts and hospitality can be part of building normal business relationships. However, our Gifts and Hospitality policy aims to ensure that our employees and contractors never accept gifts or hospitality which could break the law, compromise their judgement, conflict with their duty to DS Smith or our customers, or which could appear to others that their business judgement has been improperly influenced. Equally, our employees and contractors must never offer a gift or hospitality which could have this effect on the recipient.

Statement of approval

This Strategic Report, including pages 1 to 61, was approved by the Board of Directors on 1 July 2020 and is signed on its behalf by

Miles Roberts
Group Chief Executive

Chairman's introduction to Governance

"Robust and constructive debate is particularly important when there are no easy answers as we all adjust to the near and longer-term implications of the Covid-19 pandemic."

Introduction

DS Smith has continued to make good progress in realising its Purpose of 'Redefining Packaging for a Changing World'. The successful integration of the Europac group acquired earlier in 2019 and the completion of the disposal of our Plastics division have been higher profile corporate activities in the last financial year, but no less important has been the continued focus on promoting the vital role of the circular economy, and DS Smith's role within it.

In the calendar year of 2020 DS Smith, like the rest of the world, has had to face the harsh and uncertain realities of a world with Covid-19. During this time of disruption the Board has continued with its scheduled Board and Committee meetings, held remotely via conference calls, which has been both effective and productive. In addition the Board has held fortnightly informal meetings during this period in order to keep informed and to support the executive management team. It is to the great credit of all our colleagues around the world that the Company has continued to operate well in supporting our customers, suppliers and communities during these unprecedented times.

This section of the Annual Report focuses on corporate governance. In essence, good governance requires the right information to be brought before the right people at the right time.

The original definition of corporate governance (used in the 1992 Cadbury Code) was "the system by which companies are directed and controlled". That is as applicable today as it was in 1992. What has changed since 1992 are society's expectations of the output from that system and the layers of advice, commentary and, in some cases prescription, that have built up.

UK Corporate Governance Code

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

As outlined in last year's Annual Report, we initiated a number of workstreams in relation to areas of focus and development under the 2018 edition of the UK Corporate Governance Code (Code) that applies to us for the financial year starting 1 May 2019. Further progress on these workstreams is explained in the applicable sections of this governance section of the Annual Report.

Board leadership and Company Purpose

The Code provides that a board should establish a company's purpose and values as well as its strategy and that its directors should lead by example and promote the desired culture. One of the Group-wide workstreams this year (described in more detail on page 4) has been to examine more closely what our Purpose of 'Redefining Packaging for a Changing World' means in practice. Our Group Purpose continues to be on the front cover of the Annual Report this year as this is, in summary, why we are here. As the world changes, particularly in response to Covid-19, so does our business. The packaging business has changed and will continue to do so. We are at the forefront of that change.

At DS Smith we have a way of doing things that means we are well-placed to deliver the crucial changes that our world needs. We work closely with our customers to develop the right strategies and to truly innovate together. We challenge ourselves to think differently and keep sustainability at the heart of everything we do. The Board is regularly updated on activities that show how our Purpose is being brought to life and measured throughout the Group, with its close link to our sustainability strategy. More information about how we engage with our stakeholders as part of our Board activities is set out on pages 68 and 69 and how we do so as a Group is summarised on pages 5 and 15.

Division of responsibilities

My role as Chairman is to lead the Board and be responsible for its overall effectiveness in directing the Company. It is important that each member of the Board is clear about their responsibilities and also that each member of the Board is able to contribute fully to all aspects of the discussions we have as a Board.

Board composition, succession planning and evaluation

It has been a time of change for the composition of our Board. In 2019 Rupert Soames joined the Board with effect from 1 March, David Robbie joined with effect from 11 April and Celia Baxter with effect from 9 October, with Rupert now being Senior Independent Director, David being Chairman of the Audit Committee and Celia Chairman of the Remuneration Committee. All of them have continued the excellent work of their predecessors and brought their own skills and experience to bear on the opportunities and challenges ahead of us. In 2020 Alina Kessel joined the Board with effect from 1 May. She will bring, in particular, her international experience to our discussions. As at 1 May 2020 our nine member Board was made up of three women and six men.

Jonathan Nicholls and Kathleen O'Donovan stepped down as non-Executive Directors with effect from the conclusion of the 2019 AGM on 3 September. In last year's Annual Report I thanked Jonathan and now I would like to take this opportunity to thank Kathleen for her huge contribution during her time as a Director, particularly as Chairman of the Remuneration Committee. Chris Britton is retiring from the Board at the conclusion of our 2020 AGM. Over the past seven years his deep sales and marketing experience has been a great asset for the Board and I thank him for all he has brought to our discussions.

Rupert Soames has led the engagement with our shareholders about succession planning for the Chairman's role and about Geoff Drabble's appointment and that is described later in this report.

Succession planning is a regular topic for discussion; although the outcome of these discussions is only visible from time to time when new appointments are announced. For each appointment we are looking to appoint an outstanding candidate, with a diverse range of experience, to maximise Board effectiveness. When we think about diversity we recognise that diversity can take many forms, including diversity of gender, social and ethnic backgrounds, and of cognitive and personal strengths, and that diversity at Board level and throughout the Company is a valuable strength.

This year we assessed how the Board and its Committees have contributed to the overall effectiveness of the Group, using a structured questionnaire and subsequent series of discussions to build up an internal evaluation. Details of this evaluation and its identified actions are set out on pages 72 and 73.

The Board is aware of the ever-increasing importance of corporate governance as it is now more widely defined and of its own obligations in this area. I speak for all the Board when I say we are committed to the highest ethical standards. We understand that our reputation as a Group is founded on always meeting these high standards, whether we are engaging with each other, our customers, employees, investors, suppliers, communities, non-governmental organisations or other stakeholders, and on acting fairly as we take into account the interests of all our stakeholders. Continuing to foster the right culture at DS Smith is critical to our success.

We are confident that we can meet the exacting standards that are set both by our key stakeholders and by ourselves and I look forward to meeting these challenges and the exciting times ahead.

Gareth Davis
Chairman

1 July 2020

Corporate Governance in context

Our compliance with the 2018 UK Corporate Governance Code's five sections

1

Board leadership and Company Purpose

Your Board rigorously challenges strategy, assesses performance and balances the interests of all our stakeholders to ensure that every decision we make is of the highest quality. Robust and constructive debate is particularly important when there are no easy answers as we all adjust to the near and longer-term implications of the Covid-19 pandemic.

From page 68

2

Division of responsibilities

Your Board and its Directors, both Executive and non-Executive, operate within a clear framework of roles and responsibilities. One of the roles of non-Executive Directors is to broaden the diversity of viewpoints shared in the boardroom discussion, drawing on the full range of their experience in other industries and other countries. This has been particularly valuable as your Board considers how we can better serve our customers in this time of uncertainty.

From page 70

3

Composition, succession and evaluation

Your Board scrutinises the effectiveness of its performance in an annual Board evaluation and evaluates the balance of skills, experience, knowledge and independence of the Directors. That then informs the succession planning process, which also takes into account the contribution made by having a diversity of backgrounds (whether of gender, of social or ethnic backgrounds, or of the less immediately visible cognitive differences). All new Directors receive a tailored induction programme, which builds on their personal experience and ensures that appointments can be made from a wider pool of talent than one limited to only those with previous experience of holding a directorship with a UK listed company.

From page 72

4

Audit, risk and internal control

All your Board's decisions are discussed within the context of the risks involved. Effective risk management, set in the context of a well-structured internal control framework, is central to achieving our strategic objectives, particularly as we balance the sometimes conflicting interests of our stakeholders.

From page 78

5

Remuneration

Our remuneration policy is designed to support our long-term strategy and to promote long-term sustainable success. It is aligned to our Purpose and values as a Group. The process for developing our remuneration policy this year has included assessing each element of remuneration, both individually and cumulatively, taking into account wider circumstances as your Board currently understands them, but also setting that in the context of the longer-term future of DS Smith in this changed world.

From page 86

We use boxes like this throughout the governance section of the Annual Report to highlight why we are telling you the information. We hope that this will help you both find what you are looking for in our report and understand the way we have structured our disclosures to be both compliant with regulation and, we hope, readable.

The Chairman's introductory letter at the start of the governance section of the Annual Report puts DS Smith's approach to matters of corporate governance into our DS Smith context. It is followed by a brief summary of our approach to each of the five sections of the Code, before giving you more information about who the Board members are and what they contribute to the governance of the Company and its long-term success.

Corporate Governance in action

The 2018 UK Corporate Governance Code published by the Financial Reporting Council (FRC) and available at www.frc.org.uk recast the Code to focus on the application of the principles of good governance in their context and to emphasise the value of good corporate governance to long-term sustainable success.

In the introduction to the Code the FRC recognises that high-quality reporting on the provisions of the Code may include an explanation of how the spirit of the principles has been applied, which in some cases may be by a different route from that suggested in the Code's provisions.

This report outlines how we have applied the 2018 Code's main principles and explains where, in three specific instances, our approach to the provisions differs from the Code's.

The Chairman has been on the Board for more than nine years, although he has been Chairman for less than nine. The background to this was described in last year's Annual Report and more about this is set out on page 72. As explained on page 93 of the Remuneration Report there could, in theory, be a combination of events that might mean, in the case of a certain type of 'good leaver', that the period from grant of long-term share award to release of award might not be five years. As described on page 88 in the Remuneration Report, the pension contribution rates for Executive Directors are not, at the date of this report, fully aligned to that available to the workforce, although future reductions have been confirmed.

The FRC and investors agree that a company is compliant with the Code if it chooses to depart from a provision of the Code, so long as ample explanation is given.

Find the 2018 Corporate Governance Code on the Financial Reporting Council website
www.frc.org.uk

Board of Directors

Principal Board Committees key: (A) Audit Committee (N) Nomination Committee (R) Remuneration Committee ● Chair

N R

Gareth Davis

Chairman

Key strengths:

- Wealth of international experience
- Exceptional experience as a chairman

External appointments:

- Gareth is Non-Executive Deputy Chairman at M&C Saatchi plc and a Non-Executive Director of Gresham House plc

Gareth was appointed to the Board on 1 June 2010 as a non-Executive Director and became the Chairman of the Board on 4 January 2012. He has been Chairman of the Nomination Committee since January 2012. In May 2019 it was announced that Gareth's term as Chairman had been extended to 3 January 2021 and in June 2020 his retirement from the Board in January 2021 was confirmed.

Gareth stepped down from the Board of Ferguson plc (formerly Wolseley plc) in January 2020, having previously been their Chairman. He was Group Chief Executive of Imperial Tobacco Group PLC from its incorporation in 1996 until May 2010. From September 2010 until April 2018 he was Chairman of William Hill PLC.

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

N

Miles Roberts

Group Chief Executive

Key strengths:

- Clear strategic mindset
- Strong leadership skills

External appointment:

- Miles is a non-executive director of Aggreko plc

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

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

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

Adrian Marsh

Group Finance Director

Key strengths:

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

External appointment:

- Adrian is a non-executive director and audit committee chairman at John Wood Group PLC

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

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

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

A N R

Celia Baxter

Non-Executive Director

Key strengths:

- Extensive HR experience
- Board experience in non-UK listed companies

External appointments:

- Celia is the senior independent director and the remuneration committee chair at Senior plc and remuneration committee chair at RHI Magnesita

Celia was appointed to the Board as a non-Executive Director and Chairman of the Remuneration Committee on 9 October 2019.

Her early executive career was with Ford Motor Company and KPMG. She has held HR positions with Hays plc, Enterprise Oil Plc, Tate & Lyle Plc and most recently was Director of Group HR at Bunzl plc for 13 years. As a non-executive director she was on the board of NV Bekaert SA until May 2020.

Celia's background of working in a range of sectors means that, as well as her experience as a remuneration committee chairman and her understanding of employee dynamics, she brings extensive and practical business knowledge to the Board.

A N R

Chris Britton

Non-Executive Director

Key strengths:

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

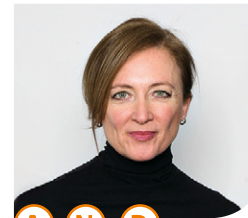
External appointments:

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

Chris was appointed to the Board on 6 March 2013 as a non-Executive Director. It was announced in May 2020 that Chris will retire from the Board with effect from the conclusion of the 2020 AGM.

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

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



A N R

Alina Kessel

Non-Executive Director

Key strengths:

- Broad and wide-ranging marketing experience
- International outlook

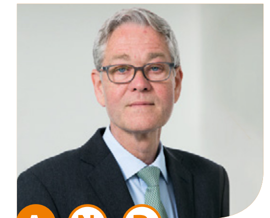
External appointment:

- Alina is a Global Client Leader at WPP, a leading international marketing communications company

Alina was appointed to the Board on 1 May 2020 as a non-Executive Director.

She has over 25 years of experience building global brands for large multinational clients, helping them grow their business through communications, experience, commerce and technology. Originally from the Ukraine and a US national, Alina has lived and worked in the UK, US, Australia and Germany, where she was CEO of Grey Advertising and, later, of DDB Tribal Group.

Alina's experience of living, as well as working, in a number of different countries, including the US, combined with her expertise in marketing and communications means that her skills and experience will contribute an additional perspective to the Board's discussions, particularly when considering the interests of employees (based in over 30 countries) and our global customers.



A N R

David Robbie

Non-Executive Director

Key strengths:

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

External appointment:

- David is the senior independent director at FirstGroup PLC

David was appointed to the Board as a non-Executive Director on 11 April 2019 and became Chairman of the Audit Committee at the conclusion of the 2019 AGM.

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

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

A N R

Louise Smalley

Non-Executive Director

Key strengths:

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

External appointment:

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

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

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

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

A N R

Rupert Soames OBE

Senior Independent Director

Key strengths:

- Wealth of international operational experience
- Extensive understanding of UK plc environment as a serving CEO

External appointment:

- Rupert is Group Chief Executive Officer at Serco Group plc

Rupert was appointed to the Board on 1 March 2019 as a non-Executive Director and became Senior Independent Director at the conclusion of the 2019 AGM.

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

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

Iain Simm

Group General Counsel and Company Secretary

Key strengths:

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

External appointment:

- None

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

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

Board leadership and Company Purpose

Board leadership in action

During the course of the past year, the Board has, in addition to the regular cycle of annual reporting and corporate planning processes, focused on two strategically important projects: the integration of the acquisition of Europac and the completion of the disposal of the Plastics division. The Board is well aware that however good an acquisition might look as a proposal in a spreadsheet, what matters is how the acquisition is completed. If the integration is implemented in such a way that the capabilities of the combined organisation are more than the sum of its parts, then the investment will result in longer-term sustainable value for all the Group's stakeholders. A successful integration gives the new organisation confidence to take the best ideas forward, regardless of whether the idea was first thought of in the acquiring or the acquired company. The success of the Europac integration is described elsewhere in this report.

The Code highlights the importance of effective engagement with shareholders and other stakeholders. The Group's key stakeholders and their differing perspectives are identified and taken into account, not only as part of the Board's annual strategy and corporate planning discussions, but also in our project assessments and in our other Board conversations. The balancing of the differing perspectives of our key stakeholders is a recurrent theme in these conversations. In the final months of the 2019/20 financial year the Board increased the frequency of its informal briefing calls to support the executive management team as it responded to the challenges of a world with Covid-19. Each of those phone calls started with an update on the health and wellbeing of our workforce.

All discussions, assessments and conversations focus not only on delivering increased value for shareholders, but also assess the impacts of our decisions and strategies on the Group's wider stakeholders. The Board recognises the importance of regular, open and constructive dialogue with shareholders and other stakeholders and this has long been a key aspect of our culture and of our decision-making.

Engagement with our shareholders

Dialogue with investors continues throughout the year, not only ahead of the AGM. The Group's Investor Relations team coordinates ongoing communication with shareholders and analysts and the Board receives regular updates on the views of the Group's shareholders. Celia Baxter, as Chairman of the Remuneration Committee, leads the engagement with shareholders when we have remuneration matters to discuss; such as our approach to updating our remuneration policy that will be brought to the 2020 AGM for our shareholders to vote on. Rupert Soames, as Senior Independent Director, has led the engagement with our shareholders about succession planning for the Chairman's role and that is described later in this report.

Engagement with our workforce

Our engagement with our workforce is being developed further, making good use of the already well-established European Works Council (EWC) structure. EWC representatives meet very regularly with our Group Chief Executive; members of management attend parts of EWC meetings and this year an EWC representative has joined two meetings of the Remuneration Committee. The Remuneration Committee has also developed the work started last year in relation to our culture and reward principles, looking at the full range of elements that make up the remuneration of our workforce and seeing how the implementation of our reward principles operates in practice in different countries and in different sectors. More detail about these workstreams is included in that Committee's report. Celia Baxter, the Chairman of our Remuneration Committee, has also met with the EWC Executive and discussed with them the role of the Remuneration Committee and its activities in the course of the past year, both giving a presentation and taking questions.

The regular schedule of reporting to the Board includes, in relation to our workforce, such matters as reviewing the outcomes from the employee engagement surveys and the regular schedule of reporting to the Nomination Committee includes the review of employee talent. All these activities ensure that the voice of our workforce is heard regularly in the boardroom.

Engagement with our suppliers, customers and other stakeholders

The business relationships with our suppliers and customers and other stakeholders, such as regulators and non-governmental organisations, are matters which the Group Chief Executive covers in his regular reports to the Board. The Board also receives regular updates from the Group procurement function. Complementing the regular briefings from operational and functional management about Group-specific matters (such as reports from our Corporate Affairs Director on progress made during the year on both sustainability and our programme of wider engagement in the community and the report to each Board meeting on health and safety), the Board also has a programme of briefings from the Group's external advisers on a range of topics. This enables current and future plans to be set in the wider context of the broader environment. This covers not just topics currently visible, but emerging areas of interest and concern across a diverse range of fields. It included, for example, a presentation in January about innovation and a presentation from our brokers about the Company's position in the market. However this is an area where the Board recognises that more could be done. One of the actions from the 2020 Board evaluation is to change the frequency of Board discussions on topics such as relationships with customers and suppliers and our continuing engagement with the Ellen MacArthur Foundation.

Board engagement through site visits

Board site visits are an important way in which Board members can engage both with our employees and our customers and suppliers, hearing at first hand how our Group Purpose of 'Redefining Packaging for a Changing World' is being put into practice. In October 2019 our Board visited one of our kraft paper mills, which had been acquired as part of the Europac acquisition and updated, from an operational perspective, their knowledge of the supply engine side of our business, as well as experiencing at first hand how the Europac integration was progressing. Non-Executive Directors can also visit sites individually, as Celia Baxter, David Robbie and Rupert Soames have done as part of their induction programmes.

The regulatory requirement is to include in the Strategic Report a statement about the Directors' compliance with section 172 of the Companies Act 2006 concerning taking into account the interests of a variety of stakeholders. This is on page 15. What that statement means in practice is also illustrated in this part of the report, including with case studies. These link to the topics covered in section 1 of the Code (board leadership and company purpose). At this point in our report we also explain how we have applied the principles of section 1 and how we have put the provisions of that Code section into practice.

In addition to the regulatory requirement about section 172 of the Companies Act 2006, this year there is also a new requirement to make a statement about the Company's engagement with the wider UK workforce and with suppliers and customers. The methods of engagement in the UK and across the wider workforce are broadly the same, so we have cross-referenced, not repeated, our disclosures on these matters.

Statement about the Company's engagement with the wider UK workforce

More detail about how we realise the potential of our people by engaging with our wider workforce wherever they are based (not just our employees and not just those based in the UK) is set out on pages 24 to 29 of the Strategic Report.

Statement about the Company's engagement with suppliers and customers

More detail about how we engage with our customers and the importance of sustainability throughout our supply chain is set out on pages 22 and 23 and 30 to 33 of the Strategic Report.

Throughout the uncertain times of Covid-19 the safety and wellbeing of our people has been our first priority, while recognising our responsibility to support our customers as they keep essential goods such as food and pharmaceuticals moving. All our decisions are taken in that context.

CASE STUDY

Community

The core themes of our community programme are improving the environment and inspiring the next generation, topics the Board value learning more about in regular updates, hearing most recently that all DS Smith sites with more than 50 employees had completed community projects linked to those themes.

CASE STUDY

Environment

The Board receives regular updates on our broader sustainability performance, most recently discussing progress against our long-term sustainability targets, our carbon emissions reduction ambitions, our role in protecting global forestry and the positive role we can play in society's replacing of problem plastics.

CASE STUDY

Employees

EWC representatives meet very regularly with our Group Chief Executive, talking about a wide range of topics such as our 'heat stress protocol' that further enhances health and safety in our workforce and our rehabilitation programme supporting those returning to the workplace following long-term illness.

CASE STUDY

Employees

The UK workforce was surveyed about pensions and material from that survey, including individuals' comments, was presented by the EWC representative to the Remuneration Committee at its January 2020 meeting. This provided the starting point for an informative discussion.

Division of responsibilities

Division of responsibilities of the Board and its principal committees

The Board

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

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

Chairman

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

Senior Independent Director

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

Group Chief Executive

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

Non-Executive Directors

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

Section 2 (division of responsibilities) of the Code sets out matters relating to independence of Directors and the structure of the Board and its Committees. We cover these items in this part of the report and in the Nomination Committee report that follows, where we also have more information about the independence of Directors.

Board and Board Committee meetings attendance

	Board	Nomination Committee	Audit Committee	Remuneration Committee	Annual General Meeting
Total number of meetings in 2019/20	7	6	4	6	1
Executive Directors					
Miles Roberts	7/7	6/6	n/a	n/a	1
Adrian Marsh	7/7	n/a	n/a	n/a	1
Non-Executive Directors					
Gareth Davis	7/7	6/6	n/a	6/6	1
Celia Baxter – joined the Board on 9 October 2019	4/4	4/4	2/2	4/4	n/a
Chris Britton	6/7	6/6	4/4	6/6	1
Jonathan Nicholls - retired from the Board on 3 September 2019	2/2	2/2	1/1	2/2	1
Kathleen O'Donovan - retired from the Board on 3 September 2019	2/2	2/2	1/1	2/2	1
David Robbie	7/7	6/6	4/4	6/6	1
Louise Smalley	7/7	6/6	4/4	6/6	1
Rupert Soames	7/7	6/6	3/4	6/6	1

In addition to the seven scheduled Board meetings, four ad hoc Board meetings were held to discuss business matters that the Chairman and Group Chief Executive decided should be considered by the Board. All Directors received papers for all meetings and had the opportunity to comment in advance of meetings they were unable to attend. Chris Britton was unable to attend one Board meeting due to ill health and Rupert Soames was unable to attend one Audit Committee meeting due to a prior business commitment.

Board's principal committees

Audit Committee

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

For more information see page 80

Nomination Committee

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

For more information see page 74

Remuneration Committee

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

For more information see page 86

Board standing sub-committees

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

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

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

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

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

Management committees

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

Group Health, Safety, Environment and Sustainability Committee

Meets monthly

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

Group Operating Committee

Meets monthly

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

Group Strategy Committee

Meets monthly

Plans the business strategy implementation as approved by the Board and set out by the annual corporate plan process. The corporate plan is used to develop the Group's strategy, based on the set strategic direction. The corporate plan's focus is primarily on strategic actions, supported by high level financial information. Our corporate plan covers a three-year time horizon and is reviewed annually by the Board.

Group Compliance Committee

Meets quarterly

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

Composition, succession and evaluation

Board evaluation in practice

Formal evaluation is a valuable tool for improvement. It can be used iteratively as part of a structured process to build, year by year, on the assessments of prior years. It can help inform decisions about succession planning for the Board and senior management and therefore the composition of the Board. As well as giving a structured opportunity to consider areas for potential future development, a formal evaluation is an opportunity to think consciously about what has worked well and how to maintain that in the coming year, as well as what has been less effective and how that might be changed.

During 2019 the then Senior Independent Director led the consultation with shareholders as the length of service Gareth Davis had rendered to the Board neared nine years. Our shareholders agreed with the Board's view that Gareth's independence, respected position with UK investors and above all the strength of his leadership of the DS Smith Board and knowledge of the Company were essential as the Group integrates its Europac and Interstate Resources acquisitions, maintains its focus on driving strong cash generation and delivers against its long-standing strategic priorities. Therefore, as previously announced, it has been agreed with Gareth that he will continue as Chairman until 3 January 2021, providing continuity through a period of structured change for the Board. The Board notes that this means that Gareth will have served as Chairman for nine years, having originally joined the Board in June 2010 as a non-Executive Director, and that under the Code, particularly where a chair was a non-executive director on appointment, it is permitted to extend the chair's time on the Board beyond nine years to facilitate effective succession planning of the Board. Rupert Soames, the current Senior Independent Director, led the succession process. The role of the Chairman of DS Smith was carefully specified along with the desired attributes and characteristics of potential candidates. The recent announcement of Geoff Drabble's appointment with effect from 1 September 2020 to the Board, as Chairman Designate and a non-Executive Director, will facilitate a suitable period of induction and handover, enabling seamless succession.

This year we have undertaken an internal evaluation of the Board, its Committees and Directors. Next year, when the Directors appointed in 2019 and 2020 will have greater experience of the cycle of Board activity, we will arrange an external Board evaluation.

Part way through the 2019/20 year we reviewed the action plan that had been agreed as part of the 2019 evaluation and looked at how fully we had addressed those actions, which included:

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

The Chairman and the Group Company Secretary then prepared a questionnaire that was adapted from the prior year's questionnaire to bring into focus the Board's assessment of their progress on the 2019 action plan and to draw out areas of the Audit and Remuneration Committees' work that might benefit from reflective challenge as part of the 2020 evaluation.

Responses from each of the Directors to that questionnaire were used by the Chairman in the private meetings that he had with each Director to discuss more fully their responses to the questionnaire and related topics. In addition Rupert Soames, as Senior Independent Director, reviewed the feedback from all Directors on the Chairman's performance and subsequently discussed this with the Chairman.

Taking into account both the responses to the questionnaires, and the various subsequent discussions, an action plan for the coming year was developed. A draft of this action plan was discussed by the Board at its April 2020 meeting. That was then updated, finalised and approved at the end of June. Once again progress against the finalised plan will be assessed mid-year. At that time the Board will also consider the tender process for, and timing of, the external evaluation in 2021.

The Board agreed a number of actions arising from the 2020 Board evaluation, particularly concentrating on succession planning and broadening the diversity of sources of information that the Board draws on. The agreed actions include: assessing ways that the Nomination Committee could work more effectively; understanding better the reasons for the length of time it takes for recruitment to senior roles and how the process might be improved; spending more time and attention looking at insights around global, societal and consumer trends, utilising both internal and external expertise; deepening and changing the frequency of Board discussions of briefings (including metrics) on topics such as relationships with customers, suppliers and the businesses' efforts and involvement in the many and diverse communities in which we operate.

This section and the Nomination Committee Report that follows explain how we have applied the principles in section 3 (composition, succession and evaluation) of the Code and how we have put the provisions of that section into practice.

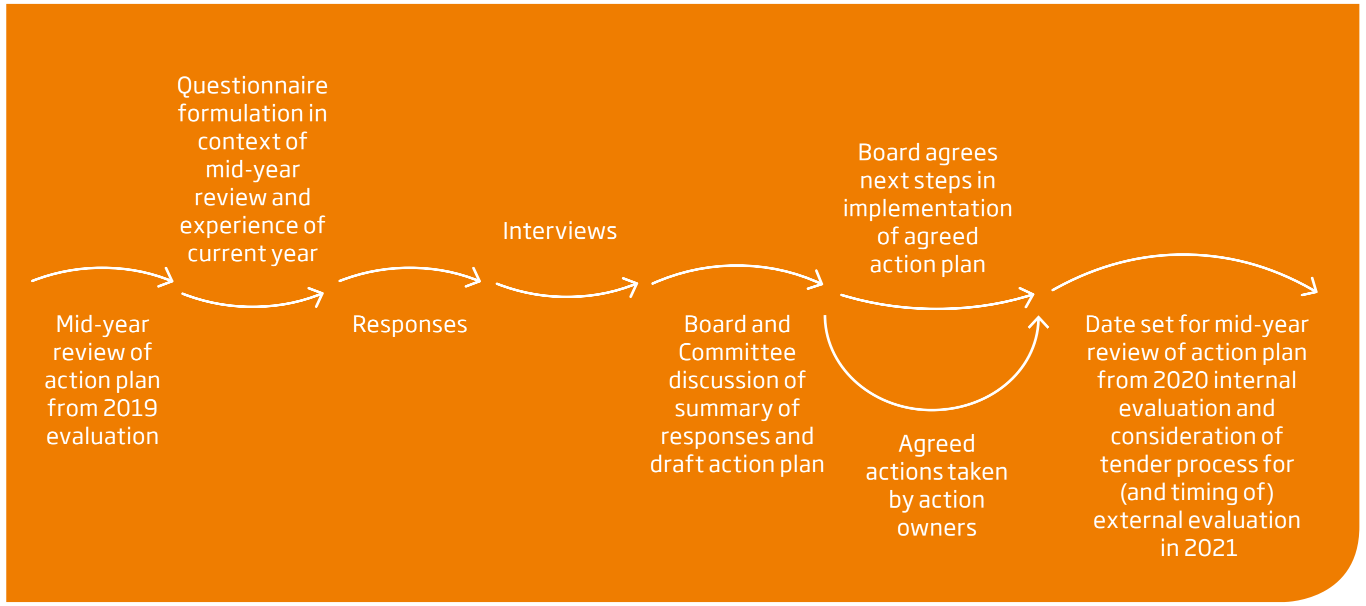
Overall it was felt that the Board and its Committees are working effectively within a strong framework of corporate governance and focusing on the challenges facing the business. The new non-Executive Directors have settled well and are making a real difference with a high level of engagement and contribution.

As with every high performing board, the Directors will continue to watch for areas of improvement, not just when Board evaluation is a formal agenda item at a Board meeting. For example, given the success of the Board's visit to its facility in Viana, Portugal (a facility acquired as part of the Europac purchase), the Board considered holding more than one site visit in its annual cycle of business. It was concluded that one site visit a year is appropriate, but individual non-Executive Directors are encouraged to undertake site visits on an individual basis, where their itinerary offers that opportunity.

Succession and composition

More details about succession planning are set out in the Nomination Committee Report, later in this Report. More details about the current composition of the Board are set out in the biographies of the Directors on pages 66 to 67. Jonathan Nicholls and Kathleen O'Donovan retired from the Board on 3 September 2019, Celia Baxter joined the Board with effect from 9 October 2019 and Alina Kessel joined the Board with effect from 1 May 2020. All the other Directors held office throughout the year under review. In June 2020 it was announced that Geoff Drabble will join the Board with effect from 1 September 2020 as Chairman Designate and a non-Executive Director.

2019/20 Board evaluation process



Nomination Committee Report

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

– **Gareth Davis,** Chairman of Nomination Committee

Dear shareholders

The Nomination Committee supports the Board in executive and non-executive succession planning. Our principal objectives as a Nomination Committee are:

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

Our key responsibilities

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

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

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

Our year under review

Succession and diversity at Board and senior management levels continue to be key aspects of our agenda as a Committee. That was the case last year, and is still the case this year. I make no apology for this. It is a continuing programme, not a one-off event. We are taking proactive steps to develop the strength of our senior management and the cognitive diversity within the teams. We did not make as much progress as quickly as we would have liked in relation to diversity at Board and senior management levels, nor in the robustness of our succession planning. We have been successful in appointing a Chairman Designate and new Chairmen for our Audit and Remuneration Committees, as well as a new Senior Independent Director; changes arising from the retirement of longer-serving non-Executive Directors due to the time limitations in the new Code for non-Executive Directors.

We know that one of the ways in which we deliver our Purpose is by thinking differently, both from each other and from previously received wisdom. Some of those differences in ways of thinking come from differences in life experience. Not only do we need a range of different ideas, we then, crucially, need the skills to harness those different ideas and deliver for our shareholders as well as our other stakeholders.

Our priorities over the year were:

- To scope out the key skills, experience, characteristics and requirements for new non-Executive Directors. Celia Baxter was appointed with effect from 9 October 2019, Alina Kessel was appointed with effect from 1 May 2020 and in June 2020 it was announced that Geoff Drabble will join the Board with effect from 1 September 2020 as Chairman Designate and a non-Executive Director
- To keep under review succession planning at the Executive Director level and support succession planning at senior management levels
- To keep under review our leadership needs, both executive and non-executive, with a view to ensuring the continued ability of DS Smith to compete effectively in the marketplace
- To monitor the Group's progress towards increasing the relative number of women in senior management positions.

Membership and operation of the Committee

Member	Since
Gareth Davis (Chair)	2010
Celia Baxter - with effect from 9 October 2019	2019
Chris Britton	2013
Miles Roberts	2010
David Robbie	2019
Louise Smalley	2014
Rupert Soames	2019

Jonathan Nicholls and Kathleen O'Donovan retired from the Board and its Committees on 3 September 2019. Alina Kessel joined the Board and its Committees with effect from 1 May 2020.

During the year, the Committee held six formal meetings and there were regular updates between formal meetings. Details of individual Directors' attendance can be found on page 70. The Group General Counsel and Company Secretary acts as Secretary to the Committee.

Succession planning and recruitment

The process for the appointments of Celia Baxter and Alina Kessel as new non-Executive Directors began with inviting a number of recruitment firms to participate in a selection process, focusing on a series of key questions in order to identify the appropriate consultants to support our search. Inzito were selected in that process.

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

A similar process was followed in relation to the recruitment of Geoff Drabble to replace me as Chairman, again with Inzito leading the search.

Apart from assisting with recruitment, Inzito has no other connection to the Company. In terms of relationships with Directors, Inzito has been retained by one of the Whitbread business units to recruit internal senior management. There were at 30 April 2020 no current live vacancies and the relationship is indirect with Louise Smalley who has not been directly involved in any search. Inzito has no other connection with any individual Directors. (As mentioned in the 2019 Annual Report, Russell Reynolds Associates were used to recruit Rupert Soames and David Robbie.)

Induction, training and development programmes

Upon appointment to the Board, Directors undertake an induction programme, receiving a broad range of information about the Group tailored to their previous experience. This includes information on the operational performance and business of the Group and details of Group strategy, corporate governance and Board procedures. Celia Baxter (like Rupert Soames and David Robbie who were appointed earlier in 2019) undertook an induction programme tailored to her, including visits to our sites at Kemsley and Fordham in the UK to support her understanding of the operational aspects of our businesses. Alina Kessel and Geoff Drabble will also undertake tailored induction programmes; Alina's being tailored to this being her first role on the board of a publicly listed company.

Each visit in the induction programme gives a range of opportunities to learn more about DS Smith. For example, when Celia visited the Fordham site she did so in the company of other recent joiners and discussed with them their roles and journeys to joining DS Smith. That site visit also included a presentation about the 'DS Smith Way' and the leadership and softer skills that make that an effective programme of continuous improvement, being rolled out across the Group. At the Kemsley site she saw innovative new equipment for testing the quality of bales of recovered paper and cardboard as they arrive at the site and also saw the construction of a new energy from waste plant which will soon supply steam to Kemsley mill.

Assisted by the Group Company Secretary, I have responsibility for these induction programmes, and also for the Board's training and professional development. Directors have been given training and presentations during the course of the year on topics such as cyber security and the UK Corporate Governance Code to keep their knowledge current and enhance their experience. In October 2019 the Board combined a site visit and Board meeting at its acquired facility in Viana, Portugal. This was a very successful visit and the local management team provided an impressive briefing on their operation and how the DS Smith way of working has been embraced.

Directors will continue to receive regular training updates from appropriate external specialists on governance issues, financial and reporting standards, digital development, cyber security and sustainability. In addition, Directors are fully aware of their own responsibility for identifying and satisfying their own specific training requirements.

Nomination Committee Report (continued)

Time commitments

Under the Code the reasons for the Board permitting its members to enter into significant new external appointments should be explained in the Annual Report. During the course of the year the Board approved my appointment as non-executive director of Gresham House plc and as non-executive deputy chairman of M&C Saatchi plc, which, following my recent retirement from the Board of Ferguson plc, did not increase my overall time commitment to external organisations. The nature of Chris Britton's portfolio of interests means that from time to time he buys and sells interests in companies and sometimes joins their boards. These board positions are disclosed to the Board and, while their identity changes, overall his time commitment to them is broadly constant. David Robbie, having been non-executive director at FirstGroup PLC since 2018, and being the senior independent director, took on the role of interim Chairman there on a temporary basis in July/August 2019, which broadened his experience, but, as he is a director of only two listed companies, did not over-extend his time commitment. Adrian Marsh, with the Board's prior approval, joined the board of John Wood Group PLC in May 2019, later becoming the chair of its audit committee and further broadening his experience. Directors do not take part in any discussion concerning their own external appointments.

As part of the process this year of Celia Baxter's appointment to the Board, we assessed the time commitments required by her other roles and noted that her role as Senior Independent Director of Senior plc and as Remuneration Committee Chairman of RHI Magnesita N.V., as well as being, at that time, on the board of NV Bekaert SA, meant that, in addition to her experience in a variety of roles with London listed companies, she also had the benefit of the experiences of being a director of companies listed outside the UK. A similar assessment was undertaken as part of the process of appointing Alina Kessel to the Board, noting the value of her experience of living, as well as working, in a variety of countries, along with her marketing and communication experience which is kept current in her senior role with WPP. In relation to Geoff Drabble's appointment, the Committee noted the value of his range of extensive experience, particularly internationally, while also giving careful consideration to the time commitments required by his other roles.

The experience gained in all these external roles held by our Board members broadens and deepens the knowledge and experience of the Directors, which in turn benefits the Company.

During 2018/19 the Nomination Committee reviewed the contingency plan for unexpected departures and the Group Chief Executive's succession plan. The plan envisages the role being filled by either internal or external candidates and at our September 2019 meeting the Committee looked again at those plans and was briefed by the Interim Group HR Director on the talent review recently undertaken in relation to the Group's top 120 management positions and associated leadership development programme being held at Oxford's Saïd Business School.

During 2020 Rupert Soames, as Senior Independent Director, chaired the Nomination Committee when the Committee considered matters relating to the succession planning for the role of Chairman. More information about that process is set out on page 75.

Diversity

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

The Board diversity policy (most recently reviewed by the Board in April 2020) is a policy which acknowledges the importance of diversity and includes an explicit requirement to take into account diversity when considering appointments to the Board. The Board recognises that some challenges in achieving diversity arise from social contexts with impacts not limited to the DS Smith Group, but the Board remains committed to ensuring that all have an equal chance of developing their careers within our business. (See pages 26 and 27 for more about our programmes to develop diverse leadership talent; from whom might be drawn a future generation of non-executive directors.)

Following Celia Baxter's appointment to the Board in October 2019, 25 per cent of our Board members were women. As at 1 May 2020, following Alina Kessel's appointment 33 per cent are women, meeting the Hampton-Alexander Review's target before their suggested deadline of the end of 2020. (This percentage will reduce on 1 September 2020 when Geoff Drabble joins the Board and will increase again following Chris Britton's retirement from the Board at the 2020 AGM.) We are aware of the Parker Review recommendation that each FTSE 100 Board should have at least one director from an ethnic minority background by 2021.

Our most recently published UK gender pay gap report is available on our website. We know that we have a relative lack of women in senior management positions and year by year the percentage of women in the roles that are defined as senior management roles will fluctuate (see pages 28 and 29 for details).

Independence and re-election of Directors

Biographical details of each Director, including their other directorships, their skills and experience, can be found on pages 66 and 67.

The Nomination Committee makes an assessment each year of the criteria set out in the Code concerning independence and the Committee also reviews the time commitment of non-Executive Directors to assess whether each has sufficient time to discharge their duties. The Committee confirms that all the non-Executive Directors are independent and each has sufficient time to discharge their duties.

The Nomination Committee this year considered the then current term of appointment to the Board of Chris Britton and Louise Smalley and reviewed their commitment and contribution to the Board and its Committees, as well as the balance of their skills, knowledge and experience with those of the other Directors. (Directors do not participate in any debate or decision about their own re-appointment.) The Committee recommended to the Board that each of their respective letters of appointment should be renewed, in each case for a further year, although Chris Britton has subsequently decided to retire from the Board at the conclusion of the 2020 AGM. The expiry date of the current term of each of the non-Executive Directors is set out on page 107.

Information about this year's evaluation of the Board and its Committees and the Directors and the resultant action plan can be found on pages 72 and 73. The Nomination Committee evaluation feedback recognised that the Board lacked the desired international diversity. Since then Alina Kessel has been appointed to the Board. She was born in the Ukraine, was educated in the US and is now a US citizen. She has also lived and worked in the UK, US, Australia and Germany.

Looking forward

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

- Assess ways that the Nomination Committee could work more effectively
- Understand better the reasons for the length of time it takes for recruitment to senior roles and how the process might be improved
- Continue to increase the focus on succession planning for our Executive Directors and Group Operating Committee members. Through both our organic growth and acquisitions, DS Smith has a significant pool of executive talent and the Committee will oversee the structure and processes in developing these executives for potential succession and will ensure they are benchmarked against external talent.

Gareth Davis
Chairman of the Nomination Committee

1 July 2020

Audit, risk and internal control

Risk management and internal control

The Board has overall responsibility, and retains ultimate accountability, for establishing and maintaining the Group's systems of risk management and internal control (including financial, operational and compliance controls) and for reviewing their effectiveness. The Board can confirm that it has carried out its 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 annual review has benefited from the different insights of the incoming Audit Committee Chairman, particularly his focus on summary documentation of frameworks of internal control and compliance therewith.

These systems are designed to identify, 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 established and ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This includes a process of self-certification by senior divisional management, confirming that their divisions have complied with Group policies and procedures and reporting any significant control weaknesses identified during the past year. In addition, it includes reviewing the results of the work of the Group's Internal Audit function and Group governance and compliance teams and the adherence to the risk identification and management processes identified above.

These procedures have continued to be in place throughout the 2019/20 financial year and up to and including the date of the approval of these financial statements.

The Board also has procedures in place to ensure that its powers to authorise conflicts are operated effectively. These procedures were followed throughout the year ended 30 April 2020 and to the date of this report.

Risk management

Our risk management framework and processes operated as expected during the year to identify, assess and consider the possible remedies and responses to the principal risks and uncertainties the Group faces. The Group aims to continuously improve the management of its key risks, including through the operation of the Group Compliance Committee, and seeks to be in a strong position to absorb the financial, operational and reputational impacts should those risks materialise. The Board is encouraged by the continuing work across the Group and its divisions, the investments being made in risk management and the growing interest and skills of our employees in this area.

Further details on the Group's risk management approach, including its emerging risks reporting, and its management and mitigation of each principal risk, are set out in the principal risks section on pages 51 to 59, which also includes the Group's viability statement on page 53. Emerging risks are reported on as part of the risk management reviews. Integrating them into the reporting processes supports the Board in maintaining a clear overview, taking account of the experiences gained from Covid-19 and the effect of rapidly changing external environments.

Internal control

The Board determines the objectives and broad policies of the Group and meets regularly, when a set schedule of matters which are required to be brought to it for decision is discussed. Overall management of the Group's risk appetite, its tolerance to risk and discussion of key aspects of execution of the Group's strategy remain the responsibility of the Board. The Board has delegated to the Audit Committee the responsibility for establishing a system of internal controls appropriate to the business environments in which the Group operates. Key elements of this system include:

- A clearly defined divisional organisation structure for monitoring the conduct and operations of individual business units
- Clear delegation of authority throughout the Group, starting with the matters reserved for the Board
- A formal process for ensuring that key risks affecting operations across the Group 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 at all levels and the most significant risks are periodically reviewed by the Board. 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 and the previous year, with explanations obtained for all significant variances
- The Operating Framework which outlines key control procedures and policies to apply throughout the Group. This includes clearly defined policies and escalating authorisation levels for capital expenditure and investment, with larger capital projects, acquisitions and disposals requiring Board approval. This framework is kept under periodic review. For example, in January 2020 the Board reviewed and approved an updated Treasury Risk Management Policy and associated documentation
- Regular formal meetings between the Group Chief Executive, the Group Finance Director and divisional management to discuss strategic, operational and financial issues
- Communicating key corporate values through our Code of Conduct and associated policies to all employees.

The framework of internal control has continued to operate throughout the Covid-19 pandemic.

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 control, makes recommendations to improve control processes and follows up to ensure that management implements the recommendations made. Internal Audit's activities are supported and complemented by Group governance and compliance teams. These teams both broaden and deepen the coverage of governance and compliance assurance for the Group.

The Internal Audit plan together with the work plan of the Group governance and compliance teams is determined on a risk assessment basis and is reviewed and approved by the Audit Committee.

Findings from Internal Audit and Group governance and compliance teams are reported to Group and divisional business management as well as to the Audit Committee.

Annual risk reporting cycle

May – Jul	Aug – Oct	Nov – Jan	Feb – Apr
Group Compliance Committee reviews a selection of Group function and/or divisional risks including 'deep dive' risk investigation **Internal Audit** reviews their programme and key control risks **Audit Committee** reviews Group risks, viability and risk management effectiveness including go forward actions to implement **Group Risk** provides feedback to divisions and Group functions on risk assessments	**Divisions** update risk assessments and integrate into their corporate plans **Group Compliance Committee** reviews a selection of Group function and/or divisional risks **Group Strategy Committee** undertakes an assessment of the principal risks **Internal Audit** reviews their programme and key control risks **Audit Committee** reviews and approves completed internal audit reports and reviews status of programme	**Internal Audit** updates review of internal audit programme and key control risks **Audit Committee** further updates and approves completed internal audit reports and ongoing internal audit work **Board** reviews principal risks and uncertainties, risk appetite and tolerance, and business viability as part of corporate plan discussions **Group Risk** updates guidance for completion of risk assessments by divisions / Group functions	**Group functions, divisions and regions** produce year-end review of principal and business risks **Internal Audit** undertakes the year-end assessment of internal audit needs **Group Compliance Committee** reviews a selection of Group function and/or divisional risks **Audit Committee** reviews Group and divisional risk reports, annual internal audit needs assessment, including audit plans and recommendations

This section explains how we have applied the principles in section 4 (audit, risk and internal control) of the Code and how we have put the provisions of that section into practice, firstly through matters that come before the full Board and secondly through the detailed work of the Audit Committee which is reported on in the Audit Committee Report that follows.

Audit Committee Report

"A key element of the Committee's oversight role is to challenge management and test the validity of any critical assumptions, never more so than in times of uncertainty."

– David Robbie, Chairman of Audit Committee

Dear shareholders

The Audit Committee supports the Board in its oversight of the control framework across the Group. Our principal objectives as an Audit Committee are:

- To monitor the integrity of the Group's reporting process and adherence to the Group's accounting policies and procedures
- To ensure that risks are carefully identified and assessed; and that sound systems of risk management and internal control are implemented.

This is my first year as your Audit Committee Chairman and I have been impressed by the professionalism, integrity and commitment shown by all involved in the preparation of the 2020 financial statements and this Annual Report during the challenging circumstances caused by the restrictions imposed in response to the Covid-19 pandemic.

Our role

The Audit Committee's role is pivotal in ensuring the robustness of the Group's risk management activities and internal control environment, thereby ensuring the integrity of the financial reporting process. The Chairman of the Audit Committee attends the Company's AGM and makes himself available for any shareholder questions on the Committee's remit.

Membership and operation of the Committee

Member	Since
David Robbie (Chair)	2019
Celia Baxter	2019
Chris Britton	2013
Louise Smalley	2014
Rupert Soames	2019

Jonathan Nicholls and Kathleen O'Donovan retired from the Board and its Committees on 3 September 2019. Celia Baxter joined the Board and its Committees on 9 October 2019. Alina Kessel joined the Board and its Committees on 1 May 2020.

The Audit Committee met on four occasions during the year, with meetings scheduled to align with the Group's external financial reporting obligations. Details of individual Directors' attendance can be found on page 70. As and when required, the Audit Committee members and I were joined by the Group Chief Executive, the Group Finance Director, the Group Financial Controller and representatives from the external Auditor and Internal Audit for parts of these meetings, by invitation. The external Auditors were not present at meetings where their performance and/or remuneration was discussed. The Audit Committee also met privately with the external Auditors as appropriate.

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

The Board is satisfied that I, as Chairman of the Committee, and the other members of the Audit Committee have both current and relevant financial experience (as set out on pages 66 and 67) and that the Audit Committee, as a whole, has competence relevant to the sector (namely manufacturing) in which the Company operates.

In addition to the scheduled Committee meetings, I, as Chairman of the Audit Committee, held separate individual meetings during the year with representatives from Internal Audit, the Group Finance Director and his team and the external Auditor.

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

Matters particularly focused on by the Audit Committee in its discussions with management include:

Risk management, internal control and compliance enhancements
Quality of earnings
Financial commitments and liabilities
Update on M&A-related activity
Pensions (including sensitivity analysis)
Taxation matters, including review of strategy and risks
Internal Audit status update, in-house governance compliance and corporate governance update

June 2019	October 2019	December 2019	April 2020	June 2020
• Review of the 2018/19 Annual Report and announcement, including a review to ensure the report was fair, balanced and understandable • Going concern and viability statement • Impairment assessment review • Review of adjusting items policy • IFRS 16 *Leases* forecasted impact • Review of risk appetite and tolerance statement • 2019/20 Internal Audit plan • External Auditor report	• Going concern • Revised segmental analysis • IFRS 16 *Leases* first-time adoption: presentation and disclosure in half-year reporting • Interstate put option update • Ovar and Normandie remedy disposal update • Update on external Auditor plan and fees (including for non-audit services) • Review of ethics and compliance report • Technical training plan agreed for Audit Committee members	• Update on half year forecast results • Review of announcement of half year results • Update on Europac acquisition fair valuation exercise • Cyber risk and security update • Shared services centre update • Annual review of Group's ethics and anti-trust policies • External Auditor half year report	• Update on full year forecast results and trading outlook • Impact of Covid-19 on trading results • Interim going concern assessment, including Covid-19 impact • Annual impairment review • FRC request for information letter • Update on triennial pensions valuation • Effectiveness of internal controls review • Update on external Auditor plan and fees (including for non-audit services)	• Review of the 2019/20 Annual Report and announcement, including a review to ensure the report was fair, balanced and understandable • Going concern and viability statement, including Covid-19 impact assessment • Impairment assessment review • Effectiveness of internal control framework update • Review of adjusting items policy • Review of risk appetite and tolerance statement • 2020/21 Internal Audit plan • External Auditor report

Our key responsibilities

As a Committee we have delegated authority from the Board to focus on the following key responsibilities:

- Ensuring the integrity of financial reporting and associated external announcements
- Reviewing and challenging the application of the accounting policies and principles reflected in the Group's financial statements
- Managing the appointment, independence, effectiveness and remuneration of the Group's external Auditor, including the policy on the supply of non-audit services
- Initiating and supervising a competitive tender process for the external audit when next required
- Monitoring the adequacy and effectiveness of the internal control environment
- Challenging the plans and effectiveness of the Internal Audit function, currently performed on the Group's behalf by KPMG LLP, which is independent from the Group's external Auditor
- Overseeing the Group's risk management processes and performance
- Reviewing the effectiveness of established fraud prevention arrangements and thoroughly investigating reports made through the confidential 'Speak Up!' policy process
- The Group's compliance with the applicable UK Corporate Governance Code (Code)
- Providing advice to the Board on whether the Annual Report and financial statements, when taken as a whole, is fair, balanced and understandable and provides all the necessary information for shareholders to assess the Company's performance, business model and strategy.

Audit Committee Report (continued)

Risk management, internal control and Internal Audit

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

The Audit Committee considered the Group's risk management activities during the year (with discussion including such topics as risk assessment training and metrics for measuring emerging risks) and reviewed risk reporting to ensure that the balance between risk and opportunity was in keeping with the Group's risk appetite and tolerance. The Audit Committee is satisfied that the Group's executive compensation arrangements do not prejudice robust controls and good stewardship. 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 additional activity review summaries from internal compliance teams. The Committee keeps under review the effectiveness of the Internal Audit function, both as it assesses the content and delivery of the regularly received reviews, action plans and activity summaries and when the performance of the Internal Audit function is evaluated as part of the annual cycle, and remains satisfied that the quality, experience and expertise of the function is appropriate for the business.

During the year, management have commenced a review and enhancement of the Group's internal control framework. The current structure is being updated to broaden the highest level of minimum internal control standards that all sites must adopt, ensuring consistency across all locations; and increase the requirement for retaining documentation of controls being applied. The Committee has been actively involved in the review of the amendments, stressing the importance of documented evidence of controls being applied, and challenging management on the robustness of the update. The expanded framework is expected to be rolled out in the first half of the 2020/21 financial year.

A key element of the Committee's oversight role is to challenge management and test the validity of any critical assumptions, never more so than in times of uncertainty. In 2019/20 the Committee has increasingly focused on debating the cyber risks in operational technology and on encouraging a wide range of scenarios to be developed to enhance the supporting evidence in relation to the viability statement and going concern basis of accounting. Other discussions have probed the implications of the number of employees working from home, or other unaccustomed locations, due to Covid-19.

Confidential reporting

The Committee receives a separate report on matters raised through 'Speak Up!', the Group's confidential reporting channel, and any related investigations. The Code specifies that reports arising from such confidential reporting channels should either be reviewed by the Board or an explanation given. All Board members attend that part of the Audit Committee meeting when 'Speak Up!' and any related investigations are reported on. This means that representatives from both Internal Audit and the external Auditor (who attend the Audit Committee meetings but not Board meetings) can contribute their perspectives, which is a valuable part of the review process. Internal Audit also provide specialist support where such assurance is considered necessary.

Financial reporting

The 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. This is an important area of focus for the Committee that, at the request of the Board, undertook procedures to advise on this. Committee members gave input at various stages during the planning and drafting process, as well as took the opportunity to review the Annual Report as a whole and discuss, prior to the June Audit Committee meeting, any areas requiring additional clarity or better balance in the messaging.

Significant matters considered in relation to the financial statements

Issue	Review and conclusion
Classifications and presentation of adjusting items	The Committee considered the application of the Group's accounting policies, principles and disclosures in the financial statements that relate to critical accounting estimates and judgements, and challenged the underlying assumptions applied in areas including provisions (such as litigation and restructuring), adjusting items and the application of IFRS 16 *Leases*. Continued scrutiny over the appropriateness and application of the adjusting items policy was applied during the year, in particular around the continued costs incurred to deliver programmes to optimise the operational footprint. Such items include acquisition costs, integration costs, impairments and gains or losses on business disposals, which are classified as adjusting items because of their nature, incidence or size. The Directors have considered the increased regulator focus on Alternative Performance Measures but believe that identification and separate classification of these items assists in enhancing 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 Committee reviewed reports on the items provided by management and the external Auditor. This item is a recurring agenda item in all Audit Committee meetings. The Audit Committee is satisfied that the resulting presentation and disclosure of all accounting policies and principles is appropriate.
Going concern	The going concern assessment was undertaken against a backdrop of the Covid-19 pandemic. In preparing the assessment, management considered three scenarios – the base case, a downside case and an extreme downside case. The base case takes into account the estimated impact of the Covid-19 pandemic, reflects actual recent trading and is considered prudent by management. The downside and extreme downside cases reflect more significant declines in trading and are considered by management to be remote but possible. The Group has significant liquidity headroom in all the scenarios and so the focus of the assessment has been on the compliance with the Group's banking covenants. The Audit Committee reviewed the assumptions underpinning the scenarios, the mitigating actions and the corresponding results. The Audit Committee is satisfied that management's assessment in respect of going concern was conducted with due care and attention and that the resulting conclusions were reached appropriately.
Taxation	Taxation remains a key area of focus for the Committee, due to the continued level of fiscal authority activity, ongoing tax enquiries and disputes, and the Group's M&A activity. The Group is exposed to differing tax regimes and risks which affect both the carrying values of tax balances (including deferred tax) and the resultant income statement charges. The Audit Committee reviewed the tax charge for the half year and the full year, including the underlying tax charge, the appropriateness of and movement in tax provisions recognised and the risks associated with them. The Audit Committee is satisfied that the amounts recognised and the disclosure provided are appropriate.

Audit Committee Report (continued)

Other activities of the Committee

Financial Reporting Council (FRC) correspondence

In January 2020, the FRC issued a request for information to the Group in relation to the 2019 Annual Report. The information was provided and the enquiry closed with consequential disclosure recommendations reflected in the current year Annual Report. It was noted in that request that the review conducted by the FRC was based solely on the Group's published 2019 Annual Report and did not provide any assurance that the 2019 Annual Report is correct in all material respects.

In early November 2019, the FRC issued their annual advice letter to Audit Committee Chairs and Finance Directors. Items raised by the FRC, including IFRS 16 *Leases* disclosure and Alternative Profit Measures guidance, have been reviewed and appropriate disclosure updates reflected, where required.

Continued development

In order to help the Committee continue to meet its responsibilities, Committee meetings include regular corporate governance updates and briefings from external advisers, such as cyber specialists, or from members of senior management. The Committee also considered those aspects of this year's Board effectiveness review that related to its activities.

External Auditor

Effectiveness

The Audit Committee evaluates and monitors the effectiveness of the external Auditor, which includes a review of the qualifications, expertise and resources and confirmation of their independence, objectivity and effectiveness. This is conducted through direct assessment and recurring activities. As part of the current assessment of effectiveness, the Audit Committee has taken into consideration the updated guidance issued by the FRC. Based on evidence from management, the Auditor and, as appropriate, external sources together with its own experience, the Audit Committee assessed the mindset and culture, skills, character and knowledge, quality control and judgement of the auditor. The assessment considered the degree of challenge to management, the issues identified and the quality of explanations. The Audit Committee recognises that the quality of an audit is paramount. Particular note was taken of the current year audit work, considered against the backdrop of the Covid-19 pandemic, which has presented practical process challenges and required enhanced audit requirements. The Committee is satisfied with the effectiveness of the Auditor and that the current year audit was one of high quality.

The quality of the audit is also assessed by the Committee, informed by discussion of each post-audit review.

Separate to the meetings of the Audit Committee, I meet regularly with the lead external Audit engagement partner, as do other individual members of the Committee.

In December 2019, an update to the May 2015 Audit Committee Practice Aid on Audit Quality was published by the FRC. The update contained significant changes in respect of the external audit tendering process as well as refined guidance on the assessment of auditor effectiveness. The current approach to auditor effectiveness is being reviewed to ensure the effectiveness exercise complies with the new guidance.

Independence and objectivity

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

The Group has a policy on the supply of non-audit services by the external Auditor, which was most recently updated in April 2020. The policy prohibits certain categories of work in accordance with guidance such as the FRC Ethical Standard. It specifies that the Group should not employ the external Auditor to provide non-audit services where either the nature of the work or the extent of such services might impair their independence or objectivity. The external Auditor is permitted to undertake some non-audit services under the Group's policy, providing it has the skill, competence, integrity and appropriate independence safeguards in place 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. All proposed permitted non-audit services are subject to the prior approval of the Audit Committee.

Non-audit services and fees are reported to the Audit Committee twice each year. For guidance, annual non-audit fees payable to the external Auditor following the policy for 2019/20 should not exceed 70 per cent of the annual Group audit fee without prior formal approval by the Audit Committee. During 2019/20, total non-audit fees paid to the external Auditor of £0.3 million were 8 per cent of the annual Group audit fee (2018/19: £1.6 million: 46 per cent): see note 3 to the consolidated financial statements. The decrease primarily related to the one-off work performed in the prior year in relation to the acquisition of Europac. In addition, £9.6 million was paid to other accounting firms for non-audit work, including £0.8 million for work relating to internal audit.

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

Annually, the Audit Committee receives written confirmation from the external Auditor of the following:

- Whether they have identified 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
- The continued suitability of their quality control processes and ethical standards.

The external Auditor also confirmed that no non-audit services prohibited by the FRC's Revised Ethical Standard were provided to the Group or parent Company.

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

Auditor's fee and appointment process

External audit fee negotiations are approved by the Audit Committee each year. There are no contractual restrictions on the Group in regard to the current external Auditor'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.

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 and quality 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. Nicola Mitchell became the lead audit partner for the 2018/19 year end.

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

The Audit Committee confirms that the Company has complied with the provisions of the Competition & Markets Authority Order with regards to external audit tendering and audit responsibilities throughout its financial year ended 30 April 2020.

Looking forward

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

- Assess the implications of working in a 'with Covid' world
- Continue to monitor legislative and regulatory changes that may impact the work of the Committee, particularly any actions that the UK government may take in response to the recommendations in the Brydon Review, the CMA report or the Kingman Review
- Monitor adjusting items and policy.

David Robbie
Chairman of Audit Committee

1 July 2020

Remuneration Committee Report

"Our remuneration policy remains aligned to our strategy and rewards performance appropriately."

– Celia Baxter,
Chairman of Remuneration Committee

Dear shareholders

Introduction

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 30 April 2020, which sets out our implementation of the remuneration policy that was approved by shareholders at the Annual General Meeting (AGM) in September 2017. Our remuneration policy is due for renewal this year and will be put to shareholders for approval at our AGM in September, so this year's Remuneration Report also sets out on pages 91 to 98 the proposed new remuneration policy and reasons for our revisions.

As usual, my letter on pages 86 to 88, the summary on pages 89 and 90 and the Annual Report on Remuneration on pages 99 to 111 will also be presented for approval by an advisory vote at our AGM in September 2020.

Our purpose as a Remuneration Committee is to develop a reward package that supports our vision and strategy as a Group and to ensure the rewards are performance-based and encourage long-term shareholder value creation. The Group's strategy of being a leader in sustainable fibre-based packaging is being realised each time we provide innovative sustainable solutions to meet our customers' needs, which in turn drive the Group's ongoing profitability and cash flow, the current performance measures for our incentive plans. As a Committee we are mindful that some shareholders are encouraging companies to introduce strategic and ESG performance measures and we have the flexibility to introduce such metrics in the proposed new remuneration policy.

Our achievements

You can read about the achievements of our business during 2019/20 in more detail in the Strategic Report starting on page 1. This has been a year of progress with the continued integration of Europac, completing the sale of the Plastics division and opening a substantial new corrugated packaging site in the US. We are pleased with what we have delivered in difficult market conditions.

Highlights for the 2019/20 financial year are set out on page 1, these include:

- Return on sales of 10.9%
- Adjusted operating profit of £660 million, an increase of 5%
- 8% reduction in accident frequency rate.

There has been an unprecedented end to the 2019/20 financial year following the outbreak of Covid-19 and its impact on all aspects of our lives and on the business. Throughout the Group the safety and wellbeing of our workforce has been our first priority, thereby enabling us to support our customers and their supply chains, keeping them stocked with the essential goods we all rely on. In respect of the variable pay elements linked to the 2019/20 financial year, the Executive Directors waived their rights to any 2019/20 annual bonus prior to the end of the financial year and the 2019/20 Performance Share Plan (PSP) outcomes reflect the performance of the Group over the past three years of the performance period, with the Committee determining 35.2% of the maximum award will vest. Further details are set out on pages 102 and 103.

Our year under review

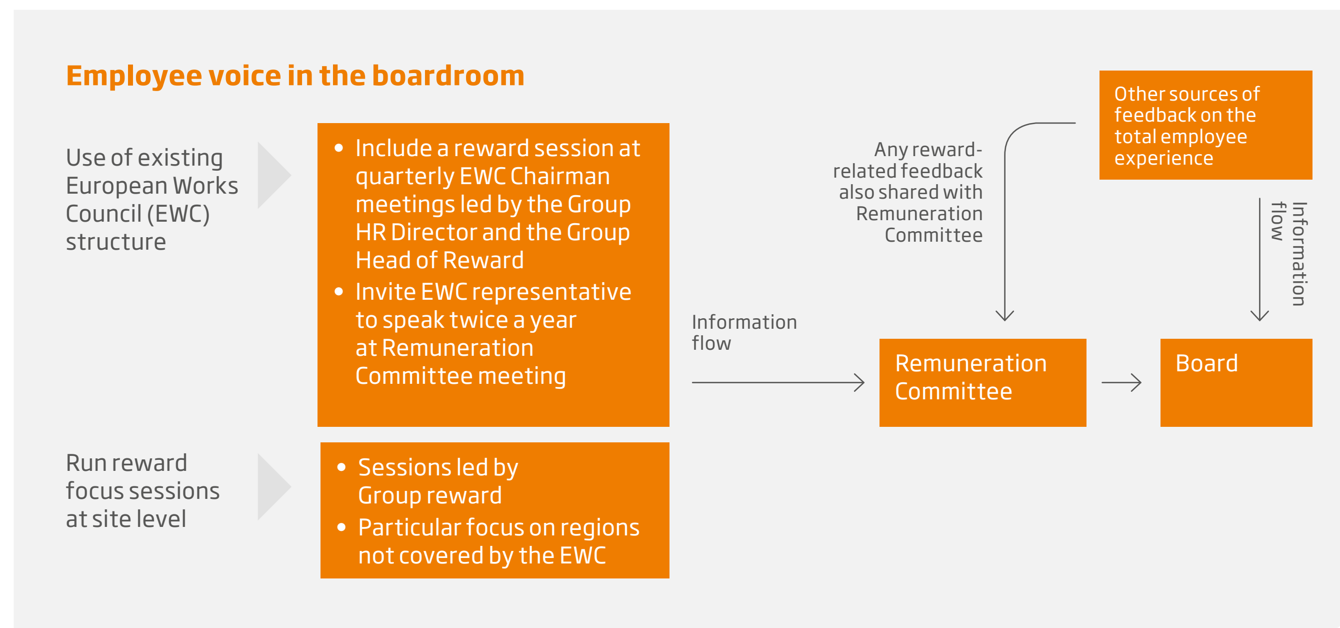
The key discussions and decisions taken during the year were:

- Reviewing, consulting on and revising our remuneration policy for 2020-2023
- As part of developing the Committee's understanding of the remuneration-related policies that apply to the wider Group's workforce, we have held a series of briefing sessions to further enhance our knowledge of the broader approach to reward being taken across the Group, building on the programme that started in 2018/19. During the year we reviewed the bonus and incentive plan opportunities, pension arrangements, the take-up and savings rates of our all employee share plans, the company car policy, and the shareholding policy for senior managers
- Considering the treatment of the outstanding unvested awards under the Performance Share Plan (PSP) and Deferred Share Bonus Plan (DSBP) held by Adrian Marsh, our Group Finance Director, who served notice of resignation from the Board and then withdrew that notice and deciding that those awards should not lapse with effect from the date that he served the subsequently withdrawn notice of resignation
- Approving the remuneration arrangements for joiners and leavers in the layer of senior management that reports to the Group Chief Executive or Group Finance Director
- Considering the impact of Covid-19 on the business when deciding on the appropriate approach for bonus and PSP for determining vesting levels, selecting performance measures and targets and the grant size, making sure that such decisions take into account the new economic context with reference to the wider workforce and the expectations of other stakeholders, such as our investors, suppliers and customers, but at the same time balancing the business need for meaningful incentivisation for management
- Reviewing the salaries of the Group Chief Executive and Group Finance Director and the next layer of management. Agreeing that, in line with the approach taken for the wider workforce, a pay review would not go ahead from the usual date of 1 August 2020, but the Committee would reserve the right to review salaries later in the year in line with the treatment of the majority of the workforce
- Setting the 2019/20 annual bonus targets and deciding to use free cash flow, instead of ROACE, as one of the 2020/21 annual bonus targets, thereby introducing an important measure better suited to the current economic environment where liquidity is a key area of focus, as well as addressing a concern raised by some shareholders on the duplication of ROACE across the PSP and the annual bonus.

Our conversation with our workforce

The diagram below sets out the approach the Group is taking to collate ideas and hear any concerns from the workforce around reward. As a Committee, we have made good use of the already well-established European Works Council structure and would like to expand on this during the forthcoming year by running focus sessions at site level. Any reward-related feedback from other sources such as the engagement survey, Town Hall meetings, management site visits and social media is fed back to the Remuneration Committee.

The UK Corporate Governance Code asks the Board to ensure effective engagement with, and encourage participation from, its shareholders and stakeholders. A communication channel with the workforce has been set up to hear the 'employee voice' in the boardroom. An EWC representative joined two Committee meetings this year to support and inform discussions. At the first meeting the results from a survey of the UK workforce about pensions were presented by the EWC representative. This was as a prelude to the Committee discussing the UK employees' views on pensions and potential further actions to be undertaken by management. At the second meeting the EWC representative attended, the Committee discussed with him the UK pension education programme planned for roll out later in the year to provide more information to colleagues so they can make better financial choices. We also discussed some of the considerations in relation to a future topic (the effectiveness of the all-employee share plans) for Committee discussions with the EWC representative.



Remuneration Committee Report (continued)

In addition, I attended a meeting of the EWC Executive to engage with them and give a presentation about how executive remuneration aligns with the wider company pay policy and take questions from them about the way in which the Committee operates.

The Committee decided to take this more structured approach to consulting with the workforce on executive pay, as we felt that it would be a more effective way to open and develop the dialogue about remuneration matters. The Committee will consider further steps to consult more widely, taking into consideration the complexities of achieving this with around 30,000 people at 385 sites and offices, in more than 30 countries, speaking 28 languages.

Our remuneration policy for 2020-2023

There are no proposed increases in quantum or proposed changes to the remuneration structure that was set out in the remuneration policy approved by shareholders in 2017, as this policy has operated as expected in the context of the Company's performance for the 2017-2020 period. As part of our regular three-yearly cycle, the Committee this year reviewed the current policy in the context of the business strategy and the evolving expectations of our shareholders and stakeholders. Following that review the main changes proposed in our remuneration policy for 2020-2023 are those intended to align our new remuneration policy with the current expectations of shareholders and institutional investor bodies, particularly on:

- Pension alignment
- Post-employment shareholding requirements
- Extension of the circumstances when malus and clawback could apply.

Pension alignment in particular has been a high profile topic and future executive appointments to the Board (or any Board member changing roles) would be given a pension benefit aligned with that available to the workforce in the country where they are based for employment purposes (which in the UK is currently 6%). A substantial reduction in fixed pay for our incumbent Executive Directors is proposed to be made in steps (for the CEO a reduction of 10% from 1 August 2020 and a further 5% from 1 August 2021), timed to coincide with the usual effective date of the annual salary review. The Committee will be continuing to review the need for further reductions in tandem with management's review of the prevailing pension rate of the UK workforce.

The main changes proposed to our remuneration policy for 2020-23 and explanations of the reasoning behind them are set out in the policy section on pages 91 to 98.

Looking forward

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

- Develop further the programme of topics discussed with the EWC representative
- Develop ways of engaging with the 'employee voice' on remuneration for those regions not covered by EWC arrangements
- Work with the EWC to develop the materials already shared on the alignment of executive remuneration with the remuneration of the wider workforce to allow for an effective cascade across the whole workforce.

Due to the current uncertain times and the difficulties of predicting customer demand and the economic conditions, going forward target setting for incentive plans is challenging and the Committee recognises that it may need to exercise discretion when the respective plans vest in forthcoming years.

Our conversation with our shareholders

The Committee values highly the feedback from shareholders as part of the process of formulating policy decisions. Shareholder views, whether directly or indirectly expressed, together with relevant guidance and emerging trends, are carefully considered when reviewing reward design and outcomes. The Committee actively sought views from our larger shareholders about the changes proposed to our remuneration policy and the policy being put to the 2020 AGM reflects input from that process.

At the AGM in September 2020, shareholders will be asked to vote on both the remuneration policy and the Remuneration Report. I hope that the Committee will have your support.

As Committee Chairman, I continue to be available to engage with shareholders, as they so wish, on remuneration matters.

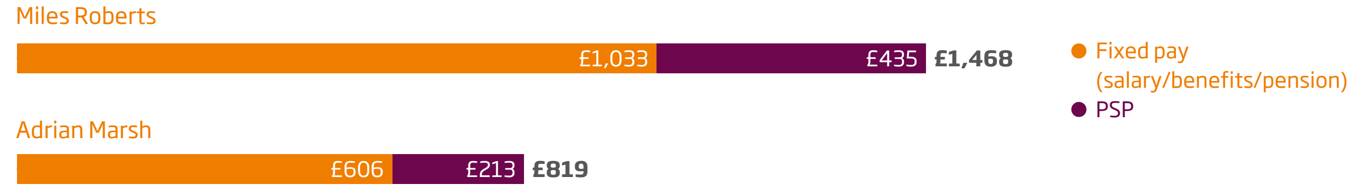
Celia Baxter
Chairman of Remuneration Committee

1 July 2020

This section of the report explains how we have applied the principles in section 5 (remuneration) of the Code and how we have put the provisions of that section into practice, as well as how we have complied with the Companies Act 2006 and other regulatory requirements in relation to remuneration matters. After the introductory letter from the Chairman of the Remuneration Committee above, we summarise below the remuneration of the Executive Directors in our 'at a glance' section. We have put that summary section next as we know some readers are not interested in the more detailed sections that follow about the remuneration policy, how we propose to change it and why; and about how the implementation of the current remuneration policy has operated in practice in the year under review in 2019/20 and how the new remuneration policy will operate in 2020/21. Finally there are some other required disclosures that also relate to remuneration matters included in the last part of this Remuneration Report.

Remuneration at a glance

Single total figure of remuneration for 2019/20 (£'000s) (Audited)



	Total £'000 2019/20	Total £'000 2018/19	Increase (decrease)
Miles Roberts	**1,468**	£3,065	(52%)
Adrian Marsh	**819**	£1,576	(48%)

For more information on how this is calculated see page 99.

2019/20 performance related outcomes

2017/18 PSP award vesting as a % of maximum

	2017/18 PSP award vesting after 2019/20
Miles Roberts	**35.2%**
Adrian Marsh	**35.2%**

Salary and shareholdings

The salaries of the Executive Directors will not increase in August 2020. For more information see page 100.

The percentage of salary each Executive Director holds in shares is set out on page 106.

Pension

The contribution rates for incumbent Executive Directors will be reduced. Details of the reductions are set out on page 94.

2020/21 application

The table below sets out a summary of how the remuneration policy proposed for 2020-23 will apply during 2020/21.

Remuneration element	Application of the remuneration policy

Base salary	• Salaries will not be increased on 1 August 2020, so will remain as follows:
	  • Group Chief Executive £782,300; and
	  • Group Finance Director £491,600

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 2020/21 will be adjusted EBTA and free cash flow with equal weighting.

Performance share plan (PSP)	• No changes to maximum award levels of:
	  • Group Chief Executive 225%; and
	  • Group Finance Director 175%.
	• The performance measures for 2020/21 will remain as adjusted EPS, adjusted ROACE and relative TSR with equal weighting.

Remuneration at a glance (continued)

Remuneration element	Application of the remuneration policy
Pension	• On the basis of the proposed policy being approved, then with effect from 1 August 2020 the contribution or cash alternative rate is reduced: • Group Chief Executive from 30% to 20%; and • Group Finance Director from 20% to 15%.
Shareholding guidelines	• Shareholding target remains at 225% of salary for the Group Chief Executive and 175% for the Group Finance Director. • Actual holding (valued at 30 April 2020 share price) was 988% and 413% respectively.

DS Smith reward principles

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

Key attributes to consider in reviewing remuneration policy

Under the Code the Committee is asked to describe with examples how it has considered six specific factors. The Committee's review of the remuneration policy is an example of taking all these factors into account. As part of that review the Committee considered the structure of remuneration for Executive Directors, taking into account the structure of remuneration for the wider workforce, and concluded that the current structure is **clear** and **not complex**. The evidence from the operation of the current remuneration policy and structure is that the behaviours driven by them are consistent with the Company's Purpose, values and strategy and **aligned with our culture**. In our reporting on the proposed new policy we strive to report as clearly and simply as the regulations permit, recognising that some duplication may be necessary to remain clear. The Committee is aware that rewards perceived as excessive could bring reputational **risk** and has taken that into account in assessing the maximum opportunity available under the policy. The Committee has thought carefully about the **proportionality** of the potential rewards available under the remuneration policy and about the importance for shareholders and other interested parties in being clearly **predictable** as to how the remuneration policy will work in practice.

Remuneration policy

This part of the report sets out the proposed remuneration policy to be put to a binding vote of the shareholders at the AGM currently expected to be held on 8 September 2020. This new policy will apply for a maximum of three years from the date of approval. In developing this new policy, which builds on the policy approved by shareholders at our 2017 AGM, we reviewed it in the context of the business strategy and the evolving expectations of our shareholders and stakeholders, which included pension alignment and post-employment shareholding provisions.

The current remuneration policy was applicable from 5 September 2017 when the policy was approved by shareholders at the AGM by 723,488,812 (96.98%) voting in favour and 22,529,761 voting against (3.02%), with 48,147,507 votes withheld, being votes that are not recognised as a vote in law. That policy can be read in full in the 2016/17 Annual Report at https://www.dssmith.com/investors/annual-reports/archive.

Proposed remuneration policy

The three most significant changes being proposed in 2020 to the policy approved in 2017 are intended to align the new policy with the latest best practice and expectations of shareholders and institutional investor bodies:

- Pension alignment
- Post-employment shareholding requirements
- Extension of the circumstances when malus and clawback could apply.

More detail explaining the reasoning behind those changes is included in the table that follows. Other proposed changes to the policy are of a housekeeping nature or are changes which are intended to provide some degree of future proofing as we set down the policy for the next three years.

In determining the proposed new policy the Committee reviewed the extent to which the current policy was working in the context of the current business strategy and therefore its alignment with the strategic direction of the Company. It also took into account the alignment to the wider company pay policy, the evolving expectations of our shareholders and stakeholders, the appropriateness from a risk appetite perspective, and the feedback from the larger shareholders as part of the consultation process. As indicated in the table below some of the proposed changes to policy are being implemented in advance of the 2020 AGM. These are changes we already know shareholders want to see implemented and therefore we are not delaying until after the 2020 AGM.

All Committee members are independent non-Executive Directors who have no potential conflict of interest in relation to matters of executive remuneration. In relation to the policy on matters of non-executive remuneration, no changes are proposed in 2020. The limit on aggregate annual fees is set out in the Company's Articles of Association, last amended and approved by shareholders at the AGM in 2017.

Both the policy on remuneration of Directors and the policy on remuneration of employees are guided by DS Smith's reward principles (see page 90). Employees in senior management, including the Executive Directors, have a significantly higher proportion of variable pay.

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 12 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; 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.

Remuneration policy (continued)

Element, purpose and link to strategy	Operation and performance metrics	Maximum opportunity
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. Performance measures can include some or all of the following: financial measures, strategic measures and ESG measures. 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, gross misconduct, payments based on erroneous or misleading data, significant reputational damage or corporate failure. The Committee will act reasonably in the application of malus and clawback.	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.
Explanation for proposed change	The extension of the circumstances when malus and clawback could apply is intended to align the new policy with the latest best practice and expectations of institutional investors. The circumstances now include significant reputational damage and corporate failure. This change will be incorporated into the annual bonus and DSBP plan rules from summer 2020. For DSBP awards already granted, malus and clawback provisions, as in place at the time of that grant, will continue to apply.	
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 purposes). 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. Performance measures can include some or all of the following: financial measures, strategic measures, ESG measures and relative TSR. 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, error in calculation, gross misconduct, vesting based on erroneous or misleading data, significant reputational damage or corporate failure. The Committee will act reasonably in the application of malus and clawback.	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 (which for a relative TSR performance measure would be median performance), increasing to full vesting for the achievement of maximum performance.
Explanation for proposed change	The broadening of the potential performance metrics under the PSP to not only allow for financial measures and relative TSR, but also strategic and ESG measures, is a change made to introduce a degree of 'future-proofing' as we set down the policy for the next three years. The Committee currently has no immediate plans to change the existing performance metrics under the PSP, but it is mindful that some shareholders are encouraging companies to consider introducing strategic and ESG performance measures and therefore wishes to have the flexibility to potentially introduce or change metrics during the remainder of the period when the proposed new policy is expected to apply. The extension of the circumstances when malus and clawback could apply is intended to align the new policy with the latest best practice and expectations of institutional investors. The circumstances now include significant reputational damage and corporate failure. This change will be incorporated into PSP plan rules from summer 2020. For PSP awards already granted, malus and clawback provisions, as in place at the time of that grant, will continue to apply.	

Element, purpose and link to strategy	Operation and performance metrics	Maximum opportunity
Share ownership guidelines To further align the interests of executives with those of shareholders.	**During employment** 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 and unvested nil cost options awarded under the DSBP (if they are only subject to a time-based condition) 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. **Post-employment** In respect of share plan awards granted from 2020 onwards, Executive Directors will be required to retain, for two years after leaving the Company, a holding of shares at a level equal to the lower of the shareholding requirement they were subject to during employment and their actual shareholding on departure (excluding shares purchased with own funds and any shares from share plan awards made before 2020).	Not applicable
Explanation for proposed change and outline of its implementation	A two year post-employment shareholding requirement is to be introduced for future grants (from summer 2020, before the new policy period starts). This will further strengthen the alignment with shareholders. It will be a condition of grant of all future Deferred Share Bonus Plan (DSBP) and PSP awards that any shares vesting (net of deductions for tax and social security charges) will be held in an escrow account until the required shareholding level is met. This will support the Company with the enforcement of this requirement. The post-employment shareholding requirements have been set at 100% of the shareholding requirement applying to the Executive Directors whilst in employment, for two years post-employment. Any shares purchased directly in the market will be excluded from the requirement. In cases where the individual has not had sufficient time to build up shares from Company share plans to the above levels, the requirement will be set at the individual's actual level of shareholding on their termination date. However, the restriction on sale would then apply to any performance-related awards granted in 2020 or later, which vest over the following two years up to the point that the original shareholding requirement (while they remained in employment) has been met. The Committee retains the flexibility to waive the post-employment shareholding requirement in certain exceptional circumstances such as death or ill health. The post-employment shareholding requirement would normally fall away on a change of control, although the Committee reserves the right to continue its application where there is a merger involving a share-for-share exchange. In applying the new policy to future awards, the Committee recognised that it would be unable to enforce the post-employment shareholding requirement by restricting the sale of shares vesting under share awards which have already been granted to the Executive Directors. This is because no such conditions were part of these awards when granted and the Committee believes that it would be inappropriate to retrospectively amend these. The Committee has therefore decided to establish transitional arrangements for the current Executive Directors whereby post-employment shareholding requirements will build as future awards (i.e. those granted in 2020 and later) vest. During this transitional period, the Executive would still have restrictions placed on the sale of shares post-employment since the vesting date on any DSBP awards granted good leaver treatment would remain at the normal vesting date and the two year post-vesting holding period on any PSP awards granted from 2018 onwards would continue to run its course. The implementation of the new policy will then build on the existing arrangements up to the point that the full post-employment shareholding requirement is formally held in an escrow account, giving the Company full control over the release of shares for sale. For clarity: • Any 2020 DSBP and PSP awards granted in the summer of 2020, before shareholders formally vote on the revised remuneration policy at the 2020 AGM, will be granted with the post-employment shareholding requirement condition. • Any newly appointed Executive Director will be subject, in full, to the post-employment shareholding requirement for shares vesting under Company share plans. • For any PSP awards which vest following departure that have been granted good leaver treatment, the Committee will reduce the two year post-vesting holding period so that it does not extend beyond the second anniversary of departure provided that the three year vesting period has been completed. • These changes will be incorporated into the PSP and DSBP share plan rules.	

Remuneration policy (continued)

Element, purpose and link to strategy	Operation and performance metrics	Maximum opportunity
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 (which is currently an opportunity to save up to £250, or local currency equivalent, per month). There are no performance conditions applicable to awards.	Up to £500 per month (or local currency equivalent).
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: 20% (for Group Chief Executive) and 15% (for Group Finance Director) of base salary from 1 August 2020 (combined cash supplement and DC Plan contribution). On 1 August 2021 the maximum pension contribution will be reduced to 15% (for Group Chief Executive) and 10% (for Group Finance Director) of base salary. A further review of the level of pension contribution will take place in 2022. Future appointments to the Board or any Board member changing roles would be given a pension benefit aligned with that available to the workforce in the country where they are based for employment purposes.
Explanation for proposed change and outline of its implementation	The contribution rates for incumbent Executive Directors will be reduced over the next two years with the reduction coinciding with the usual effective date of the annual salary review of 1 August. At the end of this period, the Committee will review the Executive Directors' pension levels further, taking into account the prevailing rate available to the UK workforce at that time. As part of the work being done on 'employee voice', the UK pension provision, currently 6%, is under review and may be subject to change in the future. The changes above represent a change to terms and conditions of employment, which cannot be imposed unilaterally by the Company. They have been agreed by mutual consent with the Executive Directors. As part of the agreement to make the above change, the Company has agreed to not amend the existing terms in the employment contract in relation to any payment in lieu of notice payment due in the event of a termination instigated by the Company. In that case, the termination terms would draw on the pension rate as specified in the original service agreement and not the revised rates.	
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, tablet/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.

Recruitment (and appointment) policy

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

Element	Recruitment policy
Basic salary	The Committee will take into consideration a number of factors, including the current pay for other Executive Directors, external market forces, skills and current level of pay. Salary may (but need not necessarily) be set below the normal market rate, with a series of planned increases implemented over the following few years to bring it to the desired positioning, subject to individual performance.
Benefits	Benefits provision would be in line with normal policy. The Committee may agree that the Company will meet appropriate relocation costs.
Pension	The pension benefit will be aligned with that available to the workforce in the country where the Executive Director is based for employment purposes.
Annual bonus	Eligible to take part in the annual bonus, with a maximum bonus of up to 200% of salary in line with policy. Depending on the timing of the appointment, the Committee may deem it appropriate to set annual bonus performance metrics different from those that apply to the current Executive Directors for the first performance year in which the appointment falls.
PSP	A normal award of up to 225% of salary, in line with policy. In exceptional circumstances this may be increased up to 400% of salary in order to accommodate any buy-out awards.
Buy-out awards	In exceptional circumstances, the Committee may offer additional awards (using Listing Rule 9.4.2, if necessary). Any such awards would be for the specific purpose of recruiting an Executive Director key to the operation of the Group. The awards would not exceed what is felt to be a fair estimate of remuneration forfeited when leaving the former employer and would reflect (as far as possible) the nature and time horizons attached to that remuneration and the impact of any performance conditions. The Company would aim to replace any forfeited cash awards with shares wherever possible. Shareholders will be informed of any such payments at the time of appointment.

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

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

Notice period and payment for loss of office

Notice periods for Executive Directors will not exceed one year. Non-Executive Directors have letters of appointment for a term not to exceed 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 Directors (including 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 at each AGM.

Remuneration policy (continued)

Termination payments

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

The Company may terminate the contract with immediate effect by making a payment equal to basic salary and, in the case of the current Group Chief Executive, pensions allowance for any unexpired period of notice. In this situation, the pension allowance would be based on the rate set out in the original service agreement of 30% (rather than any reduced pension allowance applying at the time of the termination). The Committee's normal policy on termination is to make phased compensatory payments and to reduce or stop such payments to former Executive Directors where they receive remuneration from other employment during the notice period (where this is consistent with local employment legislation and market practice).

The table below sets out key provisions for Directors leaving the Company under their service contracts and the incentive plan rules. Post-employment share ownership guidelines are set out in the earlier section of this policy under 'share ownership guidelines'.

Element	Termination policy
Salary, benefits and pension	• Payment will be made up to the termination date in line with relevant contractual notice periods and will not exceed contractual entitlements.
Annual bonus: good leaver	• The annual bonus will be paid out, subject to performance against targets set. • The award level will be reduced on a pro-rata basis to reflect the proportion of the performance period served. • The Committee retains discretion to further reduce the awards granted to reflect any personal performance issues. • The award will be made half in cash and half in deferred shares with the vesting date for the share element set at the third anniversary of grant. • Payment of the cash bonus will be on the normal payment date unless the Committee determines that the payment will be made early on the date of termination of employment (in exceptional circumstances only).
DSBP: good leaver	• DSBP awards, that are unvested at the date notice is served, will vest on the normal vesting date (i.e. third anniversary of grant) unless the Committee determines that awards will vest early on the date of termination of employment.
PSP: good leaver	• PSP awards will vest, subject to performance, on the normal vesting date unless the Committee determines that the awards will vest early on the date of termination of employment (in exceptional circumstances only). • For awards that vest following departure, the Committee will reduce the two year post-vesting holding period so that it does not extend beyond the second anniversary of departure. • Awards will normally be reduced on a pro-rata basis unless, exceptionally, the Committee determines that such an adjustment would be inappropriate. • The Committee retains discretion to further reduce the awards granted to reflect any personal performance issues.
Incentive plans: all other leavers	• All unvested performance-related elements of pay will lapse immediately at the earlier of notice being served or the date of termination, unless by exception the Committee determines that it will lapse on the date of termination. • Any vested but unexercised PSP awards still in their two year post-vesting holding period will still remain available for exercise regardless of the reason for leaving.

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

Change of control

There are no enhanced provisions on a change of control.

Discretions and judgements

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

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

The Committee can use its judgement to make adjustments to published outturns for significant events or changes in the Company's asset base that were not envisaged when the targets were originally set or for changes to accounting standards, to ensure that the performance conditions achieve their original purpose.

The Committee also has the discretion to reduce or apply other restrictions to an award if, after taking into account all circumstances known to the Committee, it determines that the amount which a participant would otherwise receive pursuant to an incentive award in accordance with its terms would result in the participant receiving an amount which the Committee considers cannot be justified or which the Committee considers to be an unfair or undeserved benefit to the participant.

The Committee has the discretion to override formulaic outcomes to the bonus and the PSP or DSBP in order to ensure that outcomes reflect true underlying business performance or to reduce awards if the business has suffered an exceptional negative event in order to ensure that outcomes reflect overall corporate performance.

The Committee can use its discretion to waive the post-employment shareholding requirement in the event of ill health or death.

Any historic share awards that were granted before the date the revised policy comes into force (expected to be 8 September 2020) and still remain outstanding will remain eligible to vest or be exercised or sold based on their original award terms and the remuneration policy that was in force when those awards were granted.

In summary: key objectives of our remuneration policy

The purpose of our current and of our proposed remuneration policy is to deliver a remuneration package that:

- Attracts and retains high calibre Executive Directors and senior managers in a challenging and competitive business environment
- Reduces complexity, delivering an appropriate balance between fixed and variable pay for each Executive Director and the senior management team
- Encourages long-term performance by setting challenging targets linked to sustainable growth
- Is strongly aligned to the achievement of the Group's objectives and shareholder interests and to the delivery of sustainable value to shareholders
- Seeks to avoid creating excessive risks in the achievement of performance targets
- Is consistent with the Company's Purpose and values
- Is commensurate with pay conditions across the Group
- Is aligned to the DS Smith reward principles (as set out on page 90)
- Takes into account overall corporate performance as well as business performance.

All our decisions as a Remuneration Committee are taken in this context.

Remuneration policy (continued)

Illustration of the application in 2020/21 of the remuneration policy

The balance between fixed and variable 'at risk' elements of remuneration changes with performance. Our remuneration policy results in a significant proportion of remuneration received by Executive Directors being dependent on performance. The total remuneration of the Executive Directors for maximum, target and minimum performance in 2020/21 is presented in the charts below. (The basis of the calculation of the share price appreciation is that the share price embedded in the calculation for the maximum bar chart is assumed to increase by 50% across the performance period.) These figures are indicative as future share prices and future dividends are not known at present.

Miles Roberts

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

● Fixed pay: 19% ● Bonus: 30% ● PSP: 51%

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

● Fixed pay: 23% ● Bonus: 36% ● PSP: 41%

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

● Fixed pay: 44% ● Bonus: 36% ● PSP: 20%

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

● Fixed pay: 100%

Adrian Marsh

● Fixed pay: 23% ● Bonus: 28% ● PSP: 49%

● Fixed pay: 27% ● Bonus: 34% ● PSP: 39%

● Fixed pay: 50% ● Bonus: 32% ● PSP: 18%

● Fixed pay: 100%

Annual report on remuneration

The tables below show how we have applied the current remuneration policy during 2019/20. They disclose all the elements of remuneration received by the Directors during the year. Full details of the policy that was voted on in 2017 are included in the 2017 Annual Report and available on our website. Information on the remuneration policy to be voted on in 2020 is set out in this report.

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

Single total figure of remuneration for each Director (audited)

Executive Directors		Salary £'000	Benefits[1] £'000	Pensions[2] £'000	Total fixed remuneration	Annual bonus[3] £'000	Long-term incentives £'000	Total variable remuneration	Total single remuneration figure
Miles Roberts	2018/19	758	22	227	1,007	1,121	937[4]	2,058	3,065
Group Chief Executive	**2019/20**	**778**	**22**	**233**	**1,033**	**0**	**435[5]**	**435**	**1,468**
Adrian Marsh	2018/19	476	19	95	590	528	458[4]	986	1,576
Group Finance Director	**2019/20**	**489**	**19**	**98**	**606**	**0**	**213[5]**	**213**	**819**

1. Taxable benefits in 2018/19 and 2019/20 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. In lieu of membership of the defined contribution scheme Miles Roberts receives an annual pension allowance of 30% of base salary and Adrian Marsh receives an annual pension allowance of 20% of base salary. The annual pension allowances are not pensionable and are not considered to be salary for the purpose of calculating any bonus payment. Any new appointments to the Board will receive a pension benefit aligned with that available to the workforce in the country where they are based for employment purposes. More detail about the proposed reduction in pension benefits is set out on page 94.
3. The annual bonus, when paid, is paid 50% in cash and 50% in deferred shares as described in the policy table on page 92.
4. The long-term incentives for 2018/19 were valued in the 2018/19 Annual Report using the average share price for the last three months of that financial year, which was 346.3p. This has been restated to reflect the share price on the actual vesting date of 1 July 2019, which was 365.0p. This also impacts the total and sub-total figures for 2018/19.
5. The value of long-term incentives for 2019/20 represents the estimated value of the 2017/18 PSP award using the average share price for the last three months of the 2019/20 financial year of 311.7p (the performance period for this award being the three years ending 30 April 2020).

	Fees £'000 **2019/20**	Fees £'000 2018/19	**Total[7] 2019/20 £'000**	Total[7] 2018/19 £'000
Non-Executive Directors				
Gareth Davis	**284**	276	**284**	276
Celia Baxter[1]	**43**	–	**43**	–
Chris Britton	**60**	59	**60**	59
Ian Griffiths[2]	**–**	9	**–**	9
Jonathan Nicholls[3]	**27**	79	**27**	79
Kathleen O'Donovan[4]	**25**	71	**25**	71
David Robbie[5]	**70**	3	**70**	3
Louise Smalley	**60**	59	**60**	59
Rupert Soames[6]	**67**	10	**67**	10
Total	**636**	566	**636**	566

1. Celia Baxter joined the Board with effect from 9 October 2019.
2. Ian Griffiths stepped down from the Board with effect from 28 June 2018.
3. Jonathan Nicholls stepped down from the Board with effect from 3 September 2019.
4. Kathleen O'Donovan stepped down from the Board with effect from 3 September 2019.
5. David Robbie joined the Board with effect from 11 April 2019.
6. Rupert Soames joined the Board with effect from 1 March 2019.
7. Non-Executive Directors received no taxable benefits, annual bonus, long-term incentives or pension payments during 2019/20 or 2018/19.

Alina Kessel joined the Board and its Committees with effect from 1 May 2020.

Annual report on remuneration (continued)

Fixed pay

Basic salary (audited)

	Salaries effective from 1 August 2018 (£)	1 August 2019 (£)	1 August 2020 (£)	Received in 2019/20 (£)
Miles Roberts	763,250	782,300	782,300	**777,538**
Adrian Marsh	479,600	491,600	491,600	**488,600**

When reviewing salaries the Committee takes account of a number of factors, with particular focus on the general level of salary increases awarded to employees throughout the Group. For the UK workforce the 2020 salary review was on average an increase of 1.7%. Where relevant, the Committee also considers external market data on salary and total remuneration. When initially considering the Executive Directors' salary increase for 2020, the Committee also looked at the data for the peer group of FTSE 51-150 companies (excluding Financial Services companies). It chose that comparator group as one that (in line with the current and proposed remuneration policy) reflected a similar size and complexity of business and of geographical spread as well as the domicile of the Executive Directors. The Committee applies judgement when considering such data. In view of the economic uncertainty caused by Covid-19, the Company took the decision not to go ahead with an 'across the board' pay review in the normal timeframe (which varies by country and business area). For the UK workforce, this decision impacted all management roles and certain business areas where any collective pay arrangements were not already in progress or in the pipeline. The Committee agreed that the Executive Directors should be treated in a consistent manner and therefore the salary in the table above at the normal pay review date of 1 August 2020 remains the same as the prior year. The salary increase in the prior year was 2.5%.

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

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

	Base fee effective from 1 August 2018 (£)	1 August 2019 (£)	1 August 2020[6] (£)	Received in 2019/20 (£)
Gareth Davis	278,400	285,400	285,400	**283,650**
Celia Baxter[1]	n/a	60,500	60,500	**42,687**
Chris Britton	59,000	60,500	60,500	**60,125**
Jonathan Nicholls[2]	59,000	60,500	n/a	**27,454**
Kathleen O'Donovan[3]	59,000	60,500	n/a	**24,997**
David Robbie[4]	59,000	60,500	60,500	**69,874**
Louise Smalley	59,000	60,500	60,500	**60,125**
Rupert Soames[5]	59,000	60,500	60,500	**66,572**

1. Celia Baxter joined the Board with effect from 9 October 2019.
2. Jonathan Nicholls stepped down from the Board on 3 September 2019.
3. Kathleen O'Donovan stepped down from the Board on 3 September 2019.
4. David Robbie joined the Board with effect from 11 April 2019.
5. Rupert Soames joined the Board with effect from 1 March 2019.
6. In line with the decision made for the Executive Directors above, a decision was taken not to go ahead with a fee review at the normal time on 1 August 2020 for non-Executive Directors at that date (2.5% increase in 2019).

In addition to the base fee set out above, the Chairman of the Audit Committee and the Chairman of the Remuneration Committee each receive a fee of £15,000 per annum and the Senior Independent Director receives a fee of £10,000 per annum.

Alina Kessel joined the Board and its Committees with effect from 1 May 2020.

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 its long-term sustainable success. 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 has discretion to adjust retrospectively the targets, for example after a substantial restructuring, and would normally discuss this with its larger shareholders. Alternatively adjustments to published outturns may be appropriate for significant events or changes in the asset base that were not envisaged when the targets were originally set, to ensure that the performance conditions achieve their original purpose. Full disclosure of this would be given in the Remuneration Report. The Remuneration Committee has the discretion to override formulaic outcomes in order to ensure that outcomes reflect true underlying business performance.

Performance measures

An explanation of the performance measures for the annual bonus and PSP is set out below. The performance period for the PSP is measured over three years. The performance period for the annual bonus is measured over one year.

Adjusted earnings per share (EPS) applicable to the PSP

Adjusted EPS is disclosed in the Annual Report 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 Group. The extent to which a PSP award subject to this performance condition vests depends on the Group's adjusted EPS performance over the three financial years prior to vesting.

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

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

Total shareholder return (TSR) applicable to the PSP

TSR is the increase (or decrease) in the value of a notional investment in a share in the Company and each of the companies in the Industrial Goods and Services Supersector within the FTSE 350 Index over the three-year PSP performance period, taking account of share price movement and the value of dividends (which are deemed to be re-invested) over that period.

Adjusted earnings before tax and amortisation (EBTA) applicable to annual bonus

EBTA is adjusted earnings before taxation and amortisation after the effect of pension interest but does not include the results of our investments in associates.

Free cash flow applicable to annual bonus

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, adjusted for the effects of changes in factoring balances.

Annual bonus

Bonus in 2019/20

The Executive Directors' targets for the 2019/20 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 2020. Achievement is calculated on a straight-line basis between threshold and target and between target and maximum. Adjusted EBTA and adjusted ROACE have equal weighting as annual bonus performance measures.

Targets and outcomes (audited)

Financial measure	Threshold 0% of maximum	Target 50% of maximum[1]	Maximum	Achieved[2]	Ultimate payment level[3]
Adjusted EBTA	£591.0 m	£622.1 m	£653.2 m	£577.01m	£0
Adjusted ROACE	11.1%	11.7%	12.3%	10.6%	£0

1. The figures for threshold and maximum are calculated by reference to 5% either side of the Target.
2. Performance is assessed on a constant currency basis and therefore the actual published results are restated for bonus purposes using budgeted exchange rates.
3. During the last quarter of the 2019/20 when the impact of Covid-19 was becoming better understood, the Executive Directors took the decision to waive any entitlement to a bonus award under the 2019/20 plan.

Bonus awards are measured against the achievement of the Group's objectives. Maximum bonus opportunity for 2019/20 for Miles Roberts was 200% of salary and for Adrian Marsh was 150% and is generally between 60% and 110% for the other senior executives.

Implementation for 2020/21

The annual bonus for 2020/21 will remain in line with both the current and the proposed remuneration policy and with a maximum opportunity of 200% of salary for the Group Chief Executive and 150% for the Group Finance Director.

For 2020/21 it will be based on EBTA (as applied historically) and free cash flow (which will replace ROACE from prior years), each with equal weighting. This is a change which falls within the scope of the current remuneration policy. This measure is felt to be better suited to the current economic environment where liquidity is a key area of focus. The change serves to remove the duplication that existed across the two incentive plans as well as aligning the Executive Directors with the senior management team.

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

Annual report on remuneration (continued)

In the opinion of the Committee, the annual bonus measures and targets for 2020/21 are commercially sensitive and accordingly are not disclosed prospectively. These will be disclosed next year in the Directors' remuneration report, so that achievement against those targets will be visible, in retrospect.

Performance Share Plan (PSP)

Overview of the Performance Share Plan

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

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

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

The relative TSR vesting scale is median to upper quartile performance, with no vesting below median performance. 25% of the award vests for achieving threshold performance, increasing on a straight-line basis to full vesting for maximum performance.

The TSR comparator group for the 2017/18, 2018/19 and 2019/20 awards is the FTSE 350 Industrial Goods and Services Supersector.

2017/18 awards vesting in 2020/21 based on performance in the three-year period to 2019/20

The PSP award granted on 18 July 2017 is based on performance over the three years to 30 April 2020. The 2017/18 PSP awards were based on equal weighting of EPS, ROACE and TSR performance conditions. The EPS, ROACE and TSR performance targets and actual performance against the targets are set out in the table below. The Remuneration Committee decided to exercise its discretion under the applicable plan rules, disregarding the effect of Adrian Marsh's giving notice on 14 February 2020, which notice he subsequently withdrew, such that he should receive the benefit of his PSP awards on the basis of his uninterrupted role as Group Finance Director. This discretion was not exercised as a result of a movement in the share price.

EPS, ROACE and TSR performance targets for 2017/18 awards based on performance in the three-year period to 2019-20 (vesting in 2020/21) (audited)

	Weighting	Threshold (25% vests)	Maximum (100% vests)	Outcome	Vesting (% of maximum)
Three-year average EPS	One third	31.8p	36.4p	33.5p	52.7%
Three-year average ROACE	One third	12.8%	14.0%	12.8%	25.0%
Relative TSR[1]	One third	Median	Upper quartile	27th out of 54	27.8%
Overall					35.2%

1. Measured against the FTSE 350 Industrial Goods and Services Supersector.

Resulting vesting levels for 2017/18 PSP awards (vesting in 2020/21) (audited)

Executive Director	Award	Number of shares at grant	Adjusted for rights issue factor	Number of shares to vest[1]	Number of shares to lapse	Dividend equivalents	Total number of shares	Estimated value[2] (£'000)
Miles Roberts	PSP	335,619	360,117	126,761	233,356	12,929	139,690	435
Adrian Marsh[3]	PSP	164,006	175,977	61,943	114,034	6,318	68,261	213

1. These shares are subject to a two-year holding period from the vesting date.
2. The estimated value of the shares vesting on the third anniversary of grant on 18 July 2020 and the dividend equivalents is based on the average share price during the three months to 30 April 2020 (311.7p).
3. The Remuneration Committee decided to exercise its discretion under the applicable plan rules and decided that Adrian Marsh's PSP awards should not lapse on the date that he first served notice of resignation. (Adrian Marsh gave notice on 14 February 2020 of his resignation from the Board, which notice was subsequently withdrawn.)

Breakdown of the estimated value of 2017/18 PSP awards (vesting in 2020/21) (audited)

	PSP original award value[1] (£'000)	PSP award depreciation[2] (£'000)	Dividend equivalents[3] (£'000)	**Total value (£'000)**
Miles Roberts	573	(178)	40	**435**
Adrian Marsh	280	(87)	20	**213**

1. Calculated as the number of shares from the original award vesting (as restated for the bonus element inherent in the rights issue) multiplied by the grant price (based on the average share price for the three trading days preceding the award) of 451.7p.
2. Calculated as the number of shares vesting multiplied by the difference between 451.7p (see footnote above) and the average share price during the three months to 30 April 2020 of 311.7p.
3. Calculated as the number of dividend equivalent shares vesting multiplied by the average share price during the three months to 30 April 2020 of 311.7p.

Deferred share bonus plan (DSBP) awards vesting in 2020

The DSBP award vesting in 2020 relates to the deferral into shares of half of the bonus paid in July 2017 in relation to the financial year 2016/17. The number of shares vesting in 2020 under the DSBP award granted on 18 July 2017 when adjusted for the rights issue is 72,022 for Miles Roberts and 33,937 for Adrian Marsh. Details of those awards and the single total figure of remuneration that included them were set out in the remuneration report for 2016/17. Dividend equivalents for the DSBP award also accrued during the three-year vesting period. Those dividend equivalents will be paid in shares (7,346 for Miles Roberts and 3,461 for Adrian Marsh) shortly after the award vests on 18 July 2020, the third anniversary of grant of the award. The Remuneration Committee decided to exercise its discretion under the applicable plan rules, disregarding the effect of Adrian Marsh's giving notice on 14 February 2020, which notice he subsequently withdrew, such that he should receive the benefit of his DSBP awards on the basis of his uninterrupted role as Group Finance Director. This discretion was not exercised as a result of a movement in the share price.

PSP and DSBP awards granted in 2019/20 vesting in 2022/23 (audited)

The PSP awards made in 2019 in respect of 2019/20 were in line with the current remuneration policy and, as reported in last year's remuneration report, were:

- 225% of salary for the Group Chief Executive and 175% of salary for the Group Finance Director
- Any shares that vest under the PSP awards granted in 2019/20 must be retained for a further two years before they can be sold (a total of five years from original grant)
- The PSP awards were granted as nil-cost options and were subject to three performance measures: three-year average adjusted EPS, three-year average adjusted ROACE and relative TSR, with equal weighting on each element.

The DSBP awards made in 2019 relate to the deferral into shares of half of the bonus paid in July 2019 in relation to the bonus award included in the single total figure of remuneration for 2018/19. They were granted as nil-cost options and are not subject to performance conditions, but are subject to continued employment.

Executive Director	Award	Number of options granted under award on 15 July 2019	Face value of award at time of grant (£)
Miles Roberts	PSP	481,039	1,717,309
	DSBP	157,055	560,686
Adrian Marsh	PSP	235,098	839,300
	DSBP	74,015	264,234

Annual report on remuneration (continued)

The awards were made on 15 July 2019. The face value in the above table is calculated using 357.0p which was the average price of a DS Smith share for the three trading days preceding the grant of the award and the price used in the calculation of the number of options awarded. 25% of the PSP award vests for achieving threshold performance, increasing on a straight-line basis to full vesting for maximum performance. The applicable performance period for these PSP awards ends on 30 April 2022.

The targets for the 2019/20 PSP award are set out below:

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

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

1. Three-year average adjusted EPS, as disclosed in the annual report, over the forthcoming three financial years, commencing with the financial year in which the award is made.
2. Three-year average adjusted ROACE over the forthcoming three financial years, commencing with the financial year in which the award is made.
3. The comparator group for measurement of relative TSR is the FTSE 350 Industrial Goods and Services Supersector, as it was in 2017/18 and 2018/19.

PSP awards to be granted in 2020/21 vesting in 2023/24

The PSP awards to be made in 2020 in respect of 2020/21 will remain in line with the current remuneration policy and the proposed policy and in line with the award levels in 2019/20 as set out on page 103, namely 225% of salary for the Group Chief Executive and 175% of salary for the Group Finance Director. As a matter of best practice, before finalising the PSP award levels, the Committee stood back and considered the movements in the share price since the beginning of the 2019/20 financial year. As the share price had recovered from the initial Covid-19 impact and was trading broadly in line with the share price at the start of the 2019/20 financial year and the grant price for the prior year PSP award, it was decided that it was appropriate to go ahead with the PSP awards based on the normal percentage of salary.

If it were to be that, at the time of vesting of the 2020 awards in 2023, and with the benefit of hindsight, the Committee were to consider that the number of options that would vest under the 2020 award benefitted from a windfall gain of an exceptional nature then the Committee would consider an appropriate adjustment at that time to reduce the number of awards vesting.

The performance measures and their weighting for the award will remain the same as prior years. However, in light of the anticipated economic decline in 2020/21 and shape of the economic recovery during the following two years, the Committee decided that it was more appropriate to set and test the PSP targets against the 2022/23 results. Although this approach is standard market practice, in the past and in the context of a stable economy, the targets have been set on and tested against the average of all three years in the performance period. The targets on the new basis are expected to provide a clearer line of sight to participants managing through the global economic crisis and coming out stronger on the other side.

The targets for the 2020/21 PSP award will be:

% vesting as a proportion	2022/23 adjusted EPS One third[1]	2022/23 adjusted ROACE One third[1]	Relative TSR One third[2]
100%	36.5p	12.5%	Upper quartile
Between 25% and 100%	34.2 - 36.5p	11.0 - 12.5%	Between median and upper quartile
25%	34.2p	11.0%	Median

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

1. The 2019/20 baseline results are 33.2p for EPS and 10.6% for ROACE.
2. The comparator group for measurement of relative TSR will be the FTSE 350 Industrial Goods and Services Supersector, as it was in 2019/20 and 2018/19.

In setting the target ranges the Committee took into account a number of factors which included the GDP forecasts for the markets in which DS Smith operates, the broker forecast consensus for DS Smith performance, the Committee's view of external upper quartile growth levels in 2022/23 versus the 2019/20 baseline, the desire to set targets which were seen as realistic and hence motivating to the 150 or so plan participants and the requirement to build retention, bearing in mind the negative impact that Covid-19 is expected to have on in-flight plans. The Committee's aim, as always, has been to set robust targets with a strong degree of stretch. However, the Committee is acutely aware that this has been done against a backdrop of significant uncertainty, and there will be a requirement more than ever for the Committee to take a step back when determining the vesting outturn in three years' time to consider whether any discretion should be applied to the formulaic outturn.

Outstanding PSP and DSBP share awards during 2019/20 and as at 30 April 2020 (audited)

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

	Award date	Awards held at 30 April 2019	Granted	Dividend equivalents	Exercised/ vested[1]	Lapsed/ forfeited	Grant price for award (p)[2]	Market price on date of exercise (p)	Awards held at 30 April 2020	Vesting date (if any performance conditions applicable are met)	Expiry date
Miles Roberts											
PSP	1 Jul 16	446,233	–	24,781	232,041	214,192	379.8	–	256,822	1 Jul 19	1 Jul 26
PSP	18 Jul 17	360,117	–	–	–	–	484.7	–	360,117	18 Jul 20	18 Jul 27
PSP	22 Jun 18	341,748	–	–	–	–	523.47	–	341,748	22 Jun 21	22 Jun 28
PSP	15 Jul 19	–	481,039	–	–	–	357.00	–	481,039	15 Jul 22	15 Jul 29
DSBP	1 Jul 16	156,676	–	–	156,676	–	379.8	–	156,676	1 Jul 19	1 Jul 26
DSBP	18 Jul 17	72,022	–	–	–	–	484.7	–	72,022	18 Jul 20	18 Jul 27
DSBP	22 Jun 18	132,849	–	–	–	–	523.47	–	132,849	22 Jun 21	22 Jun 28
DSBP	15 Jul 19	–	157,055	–	–	–	357.00	–	157,055	15 Jul 22	15 Jul 29
									1,958,328		
Adrian Marsh											
PSP	1 Jul 16	218,031	–	12,108	125,484	104,655	379.8	345.3	–	1 Jul 19	1 Jul 26
PSP	18 Jul 17	175,977	–	–	–	–	484.7	–	175,977	18 Jul 20	18 Jul 27
PSP	22 Jun18	167,015	–	–	–	–	523.47	–	167,015	22 Jun 21	22 Jun 28
PSP	15 Jul 19	–	235,098	–	–	–	357.00	–	235,098	15 Jul 22	15 Jul 29
DSBP	1 Jul 16	73,818	–	–	73,818	–	379.8	345.3	–	1 Jul 19	1 Jul 26
DSBP	18 Jul 17	33,937	–	–	–	–	484.7	–	33,937	18 Jul 20	18 Jul 27
DSBP	22 Jun18	62,603	–	–	–	–	523.47	–	62,603	22 Jun 21	22 Jun 28
DSBP	15 Jul 19	–	74,015	–	–	–	357.00	–	74,015	15 Jul 22	15 Jul 29
									748, 645		

1. This includes the 2016/17 awards which vested during 2019/20 and, in the case of Adrian Marsh, dividend equivalent shares and vested awards which were exercised during 2019/20. Adrian Marsh as at 30 April 2020 did not hold any vested but unexercised awards. Miles Roberts as at 30 April 2020 held awards granted on 1 July 2016 which have now vested but have not been exercised.
2. The figure in this column is the average price of a DS Smith share for the three trading days preceding the award and is the price used in the calculation of the number of options originally awarded. The number of options originally awarded was subsequently adjusted for the rights issue in 2018 as described in the Annual Report for 2019.

The Remuneration Committee decided to exercise its discretion under the applicable plan rules and decided that Adrian Marsh's PSP and DSBP awards should not lapse on the date that he first served notice of resignation. (Adrian Marsh gave notice on 14 February 2020 of his resignation from the Board, which notice was subsequently withdrawn.)

The target ranges for the 2017/18 PSP awards are set out on page 102. The target ranges for the 2019/20 awards are set out on page 104. The relative TSR target for the 2018/19 award is the same as it was for the 2017/18 award. For the 2018/19 awards the target ranges for EPS and ROACE are set out in the audited table below.

PSP plan	EPS range	ROACE range
2018/19	35.7p–40.8p	12.3%–13.5%

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

Annual report on remuneration (continued)

All employee share plans (audited)

Our all employee sharesave plans (SAYE) align our employees' interests with those of our long-term shareholders. Our commitment is to deliver an equal opportunity for all of our employees to be engaged with the strategic direction of DS Smith and to share in its financial success. Executive Directors are eligible (along with all employees of the Company and participating subsidiaries of the Group) to participate in the SAYE. Options are granted under the SAYE, which, in the UK, is an HMRC tax-advantaged plan. Participants contract to save up to the equivalent of £250 per month over a period of three years (two years in the US). The current maximum permitted monthly saving of the equivalent of £250 is set by the Company. Under the applicable plan rules (and the current and proposed remuneration policy) the monthly maximum could be increased in the future to up to the equivalent of £500 per month. The option price is discounted by up to 20% (15% in the US) of the average closing mid-market price of the Company's shares on the three dealing days prior to invitation (20-day average to the day before grant in France and the higher of the mid-market average price on the day before invitation and the mid-market average on the day before grant in the US). In common with most plans of this type, there are no performance conditions applicable to options granted under the SAYE.

Name of Director	Options (after adjusted for rights issue) held at 30 April 2019	Options exercised during the year	Options lapsed during the year	Market price on date of exercise (p)	**Options held at 30 April 2020**	Exercise price (after adjusted for rights issue)(p)	Date from which exercisable	Expiry date
Miles Roberts	2,899	–	–	–	**2,899**	310.35	1 Apr 20	30 Sep 20
Adrian Marsh	2,899	–	–	–	**2,899**	310.35	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. Executive Directors' shareholdings (including those of their connected persons) are summarised in the following audited table.

Name of Director	Total shareholding as at 30 April 2019	**Total shareholding as at 30 April 2020**	Unvested only subject to continued employment[1]	Shareholding required (% salary)	Shareholding at 30 April 2020 (% salary)[2]	Requirement met
Executive Directors						
Miles Roberts	1,989,927	**1,989,927**	269,750	225%	988%	Yes
Adrian Marsh	416,555	**521,996**	128,407	175%	413%	Yes

1. Includes the 2017/18, 2018/19 and 2019/20 deferred bonus shares and the 2017/18 PSP award, which is due to vest on 18 July 2020 and is not subject to any further performance conditions. A reduction to the gross award levels of 47% has been applied for the expected level of tax and social security deductions that will ultimately be due on these shares.
2. Based on the salary as at 1 August 2019 and a share price of 311.9p (being the closing price on 30 April 2020) multiplied by the current year shareholding and interests in shares which count towards the shareholding requirement.

The 2018/19 and 2019/20 PSP awards are unvested and remain subject to performance conditions so are not included in the above table as they do not count towards the shareholding requirement. Nil-cost options which have vested but have yet to be exercised are considered to count towards the shareholding requirement, other than any such shares that correspond to the estimated tax and national insurance contributions. Adrian Marsh as at 30 April 2020 did not hold any such vested but unexercised awards; but Miles Roberts did.

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

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

Name of Director	Total shareholding as at 30 April 2019	**Total shareholding as at 30 April 2020**	Shareholding required (% fee)	Shareholding at 30 April 2020 (% fee)[1]	Requirement met
Non-Executive Directors					
Gareth Davis	136,054	**136,054**	50%	149%	Yes
Celia Baxter[2]	10,993[2]	**10,993**	50%	45%	not yet applicable
Chris Britton	13,427	**13,427**	50%	69%	Yes
Jonathan Nicholls[3]	154,118	**154,118[3]**	not applicable	–	not applicable
Kathleen O'Donovan[3]	13,326	**13,326[3]**	not applicable	–	not applicable
David Robbie[4]	20,000	**20,000**	50%	83%	Yes
Louise Smalley	18,600	**18,600**	50%	96%	Yes
Rupert Soames[4]	28,800	**28,800**	50%	127%	Yes

1. Based on the fee as at 1 August 2019 (or on appointment in the case of Celia Baxter) and a share price of 311.9p (being the closing price on 30 April 2020) multiplied by the current year shareholding and interests in shares which count towards the shareholding requirement.
2. Celia Baxter joined the Board with effect from 9 October 2019. Her shareholding on appointment is shown, not her shareholding on 30 April 2019. She has not yet been on the Board for two years.
3. Jonathan Nicholls and Kathleen O'Donovan each stepped down from the Board with effect from 3 September 2019, so their shareholding is stated as at that date, not 30 April 2020.
4. David Robbie joined the Board with effect from 11 April 2019 and Rupert Soames with effect from 1 March 2019, so neither has yet been on the Board for two years.

Alina Kessel joined the Board with effect from 1 May 2020.

External appointments

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

Miles Roberts is a non-executive director of Aggreko plc and retained fees of £61,000 for the year ended 30 April 2020 (£61,000 for the year ended 30 April 2019). Adrian Marsh was appointed as a non-executive director of John Wood Group PLC with effect from 10 May 2019 and retained fees of £56, 557 for the year ending 30 April 2020 (nil for the year ended 30 April 2019).

Notice period and payment for loss of office

Miles Roberts and Adrian Marsh each have a notice period of 12 months exercisable by either the Company or the individual. Non-Executive Directors have letters of appointment for an initial term of three years whereupon they are normally renewed. The current terms of the non-Executive Directors are set out in the table below. The notice period is one month exercisable 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, all Directors (including 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 at each AGM.

Directors' contracts

		Date of contract/date of initial appointment to the Board	Expiry date of current term for non-Executive Directors
Gareth Davis	Chairman	1 June 2010	3 January 2021
Miles Roberts	Group Chief Executive	4 May 2010	not applicable
Adrian Marsh	Group Finance Director	24 September 2013	not applicable
Celia Baxter		9 October 2019	8 October 2022
Chris Britton		6 March 2013	6 March 2021
David Robbie		11 April 2019	10 April 2022
Louise Smalley		23 June 2014	22 June 2021
Rupert Soames		1 March 2019	28 February 2022
Alina Kessel		1 May 2020	30 April 2023

Alina Kessel joined the Board with effect from 1 May 2020.

Annual report on remuneration (continued)

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

No payments were made to past Executive Directors during the year ended 30 April 2020 (2018/19: Nil). No payments were made in respect of loss of office during the year ended 30 April 2020 (2018/19: Nil).

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

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

	Group Chief Executive Percentage change 2019 to 2020	All UK employees Percentage change 2019 to 2020
Salary	2.6%	2.4%
Benefits	0.0%	0.0%
Bonus	(100%)	(81.5%)

The above disclosure relates to the regulatory requirement for the year being reported on. In future years only the below disclosure, relating to a requirement that is not yet in force, will be reported on.

Annual percentage change in remuneration of Executive and non-Executive Directors and employees

The table below shows the percentage change in total remuneration figure from 2018/2019 to 2019/2020 for the Group Chief Executive, the Group Finance Director and those non-Executive Directors who served on the Board throughout 2018/19 and 2019/20 compared to full-time equivalent employees of the Company.

	Salary/Fee	**Benefits**	**Bonus**
Miles Roberts	**2.6%**	**0.0%**	**(100.0%)**
Adrian Marsh	**2.7%**	**0.0%**	**(100.0%)**
Gareth Davis	**2.9%**	**n/a**	**n/a**
Chris Britton	**1.7%**	**n/a**	**n/a**
Louise Smalley	**1.7%**	**n/a**	**n/a**
Company employees	**2.6%**	**0.0%**	**(100.0%)**

Relative importance of spend on pay

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

	2019/20 £m	2018/19 £m	Percentage change
Overall expenditure on employee pay[1]	**1,312**	1,266	3.6%
Dividend paid during the year	**222**	187	18.7%

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

Group Chief Executive pay ratio disclosures (audited)

	25th percentile		Median		75th percentile	
	2019/20	2018/19	**2019/20**	2018/19	**2019/20**	2018/19
Total pay ratio	**54:1**	100:1	**45:1**	91:1	**36:1**	72:1
Fixed pay ratio	**38:1**	33:1	**32:1**	30:1	**26:1**	24:1

The table above sets out how the single total figure of remuneration (STFR) for the Group Chief Executive compares to the STFR of the UK employees at the 25th percentile, median and 75th percentile. We voluntarily disclosed these ratios in last year's Annual Report, using the average share price in the last three months of the financial year as an estimate for the value of the 2016/17 PSP. Those figures have been restated to include the actual share price on the date of vesting for the 2016/17 PSP now that this is known. All STFRs for the 2019/20 financial year have been based on full-time equivalent values and annualised where necessary. The table overleaf sets out the split between total pay and benefits and the salary component of that total used in the above pay ratio calculations.

Total pay and benefits amounts used to calculate the Group Chief Executive pay ratio disclosures

	25th percentile pay ratio		Median pay ratio		75th percentile pay ratio	
	Total pay and benefits	Salary component of total pay and benefits	Total pay and benefits	Salary component of total pay and benefits	Total pay and benefits	Salary component of total pay and benefits
2018/19	30,744	26,608	33,804	32,051	42,277	31,622
2019/20	**27,244**	**26,647**	**32,342**	**31,479**	**40,349**	**36,202**

DS Smith has chosen to use methodology B (as defined in the applicable regulations) which is to use the 2019 UK gender pay gap data to identify the relevant comparator employee falling at the relevant percentile and to calculate the annual total remuneration relating to 2019/20 for the three identified employees on the same basis as the Group Chief Executive's annual total remuneration for the same period in the single figure table. In 2019/20, there were multiple bonus plans in place across the UK which are not payable in some cases in advance of the Directors' remuneration report being approved by the Board. It was therefore not practical to collate the bonus amounts relating to performance during 2019/20 for every UK employee in advance of the report being approved. We are confident that the three employee STFR figures used in the pay ratio reporting are as representative of the respective percentiles as would have been the case if the 2019/20 STFR had been calculated for all UK employees. (The data reference date was 4 May 2020.)

The reduction in the ratio this year is largely driven by the fact that for the Group Chief Executive the bonus award was nil and that the vesting for the 2017/18 PSP was between threshold and on target. As highlighted in last year's report, as a result of the large proportion of variable pay in the Group Chief Executive's total reward, the ratio will be subject to a high degree of volatility from one year to the next. Therefore, in future years where performance is particularly strong, we would expect the ratio to increase significantly and conversely in years of weaker performance, we would expect the total pay ratio to remain broadly the same or decline.

We will continue to report on trends in these figures, which are expected to fluctuate as variable pay outcomes fluctuate for the Group Chief Executive. The Company does believe that the median pay ratio for 2019/20 is consistent with the pay, reward and progression policies for the Company's UK employees taken as a whole.

Remuneration of the Group Chief Executive

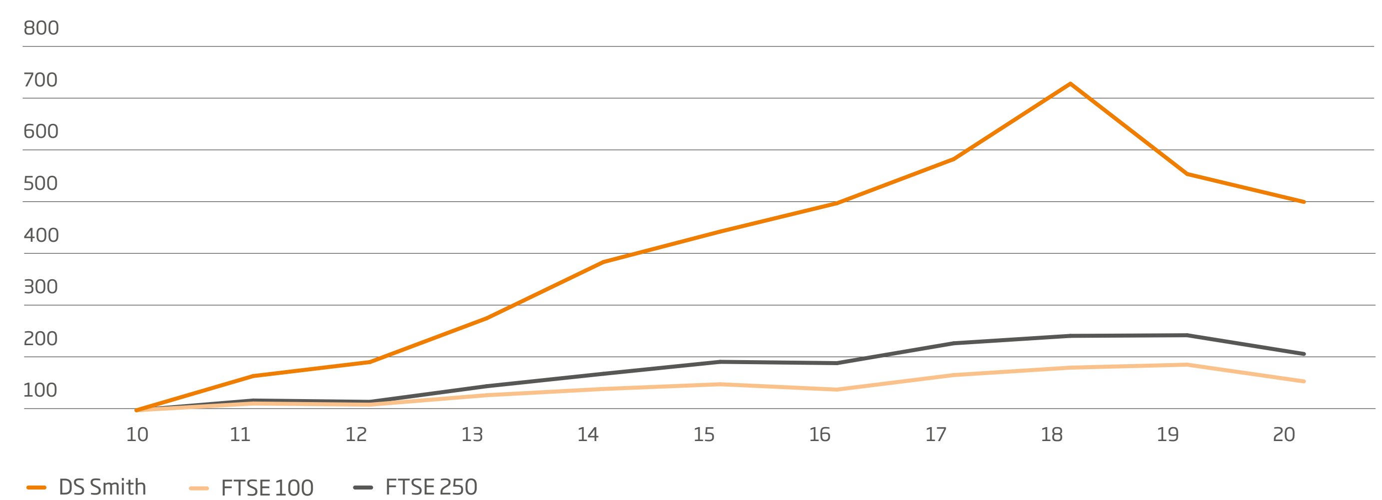
The table below shows the total remuneration figure for the Group Chief Executive for each of the last ten financial years. The total remuneration figure includes the annual bonus and long-term incentive awards which vested, based on performance in those years. The annual bonus and long-term incentive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

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19[1]	**2019/20**
Total remuneration (£'000)	1,796	2,170	6,057	3,696	5,527	4,447	4,861	4,220	3,065	**1,468**
Annual bonus (%)	100%	100%	82%	85%	88%	79%	45%	88%	74%	**0%**
Long-term incentive vesting (%)	100%	100%	100%	98%	92%	94%	100%	93%	52%	**35%**

1. The 2018/19 figure has been restated to include the actual share price on the date of vesting for the actual number of options vesting under the PSP award now that this is known.

Total shareholder return

+400%



Annual report on remuneration (continued)

Review of past performance – total shareholder return graph

The graph on page 109 illustrates the Company's TSR performance since 1 May 2010 (the period required by the applicable regulations), relative to the FTSE 100 Index as well as the FTSE 250 Index. In December 2017 the Company joined the FTSE 100 Index from the FTSE 250 Index. As at 30 April 2020 DS Smith ranked 86 by market capitalisation. This graph looks at the value, over the ten years to 30 April 2020, 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 2019 AGM

At the AGM held in 2019, votes cast by proxy and at the meeting in respect of the Directors' remuneration report were 892,366,890 (87.51%) voting in favour and 127,364,444 voting against (12.49%) with 24,272,278 votes withheld, being votes that 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 Remuneration Committee. The Committee's principal function is to support the Group's strategy by ensuring that its delivery is underpinned by the Company's overall remuneration policy, as described earlier in this report. It also determines the specific remuneration package, including service contracts and pension arrangements, for each Executive Director and our most senior executives, as well as the fees paid to the Chairman. The Remuneration Committee's Terms of Reference can be found at www.dssmith.com/investors/corporate-governance/committees/

Key responsibilities of the Remuneration Committee

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

Each of these responsibilities impacts the other. The Committee is very conscious of the importance of the wider context in which it operates in discharging these responsibilities.

Members	Since
Celia Baxter (Chair since October 2019)	2019
Chris Britton	2013
Gareth Davis	2010
David Robbie	2019
Louise Smalley	2014
Rupert Soames	2019

Kathleen O'Donovan and Jonathan Nicholls retired from the Board and its Committees on 3 September 2019. Alina Kessel joined the Board and its Committees on 1 May 2020.

Details of individual Directors' attendance can be found on page 70. The Group General Counsel and Company Secretary acts as Secretary to the Committee.

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

The Company does not formally consult with employees on Executive Directors' remuneration, but, as described earlier in this report, has opened up channels of communication using, initially, the European Works Council structure as it is an established forum. When considering matters relating to the remuneration of the Executive Directors, the Committee takes into account the overall approach to reward for, and the pay and employment conditions of, other employees in the Group.

As part of good practice for any reputable company there are a number of baseline principles applied when setting reward across the organisation:

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

Moreover, to differentiate our employee value proposition and reinforce our strong DS Smith culture, the Group has developed the DS Smith reward principles (set out on page 90) which are endorsed by the Committee and against which current policies and future decision making are matched to drive continuous improvement in this area.

Topics considered as part of regular annual decision-making cycle of Remuneration Committee

- How the business has performed
- Forecasts for the year to come
- Feedback from both the employee survey and pulse surveys on how employees feel about the quality of the Group's leadership. This includes whether the leadership team continues to demonstrate living our values, how we measure employee performance and whether employees believe we have the right approach to reward
- Review of guidance from the government and investor bodies
- Holistic view of market practices
- Assessing whether our remuneration framework is appropriately aligned with our culture and continues to motivate our leaders to achieve the Group's strategic objectives and does not inadvertently motivate inappropriate behaviour giving rise to environmental, social, governance or other risks
- Consideration of remuneration and related policies across the Group
- Discussion of the relevant aspects of this year's Board effectiveness review.

During the year under review the Committee was advised by PricewaterhouseCoopers LLP (PwC) on the remuneration of Executive Directors and other senior executives. PwC also provides advice to the Company in connection with the operation of the Company's share-based incentive plans. PwC were appointed by the Committee as its advisers in January 2018, following a robust tender process. PwC is a member of the Remuneration Consultants Group and adheres to the Code of Conduct for Remuneration Consultants (which can be found at www.remunerationconsultantsgroup.com). During the year PwC provided advice to different parts of the Group on tax and other advisory and consultancy matters. The teams providing this advice are separate from the Remuneration Committee advisers and there was no conflict of interest. The total fees, excluding VAT, in respect of PwC's services to the Remuneration Committee during the year were £52,608. These fees were incurred partly through a retainer and partly on a time and materials basis. The Committee was also advised by Korn Ferry in relation to the provision of external benchmarking data for which they were paid £500 on a fixed fee basis. Korn Ferry in the financial year 2019/20 has provided executive search, talent assessment and employee engagement survey project management services to the Group. The teams providing this advice are separate from the Remuneration Committee advisers and there was no conflict of interest. The Committee reviews the appointment of its advisers regularly and is satisfied that the advice it receives is objective and independent.

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

On behalf of the Board

Celia Baxter
Chairman of the Remuneration Committee

1 July 2020

Additional information

Acquisitions and disposals

Acquisitions and disposals in the year ended 30 April 2020 are described in note 30 to the consolidated financial statements.

Events after the reporting date

Other than as set out in note 35 to the consolidated financial statements, there are no subsequent events after the reporting date which require disclosure.

Share capital

Details of the issued share capital and the rights and restrictions attached to the shares, together with details of movements in the Company's issued share capital during the year, are shown in note 24 to the consolidated financial statements. Pursuant to the Company's employee share option schemes, 1,248,703 ordinary shares of 10 pence each were issued during the year. Between 1 May and 1 July 2020 inclusive, 313,318 shares were issued pursuant to the Company's employee share option schemes. The Company has not utilised its authority to make market purchases of 137,139,582 shares granted to it at the 2019 AGM but, in line with market practice, will be seeking to renew such authority at this year's AGM.

The trustee of the employee benefit trust, which is used to purchase shares on behalf of the Company as described in note 24 to the consolidated financial statements, has the power to vote or not vote, at its absolute discretion, in respect of any shares in the Company held unallocated in that trust. However, in accordance with good practice, the trustee adopts a policy of not voting in respect of such shares. The trustee has a dividend waiver in place in respect of shares which are the beneficial property of the trust.

Dividends

The Board considers the dividend to be a very important component of shareholder returns. On 8 April 2020, in light of the unprecedented uncertainty due to the Covid-19 pandemic, it was announced that the Board had decided that it was prudent to not pay the interim dividend due for payment on 1 May 2020, despite the Group's strong liquidity profile and resilient trading to that date. The Board has since considered the overall dividend payment for this financial year and, taking into consideration the interests of all stakeholders, concluded that the outlook remains too uncertain to commit to a resumption of dividend payments in the short term. Recognising the importance of dividends to all shareholders, the Board will actively consider the resumption of dividend payments when there is greater clarity over outlook.

Political donations

No political donations were made during the year ended 30 April 2020 (2018/19: 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. In addition, during the year ended 30 April 2020, qualifying third-party indemnity arrangements were entered into by a subsidiary of the Company for the benefit of certain directors of companies within the Group.

Additional employee disclosures

In our Strategic Report on pages 24 to 29 we set out some of the ways in which we realise the potential of our people, including how we engage with our workforce. As part of creating a modern, diverse and inclusive culture all companies within the Group strive to operate fairly at all times and this includes not permitting discrimination against any employee, applicant for employment or contingent worker on the basis of race, religion or belief, colour, gender, disability, national origin, age, military service, veteran status, sexual orientation, gender reassignment, marital status or any other characteristic protected by local law. This also includes giving full and fair consideration to suitable applications for employment from disabled persons, making reasonable adjustments in the hiring process to ensure fairness and equity in the selection process. For existing employees who develop a disability we will make all reasonable adjustments to support their continued employment, in their same job or, if this is not practicable, making every effort to find suitable alternative employment and to provide relevant training and career development opportunity.

Through the Group's engagement survey, via our European Works Council which brings together employee representatives from the different European countries where we operate, as well as through site and team meetings and briefing newsletters, the Group provides employees with various opportunities to obtain information on matters of concern to them, to improve their awareness of the financial and economic factors that affect the performance of the Group and to provide their feedback.

Substantial shareholdings

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

	As at 30 April 2020	As at 1 July 2020	Nature of holding
Aviva plc and its subsidiaries	7.474%	7.474%	Direct & indirect
Standard Life Aberdeen	6.15%	6.15%	Indirect
Norges Bank	5.16%	5.16%	Direct
BlackRock, Inc.	Below 5%	Below 5%	Indirect
Ameriprise Financial, Inc. and its group	4.981%	4.981%	Direct & indirect
Merpas (UK) Limited	4.630%	4.630%	Direct & indirect

Auditor

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

- so far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- the Director has taken all the steps he/she ought to have taken as a Director in order to make him/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

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

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

Other disclosures

Certain information is included in our Strategic Report (pages 1 to 61) or financial statements that would otherwise be required to be disclosed in this section of the report. This is as follows:

Subject matter	Page
Likely future developments in the business	8 to 13
Research and development	16
Use of financial instruments	48
Greenhouse gas emissions	34

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

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

The information that fulfils the requirements of the corporate governance statement for the purposes of DTR 7 can be found on pages 62 to 85, and that governance report also forms part of the Directors' report.

The Strategic Report on pages 1 to 61 and the governance report and Directors' Remuneration Report on pages 62 to 113 together represent the management report for the purpose of compliance with DTR 4.1.8R.

The Directors' report was approved by the Board of Directors on 1 July 2020 and is signed on its behalf by:

Iain Simm
Group General Counsel and Company Secretary

1 July 2020

Directors' responsibilities

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' responsibility statement

We confirm that to the best of our knowledge:

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

This responsibility statement was approved by the Board of Directors on 1 July 2020 and is signed on its behalf by:

Miles Roberts
Group Chief Executive

1 July 2020

Adrian Marsh
Group Finance Director

1 July 2020

Independent Auditor's report to the members of DS Smith Plc

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of DS Smith Plc (the 'parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 April 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of the parent Company and the Group which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent Company balance sheets;
- the consolidated and parent Company statements of changes in equity;
- the consolidated cash flow statement;
- the related notes 1 to 35 to the consolidated financial statements; and
- the related notes 1 to 16 to the parent Company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group and parent Company for the year are disclosed in note 3 to the financial statements. We confirm that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's report to the members of DS Smith Plc (continued)

Summary of our audit approach

Key audit matters	Newly identified key audit matters in the current year were: • going concern. Key audit matters that have been identified in the current and previous year were; • classification and presentation of adjusting items; and • taxation. 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 £23m (2018/19: £23m) which was determined on a consistent basis with prior year or approximately 5% of adjusted profit (profit before tax and adjusting items).
Scoping	Our full scope audits and audits of specified balances at components provided coverage of 71% (2018/19: 82%) of the Group's revenue and 81% (2018/19: 81%) of the Group's profit before tax and adjusting items.
Significant changes in our approach	In the 2019/20 audit we have identified going concern as a key audit matter. This was not identified as a key audit matter for 2018/19 and reflects the current uncertainty caused by the Covid-19 pandemic.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the Directors' statement in note 1(a)(i) 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 12 months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit and the Covid-19 pandemic, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.

Further detail of work performed on the going concern assessment is included in the key audit matters section below.

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.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

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 51-59 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 53 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 53 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.

Viability means the ability of the Group to continue over the time horizon considered appropriate by the Directors.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Going concern

Key audit matter description

In assessing whether the financial statements should be prepared on the going concern basis, the Directors are required to consider all available information about the future for a period of 12 months from the date of approval of the financial statements. In conducting their assessment, the Directors have concluded that there are no material uncertainties which may cast significant doubt over the Group's or parent Company's ability to continue as a going concern over this 12 month period.

At 30 April 2020 the Group had c.£1,400m of committed bank facilities through a revolving credit facility, expiring in 2024. These were undrawn at 30 April 2020 and significant liquidity headroom is forecast across the period of assessment for going concern. These facilities contain covenants that require the Group to maintain specific financial ratios and the focus of our work has been on forecast covenant compliance. In addition, at 30 April the Group held net cash and cash equivalents of £505 million.

The impact of the Covid-19 pandemic is described on pages 54-55. The Group's businesses were classified as "essential businesses" in all the countries in which they operate, hence, the Group has continued to trade throughout the periods of lockdown. However, there has been an impact on both trading performance and operations across the Group and changes have been made to operating processes and practices to ensure the Group's businesses can meet the specific local government requirements in each country in which they operate.

The Directors have updated their forecasts to take into account, to the extent possible given the current uncertain environment, the impact of Covid-19 on current and future trading performance, net debt and liquidity.

As at the date of this report, the global outlook as a result of Covid-19 is significantly uncertain, the range of potential outcomes is wide-ranging and unknown and therefore judgements about future potential financial impacts are inherently significantly uncertain. In particular, there is significant judgement in the Directors' assessment of:

- the severity and length of time over which the impact on performance and cash inflows might be felt; and
- the availability of mitigating actions to preserve profitability and cash.

Independent Auditor's report to the members of DS Smith Plc (continued)

Should the impact of the pandemic on trading conditions be more prolonged or severe than currently forecast by the Directors under the extreme downside case scenario, the Group would need to implement additional operational or financial measures.

As outlined in their statement on going concern on pages 54-55, the Directors have considered three scenarios in assessing the impact of Covid-19. These include a detailed, bottom up base case that reflects the actual trading experience in March, April and May 2020. The Directors have also modelled a set of assumptions ("the extreme downside case") that would need to occur for the Group to breach its most sensitive financial covenant (known as a 'reverse stress test'). This covenant is for the ratio of Net Debt/Adjusted EBITDA not to exceed 3.25x. As outlined on page 47 this was permanently amended to 3.75x in June 2020. The assumptions in this model reduce volume, revenue, EBITA and EBITDA from the base case to such a level that the Directors determine that the probability of them occurring is remote. As set out on page 55, forecast EBITA for FY21 would need to reduce by over 50% from FY20 to indicate a potential breach in forecast covenants. This reduction is in excess of that modelled in the extreme downside case scenario. Year to date trading in FY21 is slightly ahead of the base case forecast.

As a result of the current and potential future impact of Covid-19 on the Group and the uncertainties regarding covenant compliance forecasting, we identified a key audit matter related to going concern due to the significant judgement required to conclude that there is not a material uncertainty. Further details of the judgements considered and the conclusions are included in note 1(a) of the financial statements and as part of the Audit Committee disclosure of significant items on page 83.

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

We performed the following audit procedures which consider the impact of the uncertainty of the Covid-19 pandemic on the going concern assessment:

- obtained an understanding of the key controls relating to the Group's forecasting process;
- tested the clerical accuracy of the model used to prepare the Group's forecast and related scenarios;
- challenged the detailed assumptions underpinning the Group's forecasts, in particular around volume, revenue, EBITA, cost and cashflow. This included, for six key geographies, performing a detailed assessment of the forecasts and considering the different underlying dynamics in each;
- compared and assessed the forecasts to previous performance, and to external data sources taking into account contradictory and supportive evidence;
- assessed the forecasts and future growth trends that underpin the different end markets that the Group operate in (e.g. FMCG, e-commerce);
- assessed the impact of reasonably possible scenarios on the Group's covenants and applied sensitivities and further downside scenarios to the forecasts prepared by Management including the consideration of alternative, flexed scenarios and the performance of our own reverse stress test forecast;
- consulted with and incorporated transaction services specialists into our team to enhance the quality and depth of our challenge of the going concern assessment;
- analysed further mitigating actions identified by Management that are not included in the models prepared and assessing whether the mitigating actions were within the Group's control ;
- compared forecasts to the actual trading across April and May 2020 when the majority of Europe and the US was under lockdown; and
- assessed the sufficiency of the Group's disclosure concerning the going concern basis and uncertainties arising.

Key observations

The Directors' forecasts, reasonably possible downside scenarios and the reverse stress test, indicate that the Group has sufficient financial resources over the going concern period and that they are not forecast to breach their key financial covenants over the period of assessment.

We are satisfied that the Directors' conclusion that there are no material uncertainties over the Group and parent Company's ability to continue as a going concern is appropriate and the associated disclosures are in accordance with the accounting standards.

We reviewed the disclosures prepared by the Directors set out on page 54-55 and consider them to be appropriate.

Classification and presentation of adjusting items

Key audit matter description

The classification and presentation of costs and income within adjusting items in the income statement is a key determinant in assessing the quality of the Group's earnings and also presents the opportunity for management bias in the presentation of results. Management judgement is required in determining the accounting policy for identifying if an item is adjusting based on the size, nature and incidence of the item. Additionally, this is an area that attracts greater scrutiny from the financial reporting regulator.

For the year ended 30 April 2020, the Group incurred net adjusting items before taxation in continuing operations of £69m (2018/19: £105m) and recognised net adjusting income in discontinued operations of £227m (2018/19: net costs of £10m).

Refer to note 4 for details of adjusting items in the year, note 1(x) for management's policy for identifying adjusting items and note 1(aa) where adjusting items is identified as a critical accounting judgement. The classification and presentation of adjusting items is also considered to be a significant matter for the Audit Committee (page 83).

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

As a response to the identified key audit matter, we performed the following audit procedures:

- obtained an understanding of relevant controls in respect of the classification and presentation of adjusting items;
- considered and challenged the appropriateness and classification of the items which are included within adjusting items by testing a sample and agreeing them back to relevant supporting documentation;
- tested and considered items within underlying results which may be adjusting by nature but not separately identified;
- assessed and challenged the appropriateness of the adjusting items recorded in accordance with management's policy on adjusting items and the latest guidance from the FRC and the European Securities and Markets Authority (ESMA) on the presentation of alternative performance measures; and
- reviewed the related disclosure in the Group financial statements and assessed consistency with the prior period and current market best practice.

Key observations

We are satisfied that the amounts classified as adjusting items are in accordance with the Group's accounting policy and the related disclosure of these items in the financial statements is appropriate.

Taxation

Key audit matter description

The value of the tax provisions recorded in respect of a number of uncertain tax positions requires judgement in respect of the likely outcome of negotiations with various tax authorities. Areas of particular focus included transfer pricing provisioning and the continued recognition of a provision in respect of the ongoing State Aid investigation in the UK. Refer to note 1(w) for management's process for estimating and recording tax provisions and note 1(z) for further detail in respect of the range of possible outcomes with regards to those uncertain tax positions. Taxation is also identified in note 1(z) as a key source of estimation uncertainty and to be a significant matter for the Audit Committee (page 83).

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

We have obtained an understanding of relevant controls over this key audit matter.

We engaged and worked with our tax specialists, including those in local jurisdictions as required, to challenge the estimates and judgements made by management when calculating the income tax payable in each territory and the associated provisions held in relation to tax exposures. This included transfer pricing and the consideration of specific provisions such as the State Aid provision. Specifically, we have reviewed the correspondence with the taxation authorities in significant locations and the support or opinions received from external counsel or other advisers where management has utilised such opinions to appraise the likely outcome of technical tax treatments and to assess 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 reasonable. The disclosures in note 7 to the financial statements appropriately reflect and explain the specific uncertainties and the key movements in the material tax provisioning items in the year.

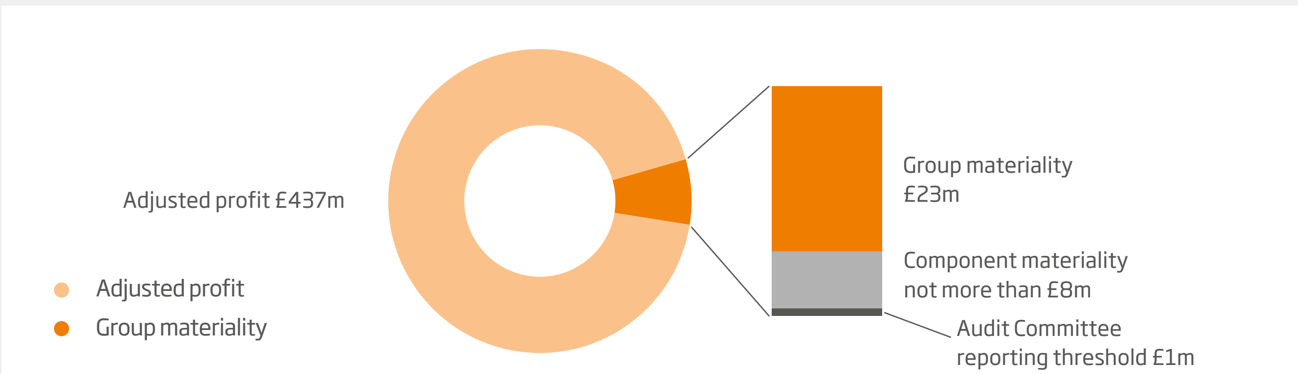
Independent Auditor's report to the members of DS Smith Plc (continued)

Our application of materiality

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

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

	Group financial statements	Parent Company financial statements
Materiality	£23 million (2018/19: £23 million)	£8 million (2018/19: £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% (2018/19: less than 1%) of revenue from continuing operations and less than 1% (2018/19: less than 1%) of net assets. It also equates to c. 4.2% of statutory profit before tax (2018/19: 6.5%).	Parent Company materiality equates to less than 1% (2018/19: less than 1%) of net assets, and is capped at less than 40% (2018/19: less than 40%) of Group materiality.
Rationale for the benchmark applied	We exclude the effect of adjusting items to provide a stable basis for materiality, as these items are expected to be volatile year-on-year and profit before tax and adjusting items is a key metric for users of the accounts and is consistent with the Group's internal and external reporting.	Net assets is typically considered an appropriate benchmark for materiality as the parent Company is the holding company, but given the quantum of net assets on the parent Company balance sheet, we have limited materiality to 40% of Group materiality.



On the basis of our risk assessment, our assessment of the Group's control environment, the number and quantum of misstatements identified and management's willingness to correct misstatements that may be identified, we set performance materiality for the Group at £16m (2018/19: £15m), which represents 70% of Group materiality. We use performance materiality to determine the extent of our testing; it is lower than Group materiality to reduce the probability that, in aggregate, uncorrected and detected misstatements exceed the materiality for the financial statements as a whole.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1m (2018/19: £1m), 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.

DS Smith operates in four geographic segments, three in Europe (Northern Europe, Southern Europe and Eastern Europe) and North America.

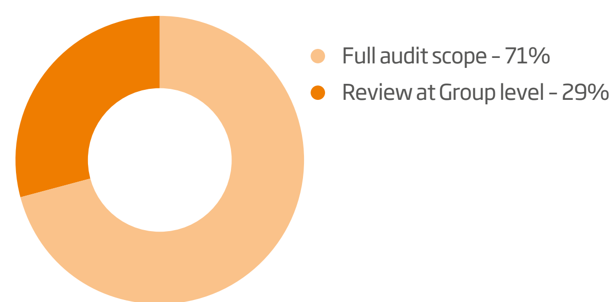
Based on that assessment, we focused our Group audit scope primarily on the audit work at 12 components (2018/19: 12) located in the United Kingdom, Spain, France, Germany, North America, Italy and the Netherlands. These 12 components represent the principal business units within the Group's key reportable segments and accordingly provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. In addition to the components where we have primarily focussed on during the year as outlined above, and reflecting changes to the composition of the Group, a full scope audit has also been performed at the largest components located in Poland, Denmark and Hungary with specified audit procedures performed in Sweden, Greece and Romania. In total, these components accounted for 71% (2018/19: 80%) of revenue and 81% (2018/19: 77%) of profit before tax and adjusting items on continuing operations.

The Group audit team takes an active part in the conduct of the audits at these components. As a consequence of the impact of Covid-19 on the execution of the 2019/20 audit, the Group audit team revised their audit plan and has executed more of their direction, review and oversight remotely than had been included in the initial audit plan. For each component, we included the component audit team in our team briefings, to discuss the Group risk assessment and audit instructions, to confirm their understanding of the business, and to discuss their local risk assessment. Throughout the audit, we maintained regular contact in order to support, challenge and direct their audit approach. We also attended local audit close meetings with local management, performed remote reviews of their working papers, and reviewed their reporting to us of the findings from their work.

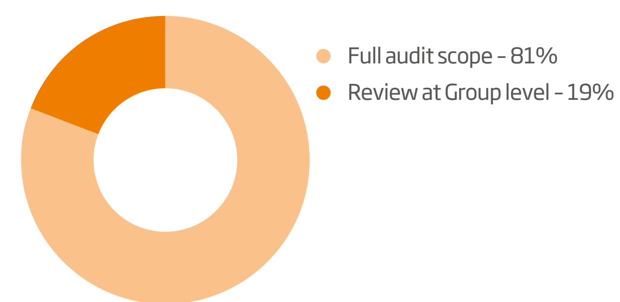
For the discontinued operations of the Plastics division, we have centrally performed specified audit procedures on the key classes of transactions and account balances on the most significant components of the division which generated 87% of the profit of the division. The audit procedures have been performed to component materiality of £8 million.

At the head office level, we also tested the consolidation process and carried out analytical procedures to verify our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit.

Revenue



Profit before tax



Independent Auditor's report to the members of DS Smith Plc (continued)

Other information

We have nothing to report in respect of these matters

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.

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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud, are set out below.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- considering the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- enquiring of management, internal audit, and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team, including significant component audit teams, and involving relevant internal specialists, including tax, valuations, pensions, and IT regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in respect of the classification and presentation of adjusting items; and
- obtaining an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, and tax legislation. In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included regulatory solvency requirements and environmental regulations.

Audit response to risks identified

As a result of performing the above, we identified classification and presentation of adjusting items as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Independent Auditor's report to the members of DS Smith Plc (continued)

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;
- 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 14 years, covering the years ended 30 April 2007 to 30 April 2020.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Nicola Mitchell
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
1 July 2020

Consolidated income statement

YEAR ENDED 30 APRIL 2020

Continuing operations	Note	**Before adjusting items 2020 £m**	**Adjusting items 2020 (note 4) £m**	**After adjusting items 2020 £m**	Before adjusting items 2019 £m	Adjusting items 2019 (note 4) £m	After adjusting items 2019 £m
Revenue	2	**6,043**	**–**	**6,043**	6,171	–	6,171
Operating costs	3	**(5,383)**	**(58)**	**(5,441)**	(5,540)	(50)	(5,590)
Operating profit before amortisation, acquisitions, divestments, and guaranteed minimum pension equalisation	2	**660**	**(58)**	**602**	631	(50)	581
Amortisation of intangible assets; acquisitions and divestments	10, 4	**(143)**	**(4)**	**(147)**	(114)	(32)	(146)
Guaranteed minimum pension equalisation		**–**	**–**	**–**	–	(8)	(8)
Operating profit	4	**517**	**(62)**	**455**	517	(90)	427
Finance income	5	**4**	**–**	**4**	–	–	–
Finance costs	5, 4	**(88)**	**(7)**	**(95)**	(69)	(15)	(84)
Employment benefit net finance expense	25	**(3)**	**–**	**(3)**	(2)	–	(2)
Net financing costs		**(87)**	**(7)**	**(94)**	(71)	(15)	(86)
Profit after financing costs		**430**	**(69)**	**361**	446	(105)	341
Share of profit of equity accounted investments, net of tax	13	**7**	**–**	**7**	9	–	9
Profit before income tax		**437**	**(69)**	**368**	455	(105)	350
Income tax (expense)/credit	7, 4	**(92)**	**14**	**(78)**	(101)	13	(88)
Profit for the year from continuing operations		**345**	**(55)**	**290**	354	(92)	262
Discontinued operations							
Profit for the year from discontinued operations, net of tax	30(a)	**10**	**227**	**237**	22	(10)	12
Profit for the year		**355**	**172**	**527**	376	(102)	274
Profit for the year attributable to:							
Owners of the parent		**355**	**172**	**527**	376	(102)	274
Non-controlling interests		**–**	**–**	**–**	–	–	–
Earnings per share							
Earnings per share from continuing and discontinued operations							
Basic	8			**38.5p**			20.6p
Diluted	8			**38.2p**			20.6p
Earnings per share from continuing operations							
Basic	8			**21.2p**			19.7p
Diluted	8			**21.0p**			19.7p
Adjusted earnings per share from continuing operations							
Basic	8, 33		**33.2p**			33.3p	
Diluted	8		**33.0p**			33.2p	

Consolidated statement of comprehensive income

YEAR ENDED 30 APRIL 2020

	Note	2020 £m	2019 £m
Profit for the year		**527**	274
Items which will not be reclassified subsequently to profit or loss			
Actuarial loss on employee benefits	25	**(46)**	(62)
Income tax on items which will not be reclassified subsequently to profit or loss	7	**15**	11
Items which may be reclassified subsequently to profit or loss			
Foreign currency translation differences		**39**	(45)
Reclassification from translation reserve to income statement arising on divestment		**(30)**	–
Cash flow hedges fair value changes		**(31)**	29
Reclassification from cash flow hedge reserve to income statement		**(1)**	(37)
Movement in net investment hedge		**(23)**	17
Income tax on items which may be reclassified subsequently to profit or loss	7	**11**	3
Other comprehensive expense for the year, net of tax		**(66)**	(84)
Total comprehensive income for the year		**461**	190
Total comprehensive income attributable to:			
Owners of the parent		**461**	190
Non-controlling interests		**–**	–

Consolidated statement of financial position

AT 30 APRIL 2020

	Note	2020 £m	2019 [1]£m
Assets			
Non-current assets			
Intangible assets	10	**3,197**	3,262
Biological assets		**9**	9
Property, plant and equipment	11	**3,042**	2,934
Right-of-use assets	12	**256**	–
Equity accounted investments	13	**35**	33
Other investments	14	**12**	12
Deferred tax assets	22	**77**	64
Other receivables	16	**19**	9
Derivative financial instruments	21	**27**	12
Total non-current assets		**6,674**	6,335
Current assets			
Inventories	15	**518**	584
Biological assets		**6**	6
Income tax receivable		**42**	18
Trade and other receivables	16	**753**	914
Cash and cash equivalents	19	**595**	382
Derivative financial instruments	21	**34**	35
Assets classified as held for sale		**3**	237
Total current assets		**1,951**	2,176
Total assets		**8,625**	8,511
Liabilities			
Non-current liabilities			
Borrowings	20	**(2,300)**	(2,385)
Employee benefits	25	**(199)**	(170)
Other payables	17	**(15)**	(16)
Provisions	23	**(12)**	(16)
Lease liabilities	12	**(182)**	(7)
Deferred tax liabilities	22	**(305)**	(315)
Derivative financial instruments	21	**(41)**	(14)
Total non-current liabilities		**(3,054)**	(2,923)
Current liabilities			
Bank overdrafts	19	**(90)**	(129)
Borrowings	20	**(98)**	(230)
Trade and other payables	17	**(1,708)**	(1,855)
Income tax liabilities		**(149)**	(133)
Provisions	23	**(58)**	(17)
Lease liabilities	12	**(73)**	(3)
Derivative financial instruments	21	**(44)**	(16)
Liabilities classified as held for sale		**–**	(93)
Total current liabilities		**(2,220)**	(2,476)
Total liabilities		**(5,274)**	(5,399)
Net assets		**3,351**	3,112
Equity			
Issued capital	24	**137**	137
Share premium		**2,238**	2,236
Reserves	24	**975**	738
Total equity attributable to owners of the parent		**3,350**	3,111
Non-controlling interests		**1**	1
Total equity		**3,351**	3,112

1. The 2019 comparative has been re-presented for finalisation of Europac acquisition accounting (note 30(c)) and to show lease liabilities separately (note 31).

Approved by the Board of Directors of DS Smith Plc on 1 July 2020 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 2020

	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 2018		**107**	**1,260**	**(7)**	**49**	**(1)**	**701**	**2,109**	**1**	**2,110**
Profit for the year		–	–	–	–	–	274	274	–	274
Actuarial loss on employee benefits	25	–	–	–	–	–	(62)	(62)	–	(62)
Foreign currency translation differences		–	–	–	(44)	–	(1)	(45)	–	(45)
Cash flow hedges fair value changes		–	–	29	–	–	–	29	–	29
Reclassification from cash flow hedge reserve to income statement	21(c)	–	–	(37)	–	–	–	(37)	–	(37)
Movement in net investment hedge		–	–	–	17	–	–	17	–	17
Income tax on other comprehensive income		–	–	2	1	–	11	14	–	14
Total comprehensive (expense)/ income		**–**	**–**	**(6)**	**(26)**	**–**	**222**	**190**	**–**	**190**
Issue of share capital		30	976	–	–	–	–	1,006	–	1,006
Employee share trust		–	–	–	–	–	(8)	(8)	–	(8)
Share-based payment expense (net of tax)		–	–	–	–	–	1	1	–	1
Dividends paid	9	–	–	–	–	–	(187)	(187)	–	(187)
Other changes in equity in the year		**30**	**976**	**–**	**–**	**–**	**(194)**	**812**	**–**	**812**
At 30 April 2019		**137**	**2,236**	**(13)**	**23**	**(1)**	**729**	**3,111**	**1**	**3,112**
Profit for the year		–	–	–	–	–	527	527	–	527
Actuarial loss on employee benefits	25	–	–	–	–	–	(46)	(46)	–	(46)
Foreign currency translation differences		–	–	–	39	–	–	39	–	39
Reclassification from translation reserve to income statement arising on divestment	30(a)	–	–	–	(30)	–	–	(30)	–	(30)
Cash flow hedges fair value changes		–	–	(31)	–	–	–	(31)	–	(31)
Reclassification from cash flow hedge reserve to income statement	21(c)	–	–	(1)	–	–	–	(1)	–	(1)
Movement in net investment hedge		–	–	–	(23)	–	–	(23)	–	(23)
Income tax on other comprehensive income		–	–	6	5	–	15	26	–	26
Total comprehensive (expense)/ income		**–**	**–**	**(26)**	**(9)**	**–**	**496**	**461**	**–**	**461**
Issue of share capital		–	2	–	–	–	–	2	–	2
Employee share trust		–	–	–	–	(2)	(2)	(4)	–	(4)
Share-based payment expense (net of tax)		–	–	–	–	–	2	2	–	2
Dividends paid	9	–	–	–	–	–	(222)	(222)	–	(222)
Other changes in equity in the year		**–**	**2**	**–**	**–**	**(2)**	**(222)**	**(222)**	**–**	**(222)**
At 30 April 2020		**137**	**2,238**	**(39)**	**14**	**(3)**	**1,003**	**3,350**	**1**	**3,351**

1. Retained earnings include a reserve related to merger relief (note 24).

Consolidated statement of cash flows

YEAR ENDED 30 APRIL 2020

Continuing operations	Note	2020 £m	2019 £m
Operating activities			
Cash generated from operations	27	**836**	681
Interest received		**2**	1
Interest paid		**(79)**	(62)
Tax paid		**(94)**	(85)
Cash flows from operating activities		**665**	**535**
Investing activities			
Acquisition of subsidiary businesses, net of cash and cash equivalents	30	**(4)**	(1,498)
Divestment of discontinued operation, net of cash and cash equivalents	30	**422**	–
Divestment of subsidiary businesses, net of cash and cash equivalents	30	**62**	–
Capital expenditure		**(376)**	(303)
Proceeds from sale of property, plant and equipment and intangible assets		**12**	14
Cash flows from/(used in) restricted cash and other deposits		**56**	(4)
Other		**6**	–
Cash flows from/(used in) investing activities		**178**	**(1,791)**
Financing activities			
Proceeds from issue of share capital		**2**	1,006
Repayment of borrowings		**(3,497)**	(3,335)
Proceeds from borrowings		**3,235**	3,810
Payments in respect of derivative financial instruments		**(5)**	(36)
Repayment of principal on lease liabilities		**(71)**	(4)
Dividends paid to Group shareholders	9	**(222)**	(187)
Other		**(4)**	(6)
Cash flows (used in)/from financing activities		**(562)**	**1,248**
Increase/(decrease) in cash and cash equivalents from continuing operations		**281**	**(8)**
Discontinued operations			
Cash flows used in discontinued operations	30(a)	**(29)**	(3)
Increase/(decrease) in cash and cash equivalents		**252**	**(11)**
Net cash and cash equivalents at beginning of the year		**253**	268
Exchange losses on cash and cash equivalents		**–**	(4)
Net cash and cash equivalents at end of the year	19	**505**	**253**

Notes to the consolidated financial statements

1. Significant accounting policies

(a) Basis of preparation

(i) Consolidated financial statements

These financial statements are the consolidated financial statements for the Group consisting of DS Smith Plc, a company registered in England and Wales, and all its subsidiaries. The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('adopted IFRSs'), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements are also in compliance with IFRSs as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements are prepared on the historical cost basis with the exception of biological assets, other investments, assets and liabilities of certain financial instruments and employee benefit plans that are stated at their fair value and share-based payments that are stated at their grant date fair value.

The consolidated financial statements have been prepared on a going concern basis as set out on pages 54-55 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 the critical accounting judgement are discussed in accounting policies 1(z) and 1(aa).

(ii) Discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset or disposal group, excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale is expected to be completed within one year from the date of the classification.

The Group announced the agreement to sell the Plastics division during the year ended 30 April 2019, which was completed on 27 February 2020 (see note 30(a)). Accordingly, the Group has classified the Plastics division as a discontinued operation.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement. Cash flows generated from discontinued operations are presented as a single item in the statement of cash flows.

All other notes to the financial statements include amounts for continuing operations.

(iii) New accounting standards adopted

The following new accounting standards, amendments or interpretations have been adopted by the Group as of 1 May 2019:

- IFRS 16 *Leases;*
- IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments;*
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures;* and
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement.*

IFRS 16 *Leases*

The Group adopted IFRS 16 on 1 May 2019 using the modified retrospective approach and practical expedients available. As per the specific transitional arrangements in the standard, comparative information has not been restated and all adjustments were made in the opening balance sheet as at 1 May 2019. As such, results for the year ended 30 April 2019 continue to be reported under the previous lease accounting standard, IAS 17 *Leases.*

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 supersedes the previous lease guidance including IAS 17 *Leases* and the related Interpretations for accounting periods beginning on or after 1 January 2019.

IFRS 16 prescribes a single lessee accounting model that requires the recognition of a right-of-use asset and corresponding liability for all leases with terms over 12 months, unless the underlying asset is of low value. The liability is initially measured as the present value of future lease payments for the lease term. Depreciation of right-of-use assets and interest on the corresponding lease liabilities are recognised in the income statement over the lease term. In the cash flow statement, the total amount of cash paid is separated into a principal portion (within financing activities) and an interest portion (within operating activities). In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

1. Significant accounting policies continued

(a) Basis of preparation continued

(iii) New accounting standards adopted continued

IFRS 16 *Leases continued*

The Group has applied the following practical expedients in adopting IFRS 16:

- The Group has not reassessed whether transition date contracts are or contain a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 May 2019;
- IFRS 16 has not been applied to low value assets or leases of less than 12 months in total, which will continue to be expensed to profit and loss on a straight-line basis over the lease term;
- The Group has placed reliance on previous assessments as to whether or not leases are onerous. Any onerous lease provisions were adjusted against the carrying value of the corresponding right-of-use asset on transition;
- On transition, all right-of-use assets were measured at an amount equal to the lease liability;
- Hindsight has been applied in determining the lease term where options to extend or terminate exist;
- For leases classified as finance leases under IAS 17, the previous carrying amount of the lease asset and liability under IAS 17 was taken as the carrying amount of the right-of-use asset and corresponding lease liability; and
- The Group applied a single discount rate to portfolios of leases with reasonably similar characteristics.

On implementation of IFRS 16 there was a material increase in lease liabilities, along with a corresponding increase in right-of-use assets. Note 31 details the impact on the Group's financial statements and Key Performance Indicators of the adoption of IFRS 16.

IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*

IFRIC Interpretation 23 clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In particular, this Interpretation addresses whether uncertain tax treatments should be considered separately or together with one or more other uncertain tax treatments, addresses the assumptions an entity makes about the examination of tax treatment by taxation authorities and harmonises the methodology for measurement of uncertain tax treatments in both binary or a range of possible outcomes.

The Group adopted IFRIC Interpretation 23 as at 1 May 2019, with no material impact on the Group's financial statements.

Other than as disclosed above, the adoption of the other new accounting standards, amendments and interpretations has not had a material effect on the results for the year.

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

(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.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies continued

(c) Revenue

The Group is in the business of providing sustainable packaging solutions, sustainable paper products, recycling and waste management services. The Group has concluded that it is the principal in its revenue arrangements.

Revenue comprises the fair value of the sale of goods and services, net of value added tax and other sales taxes, rebates and discounts and after eliminating sales within the Group. Revenue from contracts with customers is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services and the fulfilment of the related performance obligations. Generally this occurs when the goods are loaded into 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.

The transaction price is the contractual price with the customer adjusted for rebates and discounts. Rebates and discounts are estimated using historical data and experiences with the customers. Revenue is recognised to the extent that it is highly probable that a significant reversal will not occur. Returns from customers are negligible. No element of financing is deemed present as typical sales contracts with customers are usually shorter than 12 months.

A receivable is recognised when the goods are delivered or services provided at a point in time that consideration is unconditional because only the passage of time is required before the payment is due.

Revenue by function is not provided in the Group's disclosures as the year-on-year variability in the degree of integration would be misrepresentative of the level of activity.

(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 an impairment is indicated.

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

(ii) Intellectual property

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

1. Significant accounting policies continued

(h) Intangible assets continued

(iii) Computer software

Computer software that is integral to a related item of hardware is included within property, plant and equipment. All other computer software is treated as an intangible asset.

(iv) Customer related

Customer relationships, acquired as part of a business combination, are capitalised separately from goodwill and are carried at cost less accumulated amortisation and impairment.

(v) Other intangible assets

Other intangible assets that are acquired by the Group are carried at cost less accumulated amortisation and impairment.

(vi) Amortisation

Amortisation of intangible assets (excluding goodwill) is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets, unless such lives are indefinite. Intangible assets (other than goodwill) are amortised from the date they are available for use.

The estimated useful lives are as follows:

Intellectual property	Up to 20 years
Computer software	3–5 years
Customer relationships	5–15 years

(i) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each item of property, plant and equipment, and major components that are accounted for separately (or in the case of leased assets, the lease period, if shorter). Land is not depreciated.

The estimated useful lives are as follows:

Freehold and long leasehold properties	10–50 years
Plant and equipment – motor vehicles	3–5 years
Plant and equipment – other, fixtures and fittings (including IT hardware)	2–30 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 investments in unquoted equity securities and restricted cash. Equity securities are measured at fair value. On initial recognition, the Group makes an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income (FVTOCI). Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination. Investment in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve. The cumulative gain or loss is not reclassified to profit or loss on divestment of the equity investments; instead, it is transferred to retained earnings. The Group has designated all investments in equity that are not held for trading as at FVTOCI.

Restricted cash is carried at amortised 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 consolidated 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 flows, the recoverable amount is determined for the CGU to which the asset belongs.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies continued
(k) Impairment continued
(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 currency and commodity swaps, to manage 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.

The Group has elected to continue to apply the hedge accounting requirements of IAS 39, as allowed under IFRS 9.

Derivative financial instruments are accounted for as hedges when designated as hedges at the inception of the contract and when the financial instruments provide an effective hedge of the underlying risk.

For the purpose of hedge accounting, hedges are classified as:

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

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

Cash flow hedges: the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the income statement. Amounts taken to equity are transferred to the income statement in the same period during which the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

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 recognised initially at fair value less expected credit loss allowance and subsequently held at amortised cost. The Group utilises the simplified approach to provide for losses on receivables under IFRS 9.

(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.

1. Significant accounting policies continued
(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, interest payable is recorded separately from the associated borrowings, within trade and other payables.

(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 scheme assets is deducted.

The discount rate is the yield at the reporting date on AA credit rated bonds that have maturity dates approximating to the duration of the schemes' obligations. The calculation is performed by a qualified actuary using the projected unit method. Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

(iii) Share-based payment transactions
The Group operates equity-settled share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised within personnel expenses, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The fair value of the options granted is measured using a stochastic model, taking into account the terms and conditions upon which the options were granted. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions.

At each reporting date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

(t) Provisions
A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, a reliable estimate can be made of the amount of the obligation and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are discounted to present value where the effect is material.

(u) Trade and other payables
Trade and other payables are initially measured at fair value, net of directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method.

(v) Leases
The Group recognises a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, being the initial amount of the lease liability adjusted for any lease payments made at or before commencement date, plus any initial direct costs incurred and an estimate of end of lease dismantling or restoration costs, less any incentives received and related provisions.

Lease liabilities are recorded at the present value of lease payments, which include:

- Fixed lease payments;
- Variable payments that depend on an index or rate, initially measured using the commencement date index or rate;
- Any amounts expected to be payable under residual value guarantees; and
- The exercise price of purchase options, if it is reasonably certain they will be exercised.

The interest rate implicit in the lease is used to discount lease payments, or, if that rate cannot be determined, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are depreciated on a straight-line basis over the lease term, or the useful life if shorter.

Interest is recognised on the lease liability, resulting in a higher finance cost in the earlier years of the lease term.

Lease payments relating to low value assets or to short-term leases are recognised as an expense on a straight-line basis over the lease term. Short-term leases are those with 12 or less months duration.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies continued

(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 can be estimated. 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 33.

(z) Key sources of estimation uncertainty

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 estimation uncertainty are as detailed below.

(i) Taxation

The Group's tax payable on profits is determined based on tax laws and regulations that apply in each of the numerous jurisdictions in which the Group operates. The Group is required to exercise judgement in determining income tax provisions, along with the recognition of deferred tax assets/liabilities. While the Group aims to ensure that estimates recorded are accurate, the actual amounts could be different from those expected. In particular, the Group holds a provision for the maximum potential exposure as a result of the EU Commission decision on State Aid in the UK. See note 7 for additional information.

(ii) Impairments

The Group tests goodwill and tangible assets for any impairment on an annual basis. The recoverable amounts of the CGUs is determined based on value-in-use calculations which require the use of assumptions and estimates. Budgets comprising forecasts of revenue, overheads, and capital expenditure based on current and anticipated market conditions have been considered and approved by management. Refer to note 10 for details of the estimates and assumptions applied.

(iii) Employee benefits

IAS 19 *Employee Benefits* requires the Group to make assumptions including, but not limited to, rates of inflation, discount rates and life expectancies. The use of different assumptions, in any of the above calculations, could have a material effect on the accounting values of the relevant statement of financial position assets and liabilities which could also result in a change to the cost of such liabilities as recognised in profit or loss over time. These assumptions are subject to periodic review. See note 25 for additional information.

1. Significant accounting policies continued

(aa) Critical accounting judgement

Adjusting items

The Group is required to exercise judgement in applying the adjusting items accounting policy to items of income and expenditure, taking account of their origination, as well as considering similar items in prior years to ensure consistency and appropriate presentation. See note 4 for additional information.

(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
Amendments to IFRS 3 *Business Combinations*	30 April 2021
Amendments to IFRS 9, IAS 39 and IFRS 7 *Interest Rate Benchmark Reform*	30 April 2021
Amendments to IAS 1 and IAS 8 *Definition of Material*	30 April 2021
Amendments to the Conceptual Framework for Financial Reporting	30 April 2021

The Group does not anticipate that the adoption of the standards and interpretations that are effective for the year ending 30 April 2021 will have a material effect on its financial statements.

Of the standards listed above, all 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 continuing operations are organised into segments which cover geographical regions with integrated packaging and paper businesses. These comprise the Group's reportable segments and their results are regularly reviewed by the Group Chief Executive. The measure of profitability reported to the Group Chief Executive for the purposes of resource allocation and assessment of performance is adjusted operating profit, which is a non-GAAP performance measure, about which further information is provided in note 33.

During the year, the Group changed its internal reporting structure, reducing the regional segments from five to four. Consequently, a corresponding change to the operating segments reported has been made, and the operating segment analysis for the comparative period has been restated.

The Plastics segment was classified as a discontinued operation during the year ended 30 April 2019 and as such is reported separately. Segmental reporting for the Plastics segment is set out in note 30(a).

Notes to the consolidated financial statements (continued)

2. Segment reporting continued

Operating segments continued

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 2020	Note	Northern Europe £m	Southern Europe £m	Eastern Europe £m	North America £m	Total continuing operations £m
External revenue		**2,333**	**2,214**	**892**	**604**	**6,043**
Adjusted EBITDA[1]		**335**	**422**	**127**	**72**	**956**
Depreciation		**(116)**	**(108)**	**(39)**	**(33)**	**(296)**
Adjusted operating profit[1]		**219**	**314**	**88**	**39**	**660**
Unallocated items:						
Amortisation	10					**(143)**
Adjusting items in operating profit	4					**(62)**
Total operating profit (continuing operations)						**455**
Unallocated items:						
Net financing costs						**(94)**
Share of profit of equity accounted investments, net of tax						**7**
Profit before income tax						**368**
Income tax expense						**(78)**
Profit for the year (continuing operations)						**290**
Analysis of total assets and total liabilities						
Segment assets		**2,107**	**3,302**	**1,005**	**1,386**	**7,800**
Unallocated items:						
Equity accounted investments and other investments						**47**
Derivative financial instruments						**61**
Cash and cash equivalents						**595**
Tax						**119**
Assets classified as held for sale						**3**
Total assets						**8,625**
Segment liabilities		**(948)**	**(687)**	**(235)**	**(141)**	**(2,011)**
Unallocated items:						
Borrowings, overdrafts and interest payable						**(2,525)**
Derivative financial instruments						**(85)**
Tax						**(454)**
Employee benefits						**(199)**
Total liabilities						**(5,274)**
Capital expenditure		**103**	**135**	**53**	**85**	**376**

1. Adjusted to exclude amortisation and adjusting items.

2. Segment reporting continued

Year ended 30 April 2019 (restated)	Note	Northern Europe £m	Southern Europe £m	Eastern Europe £m	North America £m	Total continuing operations £m
External revenue		2,575	2,024	933	639	6,171
Adjusted EBITDA[1]		336	248	106	130	820
Depreciation		(73)	(62)	(30)	(24)	(189)
Adjusted operating profit[1]		263	186	76	106	631
Unallocated items:						
Amortisation	10					(114)
Adjusting items in operating profit	4					(90)
Total operating profit (continuing operations)						427
Unallocated items:						
Net financing costs						(86)
Share of profit of equity accounted investment, net of tax						9
Profit before income tax						350
Income tax expense						(88)
Profit for the year (continuing operations)						262
Analysis of total assets and total liabilities[2]						
Segment assets		2,080	3,363	1,013	1,262	7,718
Unallocated items:						
Equity accounted investment and other investments						45
Derivative financial instruments						47
Cash and cash equivalents						382
Tax						82
Assets classified as held for sale						237
Total assets						8,511
Segment liabilities		(915)	(677)	(201)	(88)	(1,881)
Unallocated items:						
Borrowings, overdrafts and interest payable						(2,777)
Derivative financial instruments						(30)
Tax						(448)
Employee benefits						(170)
Liabilities classified as held for sale						(93)
Total liabilities						(5,399)
Capital expenditure		111	102	52	38	303

1. Adjusted to exclude amortisation and adjusting items.
2. The 2019 comparative has been re-presented for finalisation of Europac acquisition accounting (note 30(c)) and to show lease liabilities separately (note 31).

Notes to the consolidated financial statements (continued)

2. Segment reporting continued

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	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
UK	**828**	1,053	**479**	435	**47**	49
France	**844**	933	**430**	418	**59**	47
Germany	**587**	680	**395**	334	**37**	34
Italy	**563**	649	**264**	241	**27**	26
Iberia	**704**	621	**607**	576	**49**	38
USA	**569**	652	**409**	240	**85**	40
Rest of the World	**1,948**	1,583	**742**	708	**72**	69
	6,043	6,171	**3,326**	2,952	**376**	303

3. Operating profit

Continuing operations	2020 £m	2019 £m
Operating costs		
Cost of sales	**2,812**	3,124
Other production costs	**1,167**	1,105
Distribution	**470**	454
Administrative expenses	**992**	907
	5,441	5,590

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	2020 £m	2019 £m
Depreciation of owned assets	**222**	181
Depreciation of right-of-use assets (2019: depreciation of finance leased assets)	**74**	8
Amortisation of intangible assets	**143**	114
Profit on sale of non-current assets	**(2)**	(4)
Research and development	**10**	9

	2020			2019		
Auditor's remuneration	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Fees payable for audit of the Company's annual financial statements	**0.2**	**-**	**0.2**	0.1	–	0.1
Fees payable for audit of the Company's subsidiaries, pursuant to legislation	**0.9**	**2.8**	**3.7**	0.9	2.5	3.4
Total audit fees	**1.1**	**2.8**	**3.9**	1.0	2.5	3.5
Fees payable to the Company's Auditor and their associates for other services:						
Corporate finance services	**0.1**	**-**	**0.1**	1.2	–	1.2
Audit related assurance services	**0.1**	**0.1**	**0.2**	0.4	–	0.4
Total non-audit fees	**0.2**	**0.1**	**0.3**	1.6	–	1.6
Total Auditor's remuneration	**1.3**	**2.9**	**4.2**	2.6	2.5	5.1

Non-audit fees in 2019/20 primarily include reporting accounting services in respect of the Euro medium-term note ("EMTN") issue in the year and audit-related fees for the review of the interim results. Non-audit fees in 2018/19 included reporting accountant's fees in respect of the acquisition of Europac and the related rights issue. In addition, non-audit fees totalling £0.7 million for Europac were paid to the Company's Auditor in the pre-acquisition period from 1 May 2018 to 22 January 2019, primarily IT-related support and implementation fees (£0.6 million).

A description of the work of the Audit Committee is set out in the 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.

Continuing operations	2020 £m	2019 £m
Acquisition related costs	**(10)**	(32)
Gains on acquisitions and divestments	**6**	–
Acquisitions and divestments	**(4)**	(32)
Integration costs	**(30)**	(27)
Other restructuring costs	**(24)**	(3)
Impairment of assets	**(4)**	–
Guaranteed minimum pension equalisation	**-**	(8)
Other	**-**	(20)
Total pre-tax adjusting items (recognised in operating profit)	**(62)**	(90)
Finance costs adjusting items	**(7)**	(15)
Adjusting tax items	**(1)**	(1)
Current tax credit on adjusting items	**14**	14
Deferred tax credit on adjusting items	**1**	–
Total post-tax adjusting items	**(55)**	(92)

2019/20

Acquisition related costs of £10m relate to professional advisory, legal and consultancy fees for review of potential deals, deferred consideration and retention bonuses.

Gains on acquisition and divestments relate primarily to the remedy disposal of legacy Group sites required as part of the Europac acquisition. The profit on disposal of the Plastics business is classified under discontinued operations (see note 30(a)).

Integration costs relate to integration projects underway, primarily to achieve cost synergies from the major acquisitions made in the previous financial years (of which £19m relates to Europac and £11m relates to Interstate Resources). They include redundancies, professional fees, IT costs and those directly attributable internal salary costs which would otherwise not be incurred.

Other restructuring costs of £24m primarily comprise a reorganisation and restructuring project across the Packaging business, focusing predominantly on reduction of indirect costs.

Impairment of assets comprises impairment, primarily of property, plant and equipment, directly related to restructuring projects.

Finance costs adjusting items relate to the unwind of the discount on the redemption liability related to the purchase of Interstate Resources.

Adjusting items from discontinued operations are detailed in note 30(a).

Adjusting tax items

The current tax credit on adjusting items of £14m in the year ended 30 April 2020 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 divestments.

The adjusting tax item of £1m is an increase in the State Aid provision in relation to the estimate of interest on overdue tax covering the year to 30 April 2020 (see note 7).

2018/19

Acquisition related costs of £32m related to professional advisory, legal and consultancy fees and directly attributable internal salary costs relating to the review of potential deals, and deals completed during the year. Of the total, £22m related to the acquisition of Europac, with the most significant components being transaction and sponsor fees, legal costs, and financial and tax due diligence and advice costs.

Integration costs related to integration projects underway, primarily to achieve cost synergies from the major acquisitions made in 2018/19 and previous financial years (of which £14m related to Europac and £9m related to Interstate Resources). They included those directly attributable internal salary costs which would otherwise not have been incurred.

Other restructuring costs included reorganisation and restructuring in Southern and Northern Europe and various projects commenced in the previous year.

Notes to the consolidated financial statements (continued)

4. Adjusting items continued

2018/19 continued

On 26 October 2018, the High Court issued a judgment with respect to the equalisation between men and women of guaranteed minimum pension (GMP) benefits accrued between 1990 and 1997, in order to comply with sex discrimination legislation. The impact of this judgment was a charge of £8m for the Group.

Other adjusting items of £20m principally related to a significant multi-year major IT project which was substantially completed in 2018/19. The costs of this project extended over several years and, as well as adjusting items, included capitalisation of intangible assets, particularly in the case of IT systems. Those costs are primarily as a result of the Group's acquisition activity, where the businesses acquired typically have a limited IT and financial reporting infrastructure.

Finance costs adjusting items related to financing costs incurred in the acquisition of Europac of £7m, with the remainder relating to the unwind of the discount on the redemption liability related to the purchase of Interstate Resources.

Adjusting tax items

Adjusting tax items included the release of a provision of £32m in relation to the closure of a business in Denmark by SCA Packaging prior to ownership by the Group, offset by a provision of £33m which represents the maximum potential tax exposure which could arise in connection with the recent decision by the EU Commission on State Aid in relation to the UK Controlled Foreign Company regime (see note 7).

The current tax credit on adjusting items of £14m in the year ended 30 April 2019 was the tax effect at the local applicable tax rate of adjusting items that are subject to tax. This excluded non-tax deductible deal related advisory fees in relation to acquisitions and divestments.

5. Finance income and costs

Continuing operations	2020 £m	2019 £m
Interest income from financial assets	(2)	–
Other	(2)	–
Finance income	**(4)**	–
Interest on borrowings and overdrafts	62	62
Interest on lease liabilities	12	–
Other	14	7
Finance costs before adjusting items	**88**	69
Finance costs adjusting items (note 4)	7	15
Finance costs	**95**	84

6. Personnel expenses

Continuing operations	2020 £m	2019 £m
Wages and salaries	1,044	1,015
Social security costs	206	195
Contributions to defined contribution pension plans	50	43
Service costs for defined benefit schemes (note 25)	7	6
Share-based payment expense (note 26)	5	7
Personnel expenses	**1,312**	1,266

Average number of employees	2020 Number	2019 Number
Northern Europe	11,443	11,451
Southern Europe	8,816	7,369
Eastern Europe	7,173	6,915
North America	1,879	1,753
Rest of the World	86	86
Average number of employees	**29,397**	27,574

7. Income tax expense

	2020 £m	2019 £m
Current tax expense		
Current year	(86)	(123)
Adjustment in respect of prior years	(16)	8
	(102)	(115)
Deferred tax credit		
Origination and reversal of temporary differences	–	5
Change in tax rates	(3)	(2)
Recognition of previously unrecognised deferred tax assets	18	–
Adjustment in respect of prior years	(5)	11
	10	14
Total income tax expense before adjusting items	**(92)**	(101)
Adjusting tax items (note 4)	(1)	(1)
Current tax credit on adjusting items (note 4)	14	14
Deferred tax credit on adjusting items (note 4)	1	–
Total income tax expense in the income statement from continuing operations	**(78)**	(88)
Total income tax expense in the income statement from discontinued operations (note 30(a))	(11)	(6)
Total income tax expense in the income statement – total Group	**(89)**	(94)

The tax credit on amortisation was £33m (2018/19: £26m).

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

	2020 £m	2019 £m
Profit before income tax on continuing operations	368	350
Profit before income tax on discontinued operations (note 30(a))	248	18
Share of profit of equity accounted investments, net of tax	(7)	(9)
Profit before tax and share of profit of equity accounted investments, net of tax	609	359
Income tax at the domestic corporation tax rate of 19.00% (2018/19: 19.00%)	(116)	(68)
Effect of additional taxes and tax rates in overseas jurisdictions	(41)	(36)
Additional items deductible for tax purposes	19	19
Non-deductible expenses	(20)	(25)
Non-taxable gain on disposal of business	77	–
Release of prior year provisions in relation to acquired businesses	–	38
Recognition of previously unrecognised deferred tax assets	18	–
Deferred tax not recognised	(2)	(2)
Foreign exchange	–	1
Adjustment in respect of prior years	(21)	(19)
Effect of change in corporation tax rates	(3)	(2)
Income tax expense – total Group	**(89)**	(94)

The Group's effective tax rate, excluding amortisation, adjusting items and share of result from equity accounted investments, was 22.0% (2018/19: 22.8%).

The Finance Act 2020 included a 2% increase in the main UK corporation tax rate to 19% from 1 April 2020, which was substantially enacted on 17 March 2020. As announced in the March 2020 Budget, the reduction in the UK corporation tax rate to 17% will now not occur. Accordingly, the rate applied to UK deferred tax assets and liabilities is 19% (2019: 17%).

Notes to the consolidated financial statements (continued)

7. Income tax expense continued

Uncertain tax positions

The Group operates in a complex multinational tax environment and is subject to uncertain tax positions and changes in legislation in the jurisdictions in which it operates. The Group's uncertain tax positions principally include pricing of cross-border transactions and a limited number of specific transaction related tax risks.

The assessment of uncertain tax positions is based on management's expectation of the likely outcome of settlements with tax authorities or litigation. The quantification of the risks at any one point in time, especially with respect to transfer pricing, requires a degree of judgement and estimation by management.

Within the consolidated balance sheet at 30 April 2020 for continuing operations are current tax liabilities of £149m (30 April 2019: £133m) which include a provision of £138m (30 April 2019: £105m) 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 £16m to £197m.

In particular, following the EU Commission's decision in April 2019 which concluded that up until 31 December 2018, the UK Controlled Foreign Company legislation partially represented State Aid, the Group recognised a provision in the year ended 30 April 2019 through adjusting items (see note 4) for the maximum potential exposure of £33m, which included an estimate of £2m for interest on overdue tax. This provision has been maintained in the current year and is included within the provision for uncertain tax positions. There remains uncertainty surrounding HMRC's likely approach to the assessment and recovery of the deemed State Aid, and, accordingly, any developments will continue to be monitored and assessed.

There are tax audits being conducted by the tax authorities in a number of countries. Whilst there is inherent uncertainty regarding the timing of the resolution of these tax audits and the final tax liabilities to be assessed, the Group does not expect there to be a material change in the provision for uncertain tax positions in the next 12 months.

Included within the current tax liabilities is an amount of £11m (30 April 2019: £8m) relating to interest and penalties on uncertain tax positions.

Tax on other comprehensive income and equity

	Gross 2020 £m	Tax credit/ (charge) 2020 £m	Net 2020 £m	Gross 2019 £m	Taxcredit/ (charge) 2019 £m	Net 2019 £m
Actuarial (loss)/gain on employee benefits	**(46)**	**15**	**(31)**	(62)	11	(51)
Foreign currency translation differences	**39**	**-**	**39**	(45)	1	(44)
Reclassification from translation reserve to income statement arising on divestment	**(30)**	**-**	**(30)**	–	–	–
Movements in cash flow hedges	**(32)**	**6**	**(26)**	(8)	2	(6)
Movement in net investment hedge	**(23)**	**5**	**(18)**	17	–	17
Other comprehensive (expense)/income for the year	**(92)**	**26**	**(66)**	(98)	14	(84)
Issue of share capital	**2**	**-**	**2**	1,006	–	1,006
Employee share trust	**(4)**	**-**	**(4)**	(8)	–	(8)
Share-based payment expense	**5**	**(3)**	**2**	7	(6)	1
Dividends paid to Group shareholders	**(222)**	**-**	**(222)**	(187)	–	(187)
Other comprehensive (expense)/income and changes in equity	**(311)**	**23**	**(288)**	720	8	728

8. Earnings per share

Basic earnings per share from continuing operations

	2020	2019
Profit from continuing operations attributable to ordinary shareholders	**£290m**	£262m
Weighted average number of ordinary shares	**1,371m**	1,327m
Basic earnings per share	**21.2p**	19.7p

Diluted earnings per share from continuing operations

	2020	2019
Profit from continuing operations attributable to ordinary shareholders	**£290m**	£262m
Weighted average number of ordinary shares	**1,371m**	1,327m
Potentially dilutive shares issuable under share-based payment arrangements	**7m**	6m
Weighted average number of ordinary shares (diluted)	**1,378m**	1,333m
Diluted earnings per share	**21.0p**	19.7p

The number of shares excludes the weighted average number of the Company's own shares held as treasury shares during the year of 1m (2018/19: 1m).

	2020		2019	
	Basic pence per share	Diluted pence per share	Basic pence per share	Diluted pence per share
Earnings per share from continuing operations	**21.2p**	**21.0p**	19.7p	19.7p
Earnings per share from discontinued operations (note 30(a))	**17.3p**	**17.2p**	0.9p	0.9p
Earnings per share from continuing and discontinued operations	**38.5p**	**38.2p**	20.6p	20.6p

Adjusted earnings per share from continuing operations

Adjusted earnings per share is a key performance measure for management long-term remuneration and is widely used by the Group's shareholders. Adjusted earnings is calculated by adding back the post-tax effects of both amortisation and adjusting items.

Further detail about the use of non-GAAP performance measures, including details of why amortisation is excluded, is given in note 33.

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

	2020			2019		
	£m	Basic pence per share	Diluted pence per share	£m	Basic pence per share	Diluted pence per share
Basic earnings	**290**	**21.2p**	**21.0p**	262	19.7p	19.7p
Add back:						
Amortisation of intangible assets	**143**	**10.4p**	**10.4p**	114	8.7p	8.6p
Tax credit on amortisation	**(33)**	**(2.4p)**	**(2.4p)**	(26)	(2.0p)	(2.0p)
Adjusting items, before tax	**69**	**5.0p**	**5.0p**	105	7.9p	7.9p
Tax on adjusting items and adjusting tax items	**(14)**	**(1.0p)**	**(1.0p)**	(13)	(1.0p)	(1.0p)
Adjusted earnings	**455**	**33.2p**	**33.0p**	442	33.3p	33.2p

Notes to the consolidated financial statements (continued)

9. Dividends proposed and paid

	2020 Pence per share	2020 £m	2019 Pence per share	2019 £m
2018/19 interim dividend – paid	–	–	5.2p	71
2018/19 final dividend – paid	–	–	11.0p	151
2019/20 interim dividend – cancelled	**5.4p**	**74**	–	–
2019/20 final dividend – proposed	**nil**	–	–	–

	2020 £m	2019 £m
Paid during the year	**222**	187

The 2018/19 interim and final dividends were paid during the 2019/20 financial year. The Group announced on 8 April 2020 that the interim dividend in respect of 2019/20 of 5.4 pence per share (£74m), which was due to be paid after the year end on 1 May 2020, would no longer be paid, as a prudent action to respond to the significant uncertainty in the global environment as a result of Covid-19. The Directors have not proposed a final dividend in respect of 2019/20.

10. Intangible assets

	Goodwill £m	Software £m	Intellectual property £m	Customer related £m	Other £m	Total £m
Cost						
At 1 May 2019[1]	2,223	99	19	1,329	91	3,761
Divestments	–	(1)	–	–	–	(1)
Fair value adjustments on acquisitions made in the prior year	7	–	–	–	–	7
Additions	–	5	1	–	19	25
Disposals	–	(3)	(1)	–	(4)	(8)
Transfers	–	12	1	–	(13)	–
Transfer to assets held for sale	–	–	–	(9)	–	(9)
Reclassification	–	56	–	–	(56)	–
Currency translation	33	1	–	18	–	52
At 30 April 2020	**2,263**	**169**	**20**	**1,338**	**37**	**3,827**
Amortisation and impairment						
At 1 May 2019	(17)	(53)	(12)	(377)	(40)	(499)
Divestments	–	1	–	–	8	9
Amortisation	–	(22)	(1)	(114)	(6)	(143)
Disposals	–	3	1	–	3	7
Reclassification	–	(21)	–	–	21	–
Currency translation	–	–	–	(4)	–	(4)
At 30 April 2020	**(17)**	**(92)**	**(12)**	**(495)**	**(14)**	**(630)**
Carrying amount						
At 1 May 2019	2,206	46	7	952	51	3,262
At 30 April 2020	**2,246**	**77**	**8**	**843**	**23**	**3,197**

1. The 2019 comparative has been re-presented for finalisation of acquisition accounting of Europac (note 30(c)).

10. Intangible assets continued

	Goodwill £m	Software £m	Intellectual property £m	Customer related £m	Other £m	Total £m
Cost						
At 1 May 2018	1,408	93	29	841	95	2,466
Acquisitions	809	1	–	494	5	1,309
Fair value adjustments on acquisitions made in the prior year[1]	68	(2)	–	–	(3)	63
Additions	–	10	1	–	29	40
Disposals	–	(1)	–	–	(14)	(15)
Transfers	–	6	1	–	(7)	–
Transfer to assets held for sale	(69)	(6)	(11)	–	(14)	(100)
Currency translation	7	(2)	(1)	(6)	–	(2)
At 30 April 2019[1]	2,223	99	19	1,329	91	3,761
Amortisation and impairment						
At 1 May 2018	(27)	(51)	(22)	(295)	(28)	(423)
Amortisation	–	(9)	(1)	(88)	(16)	(114)
Disposals	–	1	–	–	4	5
Transfer to assets held for sale	10	5	11	–	–	26
Currency translation	–	1	–	6	–	7
At 30 April 2019	(17)	(53)	(12)	(377)	(40)	(499)
Carrying amount						
At 1 May 2018	1,381	42	7	546	67	2,043
At 30 April 2019[1]	2,206	46	7	952	51	3,262

1. The 2019 comparative has been re-presented for finalisation of acquisition accounting of Europac (note 30(c)).

Included within customer related intangibles at 30 April 2020 are amounts purchased as part of the acquisitions of Europac (carrying amount £438m, remaining amortisation period 14 years), Interstate Resources (carrying amount £194m, remaining amortisation period seven years) and SCA Packaging (carrying amount £89m, remaining amortisation period two years).

Goodwill

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

	2020 £m	2019 £m
Northern Europe	**403**	449
Southern Europe	**1,054**	994
Eastern Europe	**158**	156
North America	**631**	607
Total goodwill	**2,246**	2,206

Notes to the consolidated financial statements (continued)

10. Intangible assets continued

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.

During the period, the Group changed its internal reporting structure, reducing the regional segments from five to four. Impairment tests were conducted over both the previous and the current segmental structures, with no indicators of impairment noted in the year ended 30 April 2020 under either basis, as the recoverable amount of the groups of CGUs, based upon value-in-use calculations, exceeded the carrying amounts.

The calculations of value-in-use are inherently judgemental and require management to make a series of estimates and assumptions. The key assumptions in the value-in-use calculations are:

- the cash flow forecasts have been derived from the most recent forecast presented to the Board for the year ending 30 April 2021, which reflects the Group's best estimates of the impact of Covid-19 and the expected recovery within each segment, after reflection of likely mitigation activities available to the Group. The cash flows utilised are based upon forecast sales volumes and product mix, anticipated movements in paper prices and input costs and 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 but reflect the mitigating actions the Group expect to exercise in response to Covid-19;
- cash flows beyond the year ended 30 April 2021 reflect the anticipated recovery from the Covid-19 pandemic and apply a long-term growth rate specific to each of the CGU groups. Where a CGU consists of multiple countries, country-specific rates are incorporated into a weighted average rate for that region. The rates applied are 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% (2018/19: 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 (73% weighting), 30-year UK gilts (19% weighting) and 30-year US treasury yields (8%), adjusted for the relevant country market risk premium, ranging from 5.2% to 14.1%, which reflects the increased risk of investing in country specific equities and the relative volatilities of the equity of the Group compared to the market. This Group rate has been adjusted for the risks inherent in the countries in which the CGU group operates that are not reflected in the cash flow projections.

Key assumptions by CGU	Northern Europe	Southern Europe	Eastern Europe	UK	Western Europe	DCH and Northern Europe	Central Europe and Italy	North America
Long-term growth rate at 30 April 2020	**1.6%**	**1.4%**	**3.0%**	**n/a**	**n/a**	**n/a**	**n/a**	**2.0%**
Long-term growth rate at 30 April 2019	n/a	n/a	n/a	1.5%	1.9%	1.5%	1.8%	2.0%
Discount rate at 30 April 2020	**8.8%**	**10.3%**	**10.5%**	**n/a**	**n/a**	**n/a**	**n/a**	**8.6%**
Discount rate at 30 April 2019	n/a	n/a	n/a	9.1%	9.2%	8.4%	11.3%	8.9%

Goodwill impairment tests – sensitivities

The value-in-use is based upon anticipated discounted future cash flows. At 30 April 2020, the impairment tests concluded that there was 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 and prolonged 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 reduction or delays in future growth and increased discount rates. In these cases, if estimates of future recovery from the Covid-19 pandemic were delayed, or if the estimated discount rates applied to the cash flows were increased by 0.5%, 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, although the headroom would decrease. Therefore, at 30 April 2020 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 2019[1]	1,027	2,981	91	257	4,356
Reclassified to right-of-use assets on adoption of IFRS 16 (note 12)	–	(38)	(1)	–	(39)
Divestments	(16)	(36)	(1)	(6)	(59)
Additions	7	116	3	227	353
Disposals	(9)	(44)	(5)	–	(58)
Transfers	36	253	(1)	(288)	–
Transfer to assets held for sale	–	–	–	(3)	(3)
Reclassification	–	11	–	–	11
Currency translation	10	35	1	3	49
At 30 April 2020	**1,055**	**3,278**	**87**	**190**	**4,610**
Depreciation and impairment					
At 1 May 2019	(178)	(1,209)	(35)	–	(1,422)
Reclassified to right-of-use assets on adoption of IFRS 16 (note 12)	–	23	–	–	23
Divestments	7	25	1	–	33
Depreciation charge	(32)	(182)	(8)	–	(222)
Impairment	(1)	(2)	–	–	(3)
Disposals	6	38	5	–	49
Currency translation	(2)	(24)	–	–	(26)
At 30 April 2020	**(200)**	**(1,331)**	**(37)**	**–**	**(1,568)**
Carrying amount					
At 1 May 2019	849	1,772	56	257	2,934
At 30 April 2020	**855**	**1,947**	**50**	**190**	**3,042**

	Land and buildings £m	Plant and equipment £m	Fixtures and fittings £m	Under construction £m	Total £m
Cost					
At 1 May 2018	883	2,658	93	253	3,887
Acquisitions	191	359	2	57	609
Fair value adjustments on acquisitions made in the prior year[1]	(39)	(23)	–	(3)	(65)
Additions	25	73	2	214	314
Disposals	(9)	(46)	(3)	–	(58)
Transfers	28	219	5	(252)	–
Transfer to assets held for sale	(30)	(201)	(6)	(9)	(246)
Currency translation	(22)	(58)	(2)	(3)	(85)
At 30 April 2019[1]	1,027	2,981	91	257	4,356
Depreciation and impairment					
At 1 May 2018	(176)	(1,281)	(34)	–	(1,491)
Depreciation charge	(27)	(164)	(9)	–	(200)
Disposals	4	42	2	–	48
Transfers	(6)	6	–	–	–
Transfer to assets held for sale	17	150	4	–	171
Currency translation	10	38	2	–	50
At 30 April 2019	(178)	(1,209)	(35)	–	(1,422)
Carrying amount					
At 1 May 2018	707	1,377	59	253	2,396
At 30 April 2019[1]	849	1,772	56	257	2,934

1. The 2019 comparative has been re-presented for finalisation of acquisition accounting of Europac (note 30(c)).

Assets under construction mainly relate to production machines and site improvements being constructed at various sites across the Group.

Notes to the consolidated financial statements (continued)

12. Right-of-use assets and lease liabilities

Right-of-use assets

	Land and buildings £m	Plant and equipment £m	Fixtures and fittings £m	Total £m
Cost				
At 1 May 2019	–	–	–	–
Recognised on adoption of IFRS 16 (note 31)	135	103	1	239
Reclassified from property, plant and equipment on adoption of IFRS 16 (note 11)	–	38	1	39
Divestments	–	(4)	–	(4)
Additions	40	37	–	77
Disposals	(3)	(6)	–	(9)
Currency translation	2	1	–	3
At 30 April 2020	**174**	**169**	**2**	**345**
Depreciation and impairment				
At 1 May 2019	–	–	–	–
Reclassified from property, plant and equipment on adoption of IFRS 16 (note 11)	–	(23)	–	(23)
Divestments	–	2	–	2
Depreciation charge	(29)	(45)	–	(74)
Impairment	(1)	–	–	(1)
Disposals	2	5	–	7
At 30 April 2020	**(28)**	**(61)**	**-**	**(89)**
Carrying amount				
At 1 May 2019	–	–	–	–
At 30 April 2020	**146**	**108**	**2**	**256**

Assets previously classified as finance leased assets under IAS 17 represented £15m out of the Group's total right-of-use assets of £256m at 30 April 2020.

Lease liabilities

The carrying amounts of lease liabilities and the movements during the year are as follows:

	Total £m
At 1 May 2019 (relating to leases classified as finance leases under IAS 17)[1]	10
Recognised on adoption of IFRS 16 (note 31)	242
Divestments	(2)
Additions	77
Accretion of interest	12
Payments	(83)
Early termination	(2)
Currency translation	1
At 30 April 2020	**255**
Current	**73**
Non-current	**182**
	255

1. The 2019 comparative consolidated statement of financial position has been re-presented to show lease liabilities at 30 April 2019, previously presented within borrowings, separately (note 31).

The maturity analysis of lease liabilities is presented in note 20.

Leases previously classified as finance leases under IAS 17 represented £6m out of the Group's total lease liabilities of £255m at 30 April 2020.

13. Equity accounted investments

	2020 £m	2019 £m
At beginning of the year	**33**	24
Acquisitions	**-**	5
Dividends	**(6)**	(2)
Share of profit of equity accounted investments, net of tax	**7**	9
Currency translation	**1**	(3)
At end of the year	**35**	33

Principal equity accounted investments

	Nature of business	Principal country of operation	Ownership interest 2020	2019
PrJSC 'Rubezhnoye Cardboard and Package Mill'	Paper and packaging	Ukraine	**49.6%**	49.6%
Philcorr LLC	Packaging	USA	**40.0%**	40.0%
Philcorr Vineland LLC	Packaging	USA	**40.0%**	40.0%
Cartonajes Santander, S.L.	Packaging	Spain	**39.58%**	39.58%
Cartonajes Cantabria S.L.	Packaging	Spain	**39.58%**	39.58%
Euskocarton, S.L.	Packaging	Spain	**39.58%**	39.58%
Industria Cartonera Asturiana S.L.	Packaging	Spain	**39.58%**	39.58%

All the above associates are accounted for using the equity method because the Group has the ability to exercise significant influence over the investments due to the Group's equity holdings and board representation.

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.

	2020 £m	2019 £m
Current assets	**57**	52
Non-current assets	**70**	43
Current liabilities	**(27)**	(30)
Non-current liabilities	**(8)**	(8)
Revenue	**209**	213
Profit after tax	**16**	24
Other comprehensive expense	**(1)**	-

14. Other investments

	2020 £m	2019 £m
Other investments	**9**	9
Restricted cash	**3**	3
Total non-current investments	**12**	12

15. Inventories

	2020 £m	2019 £m
Raw materials and consumables	**304**	340
Work in progress	**22**	26
Finished goods	**192**	218
	518	584

Inventory provisions at 30 April 2020 were £46m (30 April 2019: £37m).

Inventories of £2,302m were recognised as an expense during the year ended 30 April 2020 (30 April 2019: £2,636m) and included within cost of sales.

Notes to the consolidated financial statements (continued)

16. Trade and other receivables

	2020 Non-current £m	2020 Current £m	2019 Non-current £m	2019 Current £m
Trade receivables	-	**588**	–	699
Loss allowance	-	**(36)**	–	(34)
Prepayments and accrued income	-	**72**	–	89
Other deposits	-	**33**	–	89
Other receivables	**19**	**96**	9	71
	19	**753**	9	914

Other receivables comprise various items including indirect tax receivable, employee advances and interest receivable.

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. Other deposits relate to these arrangements.

	Total £m	Current (not past due) £m	Of which past due: 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 2020							
Gross trade receivables	**588**	**516**	**15**	**16**	**7**	**3**	**31**
Weighted average loss rate		**0.8%**	**-**	**6%**	**14%**	**33%**	**94%**
Loss allowance	**(36)**	**(4)**	**-**	**(1)**	**(1)**	**(1)**	**(29)**
At 30 April 2019							
Gross trade receivables	699	569	70	19	6	7	28
Weighted average loss rate		0.9%	1.4%	5%	17%	29%	86%
Loss allowance	(34)	(5)	(1)	(1)	(1)	(2)	(24)

Movement in loss allowance

	2020 £m	2019 £m
At 1 May	**(34)**	(39)
Amounts written off	**5**	11
Net remeasurement of loss allowance	**(7)**	(3)
Acquisitions	**-**	(4)
Currency translation	**-**	1
At 30 April	**(36)**	(34)

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and diverse. The majority of customers are credit insured and the Group has a history of low levels of losses in respect of trade receivables.

The loss allowance represents the Group's expected credit losses on trade receivables as defined under IFRS 9 *Financial Instruments*. The expected credit losses are estimated using a provision matrix by grouping trade receivables based on shared credit risk characteristics and the days past due. Expected loss rates are calculated by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions (including the impact of Covid-19) and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The accounting impact of credit insurance is not considered integral to the consideration of the carrying value of the trade receivables.

17. Trade and other payables

	2020 Non-current £m	2020 Current £m	2019 Non-current £m	2019 Current £m
Trade payables	**-**	**1,044**	–	1,238
Interest payable	**-**	**37**	–	33
Other non-trade payables and accrued expenses	**15**	**627**	16	584
	15	**1,708**	16	1,855

In accordance with government initiatives to allow suppliers to receive payments earlier than contractual payment terms, the Group has set up supply chain finance programmes through third parties. The objectives for the scheme are to support smaller suppliers, giving them earlier access to funding, and to manage the Group's working capital. These schemes allow suppliers to receive, if they choose on an invoice by invoice basis, an earlier payment whilst the Group continues to pay to the suppliers' contractual terms. Suppliers are at liberty to use them or not and these arrangements have no cost to the Group and have no effect on trade payable balances or operating cash flows. The Group does not participate in any rebates, does not receive any fees from the providers nor does it provide any discounts or incentives for the suppliers to utilise these facilities. Additionally, they are not used to create payment terms which are abnormal, atypical or extend statutory payment terms in the countries the Group operates in and no adjustments are made by Standard and Poors in their assessment of Group adjusted net debt.

The Group assesses the supply chain finance programmes to ascertain whether liabilities to suppliers who have chosen to access an earlier payment under the scheme continue to meet the definition of trade payables, or should be reclassified as borrowings. The Group has concluded that the Group's liability to the supplier remains unchanged for all such programmes and as such, these balances remain in trade payables and the cash flows associated with these programmes remain within 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(b).

In the year ended 30 April 2020, half of the put option was exercised for £106m. On 26 June 2020, the Group completed the purchase and paid £82m, with, by agreement, the remainder deferred to October 2021. The liability is classified as current at 30 April 2020. The final stake remains subject to the put option, and as the next exercise date is 1 September 2020, it is classified within current liabilities.

The liability for the final stake at 30 April 2020 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, with a floor of the original purchase price.

Notes to the consolidated financial statements (continued)

18. Net debt

The components of net debt and movement during the year is as follows:

	Note	At 30 April 2019 £m	Adoption of IFRS 16 (note 31)	Continuing operations cash flow £m	Discontinued operation cash flow £m	Divestments £m	Foreign exchange, fair value and non-cash movements £m	**At 30 April 2020 £m**
Cash and cash equivalents		382	–	251	(29)	(9)	–	**595**
Overdrafts		(129)	–	37	–	2	–	**(90)**
Net cash and cash equivalents	19	253	–	288	(29)	(7)	–	**505**
Other investments – restricted cash	14	3	–	–	–	–	–	**3**
Other deposits		89	–	(56)	–	–	–	**33**
Borrowings –after one year		(2,385)	–	(100)	–	–	185	**(2,300)**
Borrowings –within one year		(230)	–	362	–	–	(230)	**(98)**
Lease liabilities	12	(10)	(242)	71	–	2	(76)	**(255)**
Derivative financial instruments					–			
assets		12	–	(53)	–	–	54	**13**
liabilities		(9)	–	58	–	–	(51)	**(2)**
		(2,530)	(242)	282	–	2	(118)	**(2,606)**
Net debt - reported basis		(2,277)	(242)	570	(29)	(5)	(118)	**(2,101)**
Net debt excluding IFRS 16 liabilities		(2,277)						**(1,852)**

Net debt is a non-GAAP measure not defined by IFRS. While the Group has included lease liabilities after transition to IFRS 16 *Leases* within total lease liabilities (in addition to arrangements previously classified as finance leases under IAS 17), IFRS 16 liabilities are currently excluded from the definition of net debt as set out in the Group's banking covenant requirements. Within lease liabilities of £255m at 30 April 2020 are £249m of lease liabilities that would have been classified as operating leases and £6m of lease liabilities that would have been classified as finance lease liabilities under IAS 17.

Further detail on the use of non-GAAP measures and a reconciliation showing the calculation of adjusted net debt, as defined in the Group's banking covenants, is included in note 33.

Derivative financial instruments above relate to forward foreign exchange contracts and cross-currency swaps used to hedge the Group's borrowings and the net assets of foreign operations. 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 leases.

Other deposits are included, as these short-term receivables have the characteristics of net debt.

19. Cash and cash equivalents

	2020 £m	2019 £m
Bank balances	**402**	375
Short-term deposits	**193**	7
Cash and cash equivalents (consolidated statement of financial position)	**595**	382
Bank overdrafts	**(90)**	(129)
Net cash and cash equivalents (consolidated statement of cash flows)	**505**	253

20. Borrowings

	2020			2019[4]		
	Current £m	**Non-current £m**	**Total £m**	Current £m	Non-current £m	Total £m
Bank and other loans[1]	**(14)**	**-**	**(14)**	(5)	(443)	(448)
Commercial paper	**(21)**	**-**	**(21)**	(148)	–	(148)
Medium-term notes and other fixed-term debt						
€25m term loan EURIBOR + 0.18% coupon July 2019[3]	**-**	**-**	**-**	(22)	–	(22)
€20m term loan EURIBOR + 0.65% coupon July 2020[3]	**-**	**-**	**-**	–	(17)	(17)
€59m private placement shelf facility 4.83% coupon August 2020	**(51)**	**-**	**(51)**	–	(51)	(51)
€150m term loan 0.6% coupon July 2021	**-**	**(130)**	**(130)**	–	(129)	(129)
€10m term loan EURIBOR + 0.85% coupon July 2021[3]	**-**	**-**	**-**	–	(9)	(9)
€60m term loan EURIBOR + 0.55% coupon November 2022	**-**	**(52)**	**(52)**	–	(52)	(52)
€20m term loan EURIBOR + 0.85% coupon July 2022[3]	**-**	**-**	**-**	–	(17)	(17)
$308m USD private placement 4.62% weighted average coupon August 2020-2022[2]	**(8)**	**(238)**	**(246)**	(55)	(236)	(291)
€500m medium-term note 2.25% coupon September 2022	**-**	**(433)**	**(433)**	–	(429)	(429)
€131m term loan EURIBOR + 1.0% coupon July 2024[3]	**-**	**-**	**-**	–	(108)	(108)
€750m medium-term note 1.38% coupon July 2024	**-**	**(650)**	**(650)**	–	(646)	(646)
€44m term loan 1.4% coupon September 2025	**(4)**	**(34)**	**(38)**	–	–	–
€600m medium-term note 0.88% coupon September 2026	**-**	**(515)**	**(515)**	–	–	–
£250m medium-term note 2.88% coupon July 2029	**-**	**(248)**	**(248)**	–	(248)	(248)
	(98)	**(2,300)**	**(2,398)**	(230)	(2,385)	(2,615)

1. Drawings under a short-term bank revolving credit facility and other bank loans.
2. Swapped to fixed rate £127m and fixed rate €129m using cross-currency swaps.
3. Term loans of €206m, acquired with Europac, were repaid during the year ended 30 April 2020.
4. The 2019 comparative has been re-presented to show lease liabilities at 30 April 2019, previously presented within borrowings, separately (note 31).

Borrowings are unsecured and measured at amortised cost. There have been no breaches of covenants during the year ended 30 April 2020 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:

	2020 £m	2019 £m
Expiring between two and five years	**1,400**	955
Expiring after five years	**-**	150
	1,400	1,105

The £1,400m of undrawn facilities consist of the Revolving Credit Facility.

Notes to the consolidated financial statements (continued)

20. Borrowings continued

The repayment profile of the Group's borrowings, after taking into account the effect of cross-currency swaps and forward foreign exchange contracts, is as follows:

2020	1 year or less £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Borrowings					
Fixed rate	**(85)**	**(28)**	**(1,446)**	**(772)**	**(2,331)**
Floating rate	**(13)**	**(54)**	**-**	**-**	**(67)**
Total borrowings	**(98)**	**(82)**	**(1,446)**	**(772)**	**(2,398)**

2019	1 year or less £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Borrowings					
Fixed rate	(55)	(74)	(783)	(897)	(1,809)
Floating rate	(175)	(134)	(497)	–	(806)
Total borrowings	(230)	(208)	(1,280)	(897)	(2,615)

The Group's borrowings, after taking into account the effect of cross-currency swaps and forward foreign exchange contracts are denominated in the following currencies:

2020	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m
Borrowings					
Fixed rate	**(450)**	**(1,682)**	**(199)**	**-**	**(2,331)**
Floating rate	**-**	**(67)**	**-**	**-**	**(67)**
	(450)	**(1,749)**	**(199)**	**-**	**(2,398)**
Net cash and cash equivalents (including bank overdrafts)					
Floating rate	**107**	**298**	**27**	**73**	**505**
Net borrowings at 30 April 2020	**(343)**	**(1,451)**	**(172)**	**73**	**(1,893)**

2019	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m
Borrowings					
Fixed rate	(377)	(1,393)	–	(39)	(1,809)
Floating rate	159	(467)	(498)	–	(806)
	(218)	(1,860)	(498)	(39)	(2,615)
Net cash and cash equivalents (including bank overdrafts)					
Floating rate	49	98	45	61	253
Net borrowings at 30 April 2019	(169)	(1,762)	(453)	22	(2,362)

At 30 April 2020, 73% of the Group's borrowings, after taking into account the effect of cross-currency swaps and forward foreign exchange contracts, were denominated in euros in order to hedge the underlying assets of the Group's European operations (30 April 2019: 71%). Interest rates on floating rate borrowings are based on London Interbank Offered Rate (LIBOR), Euro Interbank Offered Rate (EURIBOR) or base rates.

20. Borrowings continued

Maturity of lease liabilities

	1 year or less £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
At 30 April 2019	(3)	(4)	(3)	–	(10)
At 30 April 2020	**(73)**	**(56)**	**(81)**	**(45)**	**(255)**

Denomination of lease liabilities

	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m
At 30 April 2019	–	(10)	–	–	(10)
At 30 April 2020	**(53)**	**(126)**	**(46)**	**(30)**	**(255)**

Changes in liabilities arising from financing activities

	At 1 May 2019 £m	Adoption of IFRS 16 £m	Financing cash flows £m	Acquisitions and divestments £m	New leases £m	Movements in fair value £m	Other £m	At 30 Apr 2020 £m
Bank and other loans, including commercial paper	(596)	–	575	–	–	–	(14)	**(35)**
Medium-term notes and other fixed-term debt	(2,019)	–	(313)	–	–	–	(31)	**(2,363)**
Lease liabilities	(10)	(242)	71	2	(77)	–	1	**(255)**
Derivative financial instruments related to hedging of financial liabilities (note 18)								
assets	12	–	(53)	–	–	54	–	**13**
liabilities	(9)	–	58	–	–	(51)	–	**(2)**
Total liabilities from financing activities	**(2,622)**	**(242)**	**338**	**2**	**(77)**	**3**	**(44)**	**(2,642)**

	At 1 May 2018 £m	Adoption of IFRS 16 £m	Financing cash flows £m	Acquisitions and divestments £m	New leases £m	Movements in fair value £m	Other £m	At 30 Apr 2019 £m
Bank and other loans, including commercial paper	(1)	–	(581)	(69)	–	–	55	(596)
Medium-term notes and other fixed-term debt	(1,959)	–	106	(177)	–	–	11	(2,019)
Lease liabilities	(13)	–	4	–	–	–	(1)	(10)
Derivative financial instruments related to hedging of financial liabilities (note 18)								
assets	12	–	(3)	–	–	3	–	12
liabilities	(35)	–	39	–	–	(13)	–	(9)
Total liabilities from financing activities	(1,996)	–	(435)	(246)	–	(10)	65	(2,622)

Other changes include foreign exchange movements and amortisation of capitalised borrowing costs.

Financing cash flows consist of the net amount of proceeds from borrowings, repayment of borrowings, repayment of lease obligations and proceeds from settlement of derivative financial instruments in the consolidated statement of cash flows. Payments in respect of, and proceeds from settlement of derivative financial instruments in the consolidated statement of cash flows relate solely to derivative financial instruments used to hedge the Group's borrowings and net assets of foreign operations. Operating cash flows include settlement of commodity derivatives.

Notes to the consolidated financial statements (continued)

21. 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:

	Category	2020 Carrying amount £m	2020 Fair value £m	2019 Carrying amount £m	2019 Fair value £m
Financial assets					
Cash and cash equivalents	Amortised cost	**595**	**595**	382	382
Restricted cash	Amortised cost	**3**	**3**	3	3
Other investments	Fair value through other comprehensive income	**9**	**9**	9	9
Trade and other receivables	Amortised cost	**772**	**772**	923	923
Derivative financial instruments	Fair value – hedging instruments	**61**	**61**	47	47
Total financial assets		**1,440**	**1,440**	1,364	1,364
Financial liabilities					
Trade and other payables	Amortised cost, except as detailed below	**(1,723)**	**(1,723)**	(1,871)	(1,871)
Bank and other loans	Amortised cost	**(14)**	**(14)**	(448)	(448)
Commercial paper	Amortised cost	**(21)**	**(21)**	(148)	(148)
Medium-term notes and other fixed-term debt	Amortised cost	**(2,363)**	**(2,376)**	(2,019)	(2,069)
Lease liabilities	Amortised cost	**(255)**	**(255)**	(10)	(10)
Bank overdrafts	Amortised cost	**(90)**	**(90)**	(129)	(129)
Derivative financial instruments	Fair value – hedging instruments	**(85)**	**(85)**	(30)	(30)
Total financial liabilities		**(4,551)**	**(4,564)**	(4,655)	(4,705)

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 fixed rate borrowings and cross-currency 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. The fair values of financial assets and liabilities which bear floating rates of interest or are short-term in nature are estimated to be equivalent to their carrying amounts.

The Group's financial assets and financial liabilities are categorised within the fair value hierarchy that reflects the significance of the inputs used in making the assessments. The majority 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). The Group's medium-term notes are Level 1 financial instruments, as the notes are listed on the Luxembourg Stock Exchange. Other investments and the redemption liability arising on the acquisition of Interstate Resources (within trade and other payables) are Level 3 financial instruments. The fair value of other investments is derived from fair value calculations based on their cash flows, and details of the valuation of the redemption liability are provided in note 17.

21. Financial instruments continued

(b) Derivative financial instruments

The Group enters into derivative financial instruments, primarily 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 2020 £m	Assets 2019 £m	Liabilities 2020 £m	Liabilities 2019 £m	Net 2020 £m	Net 2019 £m
Derivatives held to:						
Manage the currency exposures on business activities, borrowings and net investments	**13**	12	**(2)**	(9)	**11**	3
Derivative financial instruments included in net debt	**13**	12	**(2)**	(9)	**11**	3
Derivatives held to hedge future transactions:						
Energy and carbon certificate costs	**48**	35	**(83)**	(21)	**(35)**	14
Total derivative financial instruments	**61**	47	**(85)**	(30)	**(24)**	17
Current	**34**	35	**(44)**	(16)	**(10)**	19
Non-current	**27**	12	**(41)**	(14)	**(14)**	(2)
	61	47	**(85)**	(30)	**(24)**	17

(c) Cash flow and net investment hedges

(i) Hedge reserves

Set out below is the reconciliation of each component in the hedging reserve:

	Commodity risk £m	Foreign exchange risk £m	Total £m
Balance at 1 May 2018	20	(27)	(7)
Gain/(loss) on designated cash flow hedges:			
Cross-currency swaps	–	22	22
Forward foreign exchange contracts	–	(9)	(9)
Commodity contracts	16	–	16
Loss/(gain) reclassified from equity to the income statement:			
Cross-currency swaps	–	(12)	(12)
Forward foreign exchange contracts	–	1	1
Commodity contracts	(26)	–	(26)
Deferred tax	2	–	2
At 30 April 2019	**12**	**(25)**	**(13)**
Gain/(loss) on designated cash flow hedges:			
Cross-currency swaps	–	21	21
Forward foreign exchange contracts	–	4	4
Commodity contracts	(56)	–	(56)
Loss/(gain) reclassified from equity to the income statement:			
Cross-currency swaps	–	(10)	(10)
Commodity contracts	9	–	9
Deferred tax	9	(3)	6
At 30 April 2020	**(26)**	**(13)**	**(39)**

Notes to the consolidated financial statements (continued)

21. Financial instruments continued
(c) Cash flow and net investment hedges continued
(i) Hedge reserves continued

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:

	2020 £m	2019 £m
Operating costs	**9**	(26)
Finance costs	**(10)**	(11)
Total pre-tax gain reclassified from equity to the income statement during the year	**(1)**	(37)

There was £nil recognised ineffectiveness during the year ended 30 April 2020 (30 April 2019: £nil) in relation to the cross-currency swaps.

(ii) Hedges of net investments in foreign operations

The Group utilises foreign currency borrowings, cross-currency swaps and forward foreign exchange contracts as hedges of long-term investments in foreign subsidiaries. The pre-tax loss on the hedges recognised in equity during the year was £23m (2018/19: gain of £17m). 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 (2018/19: net gain of £nil) treated as hedge ineffectiveness in the income statement.

(d) Risk identification and risk management
(i) Capital management

The Group defines its managed capital as the sum of equity, as presented in the consolidated statement of financial position, and net debt (note 18).

	2020 £m	2019 £m
Net debt	**2,101**	2,277
Total equity	**3,351**	3,112
Managed capital	**5,452**	5,389

The major changes in managed capital levels are as follows: during the year, the Group issued €600m of new debt under the EMTN programme and raised a further €44m through a subsidised term loan. The proceeds of the EMTN along with the proceeds from the sale of the Plastics division were used to repay amounts drawn on the revolving credit facility, with any remaining amounts placed on deposit at 30 April 2020. Managed capital is different from capital employed (defined as property, plant and equipment, right-of-use assets, 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, divestments 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 Heads of Tax and Treasury. The Group Treasury function operates in accordance with policies and procedures approved by the Board and is controlled by the Head of 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. The Group's exposure to interest rates on financial assets and financial liabilities is detailed in the liquidity risk management section of this note.

21. Financial instruments continued
(d) Risk identification and risk management continued
(ii) Market risk continued

Interest rate sensitivity

At 30 April 2020, 97% of the Group's borrowings were at fixed rates of interest (30 April 2019: 69%). The sensitivity analysis below shows the impact on profit 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 2020.

To calculate the impact on the income statement for the year, the interest rates on all variable-rate external borrowings and cash deposits have been increased by 100 basis points, and the resulting increase in the net interest charge has been adjusted for the effect of the Group's interest rate derivatives. The impact on equity is equal to the impact on profit.

The results are presented before non-controlling interests and tax.

	2020 £m	2019 £m
Impact on profit of increase in market interest rates of 100 basis points	**(5)**	(2)

Foreign exchange risk

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in sterling, was as follows:

	2020		2019	
	EUR £m	USD £m	EUR £m	USD £m
Trade receivables	**389**	**43**	476	36
Trade payables	**(880)**	**(214)**	(996)	(187)
Net borrowings[1]	**(1,576)**	**(218)**	(1,772)	(453)

1. After taking into account the effect of cross-currency swaps and forward foreign exchange contracts.

Foreign exchange risk on investments

The Group is exposed to foreign exchange risk arising from net investments in Group entities, the functional currencies of which differ from the Group's presentational currency, sterling. The Group partly hedges this exposure through borrowings denominated in foreign currencies and through cross-currency swaps and forward foreign exchange contracts.

Gains and losses arising from 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 some of this exposure through cross-currency swaps designated as cash flow hedges.

Foreign exchange risk on transactions

Foreign currency transaction risk arises where a business unit makes product sales or purchases in a currency other than its functional currency. Part of this risk is hedged using forward foreign exchange contracts which are designated as cash flow hedges.

The Group only designates the forward rate of foreign currency forwards in hedge relationships.

For the hedges of highly probable forecast sales and purchases, as the critical terms (i.e. the notional amount, life and underlying terms) of the foreign exchange forward contracts and their corresponding hedged items are the same, the Group performs a qualitative assessment of effectiveness and it is expected that the value of the forward contracts and the value of the corresponding hedged items will systematically change in opposite directions in response to movements in the underlying exchange rates.

The Group's main currency exposures are to the euro and US dollar. The following significant exchange rates applied during the year:

	2020		2019	
	Average	Closing	Average	Closing
Euro	**1.139**	**1.151**	1.135	1.159
US dollar	**1.251**	**1.252**	1.304	1.301

Notes to the consolidated financial statements (continued)

21. Financial instruments continued
(d) Risk identification and risk management continued
(ii) Market risk continued
Foreign exchange risk on transactions continued

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 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.

	2020		2019	
	Impact on profit £m	**Impact on total equity £m**	Impact on profit £m	Impact on total equity £m
10% strengthening of sterling	**-**	**31**	-	38
10% weakening of sterling	**-**	**(38)**	-	(47)

Commodity risk
The Group's main commodity exposures are to changes in gas and electricity prices. The Group also hedges its exposure to fluctuations in the cost of carbon emission certificates. This commodity price risk is managed by a combination of physical supply agreements and derivative instruments. At 30 April 2020, losses of £26m net of tax (2018/19: gains of £12m) are deferred in equity in respect of cash flow hedges in accordance with IAS 39. Any gains or losses deferred in equity will be reclassified to the income statement in the period in which the hedged item also affects the income statement, which will occur within three years.

The following table details the Group's sensitivity to a 10% increase in these prices, which is management's assessment of the reasonably possible change, on average, over any given year. A decrease of 10% in these prices would produce an opposite effect on equity. As all of the Group's commodity financial instruments achieve hedge accounting under IAS 39, there is no impact on profit for either year.

The results are presented before non-controlling interests and tax.

	2020		2019	
	Impact on profit £m	**Impact on total equity £m**	Impact on profit £m	Impact on total equity £m
10% increase in electricity prices	**-**	**1**	-	3
10% increase in gas prices	**-**	**9**	-	8
10% increase in carbon certificate prices	**-**	**(6)**	-	3

(iii) Credit risk
Credit risk is the risk that a customer or counterparty to a financial instrument will fail to perform or fail to pay amounts due, causing financial loss to the Group. In the current economic environment, the Group has placed increased emphasis on the management of credit risk. The carrying amount of financial assets at 30 April 2020 was £1,440m and is analysed in note 21(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 16 for information on credit risk with respect to trade receivables.

21. Financial instruments continued
(d) Risk identification and risk management continued
(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 2020, the Group had £1,400m of undrawn committed borrowing facilities (30 April 2019: £1,105m), which comprises the Revolving Credit Facility. 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.

		Contractual repayments		
At 30 April 2020	**Total £m**	**1 year or less £m**	**1-5 years £m**	**More than 5 years £m**
Non-derivative financial liabilities				
Trade and other payables	**1,723**	**1,708**	**15**	**-**
Bank and other loans	**17**	**14**	**3**	**-**
Commercial paper	**21**	**21**	**-**	**-**
Medium-term notes and other fixed-term debt	**2,375**	**63**	**1,537**	**775**
Lease liabilities	**304**	**74**	**156**	**74**
Bank overdrafts	**90**	**90**	**-**	**-**
Interest payments on borrowings	**210**	**45**	**120**	**45**
Total non-derivative financial liabilities	**4,740**	**2,015**	**1,831**	**894**

		Contractual repayments		
At 30 April 2019	Total £m	1 year or less £m	1-5 years £m	More than 5 years £m
Non-derivative financial liabilities				
Trade and other payables	1,871	1,855	16	-
Bank and other loans	455	6	449	-
Commercial paper	147	147	-	-
Medium-term notes and other fixed-term debt	2,029	77	1,043	909
Lease liabilities	10	3	7	-
Bank overdrafts	129	129	-	-
Interest payments on borrowings	246	48	146	52
Total non-derivative financial liabilities	4,887	2,265	1,661	961

Refer to note 29 for a summary of the Group's capital commitments.

Notes to the consolidated financial statements (continued)

21. Financial instruments continued
(d) Risk identification and risk management continued
(iv) Liquidity risk continued

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. The disclosure shows net cash flow amounts for derivatives that are net cash-settled and gross cash inflow and outflow amounts for derivatives that have simultaneous gross cash settlement.

Where applicable, interest and foreign exchange rates prevailing at the reporting date are assumed to remain constant over the future contractual maturities.

	Contractual payments/(receipts)			
At 30 April 2020	**Total £m**	**1 year or less £m**	**1-5 years £m**	**More than 5 years £m**
Derivative financial liabilities				
Energy derivatives	**83**	**43**	**40**	**-**
Cross-currency swaps and forward foreign exchange contracts:				
Payments	**373**	**266**	**107**	**-**
Receipts	**(376)**	**(267)**	**(109)**	**-**
Total derivative financial liabilities	**80**	**42**	**38**	**-**

	Contractual payments/(receipts)			
At 30 April 2019	Total £m	1 year or less £m	1-5 years £m	More than 5 years £m
Derivative financial liabilities				
Energy derivatives	21	14	7	-
Cross-currency swaps and forward foreign exchange contracts:				
Payments	941	553	388	-
Receipts	(948)	(548)	(400)	-
Total derivative financial liabilities	14	19	(5)	-

22. 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	
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m
At beginning of the year[1]	**(353)**	(221)	**46**	41	**55**	51	**1**	(2)	**(251)**	(131)
Acquisitions	**-**	(155)	**-**	2	**-**	14	**-**	2	**-**	(137)
Credit/(charge) for the year:										
- continuing	**6**	25	**(9)**	(2)	**11**	(9)	**2**	-	**10**	14
- discontinuing	**-**	(1)	**-**	-	**-**	-	**-**	-	**-**	(1)
Recognised directly in equity	**-**	-	**12**	5	**-**	-	**6**	2	**18**	7
Transfer to liabilities held for sale	**-**	1	**-**	-	**-**	-	**-**	-	**-**	1
Currency translation	**(5)**	(2)	**1**	-	**(1)**	(1)	**-**	(1)	**(5)**	(4)
At end of the year	**(352)**	(353)	**50**	46	**65**	55	**9**	1	**(228)**	(251)

1. The 2019 comparative has been re-presented for finalisation of acquisition accounting of Europac (note 30(c)).

At 30 April 2020, 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:

	2020 £m	2019 £m
Deferred tax liabilities	**(305)**	(315)
Deferred tax assets	**77**	64
Net deferred tax	**(228)**	(251)

The deferred tax asset in respect of tax losses at 30 April 2020 includes an asset in the UK of £26m (30 April 2019: £26m). The asset has been 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 deferred tax asset in respect of tax losses at 30 April 2020 also includes an asset in Luxembourg of £13m (30 April 2019: nil). The asset has been recognised this year based on interest income that will arise in Luxembourg. The asset is expected to be fully recovered in the next 12 months.

The Group has total unrecognised deferred tax assets relating to tax losses at 30 April 2020 of £24m (30 April 2019: £44m). 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.

Notes to the consolidated financial statements (continued)

23. Provisions

	Restructuring £m	Other £m	Total £m
At 1 May 2019	3	30	33
Reclassified to right-of-use assets on adoption of IFRS 16 (note 31)	–	(3)	(3)
Fair value adjustments on acquisitions made in the prior year	–	7	7
Charged to income	24	44	68
Credited to income	(2)	(7)	(9)
Utilised	(16)	(10)	(26)
At 30 April 2020	**9**	**61**	**70**
Non-current	–	12	12
Current	9	49	58
	9	**61**	**70**

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.

24. Capital and reserves

Share capital

	Number of shares 2020 millions	Number of shares 2019 millions	2020 £m	2019 £m
Ordinary equity shares of 10 pence each:				
Issued, allotted, called up and fully paid	**1,372**	1,371	**137**	137

During the year ended 30 April 2020, 1,248,703 ordinary shares were issued as a result of exercises of employee share options.

The net movements in share capital and share premium are disclosed in the consolidated statement of changes in equity.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations and the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Share premium

The share premium account represents the difference between the issue price and the nominal value of shares issued.

Own shares

The reserve for the Company's own shares comprises the cost of the Company's shares held by the Group. The Group operates a General Employee Benefit Trust, which acquires shares in the Company that can be used to satisfy the requirements of the Performance Share Plan. At 30 April 2020, the Trust held 1.5m shares (30 April 2019: 1.1m shares). The market value of the shares at 30 April 2020 was £4.7m (30 April 2019: £4.1m). 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 in 2017/18. The closing balance of this reserve is £32m.

25. Employee benefits

Balance sheet	Total 2020 £m	Total 2019 £m	UK 2020 £m	UK 2019 £m	Overseas 2020 £m	Overseas 2019 £m
Present value of post-retirement obligations	**(1,354)**	(1,264)	**(1,169)**	(1,084)	**(185)**	(180)
Fair value of plan assets						
Equities/multi-strategy	**14**	353	**–**	335	**14**	18
Debt instruments	**301**	238	**270**	211	**31**	27
Derivatives	**744**	486	**743**	485	**1**	1
Real estate	**1**	1	**–**	–	**1**	1
Cash and cash equivalents	**57**	6	**57**	5	**–**	1
Other	**47**	18	**28**	–	**19**	18
	1,164	1,102	**1,098**	1,036	**66**	66
Net post-retirement plan deficit	**(190)**	(162)	**(71)**	(48)	**(119)**	(114)
Other employee benefit liabilities	**(9)**	(8)	**–**	–	**(9)**	(8)
Total employee benefit deficit	**(199)**	(170)	**(71)**	(48)	**(128)**	(122)
Related deferred tax asset	**45**	37	**14**	9	**31**	28
Net employee benefit deficit	**(154)**	(133)	**(57)**	(39)	**(97)**	(94)

Employee benefit schemes

At 30 April 2020, 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 2019, following which a deficit recovery plan was agreed with the Trustee Board on 14 April 2020. The Group has agreed to maintain the previous Schedule of Contributions. The contribution for the year ended 30 April 2020 under the plan is £19.0m. The recovery plan is expected to be completed on or around September 2025.

Notes to the consolidated financial statements (continued)

25. Employee benefits continued

UK schemes continued

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. The LTFT comprises actuarial assumptions to assess whether any additional contributions above the deficit recovery contributions are required, and an investment strategy approach to be followed for de-risking the scheme's assets. In recent valuations, the secondary funding assessment has concluded that the deficit recovery plan contributions are sufficient and no additional contributions from the Group under the LTFT are required. During the year ended 30 April 2020, the Group made significant changes to the asset allocation after a review and revised implementation of the investment strategy.

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 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 Group Scheme deficit recovery plan agreed with the Trustee Board is considered a minimum funding requirement as described in IFRIC 14 *IAS 19 – the Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.* The Group has an unconditional right to a return of any surplus in a run-off scenario.

The assets in the Group Scheme (apart from the cash held) are nearly all Level 2 instruments under the fair value hierarchy. All Level 2 assets are held in daily traded pooled funds for which daily bid prices are available, and the valuation process for these assets involves minimal judgement and is agreed by reference to independent third parties.

The largest defined contribution arrangement operated by the Group is in the UK. The UK defined contribution scheme is a trust-based arrangement offering members a range of investments. All assets are held independently from the Group. The Group also operates a small unfunded arrangement in the UK.

Overseas schemes

The countries where the Group operates the most significant defined benefit post-retirement arrangements are:

- France – various mandatory retirement indemnities, post-retirement medical plans and jubilee arrangements (benefits paid to employees after completion of a certain number of years of service), the majority of which are determined by the applicable Collective Bargaining Agreement;
- Belgium – liabilities with respect to non-contributory defined benefit and cash balance retirement plans, as well as unfunded jubilee arrangements. The defined benefit plan is closed to new employees, although active members continue to accrue benefits;
- Switzerland – a contributory defined benefit pension scheme providing pensions and lump sum benefits to members and dependants;
- Italy – mandatory end-of-service lump sum benefits in respect of pre-2007 service;
- Portugal – defined benefit pensions plan with a fund that guarantees a payment of a pension supplement to all retired employees and pensioners who were receiving pension benefit from the fund on 13 July 2007; and
- Germany – jubilee arrangements and non-contributory defined benefit pension schemes.

In general, local trustees or similar bodies manage the post-retirement and medical plans in accordance with local regulations.

Overseas schemes expose the Group to risks such as longevity risk, currency risk, inflation risk, interest rate risk, investment risk, life expectancy risk and healthcare cost risk. Actions taken by the local regulator, or changes to legislation, could result in stronger local funding requirements for pension schemes, which could affect the Group's future cash flow.

25. Employee benefits continued

Movements in the liability for employee benefit plans' obligations recognised in the consolidated statement of financial position

	2020 £m	2019 £m
Schemes' liabilities at beginning of the year	**(1,272)**	(1,192)
Acquisitions	**–**	(20)
Divestments	**2**	–
Interest cost	**(28)**	(31)
Service cost recognised in the consolidated income statement	**(7)**	(6)
Member contributions	**(1)**	–
Settlement/curtailment	**–**	2
Pension payments	**53**	55
GMP equalisation	**–**	(8)
Unfunded benefits paid	**6**	5
Actuarial losses – financial assumptions	**(115)**	(99)
Actuarial gains/(losses) – experience	**21**	(4)
Actuarial (losses)/gains – demographic	**(18)**	22
Currency translation	**(4)**	2
Reclassification	**–**	2
Schemes' liabilities at end of the year	**(1,363)**	(1,272)

Movements in the fair value of employee benefit plans' assets recognised in the consolidated statement of financial position

	2020 £m	2019 £m
Schemes' assets at beginning of the year	**1,102**	1,086
Acquisitions	**–**	8
Employer contributions	**20**	20
Member contributions	**1**	1
Other contributions	**–**	(6)
Interest income	**26**	29
Actuarial gains	**66**	19
Pension payments	**(53)**	(55)
Currency translation	**2**	–
Schemes' assets at end of the year	**1,164**	1,102

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 2020	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	**205**	**233**	**478**	**365**	**216**	**83**	**17**

The weighted average duration for the Group Scheme is 16 years.

The Group made agreed contributions of £19m to the Group Scheme in 2019/20 (2018/19: £19m). The Group's current best estimate of contributions expected to be made to the Group Scheme in the year ending 30 April 2021 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.

Notes to the consolidated financial statements (continued)

25. Employee benefits continued

Significant actuarial assumptions

Principal actuarial assumptions for the Group Scheme are as follows:

	2020	2019
Discount rate for scheme liabilities	**1.6%**	2.4%
Inflation	**1.8%**	2.1%
Pre-retirement pension increases	**1.8%**	2.1%
Future pension increases for pre 30 April 2005 service	**1.9%**	2.2%
Future pension increases for post 30 April 2005 service	**1.5%**	1.6%

For other overseas arrangements, the weighted average actuarial assumptions are a discount rate of 1.0% (30 April 2019: 1.5%) and an inflation rate of 1.6% (30 April 2019: 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 2020, the mortality base table used is SAPS 3 (year of birth), with CMI 2019 projections with a 1.25% per annum long-term rate of improvement used for future longevity improvement. At 30 April 2019 the mortality base table used was SAPS 2 (year of birth), with CMI 2018 projections with a 1.25% per annum long-term rate of improvement used for future longevity improvement. As part of the Group Scheme actuarial valuation exercise the projected life expectancies were as follows:

	2020		2019	
	Male	Female	Male	Female
Life expectancy at age 65				
Member currently aged 65	**21.2**	**23.4**	20.5	22.6
Member currently aged 45	**22.3**	**25.0**	21.4	24.2

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	(103)
0.5% increase in inflation	(66)
1 year increase in life expectancy	(47)

Expense recognised in the consolidated income statement

	Total 2020 £m	2019 £m
Post-retirement benefits current service cost	**(7)**	(6)
Total service cost	**(7)**	(6)
Net interest cost on net pension liability	**(2)**	(2)
Pension Protection Fund levy	**(1)**	–
Employment benefit net finance expense	**(3)**	(2)
GMP equalisation recognised as adjusting item	**–**	(8)
Total expense recognised in the consolidated income statement	**(10)**	(16)

Items recognised in other comprehensive income

	2020	2019
Remeasurement of defined benefit obligation	**(112)**	(81)
Return on plan assets excluding amounts included in employment benefit net finance expense	**66**	19
Total losses recognised in other comprehensive income	**(46)**	(62)

26. 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 2013 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, 2018 and 2019 are subject to either two performance measures or to three performance measures:

(a) Two performance measures:

- i. 50% of each award based on average adjusted EPS; and
- ii. 50% of each award based on average adjusted ROACE.

(b) Three performance measures:

- i. 33.3% of each award based on a TSR component;
- ii. 33.3% of each award based on average adjusted EPS; and
- iii. 33.3% of each award based on average adjusted ROACE.

The awards granted in 2013, 2014 and 2016 have vested but have not yet been fully exercised. The awards granted in 2012 and 2015 have vested and have been fully exercised.

(ii) A Deferred Share Bonus Plan (DSBP) is operated for Executive Directors and, from 2012/13, for senior executives. Shares awarded under the Plan will vest automatically if the Director or senior executive is still employed by the Company three years after the grant of the award.

The 2012, 2014, 2015 and 2016 awards have vested, but have not yet been fully exercised.

(iii) A long-term incentive plan (LTIP) is operated for selected senior managers with the first award made in 2013/14. The award will vest after three years subject to remaining in service and the satisfaction of performance conditions measured over the three financial years commencing with the year of grant. The performance conditions of the award are based 50% on average adjusted EPS and 50% on average adjusted ROACE. The last award under this Plan was the 2016/17 award granted in July 2016.

Notes to the consolidated financial statements (continued)

26. Share-based payment expense continued

(iv) An international Sharesave Plan was introduced in January 2014 with further invitations being made in January 2016, January 2017, January 2018 and January 2019. All employees of the Company and participating subsidiaries were eligible to participate in this Plan or an HMRC approved UK Sharesave Plan. Options are granted to participants who have contracted to save up to a maximum of £250 (or local currency equivalent) across all open invitations per month over a period of three years, at a discount of up to 20% to the average closing mid-market price of a DS Smith Plc ordinary share on the three dealing days prior to invitation. Options cannot normally be exercised until a minimum of three years has elapsed. In common with most plans of this type there are no performance conditions applicable to options granted under this Plan. The provisions of this Plan are subject to minor country specific variances. In France, the option price is discounted by up to 20% of the 20-day average up to the day before grant date. A standard US Stock Purchase Plan, which received shareholder approval at the 2014 AGM, was also introduced in January 2014 and subsequent invitations were made in 2016, 2017, 2018 and 2019. US employees of the Group are eligible to participate in this Plan. Options are granted to participants who have contracted to save up to the local currency equivalent of £250 per month over a period of two years at a discount of up to 15% to the average closing mid-market price of a DS Smith Plc ordinary share on the day before grant. Options cannot normally be exercised until a minimum of two years has elapsed.

Further details of the awards described in (i), (ii), and (iv) are set out in the Remuneration Committee report.

Options outstanding and exercisable under share arrangements at 30 April 2020 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	7,633,265	Nil	0.6	Nil	430,259	Nil
Deferred Share Bonus Plan	1,790,238	Nil	1.1	Nil	296,510	Nil
Sharesave Plan	10,593,097	269.0 – 412.0	1.0	313.8	3,905,346	333.0

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		Sharesave plan		Long-term incentive plan	
2020	**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 2019	Nil	6,456	Nil	1,286	314.3	12,841	Nil	1,554
Granted	Nil	3,269	Nil	785	348.6	1	Nil	–
Exercised	Nil	(790)	Nil	(251)	303.7	(866)	Nil	(952)
Lapsed	Nil	(1,301)	Nil	(30)	325.3	(1,383)	Nil	(602)
At 30 April 2020	**Nil**	**7,634**	**Nil**	**1,790**	**313.8**	**10,593**	**Nil**	**–**
Exercisable at 30 April 2020	**Nil**	**430**	**Nil**	**297**	**333.0**	**3,905**	**Nil**	**–**

	Performance Share Plan		Deferred Share Bonus plan		Sharesave plan		Long-term incentive plan	
2019	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 2018	Nil	6,014	Nil	1,161	343.7	9,751	Nil	3,158
Granted	Nil	2,842	Nil	609	274.5	6,308	Nil	–
Exercised	Nil	(1,999)	Nil	(455)	301.6	(1,765)	Nil	(1,209)
Lapsed	Nil	(401)	Nil	(29)	354.1	(1,453)	Nil	(395)
At 30 April 2019	Nil	6,456	Nil	1,286	314.3	12,841	Nil	1,554
Exercisable at 30 April 2019	Nil	77	Nil	126	302.0	981	Nil	–

26. Share-based payment expense continued

The average share price of the Company during the financial year was 344.5 pence (2018/19: 412.6 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 (Monte Carlo) valuation model, was £12.9m. The significant inputs into the model were: a share price of 367.7p for the PSP at the grant date; the exercise prices shown above; an expected volatility of the share price of 25%; the scheme life disclosed above; a risk-free interest rate of 0.53%; 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 £5m (2018/19: £7m).

27. Cash generated from operations

Continuing operations	**2020 £m**	2019 £m
Profit for the year	**290**	262
Adjustments for:		
Pre-tax integration costs and other adjusting items	**58**	50
Amortisation of intangible assets; acquisitions and divestments	**147**	146
Guaranteed minimum pension equalisation	**–**	8
Cash outflow for adjusting items	**(53)**	(93)
Depreciation	**296**	189
Profit on sale of non-current assets	**(2)**	(4)
Share of profit of equity accounted investments, net of tax	**(7)**	(9)
Employment benefit net finance expense	**3**	2
Share-based payment expense	**5**	7
Finance income	**(4)**	–
Finance costs	**95**	84
Other non-cash items	**–**	(1)
Income tax expense	**78**	88
Change in provisions	**(21)**	(19)
Change in employee benefits	**(19)**	(17)
Cash generation before working capital movement	**866**	693
Changes in:		
Inventories	**45**	(7)
Trade and other receivables	**86**	3
Trade and other payables	**(161)**	(8)
Working capital movement	**(30)**	(12)
Cash generated from continuing operations	**836**	681

Notes to the consolidated financial statements (continued)

28. Reconciliation of net cash flow to movement in net debt

	2020 £m	2019 £m
Profit for the year	**290**	262
Income tax expense	**78**	88
Share of profit of equity accounted investments, net of tax	**(7)**	(9)
Net financing costs	**94**	86
Amortisation of intangible assets; acquisitions and divestments	**147**	146
Guaranteed minimum pension equalisation	**-**	8
Pre-tax integration costs and other adjusting items	**58**	50
Adjusted operating profit	**660**	631
Depreciation	**296**	189
Adjusted EBITDA	**956**	820
Working capital movement	**(30)**	(12)
Change in provisions	**(21)**	(19)
Change in employee benefits	**(19)**	(17)
Other	**3**	2
Cash generated from operations before adjusting cash items	**889**	774
Capital expenditure	**(376)**	(303)
Proceeds from sale of property, plant and equipment and other investments	**12**	14
Tax paid	**(94)**	(85)
Net interest paid	**(77)**	(61)
Free cash flow	**354**	339
Cash outflow for adjusting items	**(53)**	(93)
Dividends paid	**(222)**	(187)
Acquisition of subsidiary businesses, net of cash and cash equivalents	**(4)**	(1,498)
Divestment of discontinued operation, net of cash and cash equivalents	**422**	-
Divestment of subsidiary businesses, net of cash and cash equivalents	**62**	-
Other	**2**	(6)
Net cash flow	**561**	(1,445)
Proceeds from issue of share capital	**2**	1,006
Borrowings divested/(acquired), including deposits	**2**	(204)
Net movement on debt	**565**	(643)
Foreign exchange, fair value and other non-cash movements (note 18)	**(118)**	49
Net debt movement - continuing operations	**447**	(594)
Net debt movement - discontinued operation (note 30(a))	**(29)**	(3)
Opening net debt	**(2,277)**	(1,680)
Transition to IFRS 16 (note 31)	**(242)**	-
Closing net debt - reported basis	**(2,101)**	(2,277)

Adjusted operating profit, adjusted EBITDA, free cash flow, and net debt are non-GAAP measures not defined by IFRS. Further detail on the use of non-GAAP measures is included in note 33.

29. Capital commitments and contingencies

At 30 April 2020, the Group had committed to incur capital expenditure of £67m (30 April 2019: £129m).

The Group is not subject to 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.

30. Acquisitions and divestments

(a) Plastics division

On 27 February 2020, the sale of the Group's Plastics division to Olympus Partners and its affiliate Liqui-Box Holdings was completed.

Plastics principally comprised flexible packaging and dispensing solutions, extruded and injection moulded products and foam products.

The Plastics segment has been classified as a discontinued operation as disclosed in note 1(a)(ii). The consolidated income statement presents the Plastics segment as a discontinued operation with a single line amount of profit from discontinued operation, net of tax. At 30 April 2020, the Plastics division had been sold, but in the comparative consolidated statement of financial position the discontinued assets and liabilities are classified as 'assets held for sale' and 'liabilities held for sale' respectively. The consolidated statement of cash flows presents a single amount of net cash flow from discontinued operations.

Consolidated income statement – discontinued operations

	Year ended 30 April 2020 £m	Year ended 30 April 2019 £m
Revenue	**281**	352
Operating costs	**(259)**	(324)
Operating profit before amortisation and adjusting items	**22**	28
Amortisation of intangible assets	**(2)**	(1)
Profit on disposal before tax	**232**	–
Other pre-tax adjusting items	**(3)**	(10)
Net finance (cost)/income	**(1)**	1
Profit before income tax	**248**	18
Income tax expense	**(11)**	(6)
Profit for the year from discontinued operations	**237**	12

The income tax expense is net of a tax credit on adjusting items of £2m (30 April 2019: nil) arising on the sale of the discontinued operation.

Basic earnings per share from discontinued operations

	2020	2019
Profit from discontinued operations attributable to ordinary shareholders	**£237m**	£12m
Weighted average number of ordinary shares	**1,371m**	1,327m
Basic earnings per share	**17.3p**	0.9p

Diluted earnings per share from discontinued operations

	2020	2019
Profit from discontinued operations attributable to ordinary shareholders	**£237m**	£12m
Weighted average number of ordinary shares	**1,371m**	1,327m
Potentially dilutive shares issuable under share-based payment arrangement	**7m**	6m
Weighted average number of ordinary shares (diluted)	**1,378m**	1,333m
Diluted earnings per share	**17.2p**	0.9p

The number of shares excludes the weighted average number of the Company's own shares held as treasury shares during the year of 1m (2018/19: 1m).

Adjusted earnings per share from discontinued operations

Further detail about the use of non-GAAP performance measures is given in note 33.

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

	2020			2019		
	£m	Basic - pence per share	Diluted - pence per share	£m	Basic - pence per share	Diluted - pence per share
Basic earnings from discontinued operations	**237**	**17.3p**	**17.2p**	12	0.9p	0.9p
Add back:						
Amortisation of intangible assets, before tax of £nil	**2**	**0.1p**	**0.1p**	1	0.1p	0.1p
Adjusting items, before tax	**(229)**	**(16.6p)**	**(16.6p)**	10	0.7p	0.7p
Tax on adjusting items and adjusting tax items	**2**	**0.1p**	**0.1p**	–	–	–
Adjusted earnings from discontinued operations	**12**	**0.9p**	**0.8p**	23	1.7p	1.7p

Notes to the consolidated financial statements (continued)

30. Acquisitions and divestments continued

(a) Plastics division continued

Cash flows used in discontinued operations

	Year ended 30 April 2020 £m	Year ended 30 April 2019 £m
Net cash (used in)/from operating activities	(18)	16
Net cash used in investing activities	(11)	(19)
Net cash flows for the year	**(29)**	(3)

Effect of disposal on the financial position of the Group

	2020 £m
Intangible assets	68
Property, plant and equipment	74
Right-of-use assets	18
Deferred tax assets	4
Inventories	33
Income tax receivable	2
Trade and other receivables	91
Cash and cash equivalents	6
Employee benefits	(2)
Trade and other payables	(81)
Lease liabilities	(18)
Deferred tax liabilities	(5)
Income tax liabilities	(15)
Net assets disposed	**175**
Consideration received, satisfied in cash	**436**
Reclassification from translation reserve to income statement arising on divestment	30
Transaction and separation costs	(59)
Profit on disposal before tax	**232**
Tax charge on profit on disposal	(2)
Profit on disposal after tax	**230**

Cash inflow on disposal	2020 £m
Consideration received, satisfied in cash	436
Cash and cash equivalents divested	(6)
Transaction costs paid	(8)
Net cash inflow	**422**

(b) Other 2019/20 acquisitions and divestments

In the year ended 30 April 2020, half of the put option was exercised by the sellers of Interstate Resources, for a further 10% stake in Interstate Resources for £106m. On 26 June 2020, the Group completed the purchase and paid £82m to the sellers of Interstate Resources, with, by agreement, the remainder deferred to October 2021. The final 10% stake remains subject to the put option. As a substantial shareholder of the Group, the seller met the definition of a related party.

In June 2019, the Group completed the remedy disposals required as part of the acquisition of Europac for €73m. Cash consideration received, net of transaction costs, was £62m, and including net debt disposed of, the total impact on net debt from disposals was £64m. Acquisition of subsidiary businesses, net of cash and cash equivalents of £4m in the statement of cash flows relates to completion accounts adjustments on prior year acquisitions. Neither the disposals or the acquisition adjustments were material to the Group individually or in aggregate.

30. Acquisitions and divestments continued

(c) 2018/19 acquisitions and divestments

Acquisition of Papeles y Cartones de Europa, S.A. (Europac)

On 22 January 2019, the Group completed its acquisition of a 100% interest in Papeles y Cartones de Europa, S.A. (Europac), a leading integrated packaging business in Iberia and France.

The fair value of the identifiable assets and liabilities of Europac as at the date of acquisition were:

	Provisional fair values £m	Adjustments in year ended 30 April 2020 £m	Final fair value on acquisition £m
Intangible assets	488	(5)	483
Biological assets	6	-	6
Property, plant and equipment	604	(59)	545
Other non-current assets	9	-	9
Inventories	73	(19)	54
Income tax receivable	16	-	16
Trade and other receivables	117	(7)	110
Cash and cash equivalents	6	-	6
Assets held for sale	-	41	41
Borrowings, including deposits	(200)	(5)	(205)
Other non-current payables	(94)	-	(94)
Trade and other payables	(125)	(6)	(131)
Provisions and employee benefits	(50)	(7)	(57)
Income tax liabilities	(23)	(4)	(27)
Net deferred tax liabilities	(148)	8	(140)
Total identifiable net assets acquired	**679**	**(63)**	**616**
Goodwill			850
Total consideration			**1,466**
Satisfied by:			
Cash consideration			1,466
Total consideration transferred			**1,466**
Net cash flow arising on acquisition			
Cash consideration			1,466
Cash and cash equivalents acquired			(6)
Total cash outflow			**1,460**

In the current financial year, fair value adjustments were made, primarily in relation to property, plant and equipment, working capital, assets held for sale, provisions and tax balances, resulting in an increase to goodwill of £63m.

The 30 April 2019 comparative consolidated statement of financial position was re-presented to reflect the material adjustments to provisional amounts for intangible assets and goodwill, tangible fixed assets and net deferred tax liabilities, with no net impact on net assets. Other balance sheet captions have not been adjusted in the comparative. Accordingly, of the £63m increase in goodwill due to fair value adjustments, £56m has been reflected in the comparative, with the remaining £7m increase reflected in the current year. The change in depreciation from the acquisition date to 30 April 2019 was not material.

Other 2018/19 acquisitions and divestments

In total, during the year ended 30 April 2019, cash consideration for acquisition of subsidiary businesses, net of cash and cash equivalents was £1,498m, and borrowings acquired, including deposits, were £204m, giving a total impact on net debt from acquisitions of £1,702m. Apart from the acquisition of Europac, the remaining acquisitions are not material to the Group individually or in aggregate.

(d) Acquisition related costs

The Group incurred acquisition related costs of £10m (2018/19: £32m), primarily related to professional fees relating to review of potential deals, which have been included in administrative expenses within adjusting items.

Notes to the consolidated financial statements (continued)

31. Adoption of IFRS 16 *Leases*

As detailed in note 1, the Group adopted IFRS 16 on 1 May 2019 using the modified retrospective approach.

On implementation of IFRS 16, the Group recognised right-of-use assets of £239m and corresponding lease liabilities of £242m, with the difference related to the transfer of onerous lease provisions at 1 May 2019 to right-of-use assets. There was no impact on the Group's opening equity as a result of adopting IFRS 16.

The indicative impact of the adoption of IFRS 16 disclosed in the pre-transition 30 April 2019 Annual Report was a right-of-use asset and corresponding lease liability of c. £235m. As a result of the implementation finalisation, particularly in newly acquired businesses, and regarding the accounting judgements around lease term, final adjustments to the right-of-use assets and corresponding liabilities have been made as detailed in the reconciliation below.

The following table reconciles the difference between the operating lease commitments under IAS 17 at 30 April 2019 and the lease liability recognised on adoption of IFRS 16 at 1 May 2019:

	£m
Non-cancellable operating lease rentals reported as at 30 April 2019	259
Additional commitments recognised in final implementation, including extension options reasonably certain to be exercised (undiscounted)	30
Other, including leases outside the scope of IFRS 16 (undiscounted)	(7)
Impact of discounting liability under IFRS 16	(40)
Lease liability recognised on transition to IFRS 16 at 1 May 2019	242

The Group's most significant leases relate to property and production equipment.

The weighted average incremental borrowing rate applied to the Group's lease liabilities on transition at 1 May 2019 was 4.9%.

At 30 April 2020, the right-of-use assets were £256m, with a corresponding lease liability of £255m (note 12).

The adoption of IFRS 16 does not have a material impact on the Group's current accounting for those leases previously classified as finance leases under IAS 17, which represented £6m out of the Group's total lease liabilities of £255m at 30 April 2020, and £10m in the 30 April 2019 comparative. The 2019 comparative consolidated statement of financial position has been re-presented to show lease liabilities at 30 April 2019, previously presented within borrowings, separately.

The impact on the consolidated income statement was:

	Year ended 30 April 2020 £m
Operating lease rentals	80
Depreciation	(72)
Operating profit	8
Finance costs	(12)
Profit before tax	(4)

The impact on the Group's Key Performance Indicators at 30 April 2020 was:

Reported net debt (note 18)	Increase	£249m
EBITDA	Increase	£80m
Return on average capital employed	Decrease	30bps

The adoption of IFRS 16 has impacted the cash flow statement presentation – repayments of the principal of lease liabilities are included within financing activities and interest is presented in operating activities whereas operating lease rentals were previously presented in operating activities under IAS 17. In comparison to previous presentation, net cash inflows from operating activities increase, offset by an increase in net cash outflows from financing activities due to the interest paid.

IFRS 16 liabilities are currently excluded from the definition of net debt as set out in the Group's banking covenant requirements, and as such are removed from the calculation of adjusted net debt for the purposes of the Group's net debt to EBITDA ratio (see note 18 and note 33).

The adoption of IFRS 16 has not had a material effect on the Group's effective tax rate.

32. Related parties

Identity of related parties

In the normal course of business, the Group undertakes a wide variety of transactions between its subsidiaries and equity accounted investments.

The key management personnel of the Company comprise the Chairman, Executive Directors and non-Executive Directors. The compensation of key management personnel can be found in the single total figure remuneration table in the Remuneration Committee report. Certain key management personnel also participate in the Group's share-based incentive programme (note 26). Included within the share-based payment expense, and detailed in the Remuneration Committee report, is a charge of £1m (2018/19: £2m) relating to key management personnel.

Transactions with pension trustees are disclosed in note 25.

Other related party transactions

	2020 £m	2019 £m
Sales to equity accounted investees	**6**	8
Sales to other investees	**4**	4
Purchases from equity accounted investees	**4**	3
Purchases from other investees	**8**	8

33. Non-GAAP performance measures

The Group presents reported and adjusted financial information in order to provide shareholders with additional information to further understand the Group's operational performance and financial position.

The principal adjustments to financial information are made to exclude the effects of adjusting items (refer to note 4) and amortisation.

Total reported financial information represents the Group's overall performance and financial position, but can contain significant unusual or non-operational items that may obscure understanding of the key trends and position. These unusual or non-operational items include business disposals, restructuring and optimisation project costs, acquisition-related and integration costs, and impairments. Restructuring and optimisation items treated as adjusting items are major programmes usually spanning more than one year, with uneven impact on the profit and loss for those years affected. Other adjusting items, such as business disposals, impairments, integration and acquisition costs, are by nature either highly variable or can also have a similar distorting effect. Therefore, the Directors consider that presenting non-GAAP measures which exclude adjusting items enables comparability of the recurring core business, complementing the IFRS measures presented.

Amortisation relates primarily to customer contracts and relationships and infrastructure optimisation projects arising from or as a result of 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, in the case of customer contracts and relationships, 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 12-month balances or average exchange rates.

Changes to non-GAAP performance measures in the year ended 30 April 2020

The comparability of the Group's non-GAAP performance measures has been impacted by the adoption of IFRS 16 *Leases*. The Group's use of the modified retrospective transition approach means the current year is reported under the new standard, but that comparatives are prepared under the previous standard, IAS 17 *Leases*. The impact of the change on the Group's key non-GAAP performance measures is detailed in note 31.

Unlike other of the Group's non-GAAP performance measures, net debt and net debt/EBITDA remain calculated under the previous standard, IAS 17 *Leases*, because they are calculated in accordance with the Group's banking covenant requirements which remain on the previous GAAP basis. As such, for net debt and net debt/EBITDA, the reconciliation for the non-GAAP performance measure below has expanded to show the calculation to return the non-GAAP performance measure to the IAS 17 basis.

Notes to the consolidated financial statements (continued)

33. Non-GAAP performance measures continued

Key non-GAAP performance measures

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 divestment 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.

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 28.

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.

Return on sales

Return on sales is adjusted operating profit measured as a percentage of revenue. Return on sales is used to measure the value we deliver to customers and the Group's ability to charge for that value.

	2020 £m	2019 £m
Adjusted operating profit	**660**	631
Revenue	**6,043**	6,171
Return on sales	**10.9%**	10.2%

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, right-of-use assets, goodwill and intangible assets, working capital, capital debtors/creditors, provisions, biological assets and assets/liabilities held for sale. Assets and liabilities relating to discontinued operations are excluded.

	2020 £m	2019 £m
Capital employed at 30 April	**6,010**	5,674
Currency, inter-month and acquisition/divestment movements	**244**	(1,022)
Last 12 months' average capital employed	**6,254**	4,652
Last 12 months' adjusted operating profit	**660**	631
Adjusted return on average capital employed	**10.6%**	13.6%

33. Non-GAAP performance measures continued

Net debt and net debt/EBITDA

Net debt is the measure by which the Group assesses its level of overall indebtedness within its financial position. The components of net debt as they reconcile to the primary financial statements and notes to the accounts are disclosed in note 18.

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.

The Group's banking covenant requirements currently exclude IFRS 16 liabilities from the definition of net debt, as well as requiring that EBITDA is calculated before the effects of IFRS 16, so an adjustment to the previous IAS 17 basis is made in the calculation.

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 divestments in the period, and to adjust to an IAS 17 basis.

	2020 £m	2019 £m
Net debt – reported basis (see note 18)	**2,101**	2,277
IFRS 16 lease liabilities (see note 18)	**(249)**	–
Adjustment to average rate	**17**	41
Net debt – adjusted basis	**1,869**	2,318
Adjusted EBITDA – last 12 months' reported basis (continuing operations)	**956**	820
Adjust to IAS 17 basis	**(80)**	–
Acquisition and divestment effects	**(2)**	136
Add back of discontinued operations	**–**	40
Adjusted EBITDA – banking covenant basis	**874**	996
Net debt/EBITDA	**2.1x**	2.3x

Free cash flow

Free cash flow is the net movement on debt before cash outflow for adjusting items, dividends paid, acquisition and divestment of subsidiary businesses (including borrowings acquired), and proceeds from issue of share capital.

A reconciliation from Adjusted EBITDA to free cash flow is set out in note 28.

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 28, other than growth capital expenditure, which is capital expenditure necessary for the development or expansion of the business as follows:

	2020 £m	2019 £m
Growth capital expenditure	**137**	140
Non-growth capital expenditure	**239**	163
Total capital expenditure (note 28)	**376**	303
Free cash flow (note 28)	**354**	339
Tax paid (note 28)	**94**	85
Net interest paid (note 28)	**77**	61
Growth capital expenditure	**137**	140
Change in employee benefits (note 28)	**19**	17
Adjusted free cash flow	**681**	642
Adjusted operating profit	**660**	631
Cash conversion	**103%**	102%

Notes to the consolidated financial statements (continued)

33. 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 and divestment related debtors and creditors.

	2020 £m	2019 £m
Inventories (note 15)	518	584
Trade and other receivables	736	833
Trade and other payables	(1,419)	(1,587)
Inter-month movements and exclusion of capital and acquisition and divestment related items	195	174
Last 12 months' average working capital	**30**	4
Last 12 months' revenue	6,043	6,171
Average working capital to sales	**0.5%**	0.1%

Constant currency and organic growth

The Group presents commentary on both reported and constant currency revenue and adjusted operating profit comparatives in order to explain the impact of exchange rates on the Group's key income statement items. Constant currency comparatives recalculate the prior year revenue and adjusted operating profit as if they had been generated using the current year exchange rates. In addition, the Group then separates the incremental effects of acquisitions made in the current year, and the incremental effects of acquisitions made in the previous year, to determine underlying organic growth. The table below shows the calculations:

	Revenue £m	Adjusted operating profit £m
Reported basis – comparative year ended 30 April 2019	6,171	631
Currency effects	(3)	3
Constant currency basis – comparative year ended 30 April 2019	6,168	634
Prior year acquisitions	376	50
	6,544	684
Synergies	–	35
Organic growth	(501)	(59)
Reported basis – year ended 30 April 2020	6,043	660

Dividend cover

Dividend cover is adjusted earnings per share divided by the total dividend for the year.

	2020	2019
Adjusted earnings per share	33.2p	33.3p
Total dividend	n/a	16.2p
Dividend cover	**n/a**	2.1x

34. DS Smith Group companies

The Group's ultimate parent Company is DS Smith Plc.

Group companies are grouped by the countries in which they are incorporated or registered. Unless otherwise noted, the undertakings below are wholly-owned and consolidated by DS Smith and the share capital held comprises ordinary or common shares which are held by Group subsidiaries. Principal companies are identified in orange.

Fully owned subsidiaries	Notes
Argentina	
Total Marketing Support Argentina SA	AR1
Australia	
Total Marketing Support Pacific Pty Ltd	AU1
Austria	
DS Smith Austria Holdings GmbH	AT1
DS Smith Packaging Austria Beteiligungsverwaltungs GmbH	AT1
DS Smith Packaging Austria GmbH	AT2
DS Smith Packaging South East GmbH	AT1
Belgium	
DS Smith Packaging Belgium N.V.	BE1
DS Smith Packaging Marketing N.V.	BE2
Bolivia	
TotalMarketingSupport Bolivia S.A.	BO1
Bosnia & Herzegovina	
DS Smith Packaging BH d.o.o. Sarajevo	BA1
DS Smith Recycling Bosnia d.o.o.	BA2
Brazil	
Total Marketing Support Brazil Ltda	BR1
Bulgaria	
DS Smith Bulgaria S.A.	BG1
Canada	
TMS Canada 360 Inc.	CA1
Chile	
Total Marketing Support Chile SpA	CL1
China	
DS Smith Shanghai Trading Ltd	CN1
TMS Shanghai Trading Ltd	CN2
Colombia	
Total Marketing Support Colombia S A S	CO1
Croatia	
Bilokalnik-IPA d.d.	h, HR1
DS Smith Belišće Croatia d.o.o.	HR2
DS Smith Unijapapir Croatia d.o.o.	HR3
Czech Republic	
DS Smith Packaging Czech Republic s.r.o.	CZ1
DS Smith Triss s.r.o.	CZ2
Denmark	
DS Smith Packaging Denmark A/S	DK1
Ecuador	
Total Marketing Support Ecuador TM-EC C.L.	EC1
Egypt	
TMS Egypt LLC	EG1
Estonia	
DS Smith Packaging Estonia AS	EE1
Finland	
DS Smith Packaging Baltic Holding Oy	FI1
DS Smith Packaging Finland Oy	FI1
DS Smith Packaging Pakkausjaloste Oy	FI2
Eastpac Oy	FI1
France	
DS Smith France	FR1
DS Smith Hêtre Blanc	FR2
DS Smith Packaging Ales	FR3
DS Smith Packaging Anjou	FR2
DS Smith Packaging Atlantique	FR2
DS Smith Packaging Bretagne	FR4
DS Smith Packaging C.E.R.A.	FR5
DS Smith Packaging Consumer	FR2
DS Smith Packaging Contoire-Hamel	FR6
DS Smith Packaging Display and Services	FR2
DS Smith Packaging DPF	FR7
DS Smith Packaging Durtal	FR8
DS Smith Packaging Fegersheim	FR9
DS Smith Packaging France	FR2
DS Smith Packaging Kaypac	FR10
DS Smith Packaging Larousse	FR11
DS Smith Packaging Mehun-CIM	FR12
DS Smith Packaging Nord Est	FR1
DS Smith Packaging Premium	FR13
DS Smith Packaging Savoie	FR14
DS Smith Packaging Seine Normandie	FR15
DS Smith Packaging Sud Est	FR16
DS Smith Packaging Sud Ouest	FR13
DS Smith Packaging Systems	FR17
DS Smith Packaging Velin	FR18
DS Smith Packaging Vervins	FR2
DS Smith Paper Coullons	FR19
DS Smith Paper Kaysersberg	FR20
DS Smith Paper Rouen	FR15
DS Smith Recycling France	FR21
Rowlandson France	FR1
SCI Europac	FR15
Tecnicartón France	FR22
Germany	
Bretschneider Verpackungen GmbH	i, DE2
Delta Packaging Services GmbH	DE8
DS Smith Hamburg Display GmbH	DE10
DS Smith Packaging Arenshausen Mivepa GmbH	DE4
DS Smith Packaging Arnstadt GmbH	DE1
DS Smith Packaging Beteiligungen GmbH	DE11
DS Smith Packaging Deutschland Stiftung	DE6
DS Smith Packaging Deutschland Stiftung & Co KG	DE11
DS Smith Paper Deutschland GmbH	DE9
DS Smith Pre-Press Services GmbH	DE7
DS Smith Recycling Deutschland GmbH	DE5
DS Smith Stange B.V. & Co. KG	DE11
DS Smith Transport Services GmbH	DE9
DS Smith Wirth Verpackungen GmbH	DE3
Gibraltar	
DS Smith Finco (IRE) Limited	GI1
Greece	
DS Smith Cretan Hellas S.A.	GR1
DS Smith Hellas S.A.	GR2
Guatemala	
TMS Global Guatemala, Sociedad Anonima	GT1
Honduras	
Total Marketing Support Honduras, S.A.	HN1
Hong Kong	
The Less Packaging Company (Asia) Limited	HK1
Hungary	
DS Smith Omikron Ingatlanhasznosito Kft.	HU2
DS Smith Packaging Füzesabony Kft.	HU1
DS Smith Packaging Hungary Kft.	HU2
India	
DS Smith Products & Services India Private Limited	IN1
The Less Packaging Company (India) Private Limited	IN2
Total Marketing Support India Private Limited	IN3
Ireland	
David S. Smith (Ireland) Unlimited Company	IE1
DS Smith Packaging Ireland Limited	IE1
Italy	
DS Smith Holding Italia SpA	IT3
DS Smith Packaging Italia SpA	IT3
DS Smith Paper Italia Srl.	IT3
DS Smith Recycling Italia Srl	IT2
Toscana Ondulati SpA	e, IT1
Japan	
Total Marketing Support Japan Ltd	JP1
Kazakhstan	
Total Marketing Support Kazakhstan	KZ1
Latvia	
SIA DS Smith Packaging Latvia	LV1
Lithuania	
UAB DS Smith Packaging Lithuania	LT1
Luxembourg	
DS Smith (Luxembourg) S.à r.l.	LU1
DS Smith Perch Luxembourg S.à r.l.	LU1
DS Smith Re S.A.	LU1
Malaysia	
Total Marketing Support (360) Malaysia Sdn. Bhd.	MY1

Notes to the consolidated financial statements (continued)

34. DS Smith Group companies continued

Fully owned subsidiaries continued	Notes
Mexico	
Total Marketing Support 360 Mexico S.A de C.V	MX1
Morocco	
Tecnicartón Tánger S.a.r.l. AU	MA1
Netherlands	
David S. Smith (Netherlands) B.V.	NL3
DS Smith (Holdings) B.V.	NL3
DS Smith Baars B.V.	DE11
DS Smith De Hoop B.V.	NL3
DS Smith De Hoop Holding B.V.	NL3
DS Smith Finance B.V.	NL3
DS Smith Hellas Netherlands B.V.	NL3
DS Smith Italy B.V.	NL3
DS Smith Packaging Almelo B.V.	NL1
DS Smith Packaging Barneveld B.V.	NL4
DS Smith Packaging Belita B.V.	NL3
DS Smith Packaging Holding B.V.	NL3
DS Smith Packaging International B.V.	NL3
DS Smith Packaging Netherlands B.V.	NL2
DS Smith Recycling Benelux B.V.	NL2
DS Smith Recycling Holding B.V.	NL2
DS Smith Salm B.V.	NL3
DS Smith Tilburg C.V.	NL6
DS Smith Toppositie B.V.	NL3
Nicaragua	
Total Marketing Support Nicaragua, Sociedad Anonima	NI1
Nigeria	
Total Marketing Support 360 Nigeria Limited	NG1
North Macedonia	
DS Smith AD Skopje	f, MK1
Pakistan	
TMS Pakistan (Private) Limited	PK1
Philippines	
Total Marketing Support Philippines	PH1
Poland	
DS Smith Packaging sp. z o.o.	PL1
DS Smith Polska sp. z o.o.	PL1
Portugal	
DS Smith Displays FFTM, Unipessoal Lda.	PT5
DS Smith Displays Opcao Actual, S.A.	PT3
DS Smith Displays P&I, S.A.	PT3
DS Smith Energia Viana, S.A.	PT9
DS Smith Packaging Madeira, Lda	PT7
DS Smith Packaging Portugal, S.A.	PT4
DS Smith Paper Viana, S.A.	PT9
DS Smith Portugal, SGPS, S.A.	PT9
DS Smith Recycling Portugal, S.A.	PT10
Greenfrequency Energia, S.A.	PT9
Lepe – Empresa Portuguesa de Embalagens, S.A.	PT2
Nova DS Smith Embalagem, S.A.	PT8
Tecnicartón Portugal Unipessoal Lda	PT1

	Notes
Romania	
DS Smith Packaging Ghimbav S.R.L.	c, RO1
DS Smith Packaging Romania S.R.L.	RO3
DS Smith Paper Zarnesti. S.R.L.	b, RO2
Russia	
David S. Smith Vostok	RU2
Total Marketing Support Moscow	RU1
Serbia	
DS Smith Inos Papir Servis d.o.o.	RS1
DS Smith Packaging d.o.o. Kruševac	RS2
Papir Servis DP d.o.o.	RS2
Slovakia	
DS Smith Packaging Slovakia s.r.o.	SK1
DS Smith Turpak Obaly a.s.	d, SK2
Slovenia	
DS Smith Slovenija d.o.o.	SI1
South Africa	
TMS 360 SA (PTY) Ltd	ZA1
Spain	
Bertako S.L.U.	ES9
DS Smith Andorra S.A.	ES3
DS Smith Business Services S.L.U.	ES3
DS Smith Forestal Spain, S.L.U.	ES4
DS Smith Packaging Alcala S.L.U.	ES6
DS Smith Packaging Cartogal S.A.	ES10
DS Smith Packaging Dicesa S.A.	g, ES5
DS Smith Packaging Galicia S.A.	ES11
DS Smith Packaging Holding S.L.U.	ES3
DS Smith Packaging Lucena, S.L.	ES7
DS Smith Packaging Madrid S.L.	ES3
DS Smith Packaging Penedes S.A.U.	ES5
DS Smith Recycling Spain S.A.	ES2
DS Smith Spain, S.A.	ES4
DS Smith TCT S.A.	ES3
Tecnicartón, S.L.	ES8
Sweden	
DS Smith Packaging Sweden AB	SE1
DS Smith Packaging Sweden Holding AB	SE1
Switzerland	
DS Smith Packaging Switzerland AG	CH1
Turkey	
DS Smith Ambalaj A.Ş.	TR1
Total Marketing Support Turkey Baskı Yönetimi Hizmetleri A.Ş.	TR2
Ukraine	
Total Marketing Support Ukraine	UA1
United Arab Emirates	
Total Marketing Support Middle East DMCC	AE1
UK	
A.A. Griggs and Company Limited	ER
Abbey Corrugated Limited	ER
Ashton Corrugated	ER
Ashton Corrugated (Southern) Limited	ER
Avonbank Paper Disposal Limited	ER

	Notes
Biber Paper Converting Limited	ER
Calara Holding Limited	ER
Conew Limited	ER
Corrugated Products Limited	ER
David S Smith (Pension Contributions) Limited	ER
David S. Smith Nominees Limited	ER
DS Smith (UK) Limited	ER
DS Smith America (UK) LLP	ER
DS Smith Business Services Limited	ER
DS Smith Corrugated Packaging Limited	ER
DS Smith Display Holding Limited	ER
DS Smith Dormant Eight Limited	ER
DS Smith Dormant Five Limited	ER
DS Smith Europe Limited	ER
DS Smith Euro Finance Limited	ER
DS Smith Finco Limited	a, ER
DS Smith Haddox Limited	ER
DS Smith Holdings Limited	a, ER
DS Smith International Limited	ER
DS Smith Italy Limited	ER
DS Smith Logistics Limited	ER
DS Smith Packaging Limited	ER
DS Smith Paper Limited	ER
DS Smith Pension Trustees Limited	ER
DS Smith Perch Limited	ER
DS Smith Recycling UK Limited	ER
DS Smith Roma Limited	ER
DS Smith Sudbrook Limited	ER
DS Smith Supplementary Life Cover Scheme Limited	ER
DS Smith Ukraine Limited	ER
DSS Eastern Europe Limited	ER
DSS Poznan Limited	ER
DSSH No. 1 Limited	ER
D.W. Plastics (UK) Limited	ER
Grovehurst Energy Limited	ER
JDS Holding	ER
Miljoint Limited	ER
Multigraphics Holdings Limited	ER
Multigraphics Limited	ER
Multigraphics Services Limited	ER
Pavidda Paper Limited	ER
Priory Packaging Limited	ER
rapak psi Limited	ER
Reed & Smith Limited	ER
SRP New Thames Limited	ER
St. Regis Holdings Limited	ER
St. Regis International Limited	ER
St. Regis Kemsley Limited	ER
St. Regis Packaging (Scotland) Limited	UK1
St. Regis Paper Company Limited	ER
The Brand Compliance Company Limited	ER
The Less Packaging Company Limited	ER
The Wansbrough Paper Company Limited	ER

34. DS Smith Group companies continued

Fully owned subsidiaries continued	Notes
UK continued	
TheBannerPeople.Com Limited	ER
Tillotsons Corrugated Cases Limited	ER
TMS Global UK Limited	ER
Total Marketing Support Global Limited	j, ER
Total Marketing Support Limited	ER
Treforest Mill plc	ER
TRM Packaging Limited	ER
United Shopper Marketing Limited	ER
W. Rowlandson & Company Limited	ER
Waddington & Duval Limited	ER
USA	
Carolina Graphic Services LLC	US1
Cedarpak LLC	US3
CEMT Holdings Group LLC	US4
Corrugated Container Corporation	US16
Corrugated Container Corporation of Shenandoah Valley	US17
Corrugated Container Corporation of Tennessee	US18
Corrugated Supply, LLC	US4
Corrugated Supply, L.P.	US4
DS Smith Creative Solutions Inc.	US19
DS Smith Holdings, Inc.	US3
DS Smith Management Resources, Inc.	US3
DS Smith North America Recycling, LLC	US3
DS Smith North America Shared Services,LLC	US3
DS Smith Packaging-Holly Springs, LLC	US21
DS Smith Packaging-Lebanon, LLC	US20
DS Smith Packaging-Stream, LLC	US3
Evergreen Community Power LLC	US3
Interstate Container Columbia LLC	US7
Interstate Container Lowell LLC	US8
Interstate Container New Castle LLC	US9
Interstate Container Reading LLC	US10
Interstate Container Westminster LLC	US11
Interstate Corrpack LLC	US6
Interstate Holding, Inc.	US3
Interstate Mechanical Packaging LLC	US7
Interstate Paper LLC	US12
Interstate Realty Hialeah LLC	US3
Interstate Resources, Inc.	US3
Interstate Southern Packaging LLC	US13
New England Sheets, LLC	US5
Newport Timber LLC	US12
Phoenix Technology Holdings USA, Inc.	US3
RB Lumber Company LLC	US12
RFC Container LLC	US4
SouthCorr L.L.C.	US14
St. George Timberland Holdings, Inc.	US3
The Less Packaging Company, Inc	US23
TMS America LLC	US22
United Corrstack LLC	US15
Uruguay	
Kozery S.A.	UY1

Associate entities	Notes
Netherlands	
Industriewater Eerbeek B.V.	m, NL5
Stort Doonweg B.V.	j, NL5
Portugal	
Companhia Termica Do Serrado A.c.e.	o, PT6
Serbia	
Papir Pet d.o.o.	j, RS3
Spain	
Cartonajes Cantabria, S.L.	n, ES1
Cartonajes Santander, S.L.	n, ES1
Euskocarton, S.L.	n, ES1
Industria Cartonera Asturiana, S.A.	n, ES12
Ukraine	
Private Joint Stock Company "Rubizhanskiy Kartonno-Tarniy Kombinat"	k, UA2
USA	
Philcorr LLC	l, US2
PhilCorr Vineland LLC	l, US2

Ownership interest at 30 April 2020	
a	Directly held by DS Smith Plc
b	99.927% ownership interest
c	99.285% ownership interest
d	98.89% ownership interest
e	92% ownership interest
f	81.39% ownership interest
g	80% ownership interest
h	69.788% ownership interest
i	51% ownership interest
j	50% ownership interest
k	49.6% ownership interest
l	40% ownership interest
m	37.5% ownership interest
n	39.58% ownership interest
o	30% ownership interest

Notes to the consolidated financial statements (continued)

34. DS Smith Group companies continued

Registered offices

ER 350 Euston Road, London, NW1 3AX, UK
AR1 Avenida Eduardo Madero 1020, 5th floor, Office "B", The City of Buenos Aires, Argentina
AU1 Vistra Australia Pty Ltd, Suite 902 Level 9, 146 Arthur Street, North Sydney NSW 2060, Australia
AT1 Friedrichstraße 10, 1010, Wien, Austria
AT2 Heidestrasse 15, 2433 Margarethen am Moos, Austria
BE1 New Orleansstraat 100, 9000 Gent, Belgium
BE2 Leonardo da Vincilaan 2, Corporate Village – Gebouw Gent 1831 Machelen-Diegem, Belgium
BO1 Santa Cruz de la Sierra – Calle Dr. Mariano Zambrana No 700 UV: S/N MZNO: S/N Zona: Oeste, Bolivia
BA1 Igmanska bb, Sarajevo, Vogošća, Bosnia and Herzegovina
BA2 Jovana Dučića br 25 A, Banja Luka, Bosnia and Herzegovina
BR1 Avenida Paulista no. 807, conjunto 810, Bela Vista, Cidade de Sao Paulo, Estado de Sao Paulo, CEP 01311-100, Brazil
BG1 Glavinitsa, 4400 Pazardzhik, Bulgaria
CA1 215-1673 Carling Avenue, Ottowa ON K2A 1C4, Canada
CL1 Santa Beatriz, 111. Of 1104. Providencia, Santiago de Chile, Chile
CN1 Room 05C, 3/F, No. 2 Building, Hongqiao Vanke Center, 988 Shenchang Road, Minhang district, 201107, Shanghai, China
CN2 R919, 9/F, No. 1788 West Nan Jin Rd, Jing An District, Shanghai, 200040, China
CO1 Calle 72 , 10-07 Oficina 401, Edificio Liberty Seguros, Bogotá, Colombia
HR1 Dravska ulica 19, Koprivnica (Grad Koprivnica), Croatia
HR2 Vijenac Salamona Henricha Gutmanna 30, Belišće, Croatia
HR3 Lastovska 5, Zagreb, Croatia
CZ1 Teplická 109, Martiněves, 405 02 Jílové , Czech Republic
CZ2 Zirovnicka 3124, 10600 Praha 10, Czech Republic
DK1 Åstrupvej 30, 8500 Grenaa, Denmark
EC1 Av. Republica de El Salvador N36-140, Edif. Mansion Blanca, Quito, PBX:4007828, Ecuador
EG1 Nile City Towers, North Tower, 22nd Floor, Cornish ElNil, Cairo, 11624, Egypt
EE1 Pae 24, 11415 Tallinn, Estonia
FI1 PL 426, 33101 Tampere, Finland
FI2 Virranniementie 3, 70420 Kuopio, Finland
FR1 11 route Industrielle, F-68320, Kunheim, France
FR2 1 Terrasse Bellini, 92800, Puteaux, France
FR3 345 Impasse de Saint-Alban Avenue de Croupillac, 30100 Ales, France
FR4 Zone Industrielle de Kevoasdoue, 29270, Carhaix, France
FR5 6-8 Boulevard Monge, 69330, Meyzieu, Lyon, France
FR6 Contoire Hamel, 80500, Mondidier, France
FR7 350 Zone Artisanale des Trois Fontaines, 38140 Rives, France
FR8 Z.a Lafontaine, 49430 Durtal, France
FR9 146 Route de Lyon, 67640, Fegersheim, France
FR10 Zone Industrielle, Voiveselles Croisette, 88800, B.P. 37, Vittel, France
FR11 Rue de la Deviniere, B.P. 7, 45510 FR, Tigy, France
FR12 Route de Marmagne, 18500, Mehun sur Yevre, France
FR13 Zone Industrielle de Châteaubernard, 16102, Cognac, France
FR14 Avenue Robert Franck, 73110, La Rochette, France
FR15 Rue Desire Granet, 76800 St. Etienne du Rouvray, France
FR16 Zone Industrielle du Pré de la Barre, 38440, St-Jean de Bournay, France
FR17 12 rue Gay Lussac ZI Dijon Chenove, 21300, Chenove, France
FR18 ZI La Plaine – Eloyes, 88214, Remiremont, France
FR19 Usine de La Fosse, B.P. No 8, 45720, Coullons, France
FR20 77 Route de Lapoutroie, 68240, Kaysersberg, France
FR21 2 Rue Paul Cezanne, 93360, Neuilly Plaisance, France
FR22 27 Rue du Tennis, 25110, Baume les Dames, France
DE1 Bierweg 11, 99310 Arnstadt, Germany
DE2 Bretschneiderstr. 5, D-08309 Eibenstock, Germany
DE3 Ersteiner Strasse 7-9, D79346 Endingen am Kaiserstuhl, Germany
DE4 Hauptstrasse 80, 37318 Arenshausen, Germany
DE5 Kufsteiner Strasse 27, 83064 Raubling, Germany
DE6 Rollnerstrasse 14, D-90408 Nürnberg, Germany
DE7 Ruhrstrasse 3, 36043 Fulda, Germany
DE8 Siemensstrasse 8, 50259 Pulheim, Germany
DE9 Weichertstrasse 7, D-63741 Aschaffenburg, Germany
DE10 Wilhelm-Bergner, Str.11 e, 21509 Glinde, Germany
DE11 Zum Fliegerhorst 1312 – 1318, 63526 Erlensee, Germany
GI1 5-9 Main Street, Gibraltar
GR1 PO Box 90, GR-72200 Ierapetra, Kriti, Greece
GR2 PO Box 1010, 57022 Sindos Industrial Area, Thessaloniki, Greece
GT1 15 Calle 1-04 Zona 10, Centrica Plaza, Torre I, Oficina 301, Guatemala, 01010, Guatemala
HN1 Avenida La Paz, No. 2702, Tegucigalpa, M.D.C., PO Box 2735, Honduras
HK1 Units 1607-8, 16th Floor, Citicorp Centre, 17 Whitfield Road, Causeway Bay, Hong Kong
HU1 Patak ut. 1, 3390 Füzesabony, Hungary
HU2 Záhony u. 7, HU-1031 Budapest, Hungary
IN1 409, Dalamal Chambers, , New Marine Lines, Mumbai – 400 020, India
IN2 A-5/30, Basement, Behind Oriental Bank of Commerce, Paschim Vihar, New Delhi, 110063 , India
IN3 G-56 Green Park (main), New Delhi – 110016, India
IE1 25/28 North Wall Quay, Dublin 1, Ireland
IT1 Capannori (Lu) Via del Fanuccio, 126 Cap, 55014 Frazione Marlia, Italy
IT2 Strada Lanzo 237, cap 10148, Torino (TO), Italy
IT3 Via Torri Bianche, n. 24, 20871 Vimercate (MB), Italy
JP1 Oak Minami-Azabu Building 2F, 3-19-23 Minami-Azabu, Minato-ku, Tokyo, 106-0047, Japan
KZ1 Abay Ave. 52, 8 floor, 802-6 office "Innova Tower" BC, 050008, Almaty, Kazakhstan
LV1 Hospitāļu iela 23-102, Rīga LV-1013, Latvia
LT1 Savanoriu ave. 183, 02300 Vilnius, Lithuania
LU1 8-10 Avenue de la Gare, L-1610 Luxembourg
MY1 Unit C-12-4, Level 12, Block C, Megan Avenue II, No. 12 Jalan Yap Kwan Seng, 50450 Kuala Lumpur, Wilayah Persekutuan, Malaysia
MX1 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
MA1 Tanger, Zone Franche d'Exportation, ILot 11, Lot 5, Morocco
NL1 Bedrijvenpark Twente 90, NL-7602 KD Almelo, Netherlands
NL2 Coldenhovenseweg 130, 6961 EH, Eerbeek, Netherlands
NL3 Harderwijkerweg 41, 6961 GH, Eerbeek, Netherlands
NL4 Hermesweg 2, 3771 ND, Barneveld, Netherlands
NL5 Kanaalweg 8 A, 6961 LW, Eerbeek, Netherlands
NL6 Wegastraat 2, 5015 BS, Tilburg, Netherlands
NI1 Car Building, 3rd Floor, Highway to Masaya, Managua, Nicaragua
NG1 3, Ijora – Causeway, Ijora, Lagos, Nigeria
MK1 Str. 1632 no. 1, Skopje 1000, North Macedonia
PK1 H. No. 193, SQ Margalla Road, SCHS, E-11/2. Islamabad Capital Territory (I.C.T.) 44000. Pakistan
PH1 24/F Philam Life Tower, 8767 Paseo de Roxas Avenue, Bel-Air, City of Makati, Fourth District, NCR, 1226, Philippines

34. DS Smith Group companies continued

Registered offices continued

PL1 Komitetu Obrony Robotników 45D, 02-146 Warsaw, Poland
PT1 Águeda (Aveiro), Raso de Paredes 3754-209, Portugal
PT2 Av. Jose Gregorio 114, 2430-275 Marinha Grande, Portugal
PT3 Edificio Opcao Actual, Parque Industrial de Oliveirinha, 3430-414 Carregal do Sal, Portugal
PT4 Rua Mestra Cecília do Simão, n.° 378 , 3885-593 Esmoriz, Ovar, Portugal
PT5 Edificio Ds Smith, Zona Industrial de Sampaio, Oliveirinha, 3430 Carregal Do Sal, Municipality of Carregal do Sal, Parish of Oliveira do Conde, Portugal
PT6 Lugar do Espido, Via Norte, Distrito: Porto Concelho: Maia Freguesia: Cidade da Maia, 4470 177 MAIA, Portugal
PT7 Parque Industrial da Cancela, 3125-042, Canico, Portugal
PT8 Rua do Monte Grande, n. o3,, 4485-255 Guilhabreu, Portugal
PT9 Estrada 23 de Fevereiro, 372, 4905-261, Deocriste, Portugal
PT10 Rua Pedro Jose Ferreira, 329/335, 4420-612, Gondomar, Portugal
RO1 No. 46 Fagarasului Street, Ghimbav, Brasov County, Romania
RO2 No. 18, 13 Decembrie Street, Zarnesti, Brasov County, Romania
RO3 Calea Torontalului, DN6 kM. 7, Timisoara, Romania
RU1 Office 405, 7 Dolgorukovskaya Street, Moscow, 127006, Russian Federation
RU2 Office 9, 35/1 Dmitria Ulianova Street, Moscow 103031, Russian Federation
RS1 11000 Beograd, Milorada Jovanovića 14, Serbia
RS2 Kruševac, Balkanska 72, Serbia
RS3 44 Bulevar Vojvode Stepe, Novi Sad, Serbia
SK1 Námestie baníkov 8/31, 048 01 Roznava, Slovakia
SK2 Robotnícka 1, Martin, 036 80, Slovakia
SI1 Cesta prvih borcev 51, 8280 Brestanica, Slovenia
ZA1 Central Office Park No 4, 257 Jean Avenue, Centurion, Gauteng, 0157, South Africa
ES1 Poligono Industrial Heras, 239-242, 39792, Medio Cudeyo, Spain
ES2 Avenida el Norte de Castilla, 20, 47008 Valladolid (Valladolid), Spain
ES3 Avd. Del Sol 13, Torrejón de Ardoz, 28850 – Madrid, Spain
ES4 Carretera A-62, Burgos a Portugal, 34210, Duenas (Palencia), Spain
ES5 Carretera B.P. 2151 confluencia carretera C15, Sant Pere de Riudevitlles, 08776, Barcelona, Spain
ES6 Carretera de Daganzo Km 3,450 – Poligono Industrial La Peña, Naves F1 a F8, 28806, Alcala de Henares (Madrid), Spain
ES7 Carretera Nacional 331 (Carretera de Malaga), Km.66,28, 14900, Lucena (Cordoba), Spain
ES8 Parque Industrial Juan Carlos I, C/ Canal Crespo, 13 Almussafes 46440 (Valencia), Spain
ES9 Polígono Industrial Areta n° 1, parcela 348, calle Altzutzate, n° 46, 31620 Huarte, Navarra, Spain
ES10 Polígono Industrial A Tomada, parcela 28-33, A Pobra do Caramiñal , 15949 A Coruña, Spain
ES11 Polígono Industrial O Pousadoiro 4, Parcela 1, 36617 Vilagarcía de Arousa, Pontevedra (Galicia), Spain
ES12 Poligono Industrial San Claudio, 33191, Oviedo, Spain
SE1 Box 504, 331 25 Varnamo, Sweden
CH1 Industriestrasse 11, 4665 Oftringen, Switzerland
TR1 Araptepe Selimpaşa Mah. 5007. Sk. No. 4 Silivri, Istanbul, Turkey
TR2 Goztepe Merdivenkoy Mah. Bora Sk. No.1 Nida Kule Is Merkezi, Kat 7, Kadikoy, Istanbul, 34732, Turkey
UA1 4-5 Floors, 25B,Sagaydachnogo str., Kiev, 04070, Ukraine
UA2 67 Mendeleev str., Rubizhne, Lugansk Region, 93006, Ukraine
AE1 Unit No: I5-PF-39, Detached Retail I5, Plot No: JLT-PH1-RET-I5, Jumeirah Lakes Towers, Dubai, United Arab Emirates
UK1 Muir Road, Houstoun Industrial Estate, Livingston, West Lothian, EH54 5DR, UK
US1 4328 Federal Drive, STE 105, Greensboro, NC 27410, United States
US2 2317 Almond Road, Route 55 Industrial Park, Vineland, NJ 08360, United States
US3 600 Peachtree Street , Suite 4200, Atlanta GA 30308, United States
US4 2066 South East Avenue, Vineland, NJ 08360, United States
US5 36 Saratoga Boulevard, Ayer MA 01434, United States
US6 903 Woods Road, Cambridge, MD 21613, United States
US7 128 Crews Drive, Columbia, SC 29210, United States
US8 240 Industrial Avenue East, Lowell, MA 01852, United States
US9 792 Commerce Avenue, New Castle, PA 16101, United States
US10 100 Grace Street, Reading, PA 19611, United States
US11 100 Simplex Drive, Westminster, MA 01473, United States
US12 2366 Interstate Paper Road, Riceboro, GA 31323, United States
US13 120 T Elmer Cox Road Greeneville, TN 37743, United States
US14 3021 Taylor Drive, Asheboro, NC 27203, United States
US15 720 Laurel Street, Reading PA 19602, United States
US16 6405 Commonwealth Drive SW, Roanoke, Virginia, 24018, United States
US17 100 Development Ln., Winchester VA 22602, United States
US18 128 Corrugated Ln, Piney Flats TN 37686, United States
US19 70 Outwater Ln., Floor 4, Garfield, NJ 07026, United States
US20 800 Edwards Drive, Lebanon IN 46052, United States
US21 301 Thomas Mill Road, Holly Springs NC 27540, United States
US22 340 W. Butterfield Road, Suite 2A, Elmhurst IL 60126, United States
US23 2711 Centerville Road, Suite 400, Wilmington DE 19808, United States
UY1 Plaza Independencia 811 PB, Montevideo, Uruguay

35. Subsequent events

On 26 June 2020, the Group paid £82m to the sellers of Interstate Resources, as it completed purchase of half of the put option remaining for £106m, with, by agreement, the remainder deferred to October 2021 (see note 30(b)).

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

Parent Company statement of financial position

AT 30 APRIL 2020

	Note	2020 £m	2019 £m
Assets			
Non-current assets			
Intangible assets	3	**44**	50
Property, plant and equipment and right-of-use assets	4	**7**	2
Investments in subsidiaries	5	**4,559**	3,618
Deferred tax assets		**50**	40
Other receivables	6	**645**	2,176
Lease receivable		**6**	–
Derivative financial instruments	10	**27**	12
Total non-current assets		**5,338**	5,898
Current assets			
Trade and other receivables	6	**1,013**	544
Lease receivable		**6**	–
Cash and cash equivalents		**185**	81
Derivative financial instruments	10	**34**	35
Total current assets		**1,238**	660
Total assets		**6,576**	6,558
Liabilities			
Non-current liabilities			
Borrowings	8	**(2,166)**	(2,100)
Employee benefits	11	**(31)**	(20)
Other payables	7	**(199)**	(147)
Lease liabilities	9	**(11)**	–
Provisions		**(7)**	–
Derivative financial instruments	10	**(41)**	(13)
Total non-current liabilities		**(2,455)**	(2,280)
Current liabilities			
Borrowings	8	**(121)**	(234)
Trade and other payables	7	**(202)**	(162)
Income tax liabilities		**(4)**	(2)
Lease liabilities	9	**(7)**	–
Derivative financial instruments	10	**(44)**	(16)
Total current liabilities		**(378)**	(414)
Total liabilities		**(2,833)**	(2,694)
Net assets		**3,743**	3,864
Equity			
Issued capital	12	**137**	137
Share premium account	12	**2,238**	2,236
Reserves	12	**1,368**	1,491
Shareholders' equity		**3,743**	3,864

The Company made a profit for the year of £130m (2018/19: profit of £24m) including the recognition of intra-group dividends.

Approved by the Board of Directors of DS Smith Plc (company registered number 1377658) on 1 July 2020 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 2020

	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 2018	**107**	**1,260**	**(7)**	**(1)**	**32**	**1,659**	**3,050**
Profit for the year	–	–	–	–	–	24	24
Actuarial loss on employee benefits	–	–	–	–	–	(18)	(18)
Cash flow hedges fair value changes	–	–	29	–	–	–	29
Reclassification from cash flow hedge reserve to income statement	–	–	(37)	–	–	–	(37)
Income tax on other comprehensive income	–	–	2	–	–	2	4
Total comprehensive (expense)/income	**–**	**–**	**(6)**	**–**	**–**	**8**	**2**
Issue of share capital	30	976	–	–	–	–	1,006
Employee share trust	–	–	–	–	–	(8)	(8)
Share-based payment expense (net of tax)	–	–	–	–	–	1	1
Dividends paid[1]	–	–	–	–	–	(187)	(187)
Other changes in equity in the year	**30**	**976**	**–**	**–**	**–**	**(194)**	**812**
At 30 April 2019	**137**	**2,236**	**(13)**	**(1)**	**32**	**1,473**	**3,864**
Profit for the year	–	–	–	–	–	130	130
Actuarial loss on employee benefits	–	–	–	–	–	(16)	(16)
Cash flow hedges fair value changes	–	–	(31)	–	–	–	(31)
Reclassification from cash flow hedge reserve to income statement	–	–	(1)	–	–	–	(1)
Income tax on other comprehensive income	–	–	6	–	–	13	19
Total comprehensive (expense)/income	**–**	**–**	**(26)**	**–**	**–**	**127**	**101**
Issue of share capital	–	2	–	–	–	–	2
Employee share trust	–	–	–	(2)	–	(2)	(4)
Share-based payment expense (net of tax)	–	–	–	–	–	2	2
Dividends paid[1]	–	–	–	–	–	(222)	(222)
Other changes in equity in the year	**–**	**2**	**–**	**(2)**	**–**	**(222)**	**(222)**
At 30 April 2020	**137**	**2,238**	**(39)**	**(3)**	**32**	**1,378**	**3,743**

1. Refer to note 9 to the consolidated financial statements for details of dividends paid.

Notes to the parent Company financial statements

1. Principal accounting policies

(a) Basis of preparation

These financial statements of DS Smith Plc (the 'Company') have been prepared on the going concern basis and in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101) and the UK Companies Act.

The accounts are prepared under the historical cost convention with the exception of certain financial instruments and employee benefit plans that are stated at their fair value and share-based payments that are stated at their grant date fair value.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own income statement or statement of comprehensive income.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- statement of cash flows and related notes;
- a comparative period reconciliation for share capital;
- disclosures in respect of transactions with wholly-owned subsidiaries;
- comparative period reconciliations for tangible fixed assets and intangible assets;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRSs; and
- disclosures in respect of Key Management Personnel.

As the Group financial statements include the equivalent disclosures, the Company has also taken advantage of the exemptions under FRS 101 available in respect of the following disclosures:

- IAS 24 *Related Party Disclosure* in respect of transactions entered with wholly-owned subsidiaries;
- IFRS 2 *Share-based Payment* in respect of Group settled share-based payments; and
- IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instruments*.

The Company adopted the following new accounting standards, amendments or interpretations as of 1 May 2019:

- IFRS 16 *Leases;*
- IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments;*
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures;* and
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement.*

The impact of IFRS 16 *Leases* was to bring a right-of-use lease asset within property, plant and equipment and equal and opposite lease liability on to the balance sheet on the 1 May 2019 transition date.

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

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

(b) Foreign currencies

The Company's financial statements are presented in sterling, which is the Company's functional currency and presentation currency. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange at the date of the transaction, and retranslated at the rate of exchange ruling at the balance sheet date. Exchange differences arising on translation are taken to the income statement.

(c) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of each item, which range between three and five years.

(d) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each item of property, plant and equipment. Estimated useful lives of plant and equipment are between two and 30 years, and for leasehold improvements are over the period of the lease.

(e) Leases

The Company recognises a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, being the initial amount of the lease liability adjusted for any lease payments made at or before commencement date, plus any initial direct costs incurred and an estimate of end of lease dismantling or restoration costs, less any incentives received and related provisions.

Lease liabilities are recorded at the present value of lease payments.

The interest rate implicit in the lease is used to discount lease payments, or, if that rate cannot be determined, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are depreciated on a straight-line basis over the lease term, or the useful life if shorter.

Interest is recognised on the lease liability, resulting in a higher finance cost in the earlier years of the lease term.

Lease payments relating to low value assets or to short-term leases are recognised as an expense on a straight-line basis over the lease term. Short-term leases are those with 12 months or less duration.

When the Company enters into a back-to-back lease arrangement on behalf of a subsidiary, corresponding lease receivables are recognised.

1. Principal accounting policies continued

(f) Investments in subsidiaries

Investments in subsidiaries are valued at cost less provisions for impairment.

Impairment testing is performed annually for investment in subsidiaries by comparing the carrying amount of each investment with the relevant subsidiary's consolidated balance sheet. Where the net assets are lower than the investment value, a discounted cash flow is utilised to calculate the present value of the investment to confirm whether any impairment is required.

(g) 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.

(h) Employee benefits

(i) Defined benefit schemes

The Company is the sponsoring employer for a UK funded, defined benefit scheme, the DS Smith Group Pension scheme (the 'Group Scheme').

The Group has in place a stated policy for allocating the net defined benefit cost relating to the Group Scheme to participating Group entities.

Accordingly, both the Company's statement of financial position and income statement reflect the Company's share of the net defined benefit liability and net defined benefit cost in respect of the Group scheme, allocated per the stated policy. Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

(ii) Share-based payment transactions

The Company operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The fair value of the options granted is measured using a stochastic model, taking into account the terms and conditions upon which the options were granted. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable.

At each reporting date, the Company revises its estimate of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity. Where applicable, the fair value of employee services received by subsidiary undertakings within the DS Smith Plc Group in exchange for options granted by the Company is recognised as an expense in the financial statements of the subsidiary by means of a recharge from the Company.

(i) 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.

(j) Financial instruments

The Company uses derivative financial instruments, primarily 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 cash flow hedges due to 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.

(k) Dividend income

Dividend income from subsidiary undertakings is recognised in the income statement when paid.

(l) Accounting judgements and key sources of estimation uncertainty

There are no significant accounting judgements and estimates applied in preparing the Company's accounts.

Notes to the parent Company financial statements (continued)

2. Employee information

The average number of employees employed by the Company during the year was 272 (2018/19: 283).

	2020 £m	2019 £m
Wages and salaries	**31**	26
Social security costs	**3**	4
Pension costs	**2**	1
Total	**36**	31

Note 26 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 2019	65	5	5	75
Additions	–	2	5	7
Transfers	3	–	(3)	–
At 30 April 2020	**68**	**7**	**7**	**82**
Amortisation				
At 1 May 2019	(25)	–	–	(25)
Amortisation charge	(13)	–	–	(13)
At 30 April 2020	**(38)**	**–**	**–**	**(38)**
Carrying amount				
At 1 May 2019	40	5	5	50
At 30 April 2020	**30**	**7**	**7**	**44**

4. Property, plant and equipment and right-of-use assets

	Right-of-use assets £m	Leasehold improvements £m	Plant and equipment £m	Total property, plant and equipment £m
Cost				
At 1 May 2019	–	3	2	5
Recognised on adoption of IFRS 16	6	–	–	6
At 30 April 2020	**6**	**3**	**2**	**11**
Depreciation				
At 1 May 2019	–	(1)	(2)	(3)
Depreciation charge	(1)	–	–	(1)
At 30 April 2020	**(1)**	**(1)**	**(2)**	**(4)**
Carrying amount				
At 1 May 2019	–	2	–	2
At 30 April 2020	**5**	**2**	**–**	**7**

Right-of-use assets relate to land and buildings.

5. Investments in subsidiaries

	Shares in Group undertakings £m
At 1 May 2019	3,618
Additions	941
At 30 April 2020	**4,559**

The Company's principal trading subsidiary undertakings at 30 April 2020 are shown in note 34 to the consolidated financial statements.

Additions in the year ended 30 April 2020 are a result of intergroup restructuring transactions.

6. Trade and other receivables

	2020		2019	
	Non-current £m	Current £m	Non-current £m	Current £m
Amounts owed by subsidiary undertakings	**645**	**997**	2,176	531
Other receivables	**–**	**3**	–	–
Prepayments and accrued income	**–**	**13**	–	13
	645	**1,013**	2,176	544

When measuring the potential impairment of receivables from subsidiary undertakings, forward looking information based on assumptions for the future movement of different economic drivers are considered.

7. Trade and other payables

	2020		2019	
	Non-current £m	Current £m	Non-current £m	Current £m
Trade payables	**–**	**17**	–	26
Amounts owed to subsidiary undertakings	**199**	**130**	147	88
Other tax and social security payables	**–**	**10**	–	13
Non-trade payables, accruals and deferred income	**–**	**45**	–	35
	199	**202**	147	162

Non-current amounts owed to subsidiaries are subject to interest at rates based on LIBOR or EURIBOR, are unsecured, and are repayable between 2021 and 2024.

8. Borrowings

	2020		2019	
	Non-current £m	Current £m	Non-current £m	Current £m
Bank loans and overdrafts	**–**	**58**	–	179
Medium-term notes and other fixed-term debt	**2,166**	**63**	2,100	55
	2,166	**121**	2,100	234

Disclosures in respect of the Group's borrowings are provided in note 20 to the consolidated financial statements.

Notes to the parent Company financial statements (continued)

9. Lease liabilities

The carrying amounts of lease liabilities and the movements during the year are as follows:

	Total £m
Cost	
At 1 May 2019	–
Recognised on adoption of IFRS 16	18
At 30 April 2020	**18**
Current	7
Non-current	11
	18

Maturity of lease liabilities

	1 year or less £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
At 30 April 2020	(7)	(2)	(7)	(2)	(18)

10. 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	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Derivatives held to:						
Manage the interest rate and currency exposures on business activities, borrowings and net investments	**13**	12	**(2)**	(8)	**11**	4
Derivative financial instruments included in net debt	**13**	12	**(2)**	(8)	**11**	4
Derivatives held to hedge future transactions						
Energy costs	**48**	35	**(83)**	(21)	**(35)**	14
Total derivative financial instruments	**61**	47	**(85)**	(29)	**(24)**	18
Current	**34**	35	**(44)**	(16)	**(10)**	19
Non-current	**27**	12	**(41)**	(13)	**(14)**	(1)
	61	47	**(85)**	(29)	**(24)**	18

Disclosures in respect of the Group's derivative financial instruments are provided in note 21 to the consolidated financial statements.

11. 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 25 to the consolidated financial statements, where full disclosures relating to these schemes are given.

	2020 £m	2019 £m
Present value of funded obligations	**(1,162)**	(1,078)
Present value of unfunded obligations	**(7)**	(6)
Fair value of scheme assets	**1,098**	1,036
Total IAS 19 deficit, net	**(71)**	(48)
Allocated to other participating employers	**40**	28
Company's share of IAS 19 deficit, net	**(31)**	(20)

12. Share capital and reserves

Details of the Company's share capital and merger relief reserve are provided in note 24 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.

The reserve for the Company's own shares comprises the cost of the Company's shares held by the Group. The Group operates a General Employee Benefit Trust, which acquires shares in the Company that can be used to satisfy the requirements of the Performance Share Plan. At 30 April 2020, the Trust held 1.5m shares (30 April 2019: 1.1m shares). The market value of the shares at 30 April 2020 was £4.7m (30 April 2019: £4.1m). Dividends receivable on the shares owned by the Trust have been waived.

As at 30 April 2020, the Company had distributable reserves of £1,336m (30 April 2019: £1,459m).

13. Cash and cash equivalents

Included within cash and cash equivalents is £nil (30 April 2019: £nil) restricted for use by the Company.

14. 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 2020, these guarantees amounted to £5m (30 April 2019: £5m).

15. Related party disclosure

The Company has identified the Directors of the Company, its key management personnel and the UK pension scheme as related parties. Details of the relevant relationships with these related parties are disclosed in the Remuneration Committee report, and note 32 to the consolidated financial statements respectively.

16. 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	2016 £m	2017 £m	2018 £m	2019 £m	2020 [4]£m
Revenue	3,858	4,540	5,518	6,171	**6,043**
Operating profit[1]	347	405	492	631	**660**
Amortisation	(49)	(63)	(90)	(114)	**(143)**
Share of (loss)/profit of equity-accounted investments before adjusting items, net of tax	(1)	3	5	9	**7**
Net financing costs before adjusting items	(47)	(56)	(62)	(71)	**(87)**
Profit before taxation and adjusting items	250	289	345	455	**437**
Acquisitions and divestments	5	(7)	(28)	(32)	**(4)**
Other adjusting items	(92)	(55)	(57)	(73)	**(65)**
Profit before income tax	163	227	260	350	**368**
Adjusted earnings per share[1]	22.9p	27.3p	30.7p	33.3p	**33.2p**
Dividends per share	11.9p	14.1p	14.4p	16.2p	**n/a**
Return on sales[2]	9.0%	8.9%	8.9%	10.2%	**10.9%**
Adjusted return on average capital employed[1,2,3]	14.7%	14.3%	13.7%	13.6%	**10.6%**

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, right-of-use assets, goodwill and intangible assets, working capital, capital debtors/creditors, provisions, biological assets and assets/liabilities held for sale. Assets and liabilities relating to discontinued operations are excluded. The definition of capital employed is different from the definition of managed capital as defined in note 21 to the consolidated financial statements, which consists of equity as presented in the consolidated statement of financial position, plus net debt.
4. The Group adopted IFRS 16 on 1 May 2019 using the modified retrospective approach and practical expedients available. As per the specific transitional arrangements in the standard, comparative information has not been restated. Note 31 details the impact on the Group's financial statements and Key Performance Indicators of the adoption of IFRS 16.

Shareholder information

Financial diary

8 September 2020	Annual General Meeting
10 December 2020*	Announcement of half-year results for the six months ended 31 October 2020
10 June 2021*	Announcement of full-year results for the year ended 30 April 2021

* 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. Email alerts of the latest news, press releases and financial reports about DS Smith Plc may be obtained by registering for the email news alert service on the website.

Share price information

The latest price of the Company's ordinary shares is available on www.londonstockexchange.com. DS Smith's ticker symbol is SMDS. It is recommended that you consult your financial adviser and verify information obtained before making any investment decision.

Registrar

Please contact the Registrar at the above right address to advise of a change of address or for any enquiries relating to dividend payments, lost share certificates or other share registration matters. The Registrar provides online facilities at www.shareview.co.uk. Once you have registered you will be able to access information on your DS Smith Plc shareholding, update your personal details and amend your dividend payment instructions online without having to call or write to the Registrar.

Dividends

Shareholders who wish to have their dividends paid directly into a bank or building society account should contact the Registrar. In addition, the Registrar is now able to pay dividends to over 90 different countries. This service enables the payment of your dividends directly into your bank account in your home currency. For international payments, a charge is deducted from each dividend payment to cover the costs involved. Please contact the Registrar to request further information.

Share dealing services

The Registrar offers a real-time telephone and internet dealing service for the UK. Further details including terms and rates can be obtained by logging on to the website at www.shareview.co.uk/dealing or by calling 0345 603 7037. Lines are open between 8am and 4.30pm, UK time, Monday to Friday.

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Other information

Information on how to manage your shareholdings can be found at https://help.shareview.co.uk. The pages at this web address provide answers to commonly asked questions regarding shareholder registration, links to downloadable forms and guidance notes. If your question is not answered by the information provided, you can send your enquiry via secure email 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 email address if this is how you would like to receive your response. In the UK you can telephone 0371 384 2197. Lines are open 8.30am to 5.30pm Monday to Friday. For call charges, please check with your provider as costs may vary. For overseas, telephone +44 (0) 121 415 7047.

This report contains certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this report and DS Smith Plc undertakes no obligation to update these forward-looking statements. Nothing contained in this report should be construed as a profit forecast.

Pages 1 to 113 consist of a Strategic Report and Directors' report (including the directors' remuneration report) that have been drawn up and presented in accordance with and in reliance upon applicable English company law. The liability of the Directors in connection with such reports shall be subject to the limitation and restrictions provided by, and shall be no greater than is required by, applicable English company law.

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