29 June 2017

DS SMITH PLC – 2016/17 FULL YEAR RESULTS
BUILDING ON SUCCESS

12 months to 30 April 2017		Change (reported)	Change (constant currency)
Revenue	£4,781m	+18%	+6%
Adjusted operating profit(1)	£443m	+17%	+5%
Adjusted profit before tax(1)	£391m	+18%	+6%
Profit before tax	£264m	+31%	+16%
Adjusted EPS(1)	32.5p	+19%	+7%
Dividend per share	15.2p	+19%	+19%
Return on sales(4)	9.3%	0bps	-10bps
ROACE(5)	14.9%	-50bps	-40bps

See notes to financial table below

Highlights

- Strong organic corrugated box volume growth of +3.2%
  - Growth in all regions
  - Continued excellent growth from pan-European customers
- Continued investment to expand the business
  - Capital invested in line with strategic priorities
  - Five acquisitions in the year, totalling £85 million, focused on display packaging and expanding in Iberia, and Plastics
- Building leadership positions in growth areas of e-commerce and display
- Continued delivery against our medium-term targets
  - Sustainable financial returns
- Acquisition of Interstate Resources Inc., a US paper and packaging business, and associated placing announced today (see separate announcements)

Miles Roberts, Group Chief Executive, commented:

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

This progress has continued into the new financial year. Full recovery of the recent paper price rises is progressing well and as expected.

Today's announcement of our intended acquisition of Interstate Resources Inc. in the US offers a very exciting opportunity for us to grow and support our customers' needs over a wider geographic area.

Although economic conditions remain uncertain, our innovation-led offering, the scale of our operations, and the momentum in the business gives us confidence in further growth and sustainable returns in the years ahead."

Sustainable delivery in line with medium-term targets

Medium-term targets	Delivery in 2016/17
Organic volume growth(2) at least GDP(3)+1%	3.2%
Return on sales(4) 8% – 10%	9.3%
ROACE(5) 12% - 15%	14.9%
Net Debt / EBITDA(6) ≤2.0x	1.8x
Operating cash flow/operating profit(7) ≥ 100%	133%

See notes to the financial tables, below

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Presentation and dial-in details

A presentation to investors and analysts will be held at 09:00 today at the Lincoln Centre, 18 Lincoln Inn Fields, London WC2A 3ED. Dial-in access for the presentation is available per the details below. The slides accompanying the presentation will be available on our website shortly before 09:00.

+44 (0)20 3003 2666 (standard access) or 0808 109 0700 (UK toll free)
Password: DS Smith.

A replay of the event is available for seven days, on +44 (0) 20 8196 1998, PIN 7063164# An audio file and transcript will also be available on www.dssmith.com/investors/results-and-presentations.

Notes to the financial tables

(1) Before exceptional items and amortisation
(2) Corrugated box volumes, adjusted for the number of working days
(3) GDP growth (year-on-year) for the countries in which DS Smith operates, weighted by our sales by country, for the period April 2016 – March 2017= 1.8%. Source: Eurostat (16/5/2017)
(4) Operating profit before amortisation and exceptional items as percentage of revenue. Comparative on a constant currency basis
(5) Operating profit before amortisation and exceptional items as a percentage of the average monthly capital employed over the previous 12 month period. Average capital employed includes property, plant and equipment, intangible assets (including goodwill), working capital, provisions, capital debtors/creditors and assets/liabilities held for sale. Comparative on a constant currency basis
(6) EBITDA being operating profit before exceptional items, depreciation and amortisation. Ratio calculated in accordance with bank covenants
(7) Free cash flow before tax, net interest, growth capital expenditure, pension payments and exceptional cash flows as a percentage of operating profit before amortisation and exceptional items

Note 14 explains the use of non-GAAP performance measures. Reported results are presented under the Consolidated Income Statement and reconciliations to adjusted results are presented on the face of the Consolidated Income Statement, in note 2, note 7, and note 14.

Cautionary statement: This announcement 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 announcement and DS Smith Plc undertakes no obligation to update these forward-looking statements. Nothing in this statement should be construed as a profit forecast.

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

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

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

Adjusted operating profit increased by 5 per cent on a constant currency basis to £443 million (17 per cent on a reported basis), driven by the contribution from volume growth, contributing 9 per cent growth (£38 million), and from the net contribution of businesses acquired and disposed of, contributing 2 per cent growth (£10 million). Input cost increases were driven by a rise in the cost of raw materials and other operating costs, which impacted profit by £36 million. The weakening of sterling in the year resulted in an increase in profits of £43 million on translation.

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

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

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

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

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

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

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

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

Operating review

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

UK

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

*Adjusted to exclude amortisation and exceptional items

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

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

Western Europe

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

*Adjusted to exclude amortisation and exceptional items

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

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

DCH and Northern Europe

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

*Adjusted to exclude amortisation and exceptional items

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

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

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

Central Europe and Italy

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

* Adjusted to exclude amortisation and exceptional items

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

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

Plastics

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

* Adjusted for amortisation and exceptional items

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

Delivering on our medium-term targets and key performance indicators

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

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

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

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

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

DS Smith is committed to providing all employees with a safe and productive working environment. We are pleased to report a further substantial improvement in our safety record, with our accident frequency rate (defined as the number of lost time accidents per million hours worked) reducing by a further 19 per cent from 3.2 to 2.6, reflecting our ongoing commitment to best practice in health and safety. This follows the substantial improvement in the prior years, such that the accident frequency rate is now 45 per cent lower than in 2013/14. We are pleased to report that 207 sites achieved our target of zero accidents this year and we continue to strive for zero accidents for the Group as a whole.

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

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

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

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

Financial review

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

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

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

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

[1] Adjusted for amortisation and exceptional items

Trading results

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

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

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

Adjusted operating profit rose by 17 per cent on a reported basis to £443 million (2015/16: £379 million), with currency having a positive impact of £43 million. Growth on a constant currency basis was 5 per cent. The acquisitions of Creo, Deku-Pack, Gopaca, P&I Display and Parish during the financial year have already begun to generate synergies in the short time that they have been part of the Group and are well on track to deliver their acquisition business cases. This good result is testament to the Group's experience in the effective integration of, and support for, acquired businesses. Whilst the devaluation of sterling in the year has supported the reported profit growth, growth on a constant currency basis was achieved despite lower paper prices for most of the year and volatile fibre input costs. The Group systematically mitigates against these uncertainties through year-on-year benefits (on a reported basis) from energy management programmes (c. £12 million) and procurement savings (c. £35 million).

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

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

Exceptional items

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Impairment

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

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

Pensions

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

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

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

A triennial valuation of the main UK scheme was carried out at 30 April 2016, following which a deficit recovery plan was agreed with the Trustee Board on 28 April 2017. The Group has agreed to increase existing cash contributions by 10 per cent per annum commencing with the current year back-dated to the beginning of the year. The planned contribution for 2016/17 was, therefore, increased from £16 million to £17.6 million. The contribution for 2017/18 will increase to £18.3 million. The recovery plan is expected to be completed on or around November 2025.

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

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

Consolidated Income Statement

Year ended 30 April 2017

	Note	**Before exceptional items 2017 £m**	**Exceptional items (note 3) 2017 £m**	**After exceptional items 2017 £m**	Before exceptional items 2016 £m	Exceptional items (note 3) 2016 £m	After exceptional items 2016 £m
Revenue	2	**4,781**	**-**	**4,781**	4,066	–	4,066
Operating costs		**(4,338)**	**(57)**	**(4,395)**	(3,687)	(92)	(3,779)
Operating profit before amortisation, acquisitions and disposals	2	**443**	**(57)**	**386**	379	(92)	287
Amortisation of intangible assets; acquisitions and disposals	3	**(65)**	**(5)**	**(70)**	(51)	14	(37)
Operating profit		**378**	**(62)**	**316**	328	(78)	250
Finance income	5	**1**	**-**	**1**	1	–	1
Finance costs	5	**(51)**	**-**	**(51)**	(42)	(1)	(43)
Employment benefit net finance expense		**(5)**	**-**	**(5)**	(6)	–	(6)
Net financing costs		**(55)**	**-**	**(55)**	(47)	(1)	(48)
Profit after financing costs		**323**	**(62)**	**261**	281	(79)	202
Share of profit/(loss) of equity accounted investment, net of tax		**3**	**-**	**3**	(1)	–	(1)
Profit before income tax		**326**	**(62)**	**264**	280	(79)	201
Income tax (expense)/credit	6, 3	**(69)**	**13**	**(56)**	(61)	27	(34)
Profit for the year		**257**	**(49)**	**208**	219	(52)	167
Profit/(loss) for the year attributable to:							
Owners of the parent		**258**	**(49)**	**209**	219	(52)	167
Non-controlling interests		**(1)**	**-**	**(1)**	–	–	–
Earnings per share							
Earnings per share							
Basic	7			**22.1p**			17.7p
Diluted	7			**22.0p**			17.5p
Adjusted earnings per share[1]							
Basic	7	**32.5p**			27.4p		
Diluted	7	**32.3p**			27.0p		

1 Adjusted to exclude amortisation and exceptional items.

All activities comprise continuing operations.

(a) Subject to approval of shareholders at the Annual General Meeting to be held on 5 September 2017, the final dividend of 10.6p will be paid on 1 November 2017 to ordinary shareholders on the register at the close of business on 6 October 2017.

(b) The financial information presented in this preliminary announcement is extracted from, and is consistent with, the Group's audited financial statements for the year ended 30 April 2017. The financial information set out above does not constitute the Company's statutory financial statements for the years ended 30 April 2017 or 30 April 2016 but is derived from those financial statements. Statutory accounts for the year ended 30 April 2016 have been delivered to the Registrar of Companies. Statutory accounts for the year ended 30 April 2017 will be delivered following the Company's Annual General Meeting. The Auditor's report on these accounts was not qualified or modified and did not contain any statement under Sections 498(2) or (3) of the Companies Act 2006.

(c) The Group's audited financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. The preliminary announcement has been agreed with the Company's Auditor for release.

(d) Items are presented as exceptional in the accounts 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 achieved by the Group (note 3).

Consolidated Statement of Comprehensive Income

Year ended 30 April 2017

	Note	**2017 £m**	2016 £m
Profit for the year		**208**	167
Items which will not be reclassified subsequently to profit or loss			
Actuarial (loss)/gain on employee benefits	4	**(1)**	11
Income tax on items which will not be reclassified subsequently to profit or loss		**(3)**	(5)
Items which may be reclassified subsequently to profit or loss			
Foreign currency translation differences		**71**	49
Movements in cash flow hedges		**9**	(2)
Share of other comprehensive income of equity accounted investment		**1**	-
Income tax on items which may be reclassified subsequently to profit or loss		**35**	4
Other comprehensive income for the year, net of tax		**112**	57
Total comprehensive income for the year		**320**	224
Total comprehensive income attributable to:			
Owners of the parent		**321**	224
Non-controlling interests		**(1)**	-

Consolidated Statement of Financial Position

At 30 April 2017

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

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

M W Roberts
Director

A R T Marsh
Director

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

Consolidated Statement of Changes in Equity

Year ended 30 April 2017

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

Consolidated Statement of Cash Flows

Year ended 30 April 2017

Continuing operations	Note	**2017 £m**	2016 £m
Operating activities			
Cash generated from operations	9	**629**	444
Interest received		**1**	1
Interest paid		**(46)**	(33)
Tax paid		**(61)**	(49)
Cash flows from operating activities		**523**	363
Investing activities			
Acquisition of subsidiary businesses, net of cash and cash equivalents	12	**(71)**	(313)
Disposal of subsidiary businesses, net of cash and cash equivalents	12	**-**	21
Capital expenditure		**(244)**	(229)
Proceeds from sale of property, plant and equipment and intangible assets		**18**	28
Cash flows used in investing activities		**(297)**	(493)
Financing activities			
Proceeds from issue of share capital		**13**	1
Repayment of borrowings		**(924)**	(337)
Proceeds from borrowings		**785**	605
Proceeds from settlement of derivative financial instruments		**31**	-
Repayment of finance lease obligations		**(9)**	(5)
Dividends paid to Group shareholders	8	**(121)**	(108)
Cash flows (used in)/from financing activities		**(225)**	156
Increase in cash and cash equivalents		**1**	26
Net cash and cash equivalents at 1 May		**115**	82
Exchange gains on cash and cash equivalents		**7**	7
Net cash and cash equivalents at 30 April		**123**	115

1. Basis of preparation

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 have also applied IFRSs as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements are prepared on the historical cost basis with the exception of assets and liabilities of certain financial instruments, employee benefit plans and share-based payments that are stated at their fair value.

The consolidated financial statements have been prepared on a going concern basis.

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.

No changes have been made to the Group's accounting policies in the year ended 30 April 2017 other than the following:

- IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11*
- IAS 1 *Disclosure Initiative – Amendments to IAS 1*
- Annual Improvements to IFRSs 2012-2014 Cycle
- Amendments to IAS 27 *Equity Method in Separate Financial Statements*
- Amendments to IAS 16 and IAS 38 Clarification of *Acceptable Methods of Depreciation and Amortisation*

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

The accounting policies, presentation methods and methods of computation followed are the same as those detailed in the 2016 Annual Report and Accounts, which is available on the Group's website (www.dssmith.com/investors/results-and-presentations). Whilst the financial information included in the preliminary announcement has been computed in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRS.

2. Segment reporting

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

1 Adjusted to exclude amortisation and exceptional items.

2. Segment reporting continued

Year ended 30 April 2016	Note	UK £m	Western Europe £m	DCH and Northern Europe £m	Central Europe and Italy £m	Plastics £m	Total continuing operations £m
External revenue		864	1,044	853	1,022	283	4,066
EBITDA		112	113	118	122	41	506
Depreciation		(27)	(36)	(25)	(30)	(9)	(127)
Adjusted operating profit[1]		85	77	93	92	32	379
Unallocated items:							
Amortisation							(51)
Exceptional items	3						(78)
Total operating profit (continuing operations)							250
Analysis of total assets and total liabilities							
Segment assets		747	959	899	1,031	175	3,811
Unallocated items:							
Equity accounted investment and other investments							7
Derivative financial instruments							57
Cash and cash equivalents							134
Tax							69
Total assets							4,078
Segment liabilities		(227)	(438)	(170)	(256)	(58)	(1,149)
Unallocated items:							
Borrowings and accrued interest							(1,295)
Derivative financial instruments							(56)
Tax							(250)
Employee benefits							(188)
Total liabilities							(2,938)
Capital expenditure		53	51	42	72	11	229

1 Adjusted to exclude amortisation and exceptional items.

Geographical areas

In presenting information by geographical area, external revenue is based on the geographical location of customers.

	External revenue	
Continuing operations	**2017 £m**	2016 £m
UK	**932**	813
France	**704**	629
Germany	**606**	533
Italy	**512**	444
Rest of the World	**2,027**	1,647
	4,781	4,066

3. Exceptional items

Items are presented as exceptional in the financial statements where they are significant items of financial performance that the Directors consider should be separately disclosed to assist in the understanding of the trading and financial results of the Group. Such items include business disposals, restructuring and optimisation, acquisition related and integration costs, and impairments.

Continuing operations	**2017 £m**	2016 £m
Acquisition related costs	**(7)**	(9)
Gains on acquisitions and disposals	**2**	23
Acquisitions and disposals	**(5)**	14
Integration costs	**(17)**	(12)
Other restructuring costs	**(26)**	(50)
Impairment of assets	**(5)**	(21)
Other	**(9)**	(9)
Total pre-tax exceptional items (recognised in operating profit)	**(62)**	(78)
Income tax credit on exceptional items	**13**	27
Exceptional finance cost	**-**	(1)
Total post-tax exceptional items	**(49)**	(52)

2016/17

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

Integration costs relate to integration projects underway to ensure appropriate health and safety standards are operating and to achieve cost synergies from the acquisitions made in the current year and previous financial year. They include directly attributable internal salary costs.

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

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

The income tax credit on exceptional items in the year ended 30 April 2017 includes an increase in tax provisions arising from the acquisition of a business (£1m), and the tax effect at the local applicable tax rate of exceptional items that are subject to tax. The exceptional items in the year give rise to a net income tax effect, with the exception of non-deductible deal related advisory fees in relation to acquisitions and disposals.

2015/16

Acquisition costs consist of professional advisory, legal and consultancy fees and directly attributable internal salary costs relating to the review and execution of potential deals, and deals completed during the year including the acquisition of Duropack and Lantero.

Gains on acquisitions and disposals comprise the profit on sale of StePac of £9m, with the majority of the remainder relating to a £10m gain on the step acquisition of the Lantero business (where previously the Group held an associate interest).

Integration costs relate to integration projects underway to achieve cost synergies from the acquisitions made in the year, including Duropack and Lantero.

Of the £50m other restructuring costs in the year, £10m relates to the closure of the Wansbrough paper mill in the UK, announced in October 2015 after the completion of a consultation process, with the majority of the remainder relating to further reorganisation and restructuring in the UK (£10m), DCH and Northern Europe (£17m) and Western Europe (£7m).

Impairment of assets is primarily associated with impairment arising from the announced closure of the Wansbrough paper mill in the UK (£20m).

Other exceptional items principally relate to infrastructure optimisation and efficiency projects, site remediation costs and the continuing costs of UK centralisation projects.

The income tax credit on exceptional items in the year ended 30 April 2016 includes an amount received from the previous owners of an acquired business under the tax indemnity (£3m), the reversal of tax provisions arising from the acquisition of a business (£2m), and the tax effect at the local applicable tax rate of exceptional items that are subject to tax. The exceptional items in the period give rise to a net income tax effect, with the exception of gains or losses on certain disposals which are not subject to tax under local rules, and non-deductible deal related advisory fees in relation to acquisitions and disposals.

4. Employee benefits

	2017 £m	2016 £m
Employee benefit deficit at 1 May	**(188)**	(200)
Acquisitions	**-**	(9)
Curtailments	**-**	2
Expense recognised in operating profit	**(5)**	(6)
Employment benefit net finance expense (excluding Pension Protection Fund levy)	**(4)**	(5)
Employer contributions	**17**	17
Other payments and contributions	**7**	7
Actuarial (losses)/gains	**(1)**	11
Currency translation	**(8)**	(5)
Reclassification	**1**	-
Employee benefit deficit at 30 April	**(181)**	(188)
Deferred tax asset	**42**	43
Net employee benefit deficit at 30 April	**(139)**	(145)

The table above is the aggregate value of all Group employee benefit schemes including both overseas and UK schemes. The Group's principal funded, defined benefit pension scheme, the DS Smith Group Pension scheme, is in the UK and is now closed to future accrual.

The Group also operates various local post-retirement arrangements for overseas operations, pre-retirement benefits and long-service awards and a small UK unfunded scheme.

5. Finance income and costs

Continuing operations	2017 £m	2016 £m
Interest income from financial assets	**(1)**	(1)
Finance income	**(1)**	(1)
Interest on borrowings and overdrafts	**46**	38
Other	**5**	5
Finance costs	**51**	43

6. Income tax expense

Continuing operations	2017 £m	2016 £m
Current tax expense		
Current year	**(99)**	(84)
Adjustment in respect of prior years	**9**	6
	(90)	(78)
Deferred tax credit		
Origination and reversal of temporary differences	**18**	23
Reduction in tax rates	**(3)**	(4)
Adjustment in respect of prior years	**6**	(2)
	21	17
Total income tax expense before exceptional items	**(69)**	(61)
Current and deferred tax relating to exceptional items (note 3)	**13**	27
Total income tax expense in the income statement from continuing operations	**(56)**	(34)

The tax credit on amortisation was £16m (2015/16: £12m).

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

	2017 £m	2016 £m
Profit before income tax	**264**	201
Share of (profit)/loss of equity accounted investment, net of tax	**(3)**	1
Profit before tax and share of (profit)/loss of equity accounted investment, net of tax	**261**	202
Income tax at the domestic corporation tax rate of 19.92% (2015/16: 20.00%)	**(52)**	(40)
Effect of additional taxes and tax rates in overseas jurisdictions	**(30)**	(15)
Additional items deductible for tax purposes	**18**	16
Non-deductible expenses	**(5)**	(12)
Non-taxable gains	**1**	3
Release of prior year provisions in relation to acquired businesses	**4**	11
Reimbursement under tax indemnity in relation to acquired businesses	**-**	3
Adjustment in respect of prior years	**11**	4
Effect of change in corporation tax rates	**(3)**	(4)
Income tax expense – total Group	**(56)**	(34)

7. Earnings per share

Basic earnings per share from continuing operations

	2017	2016
Profit from continuing operations attributable to ordinary shareholders	**£209m**	£167m
Weighted average number of ordinary shares	**945m**	943m
Basic earnings per share	**22.1p**	17.7p

Diluted earnings per share from continuing operations

	2017	2016
Profit from continuing operations attributable to ordinary shareholders	**£209m**	£167m
Weighted average number of ordinary shares	**945m**	943m
Potentially dilutive shares issuable under share-based payment arrangements	**6m**	11m
Weighted average number of ordinary shares (diluted)	**951m**	954m
Diluted earnings per share	**22.0p**	17.5p

The number of shares excludes the weighted average number of the Company's own shares held as treasury shares during the year of 2m (2015/16: 1m).

Adjusted earnings per share from continuing operations

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

	2017			2016		
	£m	**Basic – pence per share**	**Diluted – pence per share**	£m	Basic – pence per share	Diluted – pence per share
Basic earnings	**209**	**22.1p**	**22.0p**	167	17.7p	17.5p
Add back amortisation, after tax	**49**	**5.2p**	**5.1p**	39	4.2p	4.1p
Add back exceptional items, after tax	**49**	**5.2p**	**5.2p**	52	5.5p	5.4p
Adjusted earnings	**307**	**32.5p**	**32.3p**	258	27.4p	27.0p

8. Dividends proposed and paid

	2017		2016	
	Pence per share	**£m**	Pence per share	£m
2015/16 interim dividend – paid	**-**	**-**	4.0p	38
2015/16 final dividend – paid	**-**	**-**	8.8p	83
2016/17 interim dividend – paid	**4.6**	**44**	–	–
2016/17 final dividend – proposed	**10.6**	**100**	–	–

	2017 £m	2016 £m
Paid during the year	**121**	108

The interim dividend in respect of 2016/17 of 4.6 pence per share (£44m) was paid after the year end on 2 May 2017. The 2015/16 interim and final dividends were paid during the 2016/17 financial year. A final dividend in respect of 2016/17 of 10.6 pence per share (£100m) has been proposed by the Directors after the reporting date.

9. Cash generated from operations

Continuing operations	2017 £m	2016 £m
Profit for the year	**208**	167
Adjustments for:		
Pre-tax integration costs and other exceptional items	**57**	92
Amortisation of intangible assets and acquisitions and disposals	**70**	37
Cash outflow for exceptional items	**(66)**	(77)
Depreciation	**148**	127
Profit on sale of non-current assets[1]	**(14)**	(12)
Share of (profit)/loss of equity accounted investment, net of tax	**(3)**	1
Employment benefit net finance expense	**5**	6
Share-based payment expense	**10**	6
Finance income	**(1)**	(1)
Finance costs	**51**	43
Other non-cash items	**9**	2
Income tax expense	**56**	34
Change in provisions	**(6)**	(18)
Change in employee benefits	**(19)**	(19)
Cash generation before working capital movement	**505**	388
Changes in:		
Inventories	**(49)**	(25)
Trade and other receivables	**10**	33
Trade and other payables	**163**	48
Working capital movement	**124**	56
Cash generated from continuing operations	**629**	444

1 Includes gains on the sale of surplus property assets of £7m (2015/16: £10m).

10. Net debt

	2017 £m	2016 £m
Cash and cash equivalents	**139**	134
Overdrafts	**(16)**	(19)
Net cash and cash equivalents	**123**	115
Other deposits	**40**	25
Interest-bearing loans and borrowings due – after one year	**(1,133)**	(1,058)
Interest-bearing loans and borrowings due – within one year	**(115)**	(180)
Finance leases	**(15)**	(20)
Derivative financial instruments		
– assets	**14**	25
– liabilities	**(6)**	(6)
	(1,215)	(1,214)
Net debt	**(1,092)**	(1,099)

Derivative financial instruments above relate to cross-currency interest rate swaps used to hedge the Group's borrowings and the ratio of net debt to EBITDA. The difference between the amounts shown above and the total derivative financial instrument assets and liabilities in the Consolidated Statement of Financial Position relates to derivative financial instruments that hedge forecast foreign currency transactions and the Group's purchases of energy.

Other deposits are included as these short-term receivables have the characteristics of net debt.

11. Reconciliation of net cash flow to movement in net debt

	2017 £m	2016 £m
Continuing operations		
Operating profit before amortisation and exceptional items	**443**	379
Depreciation	**148**	127
Adjusted EBITDA	**591**	506
Working capital movement	**124**	56
Change in provisions	**(6)**	(18)
Change in employee benefits	**(19)**	(19)
Other	**5**	(5)
Cash generated from operations before exceptional cash items	**695**	520
Capital expenditure	**(244)**	(229)
Proceeds from sale of property, plant and equipment and other investments	**18**	28
Tax paid	**(61)**	(49)
Net interest paid	**(45)**	(32)
Free cash flow	**363**	238
Cash outflow for exceptional items	**(66)**	(77)
Dividends paid	**(121)**	(108)
Acquisition of subsidiary businesses, net of cash and cash equivalents	**(71)**	(313)
Disposal of subsidiary and equity accounted businesses, net of cash and cash equivalents	**-**	21
Net cash flow	**105**	(239)
Proceeds from issue of share capital	**13**	1
Loans and borrowings acquired	**(14)**	(120)
Net movement on debt	**104**	(358)
Foreign exchange, fair value and other non-cash movements	**(97)**	(90)
Net debt movement – continuing operations	**7**	(448)
Opening net debt	**(1,099)**	(651)
Closing net debt	**(1,092)**	(1,099)

12. Acquisitions and disposals

(a) 2016/17 acquisitions and disposals

In the year ended 30 April 2017, the Group made various business acquisitions, which are not considered material to the Group individually or in aggregate.

These comprise the acquisition of two businesses specialising in point of sale and display product and services for in-store marketing (Creo in the UK, and Deku-Pack in Denmark), Parish (a US manufacturer and supplier of bag-in-box systems), Gopaca (a corrugated producer in Portugal) and P&I Display (a specialist corrugated display business in Portugal) for a total of £71m (net of cash and cash equivalents). Loans and borrowings acquired from these transactions were £14m.

(b) 2015/16 acquisitions and disposals

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

On 31 July 2015, the Group acquired the corrugated activities of Grupo Lantero, including several operations in which DS Smith previously held an equity accounted minority. The acquisition was effected by the purchase of equity, and the total consideration, including the assumption of debt, was €190m.

In addition to the acquisitions detailed above, in the year ended 30 April 2016, the Group also made various other business acquisitions and disposals, which are not considered material to the Group individually or in aggregate. These include the disposal of StePac for US$31m, the acquisition of the Greek corrugated packaging business of Cukurova Group with a simultaneous sale of the Group's minority shareholding in Cukurova Group's Turkish corrugated paper and packaging entities to the Cukurova Group, the acquisition of the Milas packaging business of DasaMilas Ambalaj, and the acquisition of a specialist high-quality packaging producer, TRM Packaging, in the UK.

For various business combinations completed in the year ended 30 April 2016, certain fair values assigned to the net assets at the dates of acquisition were provisional and, in accordance with IFRS 3 *Business Combinations*, the Group has adjusted the fair values attributable to these acquisitions during the year ended 30 April 2017, resulting in a net increase in goodwill of £3m.

(c) Acquisition related costs

The Group incurred acquisition related costs of £7m (2015/16: £9m). In 2016/17 these primarily related to the acquisition of Creo, Deku-Pack, Gopaca, P&I Display and Parish, as well as other deal costs relating to reviewing potential acquisitions. These costs have been included in administrative expenses in the Consolidated Income Statement within exceptional items.

13. Subsequent events

(a) Acquisition of Indevco Management Resources Inc.
On 28 June 2017, the Group entered into a conditional agreement to acquire an 80% interest in Indevco Management Resources Inc. (IMRI), the owner of Interstate Resources Inc. (Interstate) for $920m plus acquired cash and debt of $226m. Interstate is an integrated packaging and paper producer based on the East Coast of the USA.

The acquisition will be funded by the issue of $300m of shares in the Company, a placing on 29 June 2017 of shares in the Company with estimated proceeds of £280m, existing debt facilities, and new debt facilities of £400m agreed by the Company on 28 June 2017.

The acquisition is expected to complete by September 2017; completion is subject to certain conditions including:

- approval by the Company's shareholders; and
- waiting periods under applicable US competition laws having expired.

An initial accounting and fair value exercise will be conducted shortly after completion.

The following table summarises the estimated financial position of IMRI at 31 December 2016 and its profit for the year then ended:

	Carrying values at 31 December 2016 £m
Non-current assets	**324**
Current assets	**111**
Non-current liabilities	**(241)**
Current liabilities	**(44)**
Total identifiable net assets acquired	**150**
	Results for year ended 31 December 2016 £m
Revenue	**456**
Operating costs	**(410)**
Operating profit	**46**
Net finance costs	**(9)**
Profit before tax	**37**
Income tax expense	**(10)**
Profit after tax	**27**

(b) Other subsequent events
On 31 May 2017, the Group purchased DPF Groupe, a specialist in multi-material packaging solutions and a corrugated producer in France. The acquisition of DPF Groupe is not material to the Group.

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

14. Non-GAAP performance measures

The Group presents reported and adjusted financial information in order to provide shareholders with additional information to further understand the Group's operational performance and financial position.

Total reported financial information represents the Group's overall performance and financial position, but can contain significant unusual or non-operational items or involve calculations that may obscure understanding of the key trends and position. Certain key non-GAAP measures are used internally to evaluate business performance, as a key constituent of the Group's planning process, as well as comprising targets against which compensation is determined.

Certain non-GAAP performance measures can be, and are, reconciled to information presented in the financial statements. Other financial key performance measures are calculated using information which is not presented in the financial statements and is based on, for example, average twelve month balances or average exchange rates.

The key non-GAAP performance measures used by the Group and their calculation methods are as follows:

Adjusted operating profit
Adjusted operating profit is operating profit excluding amortisation and exceptional items. Exceptional items include business disposal gains and losses, restructuring and optimisation, acquisition related and integration costs and impairments. A reconciliation between reported and adjusted operating profit is set out on the face of the Consolidated Income Statement.

Operating profit before exceptional items
Operating profit before exceptional items is operating profit before exceptional items.

A reconciliation between operating profit and operating profit before exceptional items is is set out on the face of the Consolidated Income Statement.

Other similar profit measures before exceptional items are quoted, such as profit before income tax and exceptional items, and are directly derived from the Consolidated Income Statement, from which they can be directly reconciled.

Return on sales
Return on sales is adjusted operating profit measured as a percentage of revenue.

Adjusted earnings per share
Adjusted earnings per share is basic earnings per share adjusted to exclude the post-tax effects of exceptional items and amortisation. A reconciliation between basic and adjusted earnings per share is provided in note 7.

Return on average capital employed (ROACE)
ROACE is adjusted operating profit as a percentage of the average monthly capital employed over the previous 12 month period. Capital employed is the sum of property, plant and equipment, goodwill and intangible assets, working capital, capital debtors/creditors, provisions and assets/liabilities held for sale.

	Capital employed at 30 April 2017 £m	Currency and inter-month movements £m	Average capital employed for the year ended 30 April 2017 £m
Capital employed	2,796	182	**2,978**

EBITDA
Earnings before interest, tax, depreciation and amortisation (EBITDA) is adjusted operating profit excluding depreciation. A reconciliation from adjusted operating profit to EBITDA is provided in note 11.

Net debt/EBITDA
Net debt/EBITDA is the ratio of net debt to EBITDA, calculated in accordance with the Group's banking covenant requirements. In calculating the ratio, net debt is stated at average rates as opposed to closing rates, and EBITDA is adjusted operating profit before depreciation from the previous 12 month period adjusted for the full year effect of acquisitions and disposals in the period.

	Reported basis £m	Currency and acquisition effects £m	Adjusted basis £m
At 30 April 2017			
Net debt	1,092	-	**1,092**
Year ended 30 April 2017			
EBITDA	591	6	**597**

Cash conversion
Cash conversion is free cash flow before tax, net interest, growth capex, pension payments and exceptional cash flows as a percentage of adjusted operating profit. Free cash flow is set out in note 11.

Average working capital to revenue
Average working capital to revenue measures the level of investment the Group makes in working capital to conduct its operations. It is measured by comparing the monthly working capital balances for the previous 12 months as a percentage of revenue over the same period. Working capital is the sum of inventories, trade and other receivables, and trade and other payables.

Constant currency
The Group presents commentary on both reported and constant currency revenue and adjusted operating profit comparatives in order to explain the impact of exchange rates on the Group's key income statement captions. Constant currency comparatives recalculate the prior year revenue and adjusted operating profit as if they had been generated at the current year exchange rates. The table below shows the calculation:

Year ended 30 April 2016	Reported basis £m	Currency effects £m	Constant currency basis £m
Revenue	4,066	432	**4,498**
Adjusted operating profit	379	43	**422**