ANNUAL REPORT
& ACCOUNTS 2016

Creating sustainable value

The Power of Less®

Introduction

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

Strategic Report

1 Chairman's statement
2 2016 at a glance
4 Expanding geographically
6 Organically growing our business
8 Chief Executive's Q&A
13 How we operate
14 Our market environment
16 How we create sustainable value
19 Strategy and key performance indicators
22 Chief Executive's review
25 Operating review
26 Financial review
31 Employees
35 Sustainability
40 Principal risks
41 Viability statement

Governance

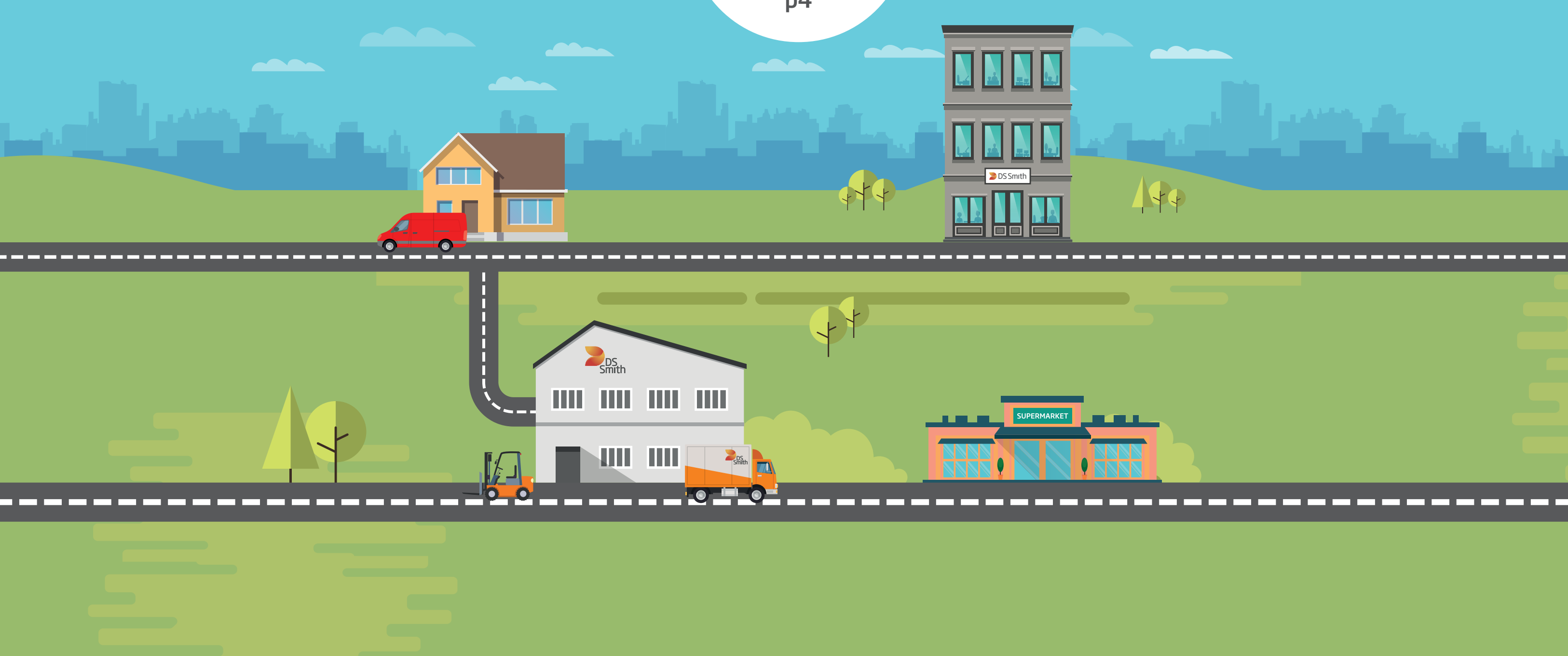
48 Introduction to Corporate Governance
51 2015/16 Board calendar
52 Leadership
60 Effectiveness
63 Relations with stakeholders
64 Risk governance
66 Directors' report
68 Introduction to the committees
70 Audit Committee report
74 Nomination Committee report
77 Remuneration Committee report
97 Directors' responsibilities statement

Financial Statements

98 Independent Auditor's report
102 Consolidated financial statements and notes
149 Parent Company financial statements and notes
157 Five-year financial summary
158 Shareholder Information

Creating sustainable value by organically growing our business p6

Creating sustainable value by expanding geographically p4



Chairman's statement

Continued delivery of growth and strong results.

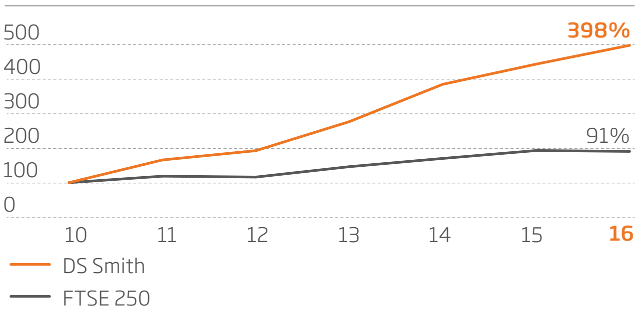
2015/16 has been another year of momentum, delivery against our targets and growth by DS Smith. We have grown the business organically and through further acquisitions, allowing us to offer pan-European solutions to even more customers.

In the past financial year, DS Smith has taken further actions to expand and develop its European network, with five acquisitions completed in the period, c. 4,000 new employees joining the Group, and our position in 13 countries enhanced. All acquisitions are rigorously assessed against our financial criteria in order that they will deliver value in due course. While completing these transactions is a good first step, I am particularly pleased to see the way that the businesses have been integrated quickly into DS Smith, and the work undertaken to communicate values, learn from best practice and ensure that our customers experience the benefit of our expanded pan-European network.

I am also excited by the investment we are making in growth areas such as display packaging and e-commerce. We have a new site in Germany, for example, that will be operational in the autumn of 2016, specialising in display packaging to address our customer demand there. The benefit of investment in our plastics sites made in the past two years is now coming through in our results.

When we invest, financial discipline is paramount, and I am pleased to report that we have once again achieved all our financial targets, with our return on average capital employed exceeding our range for the first time, at 15.4 per cent. This is a tremendous achievement and delivered through tenacious focus on both profit and capital discipline.

Total shareholder return from May 2010



See p 48 onwards for more information on how our performance is underpinned by Governance

DIVIDEND

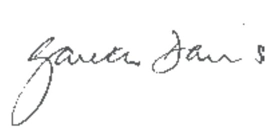
For the year 2015/16, the Board recommends a final dividend of 8.8 pence, which together with the interim dividend of 4.0 pence gives a total dividend for the year of 12.8 pence per share (2014/15: 11.4 pence per share). This represents an increase of 12 per cent on the prior year and cover of 2.1 times in relation to earnings per share (before amortisation and exceptional items) (adjusted EPS), in line with our policy.

DELIVERING SUSTAINABLE VALUE

Over the past six years, under current leadership, the business has consistently delivered growth and returns. Total shareholder return, a measure combining growth in the share price with the benefit of dividends, has grown 398 per cent, considerably out-stripping the FTSE 250 at 91 per cent over the same period. Adjusted EPS has grown at an average rate of 30 per cent each year, with the dividend per share growing at an average of 26 per cent over the same period.

OUTLOOK

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



Gareth Davis
Chairman

Strategic Report

2016 at a glance

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

What we do

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

- 6.7 billion m² corrugated board
- 686 million plastic taps and fitments
- 2.4 million tonnes of paper for packaging
- 5.3 million tonnes of used paper recycled
- 24 Impact and PackRight Centres
- 196 corrugated manufacturing sites

See p 25 for our Operating review

How we performed in 2015/16

Continued outperformance of the market

Substantial investment to further strengthen the business

Continued delivery against our medium-term targets

Further geographic expansion

Return on sales[1]
+50 bps

Return on capital[1]
+70 bps

Volume growth
+3.1%

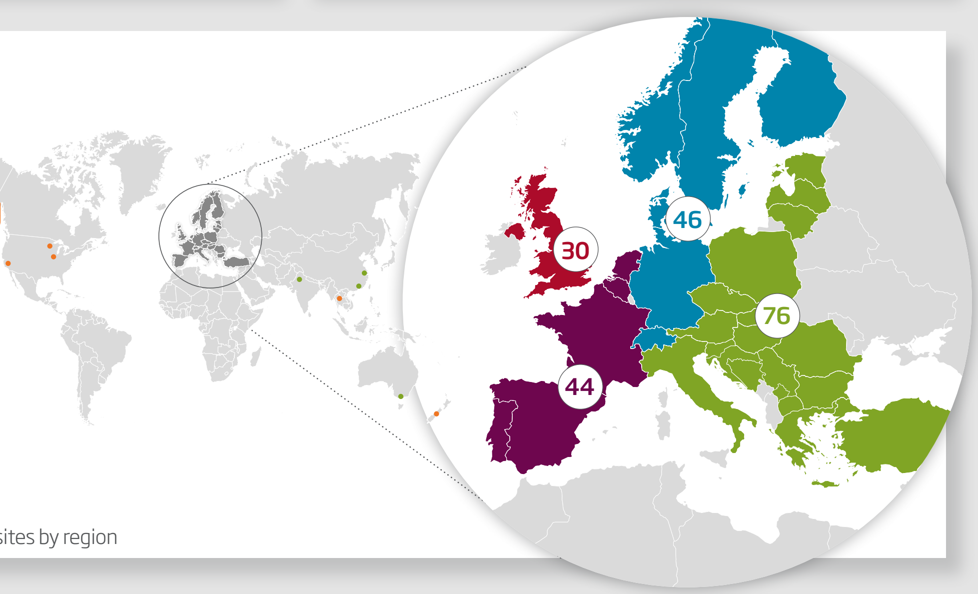
EPS growth[1]
+16%

1 On a constant currency basis.

See p 19 for our performance by KPI

Where we operate

DS Smith operates in 30 countries in Europe and a further six worldwide. Our corrugated packaging business is grouped into four regions: UK, Western Europe, DCH and Northern Europe, and Central Europe and Italy.



Worldwide locations
- Plastics
- Packaging
- (X) Number of corrugated manufacturing sites by region

Our values

We have a clear set of values that we live by.

Be caring – we take pride in what we do and 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.

See p 10 to read what these mean in practice

Our people

A key strategic goal is to realise the potential of our people.

- c. 26,000 employees
- 28 languages
- 1,456 trained on "Engaging Managers" programme in 2015/16
- Roll-out of "OWN IT!" to all new sites

See p 31 for more about our people

Our strategic priorities

To delight our customers: by delivering outstanding results to them as we increase their sales, reduce their costs and manage their risk.

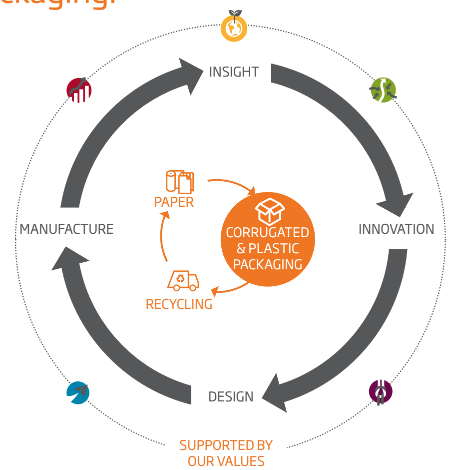
To realise the potential of our people: by creating a safe environment where every colleague can use and develop their skills and ideas.

To double our size and profitability: by driving operational excellence, growing our market share and expanding into new markets.

To lead the way in sustainability: by championing sustainable supply cycle solutions and using materials responsibly through our production processes and beyond.

Our business model

We create value by bringing together skills centred on the design and manufacture of packaging.



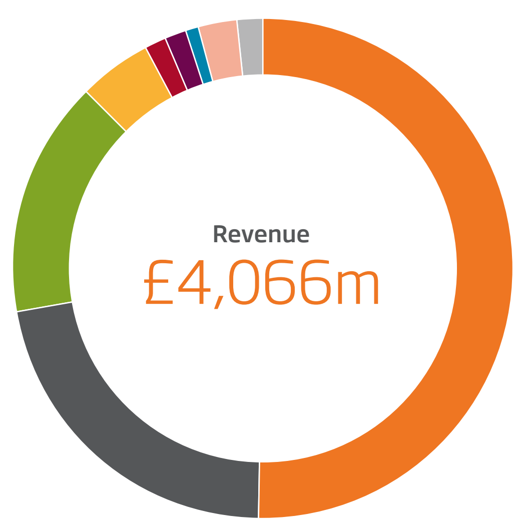
Balance of our business[1] (million tonnes)

Corrugated packaging is our primary output:

1 Based on a full year contribution from all businesses owned on 30 April 2016.

See p 16 for our business model

How our revenue is spent



- Cost of sales £2,050m
- Labour costs £895m
- Other costs £616m
- Depreciation, amortisation and impairment £199m
- Restructuring and investment £57m
- Financing £48m
- Tax £34m
- Dividends £108m
- Value retained by shareholders £59m

Creating sustainable value, driving returns

Expanding geographically

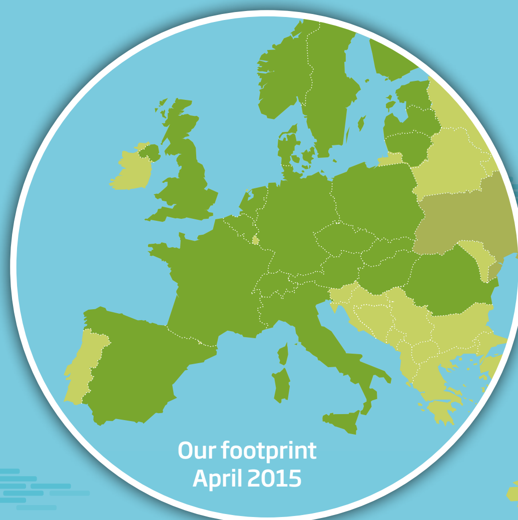
DS Smith has significantly grown its corrugated business and market share across Europe through the successful acquisition and integration of high quality operations.

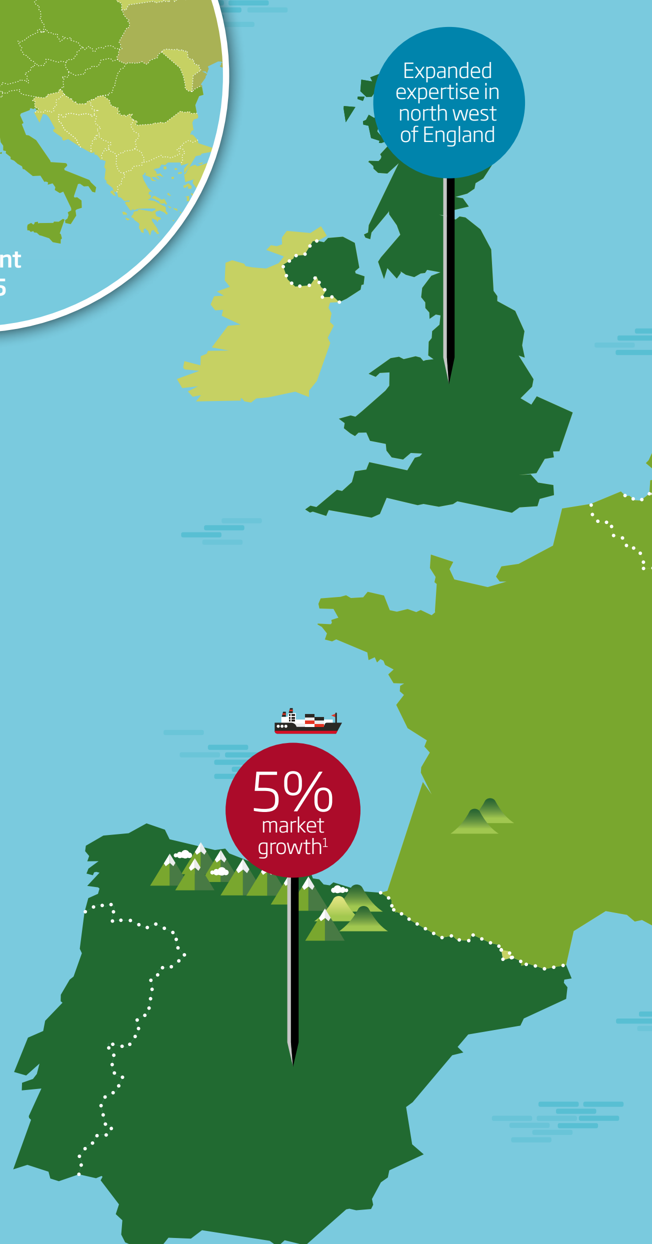
DEVELOPMENTS IN THE LAST YEAR

Over the financial year 2015/16 DS Smith has made five acquisitions, in south eastern Europe, Iberia, Greece, Turkey and the UK. All acquisitions are assessed according to stringent financial criteria, with the most important being that ROACE should move into the Group target range of 12-15 per cent in the medium-term.

£433 million

expenditure on acquisitions in 2015/16





Our footprint April 2016

- New/enhanced DS Smith packaging operations
- Existing DS Smith packaging operations
- Associate company operations
- No current presence

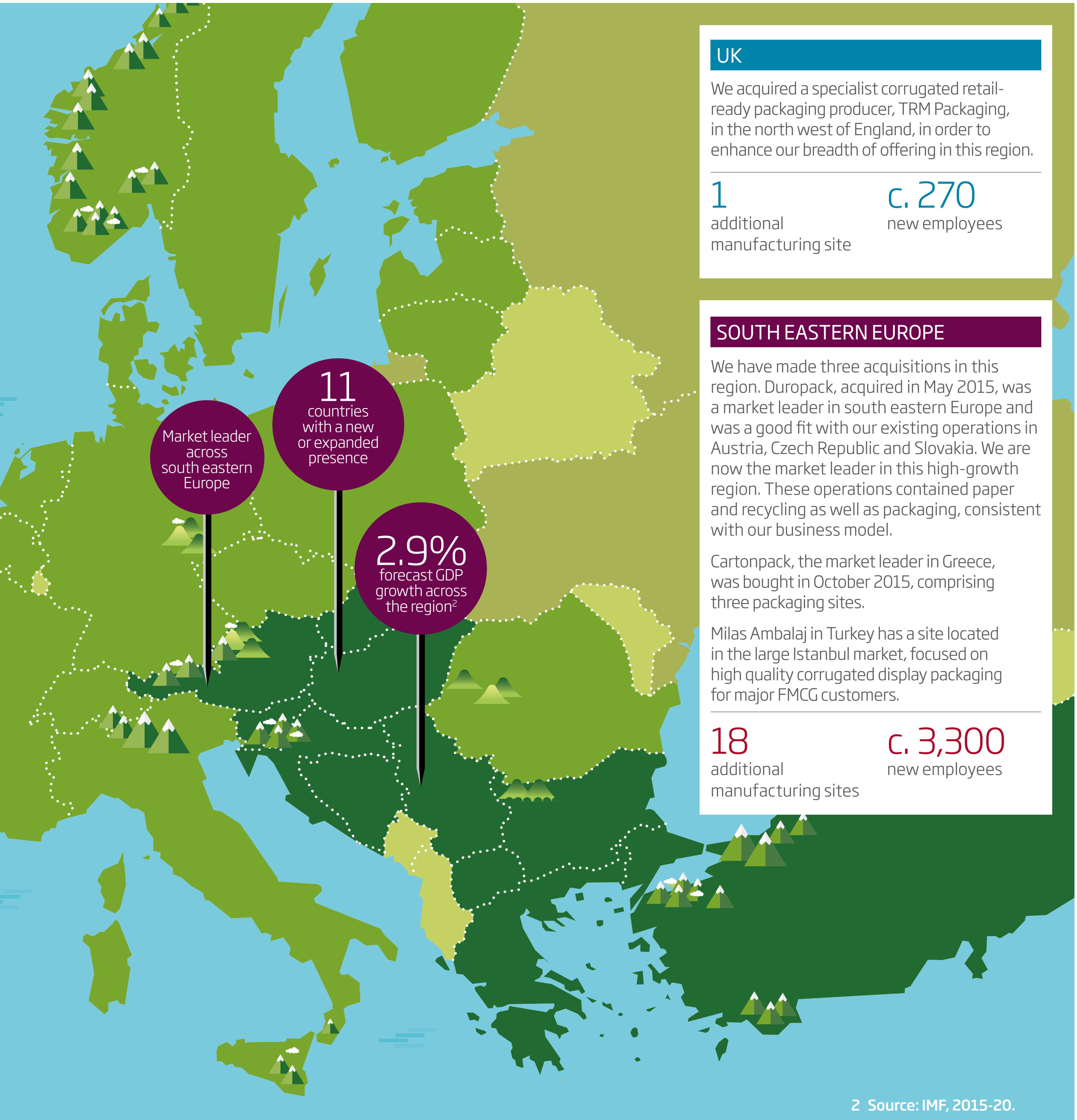
IBERIA

The acquisition of Lantero with seven corrugated manufacturing sites in July 2015 built on our operations in the region following the acquisition of Andopack in 2014. Spain is the fourth largest market for corrugated packaging in Europe and is growing well.

The two businesses are now integrated and were a natural fit, with Andopack traditionally focused on agriculture and Lantero being focused on FMCG customers.

7 additional corrugated manufacturing sites	c. 600 new employees

1 Growth in corrugated market Spain, 2013-14 (FEFCO).



UK

We acquired a specialist corrugated retail-ready packaging producer, TRM Packaging, in the north west of England, in order to enhance our breadth of offering in this region.

1 additional manufacturing site

c. 270 new employees

SOUTH EASTERN EUROPE

We have made three acquisitions in this region. Duropack, acquired in May 2015, was a market leader in south eastern Europe and was a good fit with our existing operations in Austria, Czech Republic and Slovakia. We are now the market leader in this high-growth region. These operations contained paper and recycling as well as packaging, consistent with our business model.

Cartonpack, the market leader in Greece, was bought in October 2015, comprising three packaging sites.

Milas Ambalaj in Turkey has a site located in the large Istanbul market, focused on high quality corrugated display packaging for major FMCG customers.

18 additional manufacturing sites

c. 3,300 new employees

2 Source: IMF, 2015-20.

Creating sustainable value, driving returns

Organically growing our business

DS Smith is growing organically through addressing customer requirements for packaging that delivers more sales, reduced costs and managed risk.

ONLINE SHOPPING

Online shopping is a fast growing part of the retail market and a significant growth opportunity for DS Smith. It provides a high growth area for packaging due to the requirement for packaging that suitably protects the product through the supply chain and can be re-used for returns, and at the same time conveys the brand experience of the product, increasing customer acceptance and reducing product returns.

10%+ growth

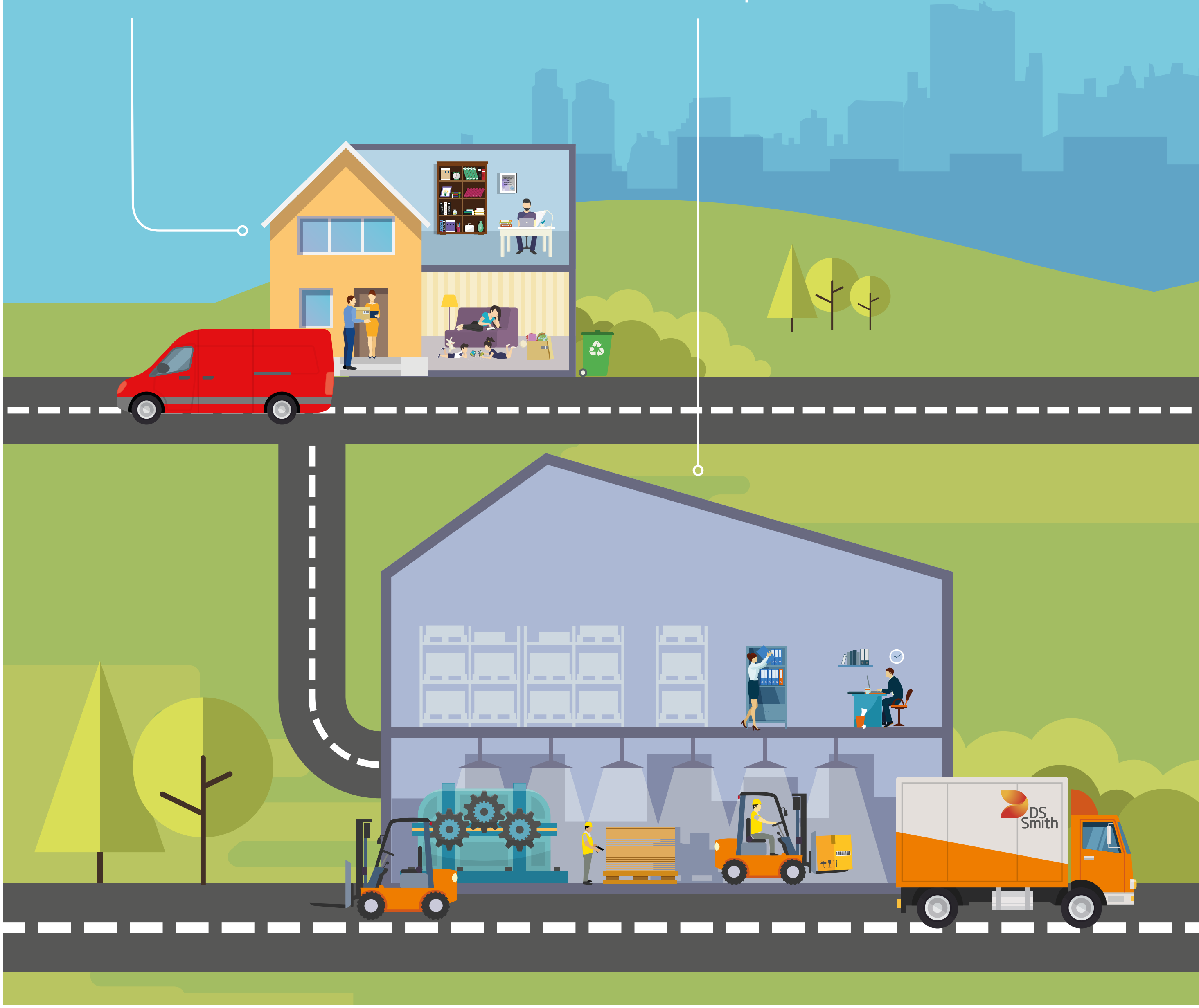
forecast in e-commerce retail market UK

INCREASING REQUIREMENT FOR PAN-EUROPEAN SOLUTIONS

Our customers want only a small number of packaging suppliers and expect consistent high standards of quality and innovation and the ability to supply throughout Europe. We have seen excellent growth in our pan-European customers because we are able to fulfil their requirements, wherever they are.

30 countries

across Europe



INNOVATION

We now have seven Impact Centres and 17 PackRight Centres across Europe, with plans to open another five Impact Centres and 24 PackRight Centres over the course of 2016/17. These form a network that allows insight, innovation and design to be shared with our customers across our whole pan-European network. In the last year we have run 200 workshops, with 82 per cent involving FMCG customers.

c. 2,000 visitors

to a DS Smith IC in 2015/16

DISPLAY PACKAGING

Display packaging helps our customers sell more by providing flexible free-standing displays for products on promotion. The same packaging unit can be designed to be used in a wide range of retail formats, from large supermarkets, discounters to smaller store formats.

Major new display plant

in Germany opening November 2016

Chief Executive's Q&A

Miles Roberts
Group Chief Executive

Strategic Report

Creating sustainable value

Q THE TITLE OF THIS ANNUAL REPORT IS "CREATING SUSTAINABLE VALUE". WHAT DOES THAT MEAN TO YOU?

A Our focus is on creating sustainable value in three key areas: **our business**, **our people** and **our environment**.

Our business creates sustainable value for our customers through responsible recycling, paper and packaging solutions. Our focus is on providing the right packaging for our customers, whilst simultaneously adding value through increased brand impact and ensuring functionality to reflect changing consumer lifestyles and retail trends. We deliver this through programmes such as Performance Packaging, our Impact Centres and our More from Less consultancy.

We are dedicated to creating sustainable value for **our people**. We are committed to the highest standards of safety, and are keen to ensure DS Smith is an engaging employer in which our people can thrive and fulfil their potential. Across our business we play an active role in our communities, enabling our people to support the causes that matter to them.

Finally, a commitment to **our environment** is a key part of how we are working to create a sustainable business model. Throughout our operations and supply chains, from design to production and from supply to recycling, we are reducing energy consumption, minimising waste and embedding the highest ethical standards to ensure the most positive impact on our environment.

Q HOW DO YOU MEASURE PROGRESS?

A We have a range of KPIs covering both financial and non-financial measures, which we report on annually. I am proud of the record of value creation at DS Smith over the past six years; not only has our revenue almost doubled, but our return on sales and return on average capital have improved substantially too.

At the same time, we have improved health and safety significantly, and are proud of our record of reducing the accident rate at businesses that we acquire.

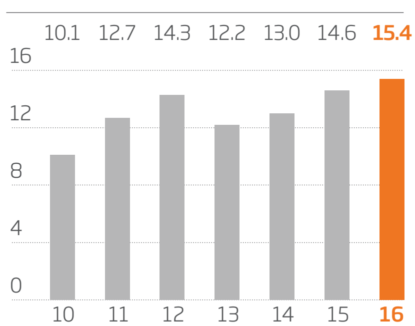
Q HOW IS DS SMITH ACHIEVING GROWTH WHEN THE ECONOMIC SITUATION IS TOUGH AND THE MARKET MATURE?

A We are building the business through acquisitions, by growing our existing operations organically, and moving up the value chain by developing and rolling out our innovation offering and supply chain services.

We have made good progress over the past year. In the 2015/16 financial year we have made five acquisitions ranging from large, multinational businesses such as Duropack in south eastern Europe and Lantero in Iberia to smaller businesses such as Milas Ambalaj in Turkey. This has further expanded our geographic reach to cover 30 countries across Europe now.

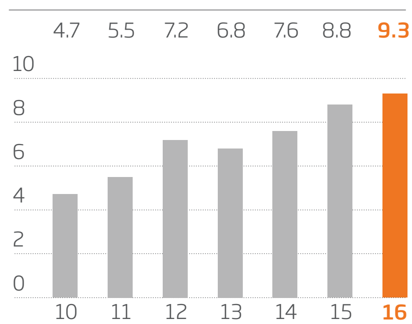
Return on average capital employed (%)[1]

15.4%



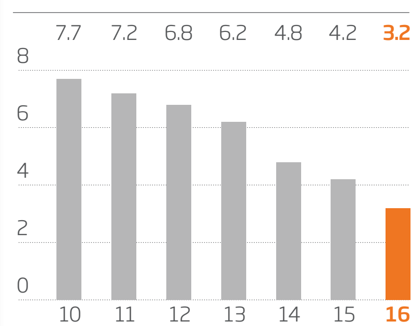
Return on sales (%)[1]

9.3%



Accident frequency rate

3.2



1 Adjusted before amortisation and exceptionals, as reported in given year.

Chief Executive's Q&A continued

"We seek to integrate the businesses we acquire as quickly as possible, because we believe that we are stronger together."

We have also seen excellent growth among our pan-European customers and have been investing further in our design and innovation network, which helps us get the most out of the innovation developed within DS Smith by sharing it across our international footprint.

In order to get the best from our expanding business, it is very important that all employees understand the corporate values that we work to. Our common values set the tone for how we behave as a business. They help us act in a co-operative, open manner and learn from each other. It also means that our customers enjoy the same quality of approach and standards, whichever part of the DS Smith Group they are working with.

In order to achieve our corporate goals, every employee has a part to play, so we have a programme to help all employees understand their contribution. This programme is called "OWN IT!" and is now in its sixth year. The great thing is that it is not just a one-way process. It is intended to help employees take responsibility for their business area and communicate ideas of how we can improve in all aspects of our business.

Q WHAT IS THE INTERNAL OPERATING STYLE OF DS SMITH – AND WHAT HAPPENS IN PRACTICE?

A Our operating style comes from our five core values – to be caring, challenging, trusted, responsive and tenacious.

Our values fit with the way that the business is run. We are a relatively decentralised business with many decisions taken at the regional business level. Therefore the value of trust is important, as is the value of being challenging. In a large business, it is essential that management teams around the business can have open conversations and constructively challenge each other on major decisions. We seek to demonstrate the values from the centre, for example through the way that employees who have joined through acquired businesses have risen to some of the most senior positions in the business. We also seek to support colleagues when things go wrong, for example with a Group-wide "Speak Up!" helpline.

There are many great examples of employees demonstrating these values, whether it is going the extra mile to fulfil a customer order, or working out a smart solution to their design problem, or the "Healthy Hearts" initiative that has been rolled out across UK sites to help employees get more active. The Alliance for YOUth initiative, of which DS Smith is a founding member, is a fantastic example of us coming together with other leading corporates in Europe, to help young people get the experience and skills they need to get their first job. There are many other examples of sites getting involved with their local communities – all on their own initiative. It is great to see and helps to make DS Smith what it is.

Our values

Be caring – we take pride in what we do and 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.

Q IF VALUES ARE IMPORTANT TO DS SMITH ACHIEVING ITS GOALS, HOW DO YOU COMMUNICATE THEM AS THE BUSINESS EXPANDS?

A We seek to integrate the businesses we acquire as quickly as possible, because we believe that we are stronger together. That means that we share best practice in all areas, whether on procurement, operations, innovation or sales.

Strategic Report

Designed for e-commerce

Internet-based business, The Modern Man, specialises in providing a range of male grooming products. As an online only business, it's really important that The Modern Man's brand values and ethos are transferred from the website through to the delivery process. Packaging plays a huge part in this; the solution provided by DS Smith combines design innovation with an understanding of the business' needs to produce packaging that meets the online shoppers' expectations.

A great deal of planning takes place before an acquisition, enabling us to hold an initial integration event within a few days of a business joining DS Smith. At that event, senior management from DS Smith will attend, along with our new colleagues from the acquired business. We provide the managers of the acquired business with a fast-track training on DS Smith policies and how to implement OWN IT!, among other things, to ensure that they have the tools necessary to deliver what is expected of their business from day one. In addition, it is a great way to ensure that the key individuals get to know each other as quickly as possible. I attended several of these integration conferences this year, and it has been truly inspiring to see the energy and commitment of all involved. It is an excellent platform for future growth.

Across the business more widely, we have invested in our external and employee communication programmes. Our intranet offers personalised news and regular updates from all elements of the business. For example, Head of Packaging, Stefano Rossi, sends a weekly message to all employees in that part of the business, updating on actions taken in the week and challenges ahead. We are active on social media such as LinkedIn, Facebook, Twitter and Instagram, in order to reach our colleagues and customers in whatever format works best for them.

"e-commerce is an opportunity for DS Smith."

Q WHAT IS DRIVING GROWTH IN THE EXISTING BUSINESS?

A Packaging is more relevant than ever, due to the increased complexity in the supply chain of everyday products and the fragmentation of the retail environment away from supermarkets to a broader range of shop types and delivery requirements. These changes are an opportunity for us.

For example, the growth of products bought online, then delivered to the home, or to a click-and-collect location, increases the requirement for packaging for products that may have otherwise been only displayed in store. We undertake detailed research about the requirements for packaging used in deliveries and have developed a range of packaging for home delivery that fulfils key criteria for product protection, ease of opening and ease of re-use for return. In addition to functional requirements, we also develop packaging which conveys the brand qualities, to ensure consistency of consumer experience.

Display packaging is another growth area, where we are investing substantially in a new site in Germany. This is a growing market as this packaging is particularly well suited to fast moving consumer goods (FMCG) products commonly sold on promotion, and used extensively in discount and convenience stores as well as traditional supermarkets.

Miles Roberts, Group Chief Executive, presents at the Duropack integration conference, June 2015

Chief Executive's Q&A continued

We are also seeking to leverage our packaging innovation with the continued roll-out of PackRight Centres (typically based at our manufacturing sites) and Impact Centres, which can be integrated or stand-alone facilities. These centres are where our design and insight experts work with customers, across a range of functions including supply chain, logistics, packaging design and marketing, to develop packaging that adds value across their supply chain. In the last year alone, we welcomed nearly 2,000 visitors to our Impact Centres, including customers from procurement, packaging technology, marketing and sales.

The investment we are making in these growth areas is possible because we are a cash generative business with a broad reach across Europe. This reach means that we are able to serve customers on a pan-European basis and also means that we benefit from spreading the costs of innovation across the Group, and can then leverage that knowledge for the benefit of our customers.

Q HOW DOES CORRUGATED PACKAGING ADD VALUE?

A When I joined DS Smith six years ago, I felt that some held the view that corrugated packaging was just a commodity item, and as such was of low value. I take a different view – there is a great deal of value that can be created by well-engineered packaging, across the whole supply chain. DS Smith works in partnership with customers to realise this, and deliver packaging products with high standards of service, quality and innovation. That is why we have been investing in developing the businesses along these lines, and why we have been rewarded with growing market share and margins.

> "Our packaging will help customers achieve more sales, lower costs and manage risk."

Our mantra is that our packaging will help customers achieve more sales, lower costs and reduce risk.

Packaging helps drives sales through the use of retail-ready packs, expertly designed with the input from our retail insights colleagues, to attract the attention of shoppers and facilitate a purchase.

There are also opportunities to engineer packaging in order to minimise the total cost of ownership throughout the supply cycle and we have expanded our capability here through our independent consultancy, More from Less, as well as the Impact and PackRight Centres. We have invested further behind technology to enable us to measure the strength of packaging while still in production, which means that we are able to sell our product according to its performance characteristics. This in turn means that we can optimise the type and amount of fibre used, while ensuring that customers receive the packaging they need.

Q THE GROUP HAS GROWN A GREAT DEAL IN THE LAST SIX YEARS – WHAT NEXT?

A DS Smith now has a leading market share in Europe. It is a market we understand well, it remains very fragmented and I believe that there remains significant scope to grow further in this region. We have seen the benefit of scale in our recent results, and I believe there is further to go. We will also continue to develop our own innovative solutions to customers' requirements. I am very excited by the work our colleagues in More from Less are doing, offering independent consultancy solutions to customers globally, to make their packaging and supply chains work more effectively for them.

Q WHAT ARE YOU MOST PLEASED ABOUT IN THE PAST YEAR?

A We have taken another large step forward with the five acquisitions completed in the year and I would like to take this opportunity to formally welcome the 4,000 new employees across 13 countries, who joined DS Smith this year. I have met many new colleagues and thank everyone in the organisation for playing their part in delivering our results this year.

Miles Roberts
Group Chief Executive

How we operate

Our vision, strategy, business model and values all fit together.

OUR VISION
To be the leading supplier of sustainable packaging solutions.

OUR STRATEGY
Our strategy is to delight our customers, realise the potential of our people, double our size and profitability, and lead the way in sustainability.

See p 19 for our strategy

OUR BUSINESS MODEL
We create value by bringing together a collection of skills, centred around the design and manufacture of packaging, and supported by our recycling and paper operations. We bring insight, innovation and design combined with manufacturing excellence and underpinned by our values.

See p 16 for our business model

OUR KEY PERFORMANCE INDICATORS
We measure our value creation, quantify our social impact and benchmark customer service, in order to measure how we are delivering against our strategy. Each metric has testing medium-term targets.

See p 20 for our key performance indicators

OUR PRINCIPAL RISKS
Our risk analysis considers the risks that might prevent us from delivering on our strategy. We then consider the scope of the opportunity associated with taking those risks, and how we mitigate them.

See p 40 for our principal risks

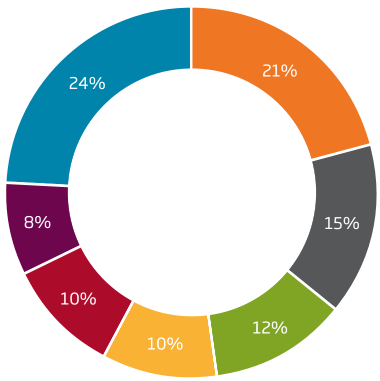
OUR VALUES
Our values underpin our behaviour and link together how we behave towards our customers, suppliers and each other.

See p 10 for our values

Our market environment

EUROPEAN CORRUGATED PACKAGING MARKET

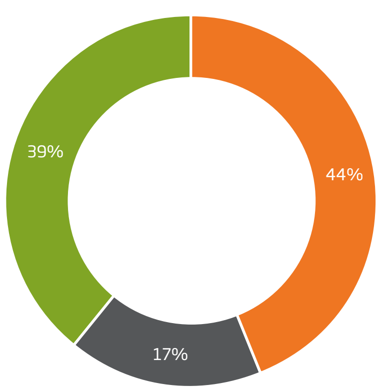
Market size (43.4 billion m²)



- Germany
- Italy
- France
- Spain
- UK
- Poland
- Other

Source: FEFCO 2014

European market split by customer type (%)



- FMCG and agriculture
- Other consumer
- Industrial

Source: FEFCO 2014

CORRUGATED PACKAGING

WHAT WE DO

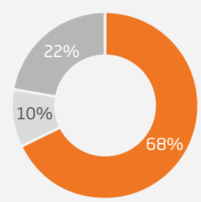
DS Smith designs and manufactures corrugated packaging. We focus particularly on packaging for fast-moving consumer goods such as grocery products. These need large volumes of high quality packaging to complement branded products and requirements change frequently. We also have leading positions supplying the rapidly growing e-commerce channel.

We make packaging for other consumer products such as pharmaceuticals and consumer electronics.

The remainder of our business is for industrial products such as automotive spare parts and bulk materials. Industrial packaging is often very high precision and involves complex designs.

OUR CUSTOMERS

DS Smith customer type



- FMCG and agriculture
- Other consumer
- Industrial

DS Smith has a greater share of FMCG and other consumer products, compared to the market.

OUR OPERATIONS

- Head office in Brussels.
- 30 countries across Europe plus consultancy services in Europe, Asia and the US.
- 196 manufacturing sites.
- 24 updated Impact and PackRight Centres.
- c. 3.6 million tonnes of corrugated packaging per annum.
- c. 21,000 employees.

MARKET FACTS AND CHARACTERISTICS

- Total European corrugated market size: 22.4 million tonnes/43.4 billion m².
- DS Smith is the leading corrugated box manufacturer in Europe with the broadest geographic reach.
- DS Smith has significant market positions in most of the major market regions in which we operate.
- Corrugated packaging is typically produced within c. 200 km of its destination due to the requirements for just-in-time delivery and the relative bulkiness of the product.
- The use of higher quality corrugated packaging is demonstrated by the steady increase in the use of three or more colours on corrugated packaging, across the market and our recent investment in pre-print digital capabilities.

PLASTIC PACKAGING

DS Smith has three parts to its plastics business:
Flexible packaging and dispensing: We design and manufacture plastic bags and taps and fitments for use in bag-in-box packaging for liquids. Our products are used for transportation of beverages, concentrates, chemicals and pharmaceuticals. Bag-and-tap solutions can be used for commercial containers, for dispensing beverages in restaurants or as a consumer product, such as a wine box. Our flexible packaging business operates globally.
Rigid packaging: We design and manufacture rigid plastic packaging products for the transportation of food and drinks, healthcare products and automotive products. This business operates in Europe and North America.
Foam products: We design and manufacture foam moulded, custom-designed components and packaging.

Our plastics division works with many of the world's leading companies in a diverse range of industries and markets.

Market	Flexible Packaging	Rigid Packaging	Foam Products
Beverage	✓	✓	
Pharma	✓	✓	✓
Auto	✓	✓	✓
Fresh Produce			✓
Construction		✓	✓
Retail	✓	✓	✓

- 22 manufacturing sites in Europe, New Zealand, Thailand and the US.
- Sales offices in Belgium, France, UK and the US.
- Head office in the US.
- c. 2,100 employees.

- Global market for specialist flexible packaging and dispensing c. €800 million.
- Plastic packaging is a specialist market with numerous niche products.

PAPER

DS Smith manufactures recycled paper, principally corrugated case material (CCM) or testliner, which is the paper used to make corrugated board. We also have the capability to manufacture other grades of paper, such as core board and solid board.

The majority of the CCM that we make is used by our own corrugated packaging business, with the remainder sold to other corrugated manufacturers.

All other grades are sold externally.

- Five large mills in Germany, Italy, Netherlands and the UK.
- Four small mills in Bulgaria, Croatia and France.
- Sales offices in Belgium, France, Italy and the UK.
- c. 2.4 million tonnes recycled CCM per annum.
- c. 0.3 million tonnes other paper per annum.
- c. 2,100 employees.

- Total European market for CCM: 26 million tonnes of which recycled comprises c. 22 million tonnes and the remainder is kraftliner (Source: CEPI 2014).
- Paper is readily transportable and is traded within Europe and between Europe and America.
- 29 per cent of CCM production in Europe is in Germany, followed by France, Slovenia and Italy (Source: CEPI 2014).

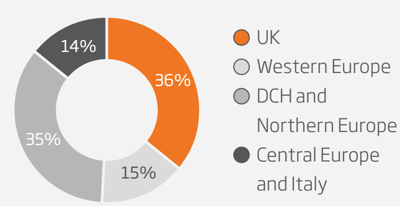
RECYCLING

We source fibre from used paper and old corrugated cases (OCC) from both retailers and traders. This fibre is principally used by our own paper mills to make recycled paper, with the remainder sold to other paper manufacturers in Europe and globally. We also offer a full recycling service to cover other materials such as glass and metals, which we then recycle in partnership with subcontractors.

In addition, we offer a range of value-added services, such as recycling and environmental audits and consultancy to help customers manage their materials most efficiently and optimise the value of their "waste". DS Smith is different to other recyclate collectors because we do not operate landfill sites – our sole focus is on recycling, with a target of helping our customers achieve zero waste.

We source our fibre from direct agreements with other corporates, principally retailers, and from third party traders. Approximately 60 per cent of the fibre we collect is used by DS Smith mills and the remainder is sold to paper markets across Europe.

DS Smith recycling volumes by region



- Operates in Croatia, France, Germany, Italy, Macedonia, the Netherlands, Poland, Serbia, Slovakia and the UK.
- 16 depots and 24 offices.
- c. 5.3 million tonnes fibre collected per annum.
- c. 800 employees.
- Number 1 market share for collection of OCC in the UK.

- Total European market for fibre collection 55 million tonnes (Source: CEPI 2014).
- UK market for fibre collection 8 million tonnes (Source: CEPI 2014).
- Fibre is traded within Europe and exported globally.

How we create sustainable value

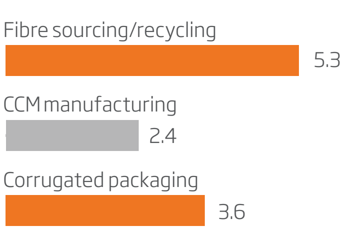
Our business model is focused on sustainable packaging.

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

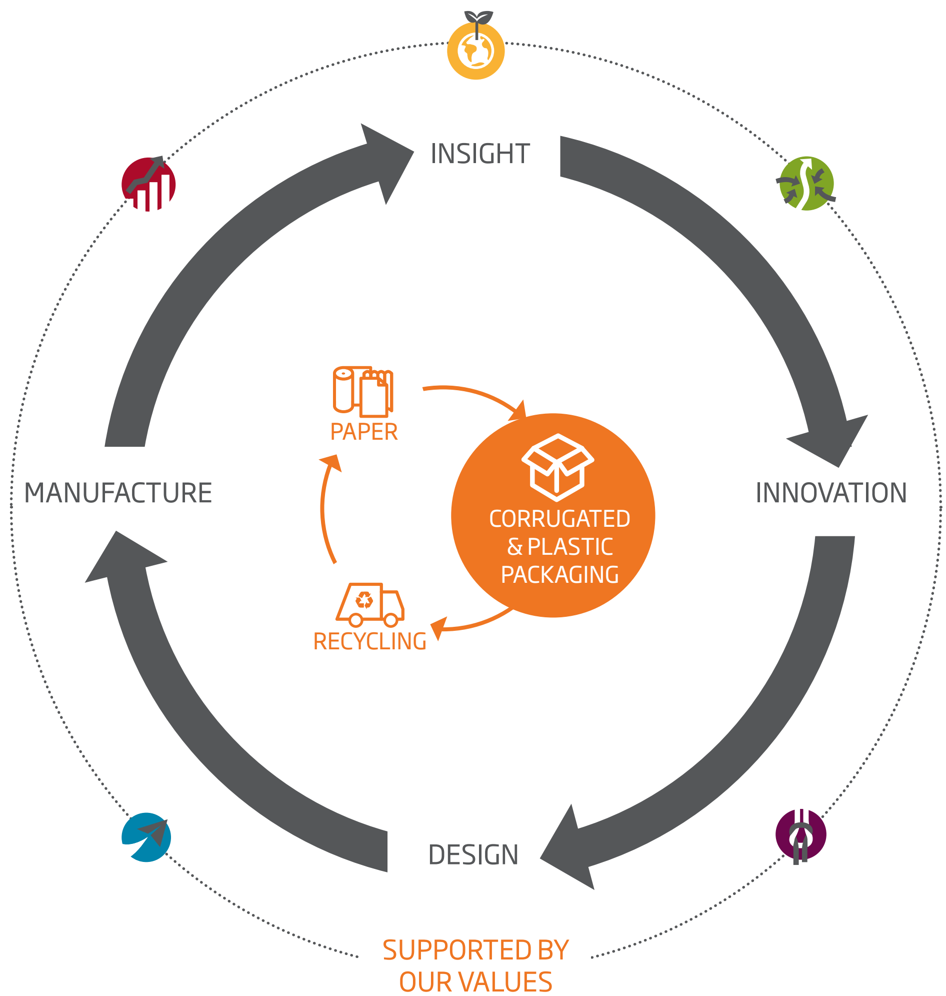
To support the production of high quality, cost effective corrugated packaging, we manufacture paper and have a recycling business to source fibre for this activity. We design and manufacture specialised lightweight paper grades to produce the highest performing packaging from the least amount of fibre.

We also design and manufacture certain types of speciality plastic packaging, in particular plastic bags and taps for bag-in-box packaging and rigid crates for bottled liquids.

Balance of our combined businesses[1] (million tonnes)
Corrugated packaging is our primary output:



OUR BUSINESS MODEL



Key

- Be caring
- Be challenging
- Be trusted
- Be responsive
- Be tenacious

1 Based on annualised contribution from all businesses owned on 30 April 2016.

CORRUGATED PACKAGING

We add value by helping our customers reduce their costs, sell more, and manage their risk through the design of their packaging. We are able to do this through our skills in innovation, design and manufacture, and our insight into consumer behaviour in the retail environment. We are able to invest in the skills necessary to deliver this due to our scale, and we offer our solutions on a pan-European basis.

In order to reduce costs for our customers, we analyse where packaging interacts with their activities, and consider how it might be optimised. For example, we optimise the box strength and size for stacking in a lorry, and optimise the design for speed on the packing line, culminating in how easily it can be opened and displayed once in store. We also look at how packaging works best once on a retailer's shelf, in order to drive sales and improve the handling costs for the retailer. Once a box is used, it then needs to be easily recycled, and the journey begins again.

We employ a range of skills in order to fulfil our customers' expectations. We start with analysing what the customer needs from the packaging in terms of physical performance across the supply chain, and we design suitable packaging based on that specification. We have developed these performance packaging innovations to fundamentally change how packaging is sold in Europe. Our paper business works in close collaboration with our corrugated packaging business to develop high performance paper that best suits the needs of the packaging designers and the manufacturing process. We also work with our customers and supply our unique insight consulting services on how packaging can maximise sales by optimising availability within store, through brand visibility and ease of use.

Our scale gives us a commercial advantage and allows us to deliver this quality of service sustainably. Our ability to provide pan-European solutions, via our extensive manufacturing base, is a key differentiator compared to our competitors. We work with leading FMCG and industrial customers to supply packaging to their own network of factories, with guarantees for service and quality that apply across the business. For example, our customers know that the packaging for their branded product will be in precisely the correct specified colour, wherever it has been manufactured. This is all part of our strategic commitment to delight our customers.

Our scale also allows us to invest in research, innovation and design, for example, our network of design centres. The benefit and costs are then shared across the business. We are therefore able to offer a high standard of product while maintaining competitive pricing. This is key to our success with customers, as demonstrated by our consistent volume growth ahead of market growth.

PLASTIC PACKAGING

We design specialist plastic packaging solutions in close collaboration with customers. The design of taps and fitments for liquids are often specific to the type of liquid, in order to optimise filling and dispensing, and we own hundreds of patents covering our designs and products. Once we have a design that fulfils our customers' requirements, we are able to manufacture on a large scale and distribute the product globally, as the product is light and readily transportable. Our rigid plastic products are manufactured in Europe for the European market, in scale operations principally focused in France, the UK and Spain. Our flexible plastic products are manufactured in Germany, Bulgaria, Slovakia, the US, New Zealand and Thailand and are distributed globally.

Strategic Report

How we create sustainable value continued

RECYCLING

Our recycling business supports and adds value to our paper operations by providing them with the fibre required, to a consistent and well defined quality, which in turn enables our paper mills to produce paper with precisely the performance characteristics required by the packaging business. Our recycling business also supports our corrugated packaging business by helping retailers get best value from their used corrugated material, driving the use of corrugated packaging over other packaging materials.

We buy and sort the fibre we collect, with the fibre that does not go to our own mills sold to third party paper mills or exporters.

PAPER

Our paper business is an essential partner to our packaging business. We seek to optimise the level of integration of the businesses as much as practicable, with the paper operations focused on producing the paper required by packaging, to the correct quality standard and consistency. Any testliner not used by the DS Smith packaging business and all our other grades of paper are sold to third parties. We seek to compete on the quality of our product, while our scale and efficiency means that we remain cost competitive.

We undertake research and development of paper in collaboration with our packaging operations to achieve the optimal result. We have increased our production of papers particularly suited to high quality packaging, such as white-top grades.

At the same time, the paper mills are focused on their operational excellence. We have a "LEAN team" programme of highly skilled engineers who work with all the sites in turn to ensure that best practice is shared and implemented. This ensures we maximise profitability by minimising costs.

OUR FUNCTION BUSINESS HEADS

DS Smith manages its corrugated packaging operations on a regional basis with our packaging, paper and recycling functions integrated to optimise efficiency between them. In order to ensure consistency of our approach to customers, and the highest operational performance, we also have heads for each business function. Plastics is managed separately from our fibre-based packaging businesses.

Colin McIntyre
Head of Paper and Recycling

Stefano Rossi
Head of Packaging

Mark Smith
Head of Plastics

Strategy and key performance indicators

Our vision is to be the leader in sustainable packaging.

OUR STRATEGIC GOALS:	TO DELIGHT OUR CUSTOMERS	TO REALISE THE POTENTIAL OF OUR PEOPLE	TO DOUBLE OUR SIZE AND PROFITABILITY	TO LEAD THE WAY IN SUSTAINABILITY
IN 2015/16 WE DELIVERED:	– Excellent growth from pan- European customers – Seven updated Impact Centres and 17 PackRight Centres now open – 69 industry and customer awards for our corrugated packaging business – Three major awards for our recycling business	– 24 per cent reduction in accident frequency rate – 15 per cent reduction in lost hours – 211 sites with no lost-time accidents – Award winning Sharesave Plan across 32 countries – Integration workshops for all acquisitions	– Return on sales margin 9.3 per cent, up 50 bps on a constant currency basis – Return on capital 15.4 per cent, up 70 bps on a constant currency basis – Volume growth +3.1 per cent – Five acquisitions completed totalling £433 million, expanding our businesses in Spain, south eastern Europe, Greece, Turkey and the UK	– Reduced emissions of CO_2e per tonne of production by 8.1 per cent – Reduced effluent water discharge per tonne of production by 13.4 per cent – Reduced waste to landfill per tonne of production, by 26.2 per cent
IN 2016/17 WE WILL:	– Invest further in innovation – Continue to roll out Impact Centres and PackRight Centres – Develop closer relationships with customers – Continued focus on quality and service	– Invest in talent management and learning and development – Engage our people through communication and collaboration – Adopt a global human resources operating model to spread best practice – Drive further improvement in health and safety	– Increase share in growth markets via acquisition and investment – Grow scale in niche markets and in new business areas such as services – Reduce complexity, risk and wastage in operations, offices and procurement	– Source recovered paper at the correct quality – Deliver correct levels of integration for recycled and virgin papers – Implement Performance Packaging principles throughout the Group

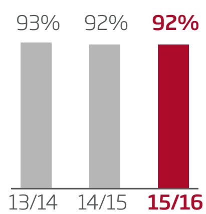
Strategy and key performance indicators continued

We have identified a number of key performance indicators to measure value creation, quantify our social impact and benchmark customer service and have set testing medium-term targets. We aim to satisfy our four key stakeholders – customers, employees, shareholders and the environment – because we believe that this is the way to create sustainable value.

OUR STRATEGIC GOALS

TO DELIGHT OUR CUSTOMERS

On-time, in-full delivery



TARGET
97%

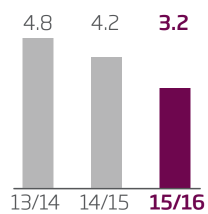
DEFINITION
Proportion of orders fulfilled on time, in full, across all businesses.

WHY IS IT A KPI?
This measures our commitment to high standards of service to customers. It is part of our aim to provide "more than a box".

PERFORMANCE
Service levels have remained below our target level following the significant acquisitions this year. It continues to be an area of high focus with good improvement expected next year.

TO REALISE THE POTENTIAL OF OUR PEOPLE

Accident frequency rate (AFR)



TARGET
Zero accidents

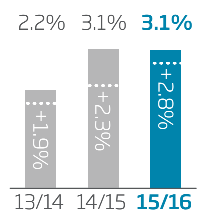
DEFINITION
The number of lost-time accidents (LTAs) per million hours worked.

WHY IS IT A KPI?
Safety is our highest priority and we believe that zero accidents is an achievable goal. We aim to provide employees with a safe, productive and rewarding workplace.

PERFORMANCE
We are delighted to have achieved a further 24 per cent reduction in AFR. We have also reduced our number of LTAs by 14 per cent in absolute numbers, despite an 11 per cent increase in hours worked. 211 sites achieved our target of no LTAs in the year. We continue to strive to achieve this across the whole Group.

TO DOUBLE OUR SIZE AND PROFITABILITY

Like-for-like corrugated volume growth



TARGET
GDP+1%

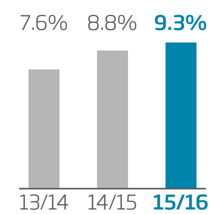
weighted GDP +1% target

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

WHY IS IT 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 throughout Europe.

PERFORMANCE
We are pleased to have delivered box volume growth of 3.1 per cent, outperforming our target and the market. This has been achieved by growth in all our reporting regions.

Return on sales



TARGET
8-10%

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

WHY IS IT A KPI?
The margin we achieve is a reflection of the value we deliver to our customers and our ability to charge for that value. It is also driven by our scale. A higher margin makes the profit more robust to adverse events.

PERFORMANCE
The business has achieved margin growth of 50 bps resulting in a margin in the upper half of the target range. The target range was increased at the start of the 2015/16 financial year to reflect progress made, having previously been 7-9 per cent.

TO LEAD THE WAY IN SUSTAINABILITY

Return on average capital employed (ROACE)	Net debt/EBITDA	Cash conversion	CO_2 equivalent emissions
13/14: 13.0 % 14/15: 14.6% **15/16: 15.4%**	13/14: 2.0x 14/15: 1.5x **15/16: 2.0x**	13/14: 120% 14/15: 127% **15/16: 112%**	13/14: 251 14/15: 247 **15/16: 227**
TARGET 12-15%	TARGET <2.0x	TARGET >100%	TARGET 20% reduction over the 10 years to 2020
Earnings before interest, tax, amortisation and exceptional items as a percentage of average capital employed, including goodwill, over the 12 month period.	Net debt calculated at average FX rates for the year, over earnings before interest, tax, depreciation, amortisation and exceptional items for the preceding 12 month period.	Free cash flow before tax, net interest, growth capex, pension payments and exceptional cash flows as a percentage of earnings before interest, tax, amortisation and exceptional items.	Total CO_2 equivalent (CO_2e) emissions per tonne of production.
Our target 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. ROACE also reflects the returns available for investment in the business and servicing debt and equity. All investments and acquisition opportunities are assessed with reference to this target.	Net debt/EBITDA is a key measure of balance sheet strength and financial stability.	We focus on cash conversion as part of our focus on capital management. The target of 100 per cent conversion was set at the start of 2015/16 financial year, reflecting the significant reduction in working capital over prior years. The Board believes 100 per cent to be a sustainable level.	We actively play our part in the drive to reduce CO_2e emissions though investment in energy and material efficiency programmes.
We have delivered further improvement on ROACE to 15.4 per cent, reflecting both the growth in profitability and an ongoing disciplined approach to capital shown in the continued reduction in our working capital.	The increase in Group leverage is due primarily to acquisitions in the year of £433 million, partially offset by cash flow generated in the year.	Cash conversion has remained in line with the target.	CO_2e emissions relative to production have reduced by 8.1 per cent this year, reflecting a change in business mix. We are pleased that 91 sites have improved their scope 2 CO_2e.

Chief Executive's review

Creating sustainable value for our shareholders.

We are delighted to report another year of strong growth underpinned by ten per cent organic growth in our adjusted operating profit supplemented by six per cent from acquisitions, net of disposals. Strong financial discipline allows us again to deliver on all our priorities.

Miles Roberts
Group Chief Executive

OVERVIEW

In the financial year 2015/16, DS Smith has once again delivered on all our financial metrics, with strong organic volume growth, and improvement in margin, returns and dividends. In addition, the business has taken another significant step forward in the expansion of our European footprint with five acquisitions completed in the year for a total of £433 million, expanding our presence in 13 countries. Integration of each acquisition began immediately upon ownership and we have been delighted by the customer and employee reaction. In addition to delivering against our financial KPIs, we have also made further improvements to our non-financial metrics, in particular a 24 per cent reduction in our accident frequency rate, and a further reduction in our emissions of greenhouse gases per tonne of production.

Corrugated box volumes have grown by 3.1 per cent, on a like-for-like basis, with consistent growth throughout the year. All regions have shown growth, with particularly good growth from our acquired businesses in our Western Europe and in Central Europe and Italy regions. This rate of growth is ahead of both our target of volume growth of GDP+1 per cent and the overall corrugated market in Europe.

In particular, our rate of growth from our pan-European customers has been excellent, which continues to demonstrate the appetite among large customers for high-quality providers of packaging, with the ability to serve them across Europe. This customer demand is driven, in turn, by the changes in the retail environment, away from traditional large stores, and towards convenience stores, discounters and online retailers.

This fragmentation of the retail channel results in greater complexity in the supply chain. The increase in convenience and discount stores also drives the use of display packaging and retail ready packaging. At DS Smith we are investing in these growth areas. Our offer to customers of innovative solutions, designed to be flexible to the customers' requirements, with the capability to serve across Europe, underpins our confidence in continuing to drive growth.

For the full-year, revenues were principally driven by the contribution from acquired businesses (net of disposals), which contributed 8 per cent growth on a constant currency basis. Organic growth contributed a further 1 per cent. The impact of foreign exchange (FX) translation reduced reported revenue by £101 million or 3 per cent over the year as a whole, with this figure representing a significant headwind in the first half year (period-on-period) and a partial reduced impact in the second half of the year, as the GBP to euro exchange rate changed significantly in January 2016.

Adjusted operating profit increased by 16 per cent on a constant currency basis to £379 million (13 per cent on a reported basis), driven by the contribution from the volume growth, contributing 10 per cent growth (£33 million), and from businesses acquired, contributing 6 per cent growth (£20 million). Input cost reductions were reflected in changes in sales prices during the year. The change in foreign exchange rate for the year versus the prior year, applied to non-sterling profits, resulted in a reduction of £9 million on translation.

Adjusted earnings per share increased by 16 per cent on a constant currency basis to 27.4 pence (12 per cent on a reported basis) (2014/15: 24.5 pence). This result follows five prior years of consistent growth, with the six-year compound annual growth rate for reported adjusted EPS being 30 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 2015/16, the Board recommends a final dividend of 8.8 pence, which together with the interim dividend of 4.0 pence gives a total dividend for the year of 12.8 pence per share (2014/15: 11.4 pence per share). This represents an increase of 12 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

We remain ambitious to grow the DS Smith business through both continued organic investment and acquisition. All investment in the business must fulfil our strategic and financial criteria. Our strategic aim is to become the leader in sustainable packaging. In order to fulfil this we are seeking to extend our reach, as required by our customers, and further improve the quality of our service and products. Scale is important as it allows us to invest in innovation and design, with the benefit shared throughout the business and across our customers. It has allowed us to serve customers on a pan-European basis, which has been a core growth area. In order to fulfil the Group's financial criteria, the most important metric is return on average capital employed. Acquisitions, on a post synergy basis, are required to come in line with the Group's ROACE target of 12–15 per cent in the medium term.

We have made significant further steps this year to expand our scale and improve the quality of the business through organic investment, acquisitions, and disposals.

On 31 May 2015 we completed our acquisition of Duropack, a corrugated packaging business with a market leading position in south eastern Europe. The business comprised 14 corrugated packaging sites, two paper mills and 18 recycling sites across nine countries. The business was highly complementary to DS Smith's existing operations in Austria, Hungary and Slovakia and has resulted in DS Smith now having leading positions in the region.

On 31 July 2015 we acquired Lantero, a corrugated packaging business comprising seven sites across the Iberian peninsula. This fitted well with the smaller business in Spain, Andopack, which had been bought in 2014. Spain is the fourth largest market for corrugated packaging in Europe and this acquisition has enabled DS Smith to strengthen its ability to serve customers on a pan-European basis.

In October 2015 we acquired Cartonpack, a corrugated packaging business in Greece with three sites, and in January 2016 we acquired Milas Ambalaj, a specialist corrugated display packaging business in Turkey, based near Istanbul. These acquisitions extended our reach across Europe and give us a small position in the fast-growing Turkish market.

In March 2016, we acquired a business in the north west of England, TRM Packaging, a specialist in retail-ready packaging, to enhance our capabilities in the region.

AVERAGE WORKING CAPITAL TO REVENUE

1.6%

2014/15: 2.7%

EARNINGS PER SHARE

27.4p

2014/15: 24.5p

During the period, the Wansbrough paper mill in the UK has been closed, as planned, and we disposed of StePac, a specialist plastic packaging business. The exit of these businesses has increased our overall focus on corrugated packaging.

On 22 June 2016 we announced the proposed acquisition of Gopaca, a well invested corrugated packaging business in Portugal with c. 135 employees. This acquisition expands our position in the Iberian peninsula and complements the operations we have in this important region. The transaction is subject to competition clearance, which we expect during Q3 of this calendar year with completion shortly thereafter.

On 22 June 2016 we acquired Creo, a specialist in Point of Sale and display products and services for in-store marketing, in the south east of the UK with c. 285 employees. The business is focused on FMCG, retail and media markets and significantly builds on our capability within the UK market.

Embedding corporate values and developing a positive corporate culture is paramount to delivering sustainable value. As we have grown by investment and by acquisition, and new employees have joined, we have worked hard to ensure that they have felt part of DS Smith from day one. 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, in order to set out our plan for the business and to provide them with the toolkit they need to deliver. Building on the due diligence undertaken prior to ownership, we then spend the initial three month period refining the business plan, taking into account the ideas of the local management team. The local management team will at that time 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 £201 million (2014/15: £149 million). We are investing to support our strategic priorities, with around one third of capex going to growth projects, for example, the development of a new plant for display packaging in Germany, digital printing in the UK, and additional box capability in regions experiencing high growth.

Chief Executive's review continued

DELIVERING ON OUR MEDIUM-TERM TARGETS AND KEY PERFORMANCE INDICATORS

We have again made progress against our key performance indicators over the full-year with another year of improvements in all of our financial metrics. As set out above, corrugated box volumes grew by 3.1 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 30 basis point outperformance against the target of 2.8 per cent. All regions have again recorded volume growth in the period, with a particularly strong contribution from newly acquired businesses in Iberia and south eastern Europe. This positive reaction from our customers to our new businesses demonstrates the demand for a high quality pan-European supplier of corrugated packaging. As a consequence of our volume growth, DS Smith has gained market share across Europe, where the overall corrugated packaging market has shown weighted volume growth of 2.3 per cent (Source: FEFCO, May 2015 – March 2016).

Adjusted return on sales has increased by 50 basis points on a constant currency basis to 9.3 per cent, in the upper half of our target range of 8 to 10 per cent, reflecting an improved mix of business as we add value to our customers, operational gearing and benefits of investment. This target was updated from 7-9 per cent in June 2015.

Adjusted return on average capital employed on a constant currency basis has improved by 70 basis points to 15.4 per cent, above our medium-term target range of 12 to 15 per cent and significantly above our cost of capital. The improvement is principally driven by our improved profitability, which has increased ahead of capital and benefited from the disposal of some less profitable businesses in the period. 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. Return on average capital employed is our primary financial measure of success, and is measured and calculated on a monthly basis. All senior management have part of their remuneration package linked to this measure.

Net debt has increased due to the acquisition of new businesses to £1,099 million (30 April 2015: £651 million) while net debt/EBITDA (calculated in accordance with our banking covenant requirements) was 2.0 times (2014/15: 1.5 times). 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 £238 million (2014/15: £307 million). Cash conversion was 112 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 24 per cent from 4.2 to 3.2, reflecting our ongoing commitment to best practice in health and safety. Our target is for zero accidents, which we are pleased to report that 211 sites achieved this year. We continue to strive to achieve zero accidents for the Group as a whole.

The Group has a target for customer service of 97 per cent on-time, in-full deliveries. In the year we achieved 92 per cent, similar to the level achieved in the prior year, but below our target. Over the year we have focused on raising service levels in both the existing business and those acquired over the year, and are pleased to see an improving trend. We remain committed to delivering high standards of service, quality and innovation to all our customers.

One part of the DS Smith strategy is to lead the way in sustainability. We play our part in the sustainable economy, with our principal product of corrugated packaging being fully recyclable, and 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 2015, compared to 2014, our CO_2 equivalent emissions, relative to production, have reduced by 8.1 per cent and we remain on target to achieve our 2010 commitment to a 20 per cent reduction by 2020.

OUTLOOK

The current year has started positively, building on the momentum of last year. The integration of the five businesses acquired in the past year is going well and we are excited by opportunities to grow with our customers.

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

Miles Roberts
Group Chief Executive

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 2016	Year ended 30 April 2015	Change
Revenue – £m	**864**	905	(5%)
Operating profit* – £m	**85**	81	5%
Return on sales* – %	**9.8**	9.0	+80 bps

* adjusted, before amortisation and exceptional items.

The UK has seen good volume growth in a competitive market environment. The disposal of the Wansbrough mill part way through the year has contributed to the fall in revenue while not impacting profit due to the mill operating at or around break-even prior to closure.

The increase in profitability in the region has come from both underlying trading and the flow through of benefits from restructuring initiatives and asset disposals. The UK continues to be at the forefront of the changing retail landscape and as such our business is a market leader in innovation particularly in the fast growing e-commerce channel.

DCH AND NORTHERN EUROPE

	Year ended 30 April 2016	Year ended 30 April 2015	Change – reported	Change – constant currency
Revenue – £m	**853**	922	(7%)	(4%)
Operating profit* – £m	**93**	96	(3%)	1%
Return on sales* – %	**10.9**	10.4	+50 bps	+60 bps

* adjusted, before amortisation and exceptional items.

Volumes in this region have been positive, with good growth in Germany and Switzerland (DCH) offset by extremely tough trading conditions in Northern Europe as a consequence of sanctions on Russia.

Constant currency revenues declined by 4 per cent, in part as a result of the disposal in the prior year of the Scandinavian Foams business. The underlying business saw modest reductions in revenue principally due to the difficult trading conditions in Northern Europe, explained above.

Constant currency adjusted operating profit increased by 1 per cent, despite a modest reduction from the disposed business, reflecting an improvement in business mix and previous efficiency initiatives implemented at the time of trade sanctions. Return on sales improved 60 basis points to 10.9 per cent, reflecting the quality of our business.

WESTERN EUROPE

	Year ended 30 April 2016	Year ended 30 April 2015	Change – reported	Change – constant currency
Revenue – £m	**1,044**	941	11%	15%
Operating profit* – £m	**77**	65	18%	24%
Return on sales* – %	**7.4**	6.9	+50 bps	+60 bps

* adjusted, before amortisation and exceptional items.

Like-for-like volumes in the region have been above the Group average, with both France and, particularly, the recently acquired business in Iberia performing well, partially offset by continued flat market conditions in Benelux. Revenues have grown by 15 per cent, principally from the acquisitions in Iberia, supplemented by the positive contribution from organic growth.

Adjusted operating profit on a constant currency basis increased by 24 per cent, reflecting a substantial contribution from the acquired businesses in Iberia, and growth from the DS Smith business in other parts of the region, principally France. Return on sales has improved by 60 basis points.

CENTRAL EUROPE AND ITALY

	Year ended 30 April 2016	Year ended 30 April 2015	Change – reported	Change – constant currency
Revenue – £m	**1,022**	750	36%	43%
Operating profit* – £m	**92**	65	42%	48%
Return on sales* – %	**9.0**	8.7	+30 bps	+40 bps

* adjusted, before amortisation and exceptional items.

Volumes in this region have been good, particularly from the newly acquired Duropack business in south eastern Europe. Constant currency revenue growth of 43 per cent reflects the substantial contribution from the Duropack business, plus the benefit of good organic growth.

Adjusted operating profit grew by 48 per cent, with the majority due to the acquisition of Duropack and its subsequent growth. We have been delighted with the customer and stakeholder reaction to the expansion of our business in this area.

PLASTICS

	Year ended 30 April 2016	Year ended 30 April 2015	Change – reported	Change – constant currency
Revenue – £m	**283**	302	(6%)	(6%)
Operating profit* – £m	**32**	28	14%	10%
Return on sales* – %	**11.3**	9.3	+200 bps	+160 bps

* adjusted, before amortisation and exceptional items.

Constant currency revenue declined 6 per cent, reflecting the disposal of StePac in May 2015. Adjusted operating profit grew by 10 per cent on a constant currency basis with a 160 basis point increase in margin, reflecting strong organic profit development following the restructuring of the business in 2013/14.

Financial review

Delivering strong financial performance.

Adrian Marsh
Group Finance Director

OVERVIEW

The Group continued to perform strongly in 2015/16, despite the ongoing challenges of a weakening euro, down 4 per cent, and the relatively flat economies in continental Europe. Growth of the business was achieved both organically and through acquisitions. In the year we significantly expanded our geographic reach through the acquisition of Duropack in south east Europe; Lantero in the Iberian Peninsula; Cartonpack in Greece; Milas Ambalaj in Turkey; and TRM Packaging in the UK. The Group now has the widest reach in Europe of any packaging company and is able to offer a complete pan-European solution to our customers.

The Group has again delivered against all the targets the Board has set for its financial key performance indicators as well as all of its financial measures:

- Earnings before interest, tax, exceptional items and amortisation up 16 per cent on constant currency basis at £379 million (2014/15: £335 million)
- Like-for-like corrugated box volume growth of 3.1 per cent
- Return on sales[1] of 9.3 per cent (2014/15: 8.8 per cent)
- Return on average capital employed[1] of 15.4 per cent (2014/15: 14.6 per cent)
- Net debt/EBITDA of 2.0 times (2014/15: 1.5 times)
- Average working capital to sales 1.6 per cent (2014/15: 2.7 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 £4,066 million (2014/15: £3,820 million), a growth of 6 per cent on a reported basis, before considering the adverse currency effects. The euro accounted for 61 per cent of Group revenue and its weakness during the year accounted for the majority of the £101 million of currency impact. On a constant currency basis revenue increased by 9 per cent and included £300 million from businesses acquired during the year (net of disposals).

Whilst revenue growth is clearly important, it is inevitably correlated to the price of paper, and with lower year-on-year average paper prices, was limited to constant currency organic growth in value terms of £47 million. The more relevant measure to describe business performance is corrugated box volume growth which once again was ahead of target at 3.1 per cent, delivering meaningful growth ahead of the market. Revenue in the Plastics division declined by 6 per cent as a result of the disposal at the start of the year of StePac, a modified atmosphere packaging business.

Adjusted operating profit rose by 13 per cent on a reported basis to £379 million (2014/15: £335 million), with currency having a negative impact of £9 million. Growth on a constant currency basis was, therefore, higher at 16 per cent. The acquisitions of Duropack, Lantero and Cartonpack earlier in 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 case. This good result is testament to the Group's expertise in the effective integration of, and support for, acquired businesses. The growth in operating profit has been achieved despite a higher level of price deflation in Europe at the start of the year and increased fibre costs. The Group systematically mitigates against these headwinds through year-on-year benefits (on a reported basis) from energy prices (c. £9 million); efficiency programmes (c. £7 million); procurement savings (c. £28 million); and property, plant and equipment (PP&E) disposals (£4 million).

Amortisation for the year was £51 million (2014/15: £46 million), the increase primarily resulting from the amortisation of intangible assets acquired in the year. Depreciation increased by £10 million in the year as a result of previous capital investments.

Group margins continue to benefit from both operational leverage and continuous focus on cost and efficiency, resulting in another improvement in return on sales to 9.3 per cent compared to 8.8 per cent in the prior year. At the start of the year the return on sales target range was increased to 8–10 per cent and performance has been fully in line with this upgraded target. The return on average capital employed for the year was 15.4 per cent, which is beyond the target set by the Board of 12–15 per cent and an improvement of 70 basis points on the prior year on a constant currency basis. 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 ratio is only affected partially by new acquisitions, with a full effect in 2016/17 results.

INCOME STATEMENT

	2015/16 £m	2014/15 £m
Revenue	**4,066**	3,820
Operating profit[1]	**379**	335
Return on sales[1]	**9.3%**	8.8%
Net financing costs[1]	**(47)**	(38)
Profit before tax[1]	**332**	297
Share of loss equity accounted investments, net of tax	**(1)**	–
Income tax expense[1]	**(73)**	(66)
Adjusted earnings[1]	**258**	231
Basic adjusted earnings per share[1]	**27.4p**	24.5p
Amortisation of intangible assets, before tax	**(51)**	(46)
Exceptional items, before tax	**(79)**	(51)

1 Adjusted for amortisation and exceptional items.

EXCEPTIONAL ITEMS

Exceptional items before tax and share of results of associates were £79 million (2014/15: £44 million).

Restructuring costs of £50 million are the largest element of exceptional items. This substantially relates to the closures of the Wansbrough paper mill and the Bristol packaging site in the UK; and the Pulheim packaging site in Germany. Other restructuring and reorganisation costs were incurred in the UK, DCH and Northern Europe, and Western Europe. Approximately a fifth of the charges related to restructuring initiatives that commenced in the prior year in the UK and DCH, with the remainder attributable to new initiatives launched.

The closure of the Wansbrough paper mill accounts for the majority of the £21 million of asset impairments.

Acquisition costs of £9 million were incurred in respect of professional advisory, legal fees and directly attributable salary costs related to acquisitions and disposals completed during the year as well as to the review of potential deals.

Integration costs of £12 million relate to the integration of new acquisitions made in the year.

Gains on acquisitions and divestments of £23 million comprise the profit on sale of StePac of £9 million, with the majority of the balance relating to a gain on the step acquisition of the Lantero business, in which the Group previously held an associate interest.

Other exceptional items include £5 million for European centralisation and optimisation projects and site remediation costs of £2 million.

In 2016/17, exceptional costs of around £50 million are expected to be incurred.

INTEREST, TAX AND EARNINGS PER SHARE

Net interest expense before exceptional items was £41 million, up £9 million from the prior year. The increase from the prior year was primarily due to the acquisitions completed during the year which were funded by increased borrowings. In addition, the Group increased the duration of Group debt and thus improved overall liquidity in September 2015 with the issuance of a debut investment grade €500 million 7 year Euro Medium Term Note (EMTN) with a coupon of 2.25 per cent. This EMTN was partly used to refinance shorter term bank debt which had a lower interest rate.

The employment benefit related net finance expense was £6 million (2014/15: £6 million).

Profit before tax (excluding amortisation, exceptional items and share of loss of associates) was £332 million (2014/15: £297 million), an increase of 12 per cent on a reported basis.

The share of the loss of equity accounted investments of £1 million (2014/15: £7 million loss) includes exchange losses incurred by the Ukrainian associate. Unlike in the prior year, the loss did not meet the Group accounting policy criteria for treatment as an exceptional item.

The Group's effective tax rate, excluding amortisation, exceptional items and associates was 22 per cent (2014/15: 23 per cent). The exceptional items tax credit was £27 million, comprising tax on exceptional items and exceptional tax credits.

Profit after tax, amortisation and exceptional items was £167 million (2014/15: £156 million).

Adjusted earnings per share were 27.4 pence (2014/15: 24.5 pence), an increase of 12 per cent on a reported basis and 16 per cent on a constant currency basis. Total earnings per share were 17.7 pence (2014/15: 16.6 pence).

DIVIDEND

The proposed final dividend is 8.8 pence (2014/15: 7.7 pence), giving a total dividend for the year of 12.8 pence (2014/15: 11.4 pence). Dividend cover before amortisation and exceptional items was 2.1 times in 2015/16 (2014/15: 2.1 times) and dividend growth is consistent with earnings growth at actual exchange rates.

The final dividend of 8.8 pence per share will be paid on 1 November 2016 to ordinary shareholders on the register at close of business on 30 September 2016.

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 achieving business growth and this year the Group made considerable progress with five acquisitions for a combined consideration of £433 million.

Financial review continued

On 31 May 2015, the Group acquired the Duropack business for €305 million, subject to post-completion adjustments. Duropack is a recycled corrugated board packaging business in south eastern Europe, holding the number one or two positions in most of the geographical regions in which it operates. It is well invested with high quality assets and operates a "short paper, long fibre" model similar to that of the rest of the Group.

On 31 July 2015, the Group acquired the corrugated activities of Lantero for €190 million, including several operations in which the Group previously held an equity accounted minority. Lantero operates seven sites in the Iberian Peninsula and has a strong focus on the FMCG sector. This acquisition strengthens the Group's operations in Spain considerably, adding to last year's acquisition of Andopack.

On 13 October 2015, the Group completed the purchase of the Greek corrugated packaging business of Cartonpack, with a simultaneous sale of the Group's minority shareholding in Cukurova Group's Turkish corrugated paper and packaging entities to the Cukurova Group.

On 21 January 2016, the Group acquired the packaging business of DasaMilas Ambalaj. Milas Ambalaj operates a display and offset packaging business in Istanbul, Turkey.

On 24 March 2016, the Group acquired TRM Packaging, a leading designer and manufacturer of retail ready packaging to FMCG customers, with a single site in the north west of England.

On 18 May 2015, the Group completed the sale of StePac, a specialist modified atmosphere packaging business based in Israel, for US$31 million.

CASH FLOW

Closing net debt of £1,099 million (30 April 2015: £651 million) has increased year on year primarily due to the acquisition prices paid and net debt assumed for new businesses (£433 million). Working capital inflows of £56 million reflect further improvements in the management of receivables and payables, which remains an area of opportunity in acquired businesses.

Capital expenditure net of asset disposals increased to £201 million in the year (2014/15: £149 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 62 per cent of expenditure. Proceeds from the disposal of PP&E were up £10 million year on year at £28 million, resulting in additional profits of £4 million.

Net interest payments of £32 million were £2 million lower than the prior year. Interest on the new 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.

Cash costs of exceptional items amounted to £77 million representing the cash investment in restructuring and infrastructure. Investment in subsidiary businesses, net of cash and cash equivalents (but before acquired debt), totalled £313 million in the year. Disposal of the StePac business realised £21 million.

During the year dividends of £108 million, representing the 2014/15 interim dividend and final dividend, were paid.

The acquisitions made in the year have resulted in a total Group cash outflow for the year of £239 million, compared to an inflow of £154 million in the prior year. Loans and borrowings from acquired businesses was £120 million. Foreign exchange, fair value and other movements increased net debt by £89 million, notwithstanding the weaker average euro rate during the year; the closing rate showed a strengthening over the prior year.

CASH FLOW

	2015/16 £m	2014/15 £m
Cash generated from operations before exceptional cash items	**520**	518
Capital expenditure (net of disposal of fixed assets)	**(201)**	(149)
Tax paid	**(49)**	(28)
Net interest paid	**(32)**	(34)
Free cash flow	**238**	307
Cash outflow for exceptional items	**(77)**	(49)
Dividends	**(108)**	(94)
Acquisitions/divestments of businesses	**(292)**	(10)
Net cash flow	**(239)**	154
Loans and borrowings acquired	**(120)**	(30)
Other movements	**(89)**	52
Net debt movement – continuing operations	**(448)**	176
Opening net debt	**(651)**	(827)
Closing net debt	**(1,099)**	(651)

STATEMENT OF FINANCIAL POSITION

Shareholders' funds have increased to £1,140 million at 30 April 2016, an increase of £122 million over the reported position of the prior year. The improvement in shareholders' funds is principally due to profit attributable to shareholders of £167 million (2014/15: £156 million), actuarial gains of £11 million arising from the Group's employee benefit schemes and currency translation gains of £49 million. The gains were offset by the dividend payments of £108 million (2014/15: £94 million).

At 30 April 2016, the Group's net debt was £1,099 million (30 April 2015: £651 million). The net debt to earnings before interest, tax, depreciation and amortisation (EBITDA) ratio was 2.0 times at 30 April 2016, up from 1.5 times at the previous year end as a consequence of the increased borrowings to fund acquisitions. 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 2016, the Group had substantial headroom under its covenants.

STATEMENT OF FINANCIAL POSITION

	2015/16 £m	2014/15 £m
Intangible assets	**1,089**	855
Property, plant and equipment	**1,678**	1,342
Inventories	**338**	256
Trade and other receivables	**699**	553
Cash and cash equivalents	**134**	95
Other	**140**	200
Total assets	**4,078**	3,301
Bank overdrafts	**(19)**	(13)
Interest bearing loans and borrowings	**(1,258)**	(783)
Trade and other payables	**(1,126)**	(932)
Provisions	**(41)**	(41)
Employee benefits	**(188)**	(200)
Other	**(306)**	(314)
Total liabilities	**(2,938)**	(2,283)
Shareholders' funds	**1,140**	1,018
Net debt	**1,099**	651
Net debt to EBITDA ratio	**2.0x**	1.5x

ENERGY COSTS

This was the third year in a row of lower year-on-year energy costs. Energy is a significant cost for the Group and gas, electricity and diesel costs totalled £178 million in the year (2014/15: £187 million). Capital invested in CHP facilities, currency translation, lower prices and energy efficiency initiatives have all contributed to the lower 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 a range of maturities and borrowings 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 2016, the Group's committed borrowing facilities totalled c. £1.6 billion of which c. £500 million were undrawn. The Group's committed borrowing facilities at 30 April 2016 had a weighted-average maturity of 4.7 years (30 April 2015: 4.6 years). The Group's total gross borrowings at 30 April 2016 were £1,258 million.

During the year the Group issued its debut Eurobond. The €500 million seven year fixed rate Eurobond was well received, with a significant over-subscription. The proceeds were used to repay the Group's syndicated bank term loan facility of €300 million and to prepay 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 (BBB-, Stable) was reaffirmed, which reflects the Group's commitment to strong credit metrics and the ongoing financial discipline of management. This credit rating allows the Group to issue investment grade bonds in the public debt markets under its €2.5 billion EMTN programme.

COMMITTED FACILITIES AND DEBT AT 30 APRIL 2016

Facility	Currency	Committed funds million	Maturity	£ million equivalent
Syndicated bank RCF	GBP	800	2020	800
EMTN	EUR	500	2022	393
Private placement	USD	95	2016	54[1]
Private placement	EUR	118	2018-20	93
Private placement	USD	400	2017-22	256[1]
Total				**1,596**

1 Net of cross-currency interest rate swaps.

IMPAIRMENT

When applying IAS 36 *Impairment of Assets*, the Group compares the carrying amounts of goodwill and intangible assets with the higher of their net realisable value and their value-in-use to determine whether impairment exists. The value-in-use is calculated by discounting the future cash flows expected to be generated by the assets or group of assets being tested for impairment. In April 2016, 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 combined with the appropriate country risk premiums. No impairments were identified as a result of the testing.

The net book value of goodwill and other intangibles at 30 April 2016 was £1,089 million (30 April 2015: £855 million).

Financial review continued

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.

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 2016 were £957 million and the gross liabilities at 30 April 2016 were £1,145 million, resulting in the recognition of a gross balance sheet deficit of £188 million (30 April 2015: £200 million). The net deficit was £145 million (30 April 2015: £152 million) taking into account deferred tax assets of £43 million (30 April 2015: £48 million).

A triennial valuation of the main UK scheme was carried out at 30 April 2013 at which point the Group agreed to maintain cash contributions at £16 million per annum. Cash contributions into the Group pension schemes were £17 million in 2015/16 (2014/15: £17 million), principally comprising £16 million in respect of the agreed contributions to the pension scheme deficit (for the future financing of the pension scheme) and are included in cash generated from operations.

A reduction in the gross balance sheet deficit of £12 million is principally attributable to a decrease in the inflation rate reducing pension liabilities. The next funding calculation is being carried out as at 30 April 2016 and is expected to complete in early 2017.

Adrian Marsh
Group Finance Director

Employees

One of our four strategic goals is to realise the potential of our people.

We believe that the best way to achieve that goal is to develop both our people and their working environment so that DS Smith employees are proud and able to give their best at work.

The Human Resources (HR) strategy reflects this ambition by focusing in three main areas:

– To develop our talent pool to ensure we have the capability to meet the growth and profit aspirations of the Group;
– To maximise the contribution and personal accountability of all employees; and
– To attract, retain, develop and motivate a diverse and capable workforce.

These strategic priorities are underpinned by an ongoing commitment to design and maintain a global HR operating model that supports the strategic direction and business needs of DS Smith.

DEVELOPING OUR TALENT POOL

To enhance the existing performance and talent management processes, DS Smith has refreshed its framework of Leadership Competencies with an eye to simplify and clarify their purpose and application so that managers and colleagues can make best use of them as part of fair and equal opportunity processes.

2015/16 HIGHLIGHTS:

– Integrated c. 4,000 new colleagues following acquisitions.
– Opened a Sharesave Plan invitation to colleagues from 32 countries.
– 1,456 managers trained on our "Engaging Managers" course.
– Provided apprenticeship work experience and readiness for work activities in five countries across Europe as part of Alliance for YOUth.
– All packaging sites in the UK taking part in Heart Research UK "Healthy Heart Mark" programme.

Our talent management process identifies and supports high potential and high performing individuals with tailored development plans. Over the past year we have seen individuals from this population take on new challenges or larger roles within the Group and continue to view this process as a way to meet the ever increasing demands for talent at all levels of an ambitious and growing business.

DS Smith has also focused on developing our people managers throughout the business in order to bring consistency of practice that is completely aligned to our values. The "Engaging Managers" programme is designed to set clear expectations of managers in DS Smith and to promote an engaging and inclusive management

ENGAGING MANAGERS

This powerful course has three phases: preparation (self-reflection and collecting 360° feedback); off-site course (interactive experiential learning); and implementation (turning the learning into action with the support of individual coaching).

– 63 internal facilitators have been trained
– the materials have been translated into 13 languages
– the course has been delivered in 14 countries to 1,456 managers in 2015/16
– the response has been outstanding: "I think it was a good tool for the individual to evaluate their management style to understand where they are making mistakes as well as the good practices they encompass during their day-to-day activities."

"Our values are definitely not just posters on the wall."

Employees continued

style. It has been running for one year and the case study explains more about the reach and impact it is having on our managers and their teams.

ATTRACTING, DEVELOPING AND MOTIVATING A DIVERSE WORKFORCE

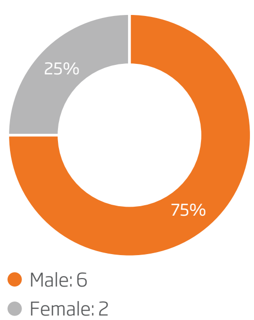
Acquisitions in south east Europe, Iberia, Greece and Turkey have introduced colleagues with differing cultural perspectives to our Group, adding to the diverse composition of our employee base. DS Smith values diverse thinking because it strengthens our decision making and fuels creativity and innovation.

However, moving from separate businesses to one unified Group requires a thoughtful and thorough integration process with respect and sensitivity for any cultural differences. We have supported each of the new businesses joining DS Smith with a cultural integration programme titled Stronger Together.

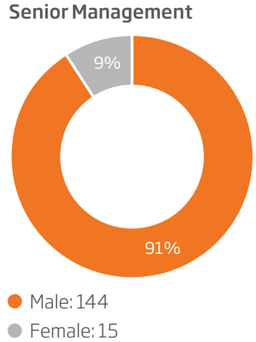
DS Smith is an equal opportunities employer and is firmly committed to both the principle and realisation of equality as set out in our Code of Conduct. We remain committed to strengthening the pipeline of senior female executives within the business and are taking steps to ensure that there are no barriers to women succeeding at any level within DS Smith.

GENDER DIVERSITY

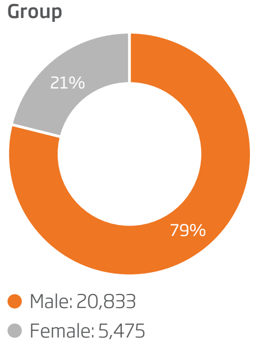
Board



Senior Management



Group



Employee data, based on all permanent employees as at 30 April 2016.

Our senior management population consists of the Group Operations Committee (excluding executive directors) plus those who report into the Group Operations Committee.

ALLIANCE FOR YOUTH

As an organisation, DS Smith is always looking to bring in fresh ideas and new thinking and also to balance the age and gender profile of the workforce. Equally, as an employer across Europe, we are well aware of the difficulties facing young people in some of our markets in finding employment. For these reasons, DS Smith was delighted to be presented with an opportunity to address both topics by joining the Nestlé-founded Alliance for YOUth and by providing apprenticeships, work experience and "readiness for work" activities in nine countries across Europe.

This was exemplified in a recent Girls' Day, hosted by our packaging site in Fulda, Germany. 26 girls, all under the age of 15, took part in a one-day internship aiming to expose the girls to career opportunities that they might otherwise dismiss as male-specific. The girls were shown a wide range of business areas including quality management, packaging technology, media technology and product design.

In 2015, Alliance for YOUth activity within DS Smith was focused in the UK, France, Italy, Germany, Austria, Denmark, Sweden, Finland and Switzerland.

For 2016 onwards, we will be expanding that focus to the entire business. The principles that the Alliance for YOUth stands for are complementary to the way that DS Smith operates in the communities in which we exist and we wish to endorse the Alliance in all areas of our business.

MAXIMISING THE CONTRIBUTION AND PERSONAL ACCOUNTABILITY OF ALL EMPLOYEES

The DS Smith OWN IT! programme is designed to increase the pace and consistency of Group-wide strategy deployment through the engagement of our people. This year has seen an evolution of the programme to reflect better the current aspirations of the Group and the business need for simplicity in a diverse and dynamic organisation. The 2015 management conference was used to collect the input of 160 senior leaders and to test new ideas and approaches that can inspire and engage colleagues of all levels and in any of our markets. The result is an updated strategic narrative and a clear programme of activity that will be rolled out over 2016/17. These will act as the glue that binds the strategic projects and initiatives together and provides a vehicle to get support and involvement from all colleagues in delivering those projects.

DS Smith formally measures employee engagement using a biennial employee survey of all employees, but a pulse survey was conducted in November 2015 to track our progress. It showed excellent improvements against our two main indices across the Group (up 12 per cent in employee engagement and up 10 per cent in performance enablement).

Employee share ownership provides an opportunity for individuals to engage with the performance of the Group and the potential to share in future success. For this reason, we ran another invitation for our award-winning international Sharesave Plan in 32 countries world-wide to be able to include employees from new regions who had joined through acquisitions this year.

For more information about OWN IT! see our Sustainability Report

STRONGER TOGETHER

The name of our cultural integration programme – "stronger together" – captures the spirit of our activities and intent completely. We truly believe that DS Smith and the companies acquired have many complementary strengths and capabilities. Therefore, we promote an open, sharing environment from day one in order to understand, utilise and maximise those opportunities to learn and improve the whole organisation.

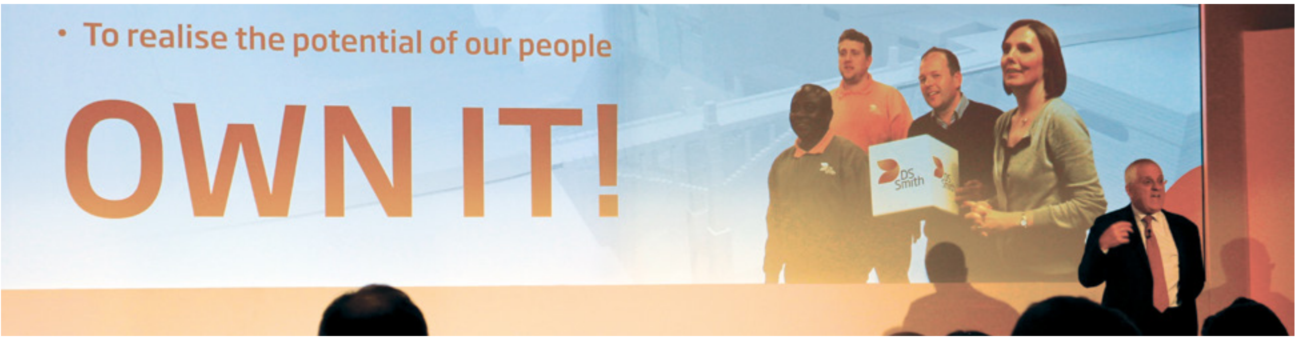
Immediately following the completion of each acquisition, DS Smith runs an event for managers from the existing and acquired businesses. These events are structured to include interactive sessions on our strategy, our structure , our values, the integration process and how to support your team back on site.

The toolkit provided to the managers to cascade the conversations they had been part of included video testimonials from colleagues who had gone through an integration process with DS Smith and a full set of translated guides, posters and presentations to organise their own event when they returned.

FEEDBACK FROM A STRONGER TOGETHER EVENT, BUDAPEST, HUNGARY:

100% of managers joining from the Duropack business stated that at the end of the event they understood the DS Smith vision, values and strategic goals.

98% said they had a clear understanding of the role they would play as leaders.



Nigel Hayter, Group HR Director, presents at the Duropack integration conference, June 2015

Employees continued

HEALTH AND SAFETY

The safety of our people remains a cornerstone of our business. We seek to improve our performance continuously as a Group and strive to ensure that all of our colleagues, contractors, agency workers and members of the public are kept safe.

HEALTH AND SAFETY KEY PERFORMANCE INDICATORS

	2015/16	2014/15	2013/14	2015/16-2014/15 Change
Total LTAs	**120**	146	171	(18%)
AFR	**3.2**	4.2	4.8	(24%)

Definition: Lost Time Accident (LTA): number of accidents resulting in lost time of one shift or more. Accident Frequency Rate (AFR): number of LTAs per million hours worked.

We are committed to achieving a zero accident culture and recognise that more work needs to be done on improving our sites, reducing risks and raising our safety awareness. We believe that this target, although challenging, is achievable.

We are delighted to report another year where our key safety measures of LTAs and of AFR have both continued to improve.

This has been the result of a programme of continuous improvement and the high priority assigned to safe working practices. Total number of employee LTAs was 120, which is an 18 per cent reduction since last year. The number of sites with zero LTAs was 211, up from 182 last year.

During the period, we acquired five businesses, each of which had a markedly higher AFR than our existing businesses. We have worked hard to ensure that the focus on safety leadership, augmented by audits and investments in safety equipment and machinery guarding programmes, have been rapidly adopted during the integration projects of these businesses.

A Health, Safety and Environment Leadership Team co-ordinates Group policy and ensures that best practice from the various parts of the organisation are shared and disseminated throughout the business. This team meets quarterly to review major LTAs/high potential severity incidents, and to coordinate audit activity and accident investigation. We will continue to set stretching safety targets using a variety of leading indicators, as well as lagging key performance indicators, in order to develop a stronger zero accident culture in all sites, irrespective of how long they have been part of the DS Smith Group.

HEALTHY HEARTS

DS Smith's "Healthy Heart Mark" employee campaign in the UK has enjoyed continued success since its launch in January 2014. With every packaging site across the UK taking part in the Healthy Heart Checks that Heart Research UK provide, a combined 1,694 workers have been asked questions about their lifestyle habits, and have been given the opportunity to have their blood pressure, cholesterol levels, BMI and waist measurements checked. These sites are also engaging in a range of healthy activities including pedometer challenges, free fruit days, weekly weigh-ins, cycle to work schemes, gym subsidies, football tournaments and quit smoking initiatives. Much of the campaign's success can be attributed to the hard work, passion and commitment of designated "Healthy Heart Champions", who effectively bring the initiatives to life, pulling together teams and helping bring together a diverse range of healthy lifestyles.

These efforts have been officially recognised by Heart Research UK; 29 sites have been presented with Bronze Awards, with 15 going on to achieve Silver Awards. These awards are given in recognition of the efforts to promote and educate employees about the benefits of making healthy lifestyle decisions, and to ensure that they are embedded into the culture of the workplace.

HEALTH AND SAFETY COMMUNICATION

At DS Smith, health and safety remains our number one priority. We are committed to the highest standards of safety, and are keen to ensure DS Smith is an engaging employer whose people can thrive and fulfil their potential. Feedback received from our colleagues highlighted the need to communicate our health and safety message consistently across all countries using graphics and imagery instead of words.

It was decided to introduce a consistent communication toolkit across the business which empowered local teams to highlight the dangers of their workplace environment. This toolkit is centred around a character based on a corrugated box called Boxy, and is the face of our health and safety campaigns.

Boxy is always on hand to highlight the potential dangers we face in our work environment. Humble and humorous, the character's simple form makes it easy to craft instantly recognisable workplace scenarios and situations, and to develop strong messages that illustrate the health and safety risks across our business.

Boxy posters will be prevalent across all of our sites, highlighting the dangers posed in the workplace and encouraging best practice.

Sustainability

Our core business is inherently sustainable. Our position as Europe's largest recycler and reprocessor of paper for recycling ensures this.

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

- Our Business – creating enduring 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.

HIGHLIGHTS

During the last year, DS Smith has actively listened to a variety of stakeholders including our largest pan-European customers. This engagement with stakeholders, together with a focus on meeting their needs, has resulted in, amongst other successes, our Carbon Disclosure Project (CDP) score improving to 94C and being awarded gold status by EcoVadis. Both of these ratings are well above the average in our industry and this external recognition reflects our strategic aims to delight our customers and to lead the way in sustainability. We recognise the importance of reducing greenhouse gas emissions and have embarked upon a significant investment programme to replace the high bay lighting in our factories with LED lighting. This has already contributed to a reduction in our scope 2 CO_2e emissions in 91 sites.

OUR PRINCIPLES

We remain committed to conducting our business in a responsible manner. We believe that delighting our customers and ensuring our employees operate in a safe and productive workplace is the only sustainable route to the long-term creation of value for our shareholders. DS Smith subscribes to a number of international standards and guidelines relevant to corporate responsibility and business conduct, including:

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

DS SMITH CHARITABLE FOUNDATION

The DS Smith Charitable Foundation was founded in 2011 and in 2015/16 made donations of over £300,000 to charities. The purpose of the Charitable Foundation is to support charities with values aligned to those of DS Smith, in particular, charities that support the environment. As a large employer with a responsibility to the communities in which we operate, the Charitable Foundation also supports charities which help to educate and train young people and assist them into work with a particular emphasis on science and engineering.

More information on the work of the Charitable Foundation, including details of charities that have been supported and also how to apply for funding, can be found at www.dssmith.com/company/sustainability/social-responsibility/charitable-trust

Sustainability continued

DS Smith has reported its greenhouse gas emissions and climate change risks to CDP since 2006, and became a corporate member of SEDEX in February 2015. In 2016 we improved our CDP score to 94C and our EcoVadis rating to Gold. EcoVadis is an external platform benchmarking organisations based on their policies, procedures and performance around environmental management, responsible supply chains, labour standards and fair business practise. The Gold award puts us in the top five per cent of organisations evaluated by EcoVadis.

MATERIALITY ANALYSIS

During March 2016 we refreshed the materiality analysis we last undertook in 2014, with the aim of gaining a better understanding of the issues of greatest concern to our stakeholders and assessing how issues had evolved over the last 24 months.

The materiality analysis also provided a new direction and momentum for specific sustainability areas. This exercise, which is something we intend to conduct biennially, is the mechanism DS Smith uses to engage a broad spectrum of internal and external stakeholders on sustainability topics of concern to them, and through a rigorous and structured comparison with our own corporate objectives, this process generates new insights and highlights opportunities to improve our position and further delight our customers.

A variety of quantitative and qualitative methodologies were used to gather information, including questionnaires, workshops and face-to-face visits. Stakeholders involved included investors, customers, suppliers, insurers and employees. Our stakeholders were invited to rank a range of issues in order of importance. Some issues are of universal importance; others are significant only to particular stakeholder groups or within niche areas. The analysis highlighted topics of significant importance to our stakeholders, where DS Smith is currently performing very well, such as recycling and waste and supply cycle analysis. DS Smith has continuously reduced the amount of waste to landfill, ahead of our targets, and has found innovative ways to partner with organisations to reduce waste to landfill wherever possible. However, there are clearly identifiable issues that are of high or growing importance to a large number of stakeholders. These include:

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

A more detailed discussion of this materiality analysis exercise can be read in our 2016 Sustainability Report.

KEY THEMES

Sustainability means many things to many people. In order to prioritise our activities in the areas that have the greatest positive impact we are focusing on three key themes.

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.

SUSTAINABILITY GOVERNANCE

The Board considers risks arising from sustainability issues as key risks to the Group's operations. It ensures that the Group has in place adequate and effective policies and procedures for managing sustainability risks and it receives regular reports on performance. The Group Chief Executive is responsible for sustainability issues. The Group Sustainability Committee oversees the management of these processes, and establishes targets and strategies for sustainability risks and opportunities. The Group Sustainability Committee is chaired by a member of the Board and all relevant issues are brought to the Board. Through the Group Operations Committee, policy is communicated to the heads of each business unit, and compliance with these policies is monitored throughout the year.

OUR BUSINESS

Our core business is inherently sustainable. Our position as Europe's largest recycler and reprocessor of corrugated board and paper for recycling ensures this. What we have also learned is that there is more to our capability than simply extolling the virtues of landfill avoidance. We also have a role to play in the design of corrugated packaging, and recent innovations have placed a greater emphasis on the sustainability story of our packaging products. We believe that our touchpoints in all the stages of packaging design and production give us the opportunity to lead the industry in sustainable packaging.

Recycling has a vital role to play in the supply cycle and we continue to help customers reduce their waste to landfill and their products' carbon footprint.

The Group has consolidated its sustainability reporting capabilities and has continued to make investments in the systems, processes and resources needed to meet customer and other stakeholder demand for greater transparency in a variety of sustainability fields. Our closed loop recycling business model already provides inherently sustainable packaging solutions for our customers.

Over the previous 12 months, we have actively engaged with our largest pan-European customers and other stakeholders. We realise that sustainability is fundamental to their commercial strategy and our key account managers make the time to listen and engage with our sustainability counterparts in our customers' organisations. This is normally done through face to face meetings. We recognise that as a supplier to some of the world's most famous brands we have an opportunity to support them to achieve their environmental targets and corporate social responsibility ambitions.

As for our own performance, we measure and report the direct environmental impacts of our factories and production facilities and assess our indirect impacts: upstream through our sourcing activities, and downstream in the way our customers utilise our products and the way consumers dispose of them.

OUR ENVIRONMENT

ENVIRONMENTAL MANAGEMENT AND REGULATION

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

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

Each production site that converts or trades in wood fibre or other wood derivative products is mandated to pursue a recognised programme leading to a chain of custody certification for responsible fibre sourcing. Once complete, this will result in 100 per cent of relevant production sites holding a certification from a credible external body. We are on track to achieve this target by 2018.

We have had no major environmental incidents or incidents of significant impact reportable to local or national authorities, and no incidents potentially resulting in legal prosecution have been reported for the period of this report.

OUR ENVIRONMENTAL TARGETS

For 2015/16, our environmental targets have remained unchanged. Relative to production, we aim to:

- Reduce our CO_2 equivalent (CO_2e) emissions from fossil fuels by 20 per cent over the 10 years to 2020;
- Reduce our water usage in our paper mills by 20 per cent over the 10 years to 2020; and
- Reduce the amount of production rejects sent to landfill by 20 per cent over the 10 years to 2020.

These targets are supported by ongoing action plans. Since 2013, we have incorporated reporting on greenhouse gases in our data in accordance with statutory requirements, and we express this target in terms of CO_2e.

We are pleased to have achieved a reduction in our overall CO_2e emissions per tonne of production as well as a slight reduction in our overall CO_2e. Our gross scope 1 emissions have increased as

DIVERTING PAPER DUST

In the UK, our Plymouth and Launceston sites found an inventive way of diverting cardboard dust away from landfill by partnering with the Eden Project. This relationship helps the Eden Project divert further waste away from landfill and produce an end product in a sustainable way that is returned back to the earth.

The Eden Project turns all visitor and staff food waste (more than 32 tonnes per annum), into compost rather than sending it to landfill. The Group provides a valuable ingredient that helps this happen. The ingredient is cardboard dust, a waste product, which would otherwise go to landfill. The partnership is an example of Supply Cycling thinking in action and it allows both parties to reduce their impact on the environment by reducing the amount of waste sent to landfill by c. 45 tonnes per annum.

Reducing impact on the environment

Sustainability continued

a consequence of a full year's output from our Combined Heat and Power (CHP) installation at our paper mill in Italy, which has resulted in a corresponding drop in scope 2 emissions and a substantial year-on-year increase in our exported energy. Of the 193 sites where a year-on-year comparison is possible, 60 have achieved reductions in absolute scope 1 emissions. This is the consequence of greater production efficiency and continued investments in more efficient boilers and fuel switching.

Analysis of our performance in reducing scope 2 emissions tells a similar story, with 91 sites achieving an absolute reduction. This has largely been driven by initiatives to replace high bay lighting with LED lighting. Furthermore, the Group has broadened its analysis of energy usage to include some sources of scope 3 emissions, such as business travel and hired third party transport. We have taken steps to monitor emissions from these sources and, over time, reduce emissions.

The figure for total production volume, used to normalise our total emissions, water and waste figures, has increased by 8 per cent since the previous year. This is due to two factors. Firstly our operations had a record production year, with many sites breaking their production records, and secondly, two businesses which the Group acquired in 2014 have now entered our statistics.

The total emissions of greenhouse gases aggregates the emissions of a number of businesses with dissimilar impacts and energy requirements. During 2015, a number of recycling depots were closed but these were replaced by several high volume corrugated packaging facilities, resulting in an increase in net tonnes produced. A large increase in overall volume produced combined with a marginal fall in net CO_2e emissions has resulted in a substantial reduction in CO_2e intensity. This is mostly due to the switching of our energy-intensive Lucca paper mill in Italy from using bought electricity to generating its own power using natural gas.

Record production has also affected the effluent water intensity ratio. In absolute terms there was a decrease due to the divestment of some water intensive facilities and initiatives at our remaining sites to increased internal water recycling in our manufacturing processes. Further to this, the overall denominator of all production across the Group results in a better figure for our target as we make more with less waste. As indicated last year, this particular target is becoming less relevant as we focus more closely on the role water and steam play as carriers and stores of thermal energy. Future efforts will concentrate on reducing water throughput per tonne of production, and in the coming year this will result in a recalibrated target.

As our business mix across Europe continues to evolve, we must not lose focus on our landfill targets. In 2015, we reduced waste to landfill by 20 per cent by focusing investments on our most high-impact facilities, which has resulted in a 26 per cent improvement in our waste to landfill per tonne of production. The Group is increasingly expanding into areas where the recycling infrastructure is not as developed as it is in our traditional markets, so our Group-level improvements which we have made in previous years will be diluted by our operations in these markets. For this reason, in our Sustainability Report we publish absolute values, by country, and establish site-specific targets to achieve zero waste to landfill in a timeframe that is feasible based on local waste management capacity and legislative requirements. Our Recycling division is leading the way in this regard.

ENVIRONMENTAL PERFORMANCE INDICATORS

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

Emissions figures given in this report are therefore all on a calendar year basis. The environmental performance data table overleaf displays the data for calendar year 2015 together with the data for calendar years 2014 and 2013.

Since we published our numbers last year we have made some changes to our methodology around the way we measure steam, as well as how we measure production from our Packaging division. To ensure consistency we have applied the new methodology to our 2013 and 2014 data. We believe that the changes in our methodology give a more accurate reflection of our greenhouse gas emissions. More information on the changes made to our reporting methodology will be included in our 2016 sustainability report.

OUR PEOPLE

During the last year, there has been an increasing focus on our suppliers as a consequence of the 2015 Modern Slavery Act and we have begun to work even more closely with our suppliers for greater transparency in our supply chain on issues of broader social concern, as well as continuing to work on reducing greenhouse gas emissions.

Our People includes information on our colleagues' wellbeing, health and safety and contributing to our communities. This information can be found on page 31.

FTSE4GOOD

FTSE Group confirms that DS Smith has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to remain a constituent of the FTSE4Good Index Series. Companies in the FTSE4Good Index Series have met stringent environmental, social and governance criteria, and are positioned to capitalise on the benefits of responsible business practice.

FTSE4Good

ENVIRONMENTAL PERFORMANCE INDICATORS

GLOBAL GREENHOUSE GAS EMISSIONS

(Data for period 1 January to 31 December of each year)

	Unit of measure	**2015**	2014	2013	2014/2015 Change
Scope 1: Combustion of fuel and operation of facilities	ktonnes of CO_2e	**1,540**	1,279	1,183	20.4%
Scope 2: Electricity, heat, steam and cooling purchased for own use	ktonnes of CO_2e	**347**	551	573	(32.1%)
CO_2e impact of electricity, heat, and steam exported to third parties	ktonnes of CO_2e	**(342)**	(235)	(187)	45.8%
Total		**1,545**	1,555	1,569	(0.7%)

OTHER ENVIRONMENTAL INDICATORS

	Unit of measure	**2015**	2014	2013	2014/2015 Change
Total production	ktonnes	**6,802**	6,294	6,257	8.1%
Electricity, heat, and steam exported to third parties	GWh	**845**	570	457	48.3%
Total effluent water discharged	Mm^3	**15.9**	16.9	16.0	(6.4%)
Total waste to landfill	ktonnes	**49.8**	62.4	61.9	(20.2%)

OUR ENVIRONMENTAL TARGETS

	Unit of measure	**2015**	2014	2013	2014/2015 Change
Emissions per tonne of production (CO_2e net of energy exports)	kg CO_2e/tonne	**227.1**	247.1	250.8	(8.1%)
Total effluent water discharged per tonne of production	m^3/tonne	**2.3**	2.7	2.6	(13.4%)
Total waste to landfill per tonne of production	kg/tonne	**7.3**	9.9	9.9	(26.2%)

Methodology

1 Data from sites we have owned for the whole of 2015 only. We will report on sites acquired in 2015 in next year's figures.

2 Total production figure is sum of printed reels produced by our paper mills, paper reels produced by our paper mills, plastics production (all types) produced by our plastics plants, recycled fibre collected and processed through our physical depot network, recycled other materials collected and processed through our physical depot network and boxes produced by our packaging plants (corrugators and sheet plants). The production of our Packaging division was calculated by converting thousand square metres into tonnes using the average weight of the product. It also includes the production from six sheetfeeders which produce no boxes, but only corrugated board.

3 DS Smith collects and reports environmental data in accordance with the guidelines of the Global Reporting Initiative and the Greenhouse Gas Protocol (GHGP), to the extent that this is practicable.

4 The figures reported above include data from all the Group's wholly-owned or majority-owned manufacturing operations. Actual consumption figures were available for all 193 sites in scope.

5 The CO_2 and CO_2e emissions were calculated using the UK Department for Environment, Food & Rural Affairs 2015 emissions factors. The factors used for converting grid electricity reflect the mix of fuels used for electricity generation in each country.

6 Scope 3 emissions, from sources external to DS Smith but involved in the supply cycle for the Group's products and services, are not included.

7 The waste figures relate to waste generated by our operations; they do not include waste that is collected from external sources for recycling.

8 The CHP plant that supplies Witzenhausen with steam is fired predominantly by biogenic fuels. The emissions factor for this site has been estimated as 92.019 kg/MWh of CO_2e.

VERIFICATION STATEMENT FROM BUREAU VERITAS UK LTD

Bureau Veritas UK has been commissioned by DS Smith Plc (DS Smith) for the eighth year to provide an independent opinion on the following environmental performance indicators: energy consumption, raw material usage, water consumption, waste and discharge (to air and water) for calendar year 2015. The reporting boundaries cover DS Smith's global operations. Having completed a process of assessment including site visits, document review and interrogation of associated management and reporting systems, Bureau Veritas concludes that there is no evidence to suggest that the data presented here is not a fair and accurate representation of DS Smith's performance.

DS Smith should be commended on its approach to consistent data collection and the work which has been undertaken this year to ensure that there is a good understanding of associated processes across the company both at a Group and a site level. It remains clear that DS Smith is constantly looking to improve its internal processes and has proactively engaged in the verification process.

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

Principal risks

Protecting the integrity of our business strategy.

The Group has an established management framework for identifying, managing, monitoring and mitigating risks. This forms the basis on which the Board reaches its conclusions on the effectiveness of the Group's risk management and internal controls.

At a strategic level, our risk management process continues to be one of the cornerstones of our corporate planning process. All risk management actions are aligned to our strategic priorities to ensure the Board has a clear line of sight to the amount of risk to be taken to deliver the Group's plan.

AN UPDATE ON OUR RISK MANAGEMENT PROCESS

Following the introduction of the Financial Reporting Council's revised Code on risk management, and with the necessary procedures in place, the Board has carried out its annual review of the effectiveness of the Group's risk management and control systems and is confident that the design continues to support the proper assessment of the Group's principal risks.

The Group has continued to adapt existing procedures and has taken appropriate steps to improve mitigation plans, improve the level and quality of discussion of its principal risks and integrate newly acquired businesses into the Group's approach to managing risk.

The Group's business risks are now reviewed over a rolling three year period which enables more detailed focus and discussion, and an improved understanding of the Group's ability to tolerate those threats. In order to more fully understand and address the near-term impact of its principal risks the Board has sought to gain additional insights into the potential speed, influence and impact of emerging threats and uncertainties on the integrity of the Group's business model. In 2016 the Board adapted the current framework to ensure that there is appropriate line of sight on new and emerging matters through horizon scanning discussion which formed part of the corporate planning process. This more in-depth review of future uncertainties and their management, coupled with the introduction of the discipline and rigour of scenario and sensitivity testing, supported the annual production of the Group's Viability Statement on page 41.

OUR PRINCIPAL RISKS AND UNCERTAINTIES

The Group recognises that it is subject to many and varied general hazards that are preventable, strategic risks which the Group chooses to take in pursuit of its plan targets and external uncertainties such as changes in socio-economic conditions, political, financial, general regulatory and legislative changes including events over which the Group has no influence, but whose effect would impact its ability to deliver its plan.

We advocate and promote a risk-aware culture in all decision making throughout the Group's businesses. We remain committed to seeking out opportunities and minimising the barriers and challenges that might impede the delivery of our plan. The risks we face, in the markets we choose to operate in, do not change significantly from year to year, but their influence on our strategic priorities can vary in magnitude and frequency. The relative influences of each principal risk on our strategy are reflected in the Board's current views and are categorised as stable, increasing or decreasing, as shown in the principal risks table.

See p 42 for details of our principal risks and uncertainties

In 2016, the Board agreed the inclusion of one additional principal risk, and classified it as the influence and impact of cyber threats impeding the development of the Group's critical information technology (IT) infrastructure, and that influence on its digital strategy within its supply cycle business model. This threat had previously been recognised within a broader "governance" risk category; however, the Board believes, given the current concerns about the potential impact of cyber security breaches, that it should now stand as its own principal risk category. We have also refreshed our existing analysis, to provide greater insight and to improve clarity and detail around the way the Group manages and reports on all its principal risks and uncertainties.

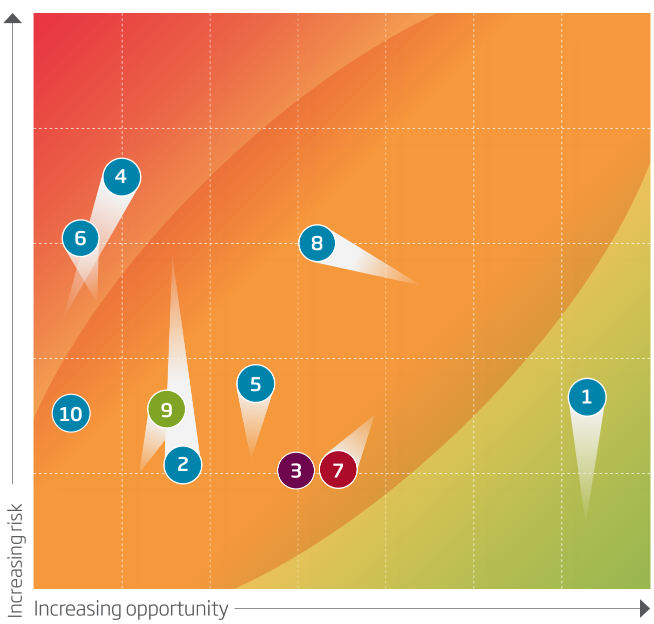
See p 46 for more about our cyber risk case study

The Board and the Group Operations Committee (GOC) continue to monitor how these risks are managed, how they support the achievement of the Group's strategic priorities and to understand the mitigation strategies adopted to ensure the Group is resilient in the event of a major and prolonged disruption whilst still maintaining delivery of the Group's strategy targets.

RISK APPETITE AND TOLERANCE

Our business model reflects the Group's view that its main risks, by their very nature, also bring the potential for creating value. Whilst there are some risks that the Group chooses to avoid, there are others that it chooses to manage, as well as those that the Group actively accepts and seeks in pursuit of its strategic priorities and targets. The Group's heat map is used as a way of presenting how we balance the Group's appetite for risk in the pursuit of opportunities to deliver strategic value. This allows the Group to continue to pursue certain risks where it has management know-how, experience and the operational skill to manage them and ensure the Group can deliver on its strategy. This risk appetite is illustrated in the Risk and Returns Heat Map below and shows the relative movements from the 2015 assessment.

RISK AND RETURNS HEAT MAP



1. Acquisition strategy
2. Capital markets
3. Human capital and talent integration
4. Eurozone macro-economic and deflation
5. Market consolidation/ competition
6. Governance and compliance risks
7. Commercial differentiation
8. Security of supply
9. Sustainability
10. Cyber

RISK MANAGEMENT EFFECTIVENESS

The Group's management processes consider its principal risks within the context of a portfolio of connected threats and uncertainties. Members of our GOC take a lead sponsorship role in assessing each risk so that there remains a close connection between the potential impacts caused by one or more events transpiring and how our operations can adapt to avoid, manage or react to the consequences of changing events. Through our management efforts we intend to minimise the impact of any prolonged, adverse change materialising in our plan period.

Our process, as defined last year in our Annual Report, remained in force during 2015/16 with Group risks being considered by the GOC, and risk assessments being maintained and reviewed by the Divisions. These assessments are the result of input and challenge undertaken by the senior executives throughout the Group and are maintained and revised by considering not only threats that have the potential to disrupt the Group's planned targets but also the potential opportunities available.

We continue to recognise the significant interdependencies between our principal risks. These have formed the basis of our scenario and sensitivity testing and are represented through our connections risk diagram.

See p 42 for the connected risks diagram

This illustration highlights how the Group considers the consequences of one risk as a potential trigger of, or influence on another. By understanding the relationships between our key risks, the Group continues to be better placed to ensure that the strategy and measures taken to manage the delivery of plan targets are robust and facilitate stronger GOC and division-level discussions. This process provides the foundations to support the production of the Group's Viability Statement.

VIABILITY STATEMENT

In accordance with the revised 2014 UK Corporate Governance Code, the Directors have assessed the viability of the Group over a three-year period to 30 April 2019. The Directors confirm that they have performed a robust assessment of the principal risks facing the Group, including those that will threaten its business model, future performance and solvency or liquidity. The assessment is based on the latest three-year Corporate Plan and considers likely downside sensitivities (including mitigating actions), both individually and in combination, demonstrating the impacts of severe but plausible scenarios on the Group's debt facilities and covenants.

The three-year time period was considered appropriate given the time scale of the Corporate Plan, the evolution of the Group over the last three years, and the medium-term nature of our pan-European customer relationships.

In assessing the Group's viability, the Directors have made the following assumptions:

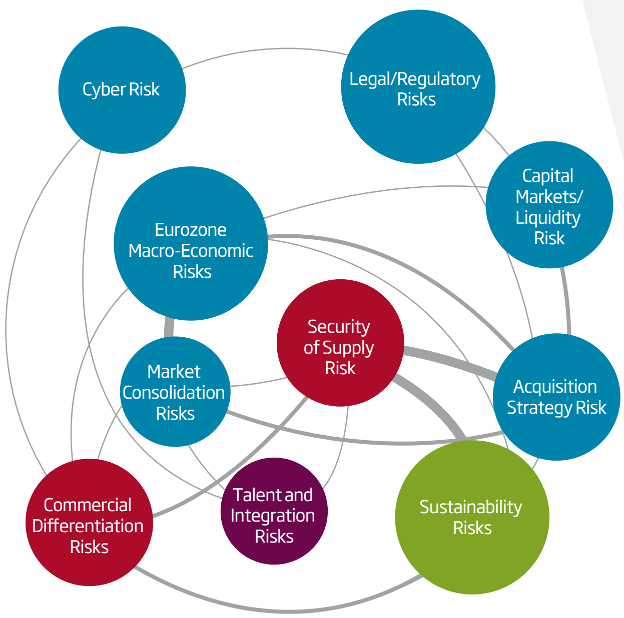
- The existing banking and debt facilities will remain in place or, as appropriate, mature as predicted.
- Mitigating actions can be applied on a timely basis, and at insignificant or no cost.

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

Principal risks continued

CONNECTED RISKS DIAGRAM

The influences of the principal risks on each other.

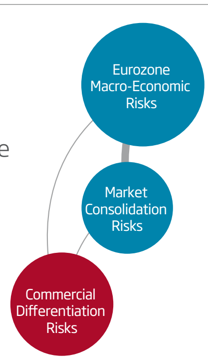


Size of circle = Risk impact

Line thickness = Strength of connection

SENSITIVITY ANALYSIS

The following three connected risks were selected for use in the scenario/sensitivity modelling that supported the development of the Group's Viability Statement.



STRATEGIC PRIORITIES

TO DELIGHT OUR CUSTOMERS

PRINCIPAL RISK

COMMERCIAL DIFFERENTIATION RISKS

- We fail to anticipate and are ill-equipped to meet customer expectations and demand for new packaging services
- Our customer base rejects our differentiated product and service offerings
- Differentiation fails to grow volumes or margins, or the costs of implementation exceed benefits
- Our inability to adapt to rapid technological change and/or to harness new technology throughout our fibre supply cycle business model

RESILIENCE

- Long-term commitment to resource research and development properly, taking concepts through to commercial implementation using a clear defined methodology
- A shared strategy for innovation across our businesses using our systems and the network of design centres that we are investing in
- A well-established process for the introduction and management of new products and services
- Extending our product and services offering through the design and development of packaging consultancy services
- Implemented extensive customer engagement work undertaken to ensure our innovation is aligned to future customer needs

DEVELOPMENTS IN 2015/16

- Introduced a new innovation and research and development organisation structure focusing on key market trends, technology and design

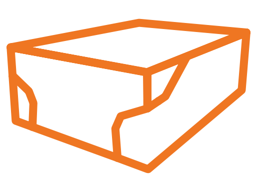
BOARD RISK MONITORING

- Board review through presentations on specific Packaging sectors including a review of industrial and performance packaging strategy, risks and opportunities

ILLUSTRATIVE METRIC

17

PACKRIGHT CENTRES



TO REALISE THE POTENTIAL OF OUR PEOPLE

HUMAN CAPITAL AND TALENT INTEGRATION RISKS

- Failure to implement a functional organisation structure to support integration synergies as the Group expands into new geographies
- Inability of our organisation structure to keep pace with growth, drive innovation and manage change
- Inability to attract, develop, retain and manage the right people to maintain shared beliefs and a common culture that supports the business strategy

- Developments in talent management strengthened our leadership capability and our employee skill base
- The "OWN IT!" employee communications campaign continues as our cornerstone of our cultural integration strategy
- A performance and talent management targeted at development opportunities and succession plans
- Continuing efforts to embed a world class employee safety culture, to roll out common reporting platforms and to strengthen our internal communications

DEVELOPMENTS IN 2015/16

- Supporting apprenticeship and graduate programmes through the Alliance for YOUth
- Improved connection between management competency matrix and talent and performance reviews
- Implementation of our "Engaging Managers" programme

- Board review through discussion in Nominations Committee and Group Chief Executive updates on talent management plans

1,456

PARTICIPATED IN ENGAGING MANAGERS PROGRAMME

TO DOUBLE OUR SIZE AND PROFITABILITY

ACQUISITION STRATEGY

- Failure to target and complete acceptable acquisition opportunities across Europe
- Acquisitions underperform on expected returns and Group key corporate metrics are missed
- Inability to integrate acquisitions into existing operations to realise expected cost savings, growth opportunities or access to new markets

- Country and market entry strategies aimed at strengthening the supply cycle model
- Continued focus on "bolt-on" acquisitions
- Specific investments in mature markets
- Targeted markets where growth is higher than our Eurozone benchmark

DEVELOPMENTS IN 2015/16

- Reinforced the merger and acquisition function with growing positive track record for both large and small transactions (Duropack, Lantero, Cartonpack, Milas Ambalaj and TRM)
- Greater management experience and improved processes for sourcing, assessing and executing merger and acquisition transactions
- Continued appraisal and improvement of the due diligence and integration process

- Regular reviews undertaken as part of the Board's review of the Corporate Plan
- Updates of merger and acquisition strategy undertaken at each Board meeting by the Group Chief Executive
- Board review of due diligence reports and approval of each acquisition

£433m

SPENT IN 2015/16 ON ACQUISITIONS

Principal risks continued

STRATEGIC PRIORITIES

TO DOUBLE OUR SIZE AND PROFITABILITY CONTINUED

PRINCIPAL RISK

CAPITAL MARKET AND LIQUIDITY RISKS

- Material EBITDA underperformance and breach of covenants
- Inability to meet funding needs without incurring unacceptable costs
- Disruptive behaviour in financial markets leading to unplanned decreases and/or changes in our funding sources restricts our financial flexibility to meet plan targets

RESILIENCE

- Activities focused on securing access to debt capital and active management of our bank relations and the bank market in general
- A centralised treasury function continues to focus on cash and cash pooling so that surplus funds repay drawings under committed bank facilities to ensure adequate financial liquidity

DEVELOPMENTS IN 2015/16

- Successful issue of €500 million seven-year Eurobond
- Active programme of regular engagement with equity holders

BOARD RISK MONITORING

- Audit Committee review and recommendation to the Board regarding "going concern" and "viability"
- Regular reviews of liquidity schedules, cash flows and covenant headroom

ILLUSTRATIVE METRIC

£500m

HEADROOM UNDER COMMITTED FACILITIES AT YEAR END

PRINCIPAL RISK

EUROZONE AND MACRO-ECONOMIC RISKS

- Relative market performance in core Eurozone countries is affected by a prolonged ceiling on growth
- Adverse foreign exchange position results in a disproportionate negative impact on earnings
- Inability to adapt to structural changes in our markets as a result of shifts in performance in world commodity prices, and/or major world economies including China and other emerging markets

RESILIENCE

- Management teams continue to lead projects based on all forms of cost optimisation and operational efficiency improvement
- We continue to invest in a strategy to address any long-term Eurozone currency imbalances within our portfolio by managing the potential impacts of short-term slower-growth markets with opportunities in other higher-growth geographies
- We continue to undertake hedging to remove the foreign exchange risk between committed receipts and payments

DEVELOPMENTS IN 2015/16

- Improvements to the Group's corporate planning tools to review the financial implications of high risk impact scenario events to support business responses to future uncertain conditions

BOARD RISK MONITORING

- Board meeting reviews of performance and forecasts of the business activities in relation to the macro-economic environment provided by the Group Chief Executive and Group Finance Director at each Board meeting

ILLUSTRATIVE METRIC

1.7%

EUROZONE GDP ANNUAL GROWTH RATE

MARKET CONSOLIDATION RISKS

- Our relative competitive position is weakened by competitor and supplier influences and forces a material volume drop and margins and/or market share decrease in one or more of our principal territories
- Our relative dependency on critical suppliers leads to a loss of tactical options and bargaining power, resulting in a margin decrease

- Experienced leadership team participates in the review of consolidation implications and is ready to react with contingency arrangements
- Implementation of specific divisional "competitiveness projects" including cost optimisation, investment in new technology, site expansion and location realignment to support the volume and quality demands of our customer base

- Regular Board updates on market and competitor activity as part of regular Group Finance Director reports

€25bn

SIZE OF EUROPEAN CORRUGATED PACKAGING MARKET

GOVERNANCE AND COMPLIANCE RISKS

- A systematic failure of, or discovery of a systemic weakness identified in, our internal systems of control in one or more critical functional or operational areas
- Adverse regulatory/legislative change affects the fundamental basis of our business model
- We remain passive and fail to respond to external regulatory influence and change

- Clear standards of ethics and behaviour as defined in our operating framework
- Structured training programme for all employees in competition law and anti-bribery and corruption and provision of supporting presentations within the Group
- Focused divisional internal control reviews
- Collaboration with associations and stakeholders to monitor and understand the issues and implications of regulation and legislation amendments
- External bodies are fully engaged to undertake compliance and certification testing
- Extensive management arrangements governing health, safety and environment, product integrity and safety for all Group operations

DEVELOPMENTS IN 2015/16

- Embedded the compliance framework across all acquisitions made in 2015/16
- Enhanced internal process for managing allegations of breaches of conduct through "Speak Up!" arrangements

- Regular Audit Committee reviews specific to the results of internal control reports
- Regular reviews of health and safety performance at Board meetings including update on the establishment of a safety leadership group
- Corporate governance updates at Board meetings
- Group Finance Director update on governance structure on key projects
- Regular updates on anti-trust matters as part of mergers and acquisitions via Group Chief Executive updates

1,600

EMPLOYEES COMPLIANCE TRAINED IN 2015/16

Principal risks continued

STRATEGIC PRIORITIES

TO DOUBLE OUR SIZE AND PROFITABILITY CONTINUED

PRINCIPAL RISK

CYBER RISK

- Failure to protect critical IT infrastructure and/or third party IT infrastructure creating an unplanned and unforeseen adverse impact to the Group's supply cycle model and leading to delays or limitations in creating value from the Group's digital business strategy

RESILIENCE

- An infrastructure with continuing investment to secure against perceived threats (addressed through the Group IT convergence programme)
- Strengthened programme of IT integration for all acquired businesses
- Development of awareness programme on security threats and good practice
- Cyber skills being developed as part of an IT optimisation programme

DEVELOPMENTS IN 2015/16

- Evolution of our response against increases in the number and sophistication of cyber attacks
- Stronger contract review process involving data protection laws safeguarding data privacy

BOARD RISK MONITORING

- Board review and discussion of cyber risk and the Group's approach to its management

ILLUSTRATIVE METRIC

32,000

HITS ON THE GROUP'S INFORMATION SECURITY INTRANET PAGES

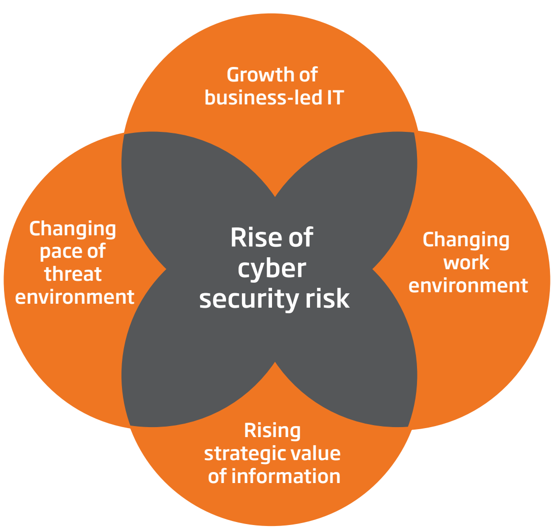
CYBER RISK CASE STUDY

The Group considers the matter of data security to be a key threat to the integrity of its business systems. We are working hard to mitigate the potential impacts of a breach whilst recognising that the development of our digital strategy to support our products and business processes may also create new areas of vulnerability.

To improve the landscape of our security arrangements over the past year we have standardised the Group's secure IT platform, adapted our governance policy, introduced additional controls and have established arrangements with third party providers to support cyber security resourcing and responsiveness. We have performed vulnerability assessments, as part of the integration of our mergers and acquisition process, on our internal and external IT assets and have adopted the UK Government Cyber Essentials controls model.

We recognise the critical importance of Group-wide cyber awareness, and have started a programme to educate all users of IT to ensure there is an appropriate understanding of information security matters and the relevance of online behaviour. Our aim is drive awareness across all our employees with the intent that our staff will be proactive "threat detectors" and no longer "potential victims".

Our investment in managing cyber security is based on an increasing potential for cyber crime to pose a critical risk to our business model. We continue to develop a robust, well-documented programme to monitor cyber risks to ensure we have the capability and capacity to manage cyber security events.



SECURITY OF SUPPLY RISKS

- Inability to manage input price and processing cost escalation in recycled waste and corrugated case material over the medium term
- Inability to adapt to changes in installed paper production capacity or imports from our competitors

- Maintaining a short position on paper to give assurance of security of supply, while still securing lowest cost of overall supply
- Leveraging the scale of our own recycled paper sourcing and production with external market to generate a cost and quality "best fit" given our geographical footprint
- Our commercial strategy aims to recover paper price changes through indexed contracts and timely commercial negotiations
- Paper sourcing to meet projected demand on production volumes embedded within a long-term sourcing strategy
- Accessing additional recycled material outside the UK through development of our commercial recycling service model

- Regular discussion at Board meetings in relation to merger and acquisition updates with specific discussion of security of supply of existing materials in relation to plan targets
- Updates provided to Board from the Paper division including Recycling and Paper sourcing strategy

5.3mt

OF RECYCLED FIBRE SOURCED

TO LEAD THE WAY IN SUSTAINABILITY

SUSTAINABILITY RISKS

- Our inability to maintain the trust and reputation of stakeholders as a result of changing consumer ethos, higher standards on traceability and transparency in our supply chain and/or failure to disclose adequately our sustainability targets, indicators and obligations
- Failure of our businesses to adapt to climate change/energy management policies and/or provide a decisive cost advantage to another packaging material resulting in unsustainable manufacturing cost inflation and margin decrease

- Disclosure of our sustainability data to provide visibility and assurance to our stakeholders by publishing targets for our emissions of greenhouse gases, water and waste
- Development of our leadership capability to implement our strategy of improving the sustainability characteristics of our supply cycle model
- Ensuring the operational integrity of a single Environmental Management System across the Group

- Board update on Group reporting arrangements on sustainability
- Update by Group Finance Director on projects related to energy management

8.1%

REDUCTION IN CO_2E EMISSIONS PER TONNE PRODUCED

Introduction to Corporate Governance

Good governance is fundamental to the way we do business.

This report explains the Board's approach to Corporate Governance and how our governance structure supported our activities during the year.

Gareth Davis
Chairman

Q HOW IMPORTANT IS GOOD GOVERNANCE TO DS SMITH?

A You don't have to look very far to see how important good governance is. This has been highlighted frequently in the last year as board effectiveness and reputational risk continue to make the headlines. At DS Smith, we seek to operate to the highest governance standards as this is essential if we are to have a strong, successful and enduring business. Throughout this report we have sought to provide a genuine understanding of how governance supports and protects DS Smith's business and stakeholders in a practical way. I am pleased to confirm that we have complied in full throughout the year with the principles and provisions of the 2014 UK Corporate Governance Code (the Code).

Q HOW DOES GOOD GOVERNANCE HELP MANAGE RISK AND SUPPORT DS SMITH'S ABILITY TO MEET ITS STRATEGIC GOALS?

A As a Board we have looked again at our management of and approach to risk. The Board, supported by the Audit Committee, spent time discussing risk appetite across the business. Whilst defining our approach to risk appetite remains a work in progress, our risk management process continues to be one of the cornerstones of our corporate planning process.

Q A LOT HAS BEEN SAID ABOUT REMUNERATION IN THE LAST FEW YEARS. WHAT PRINCIPLES DO YOU SEEK TO APPLY? ARE YOU MAKING ANY CHANGES?

A As DS Smith strives to apply the highest standards of governance, it is important to demonstrate transparency around policies and processes. This is now the second year of our remuneration policy which was approved by our shareholders at the Annual General Meeting in September 2014. We are not making any changes to the policy this year, nor to the way that we will be operating the policy.

Q WHAT WERE THE KEY LEARNINGS FROM THIS YEAR'S BOARD EVALUATION?

A This year's Board evaluation outcomes included a request for an annual strategic discussion in the Nomination Committee and emphasis on the need for a wider and deeper appreciation of the business by the non-Executive Directors. The process allowed the Board to consider how effectively it sets the tone from the top. You can read more about this in the case study on page 60.

Q HOW HAS THE BOARD ENSURED THAT THE BUSINESSES ACQUIRED UNDERSTAND YOUR APPROACH TO GOOD GOVERNANCE?

A Various acquisitions have taken place throughout the year, and we continue to roll out training on all good governance and compliance matters as part of our integration process. A refreshed communication about our "Speak Up!" policy will be rolled out in the first half of 2016/17 to encourage further use of our "Speak Up!" hotline to report any problems.

CULTURE AND VALUES

The 2014 UK Corporate Governance Code emphasises the key role of the Board in establishing the culture, values and ethics of the Company, leading by example to ensure good standards of behaviour within the organisation. DS Smith's Board recognises the importance of culture which is instilled through our values and setting the correct "tone from the top". Our Group-wide "OWN IT!" initiative, a change programme designed to help us develop as a Group and to build a new, common Group culture, is currently undergoing a refresh to encourage all employees to "OWN" our corporate values and improve communications throughout the organisation.

KEY RESPONSIBILITIES OF THE BOARD

- We are responsible and accountable to our shareholders for the long-term sustainable success of the Group. We seek to achieve this through setting out our strategy, monitoring our strategic objectives and providing oversight of strategy implementation by the management team.
- We seek to ensure that the Group remains at the forefront of developing and embedding best practice for risk management.
- We maintain and enhance DS Smith's culture, ensuring that management operates responsibly within our governance framework while clearly demonstrating our values and high ethical standards.
- As part of the governance framework, we have adopted a schedule of matters on which, as a Board, we must make the final decision. These include the annual budget, substantial acquisitions and disposals, the approval of the full-year and half-year results and a review of the overall system of internal control and risk management.
- We are mindful of our legal duties to act in the way we consider, in good faith, will be most likely to promote the success of the Company for its shareholders as a whole and having regard also to the interests of other stakeholders.
- We continue to monitor senior executive talent management and development plans to provide succession for all key positions.

COMPLIANCE WITH THE CODE

DS Smith is committed to maintaining high standards of corporate governance; we have complied in full with all relevant provisions of the Code throughout the year and up to the date of this report.

Leadership – p52
Effectiveness – p60
Relations with stakeholders – p63
Accountability – p70
Remuneration – p77

Q HOW HAS THE BOARD RISEN TO INCREASED DISCLOSURE CHALLENGES?

A DS Smith is a long-standing supporter of the principles set out in the United Nations Universal Declaration of Human Rights. The transparency in supply chain reporting requirement in the Modern Slavery Act addresses the role of businesses in preventing modern slavery within their organisation and down into their supply chain. Our first statement is being prepared and will be published shortly on our Group website. The statement will show the steps DS Smith has taken to ensure slavery and human trafficking is not taking place in any part of our business or supply chains. We set standards for our businesses and seek to influence our suppliers by promoting ethical business throughout the organisation through our Code of Conduct.

New Gender Pay Gap reporting regulations are due to take effect in October 2016. The Board has given due consideration to these and progress is underway in collecting the relevant information due to be published by April 2018. The Board takes diversity, including gender diversity, seriously and more information can be found in our Nomination Committee report on pages 74 to 76.

Q IS BOARD COMPOSITION KEEPING PACE WITH THE DEVELOPING SHAPE OF THE BUSINESS?

A Yes, DS Smith has a small Board with diverse skills and experience. This allows us to get things done and there is a good process for investment decisions. During the external evaluation which took place last year it was identified that more international experience across the senior management team would be beneficial. The Board has paid due regard to this feedback. Board composition remains a key focus of the Nomination Committee. You can read more about the work of this Committee on pages 74 to 76.

The work of the Board is supported by three key committees, Audit, Nomination and Remuneration, which support the Board in its overall control of the Group's affairs, with reference to the formal schedule of matters and terms of reference. The Board is responsible, among other activities, for the oversight of management of the DS Smith Group, setting the long-term objectives and commercial strategy, maintaining a sound system of internal controls and risk management and approving the Group and Company financial statements, ensuring that the Annual Report is fair, balanced and understandable.

Gareth Davis
Chairman

Introduction to Corporate Governance continued

Corporate governance at a glance.

Building good governance through effective leadership is an ongoing process.

HIGHLIGHTS FROM 2015/16

- Five acquisitions approved and fully integrated into the Group.
- Review of financial KPIs.
- Discussion on risk management process and review of key risks.
- Review of renewal of appointment for the Chairman and three non-Executive Directors.
- Further invitation under the Sharesave Plan to employees in 32 countries.
- Monitored health and safety performance across the Group.

Dividend for 2015/16
12.8p

Adjusted operating profit
£379m

PRIORITIES IN 2016/17

- Approve and keep under review the Corporate Plan.
- Consider acquisitions and divestments as identified and determine appropriate course of action.
- Keep financial KPIs under review.
- Keep the Group's dividend policy under review.
- Continue to review key risks.
- Continue to monitor compliance with key policies.
- Continue to strengthen internal controls and reporting.
- Continue to monitor talent management and development plans to provide succession for all key positions.

ATTENDANCE

There were seven Board meetings, four Audit Committee, five Nomination Committee and five Remuneration Committee meetings held during the year.

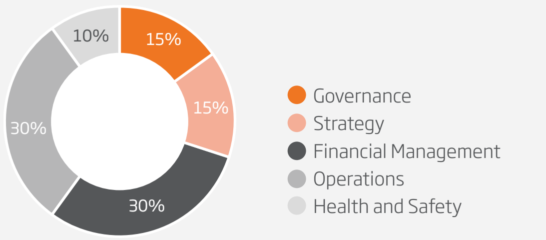
All Directors received papers for all meetings, and had the opportunity to comment in advance of meetings they were unable to attend. A brief overview of the key areas of discussion, the actions and the outcomes is provided on the following pages.

BOARD AND BOARD COMMITTEES

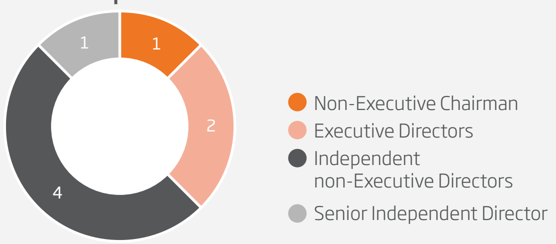
Directors	Attendance %
Gareth Davis	100%
Miles Roberts	100%
Adrian Marsh	100%
Chris Britton	100%
Ian Griffiths	100%
Jonathan Nicholls	100%
Kathleen O'Donovan	100%
Louise Smalley	86%

See p 57 for attendance breakdown by Board and committees

Allocation of time



2016 Composition



2015/16 Board calendar

June 2015

- Full-year results process including:
  - Review of internal controls
  - Consideration of going concern statement
  - Annual Report and final results announcement
  - Notice of Annual General Meeting
  - Final dividend recommendation
- Consideration of Corporate Social Responsibility Report
- Board evaluation feedback from external evaluator
- Health and safety – full-year health and safety review and trends
- Approval of Lantero acquisition

SEPTEMBER 2015

- AGM Statement for approval
- Health and safety update
- Corporate Plan signed off
- Follow-on actions from external Board evaluation carried out in April 2015
- Investor Relations report

OCTOBER 2015

Site visit to Margarethen am Moos:
- Reviewed health and safety
- Met senior management team
- Reviewed commercial position
- Celebrated awards and achievements of the Austrian team

Other Board matters discussed included:
- Approval of Cartonpack acquisition
- Strategy & Corporate Plan follow-up

DECEMBER 2015

- Approval of the interim results statement, including the interim dividend
- Approval of Milas Ambalaj acquisition
- Health and safety – six month period report
- Tax update
- Investor Relations report

JANUARY 2016

- Annual Human Resources review
- Preview to the Board of the budget process
- Health and safety update
- Internal Board evaluation process discussion

MARCH 2016

- Approval of TRM Packaging acquisition
- Group Key Risks
- Health and safety update
- Investor Relations report
- Budget process agreed by the Board

APRIL 2016

- Formal review of Budget and Corporate Plan presentation
- Trading Update discussed
- Early review of the Annual Report
- Internal Board evaluation review

Leadership

OUR BOARD

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

1 GARETH DAVIS

CHAIRMAN
- Governance and leadership.
- Gareth leads the Board and brings a wealth of international experience, helping to drive strategy, in particular DS Smith's ongoing expansion plans.

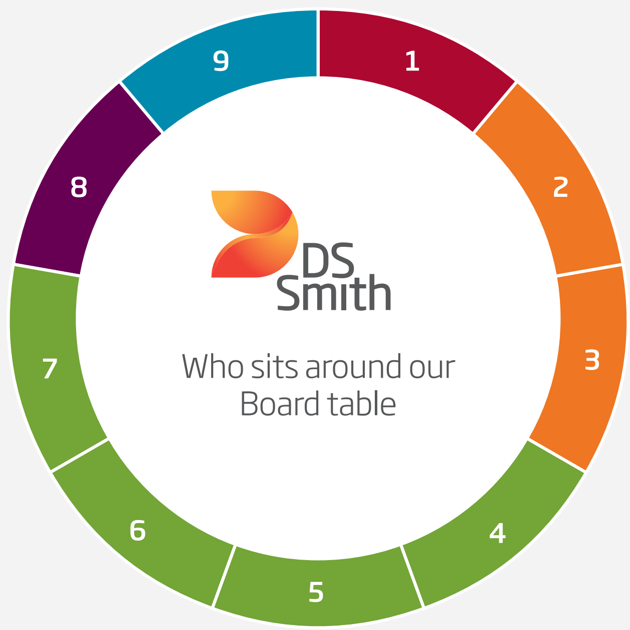
EXECUTIVES

2 MILES ROBERTS

GROUP CHIEF EXECUTIVE
- Strategy and vision.
- Miles leads the development of DS Smith strategy and along with the rest of the Board helps drive the Group's direction with strategic acquisitions and a sustainable business model.

3 ADRIAN MARSH

GROUP FINANCE DIRECTOR
- Financial and risk management.
- Coming from a large listed company background, Adrian brings strong financial expertise within an international context.



NON-EXECUTIVE DIRECTORS

4 CHRIS BRITTON

NON-EXECUTIVE DIRECTOR
- Commercial and general management.
- Chris has a strong background in general management and marketing, and has extensive experience of sitting on boards of large companies, including listed companies.

5 IAN GRIFFITHS

NON-EXECUTIVE DIRECTOR
- Strong corporate finance and audit experience.
- With over 25 years' experience as a qualified accountant and holding a M.A. in Economics from Cambridge University, he was awarded FTSE 100 FD of the Year in 2013.

6 KATHLEEN O'DONOVAN

NON-EXECUTIVE DIRECTOR
- Financial strategy, M&A and restructuring experience.
- Kathleen is a qualified accountant and has extensive experience of executive and non-executive responsibility on a global scale.

7 LOUISE SMALLEY

NON-EXECUTIVE DIRECTOR
- Knowledge of people management, rewards and remuneration schemes.
- Louise has large listed company experience as an Executive Director of Whitbread PLC.

SENIOR INDEPENDENT DIRECTOR

8 JONATHAN NICHOLLS

SENIOR INDEPENDENT DIRECTOR
- Jonathan is a qualified accountant with many years' experience.
- Working closely with the other non-Executive Directors at DS Smith, assists the Chairman in providing independent judgement and advice to the Board.

COMPANY SECRETARY

9 IAIN SIMM

GROUP GENERAL COUNSEL AND COMPANY SECRETARY
- Supports the Chairman in ensuring the Board functions efficiently and effectively.
- Guides the Chairman and Board on their responsibilities.

Gareth Davis, Chairman

Appointment: Gareth was appointed to the Board on 1 June 2010 as a non-Executive Director. He became Chairman of the Board on 4 January 2012 and is Chairman of the Nomination Committee.
Skills and Experience: Gareth is an experienced Chairman with over 20 years' experience of sitting on boards. Previously he was Chief Executive of Imperial Tobacco Group PLC following its demerger from Hanson in 1996 until May 2010.
External Appointments: Gareth is Chairman of both Wolseley plc and William Hill PLC .

Miles Roberts, Group Chief Executive

Appointment: Miles was appointed to the Board on 4 May 2010 as Group Chief Executive.
Skills and Experience: In his earlier years he gained an engineering degree at Bristol University, before training as an accountant. He brings to the Board extensive financial and strategic development experience. He was previously Chief Executive of McBride plc, having originally joined as its Group Finance Director.
External Appointments: He is a non-Executive Director and Senior Independent Director of Poundland Group plc.

Adrian Marsh, Group Finance Director

Appointment: Adrian was appointed to the Board on 24 September 2013 as Group Finance Director.
Skills and Experience: 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. He is a qualified accountant, and comes from a FTSE background. He was European CFO at AstraZeneca plc and CFO Global Building Products at Pilkington plc.
External Appointments: None.

Chris Britton, Non-Executive Director

Appointment: Chris was appointed to the Board on 6 March 2013 as a non-Executive Director and is a member of the Audit, Nomination and Remuneration Committees.
Skills and Experience: He co-founded B&B Investment Partners, a specialist investment fund, in 2013. He was previously a non-Executive Director for Alliance Boots GmbH. He has additionally held executive board positions, including as Chief Executive Officer of the Findus Group, and was President of the Baby Division of Royal Numico until its acquisition by Danone in November 2007. Before that he worked for Diageo for 20 years in various marketing and general management positions, latterly as Global Marketing Director.
External Appointments: Chris is Chairman of Graze and currently serves on the Board of Aromatherapy Associates and PhD Nutrition.

Ian Griffiths, Non-Executive Director

Appointment: Appointed to the Board on 23 June 2014 as non-Executive Director, Ian is a member of the Audit, Nomination and Remuneration Committees.
Skills and Experience: Prior to his current role with ITV, Ian was at Emap plc from 1994 to 2008 where he held a number of senior finance roles, including the position of Group Finance Director from 2005 to 2008. Prior to that he was at EY, where he worked in the corporate finance team.
External Appointments: He is Group Finance Director of ITV plc.

Leadership continued

Jonathan Nicholls,
Senior Independent Director

Appointment: Jonathan was appointed to the Board on 1 December 2009 as a non-Executive Director. In July 2012 he was appointed as the Senior Independent Director and is the Chairman of the Audit Committee.
Skills and Experience: He is a member of the Institute of Chartered Accountants in England and Wales and a Fellowship member of the Association of Corporate Treasurers. He was previously Group Finance Director of Hanson Plc, and, most recently Group Finance Director of Old Mutual Plc.
External Appointments: He is a non-Executive Director, Senior Independent Director and Chairman of the Audit Committees at Great Portland Estates plc and Ibstock plc. He is a non-Executive Director and Chairman of the Audit Committee at SIG plc.

Kathleen O'Donovan,
Non-Executive Director

Appointment: Kathleen was appointed to the Board as a non-Executive Director on 5 December 2012. She was appointed Chairman of the Remuneration Committee in September 2013.
Skills and Experience: She was previously a non-Executive Director of Prudential plc, EMI Group plc, O2 plc and Senior Independent Director of Great Portland Estates plc. She served as a Director on the Court of the Bank of England from 1998 to 2004 and was Chief Financial Officer of BTR plc and Invensys plc from 1991 to 2002.
External Appointments: She was Senior Independent Director for ARM Holdings plc until December 2015 and chaired their Audit Committee.

Louise Smalley, Non-Executive Director

Appointment: Louise was appointed to the Board on 23 June 2014 as a non-Executive Director and is a member of the Nomination, Remuneration and Audit Committees.
Skills and Experience: Louise brings strong HR experience to the Board having held a number of key HR roles across Whitbread including HR Director of David Lloyd Leisure and Whitbread Hotels & Restaurants. She previously worked as an HR professional in the oil industry, with BP and Esso Petroleum.
External Appointments: She is Group Human Resources Director and an Executive Director of Whitbread PLC.

Iain Simm, Group General Counsel and Company Secretary

Appointment: Iain was appointed as Group General Counsel and Company Secretary on 6 June 2016.
Skills and Experience: He was previously General Counsel and Company Secretary with BBA Aviation plc and prior to that General Counsel at P&O Ports Ltd. He undertook his legal training with Slaughter and May and worked for a number of years in their corporate and commercial group.

KEY

- N Nomination Committee
- R Remuneration Committee
- G General Purposes Committee
- A Audit Committee

GOVERNANCE FRAMEWORK AND COMPLIANCE

Our governance framework, which is shaped by the 2014 UK Corporate Governance Code (the Code), the Companies Act 2006 and secondary legislation, sets out standards of good practice in relation to Board leadership and effectiveness, accountability, remuneration and relations with shareholders. The Company has complied throughout the financial year, and up to the date of this report, with all the provisions of the 2014 version of the Code.

Each Director has access to all information relating to the Group and to the advice and services of the Company Secretary (who is responsible for ensuring that Board procedures are followed) and, as required, external advice at the expense of the Group.

OUR GOVERNANCE STRUCTURE

THE BOARD

CHAIRED BY GARETH DAVIS

MEETS SEVEN TIMES A YEAR

Accountable to shareholders for the long-term sustainable success of the Group. This is achieved through setting out the strategy, monitoring the strategic objectives and providing oversight of the implementation by the management team.

AUDIT COMMITTEE

CHAIRED BY JONATHAN NICHOLLS

MEETS FOUR TIMES A YEAR

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

See p 70 for more information

REMUNERATION COMMITTEE

CHAIRED BY KATHLEEN O'DONOVAN

MEETS FIVE TIMES A YEAR

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

See p 77 for more information

NOMINATION COMMITTEE

CHAIRED BY GARETH DAVIS

MEETS FIVE TIMES A YEAR

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

See p 74 for more information

GROUP OPERATING COMMITTEE

CHAIRED BY MILES ROBERTS

MEETS MONTHLY

Considers Group-wide initiatives and priorities. Reviews the implementation of strategy and operational plans; reviews changes to policies and procedures and discusses the development of new projects.

STRATEGY COMMITTEE

CHAIRED BY MILES ROBERTS

MEETS MONTHLY

Plans the business strategy implementation through the annual Corporate Plan process. It 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 financials. Our Corporate Plan covers a three year horizon and is reviewed annually with the Board.

OPERATING DIVISIONS

DAY-TO-DAY BUSINESS DELIVERY

CORPORATE FUNCTIONS

DAY-TO-DAY BUSINESS DELIVERY

Leadership continued

GROUP ANNUAL REPORTING FRAMEWORK

FINANCIAL RESULTS AND REPORTS TO INVESTORS
- Full-year results
- Half-year results
- Trading updates in March and September

BOARD MEETINGS
- Seven scheduled Board meetings a year

GROUP OPERATIONS COMMITTEE (GOC)
- Eleven GOC meetings a year

TRADING MEETINGS
- Each division provides monthly updates

SUSTAINABILITY GOVERNANCE
- Four Sustainability Committee meetings

TALENT AND PERFORMANCE REVIEW PROCESS
- Talent and performance reviews
- Bonus targets and payments
- Salary reviews

CORPORATE PLANNING CYCLE
- Divisional strategy development
- Board approval

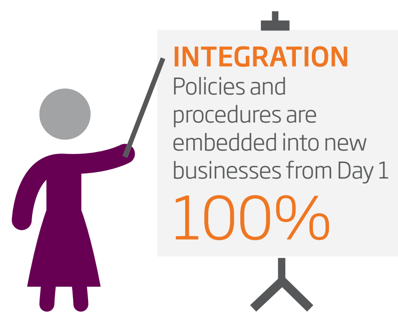
BUDGETARY PROCESS
- Divisional budget development
- Board approval

ROLE OF THE BOARD

BOARD AND EXECUTIVE	– Approval of the delegation of authority between the Chairman and the Group Chief Executive and the terms of reference of all Committees of the Board. – Agree the remuneration policy (subject to shareholder approval) for the Directors, the Group General Counsel and Company Secretary and other senior executives. – Reviewing the performance of the Board, its Committees and individual Directors annually. – Succession planning and appointments to the Board and senior management as recommended by the Nomination Committee.
STRATEGY	– Setting the long-term objectives and commercial strategy. – Oversight of the management of the DS Smith Group. – Setting financial KPIs.
FINANCE	– Approval of the Group and Company financial statements and ensuring that the Annual Report is fair, balanced and understandable. – Recommending or declaring dividends. – Approval of any significant changes in accounting policies or practices. – Approval of treasury policy.
RISK & GOVERNANCE	– Approval of all key policies and material amendments to those policies, including the Code of Conduct, Health and Safety and Environmental policies. – Maintaining a sound system of internal controls and risk management. – Review of the Group's overall corporate governance arrangements.
MAJOR APPROVALS	– Approval of major changes to the DS Smith Group's corporate structure. – Approval of major corporate transactions and commitments.

ROUTINE PROCESSES

The Group reporting framework is designed to ensure that the Group and the individual businesses have a clear annual plan aligned to the corporate strategy. Results are closely monitored monthly and compared with the agreed budget and the prior year. This ensures that management is quickly aware of issues as they emerge and corrective actions can be implemented efficiently when required. As part of the monthly reporting process, businesses are required to update their full-year forecast, which should be a balanced view in terms of both risks and opportunities. The policies relating to financial reporting are contained within the Group Accounting Manual and the Group's Accounting and Finance Policies. These are available on the Group's intranet. This process is owned by the Group Financial Controller.



BOARD AND BOARD COMMITTEES

	Board	Nomination Committee	Audit Committee	Remuneration Committee	Annual General Meeting	% Attendance
Total number of meetings in 2015/16	7	5	4	5	1	
Total number of meetings attended in 2015/16						
Executive Directors						
Miles Roberts	7(7)	5(5)	–	–	1(1)	100%
Adrian Marsh	7(7)	–	–	–	1(1)	100%
Non-Executive Directors						
Gareth Davis	7(7)	5(5)	–	5(5)	1(1)	100%
Chris Britton	7(7)	5(5)	4(4)	5(5)	1(1)	100%
Ian Griffiths	7(7)	5(5)	4(4)	5(5)	1(1)	100%
Jonathan Nicholls	7(7)	5(5)	4(4)	5(5)	1(1)	100%
Kathleen O'Donovan	7(7)	5(5)	4(4)	5(5)	1(1)	100%
Louise Smalley	6(7)	5(5)	3(4)	4(5)	1(1)	86%

All Directors received papers for all meetings, and had the opportunity to comment in advance of meetings they were unable to attend. Louise Smalley was unable to attend the Audit Committee meeting in October due to flight delays and the Board and Remuneration Committee meetings in January due to prior Whitbread board commitments.

Leadership continued

KEY RESPONSIBILITIES

CHAIRMAN

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

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

GROUP CHIEF EXECUTIVE

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

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

SENIOR INDEPENDENT DIRECTOR

- being available to liaise with shareholders who have concerns that they feel have not been addressed through the normal channels;
- conducting the annual performance review of the Chairman; and
- providing advice and judgement to the Chairman as necessary.

INDEPENDENT NON-EXECUTIVE DIRECTORS

- providing a strong source of advice and judgement;
- constructively challenging and helping develop proposals on strategy; and
- providing significant external commercial experience and a broad range of skills for the Board to draw on.

GROUP GENERAL COUNSEL AND COMPANY SECRETARY

- ensuring a good flow of information to the Board and its Committees;
- facilitating all Director inductions; and
- advising the Board on corporate governance and keeping the Board up to date on all legal, regulatory and other developments.

Our values

We 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 reputation as a Group is founded on our achievement of these high standards.

Be caring – we take pride in what we do and 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.

BOARD ACTIVITIES

	KEY ACTIVITIES IN 2015/16	KEY PRIORITIES IN 2016/17
STRATEGY	– Reviewed and approved the Corporate Plan. – Reviewed and approved a number of acquisitions and divestments. – Reviewed financial KPIs. – Debated and approved the Group's dividend policy.	– Approve and keep under review the Corporate Plan. – Consider acquisitions and divestments as identified and determine appropriate course of action. – Keep the financial KPIs under review. – Keep the Group's dividend policy under review.
RISK AND RISK MANAGEMENT	– Carried out a robust assessment of principal key risks (see pages 40 to 47) and monitored and reviewed the internal controls process, and assessed the Group risk profile by identifying where the business's key risks lay, aligning them with the risk appetite of the business and highlighting how to target and mitigate those risks effectively. – Monitored compliance with the anti-bribery and anti-corruption policy and the competition law policy.	– Review key risks and ensure that the Company remains at the forefront of developing and embedding best practice for risk management. – Continue to monitor compliance with the key policies, including anti-bribery and anti-corruption policy, competition law policy, social media policy and data protection policy.
GOVERNANCE AND VALUES	**Leadership and employees:** – Considered the changes to the 2014 UK Corporate Governance Code in the context of DS Smith's governance practices. – Continued to focus on the composition, balance and effectiveness of the Board. – Reviewed the key operational roles and identified gaps in experience needed to deliver the strategy. – Reinforced compliance with DS Smith's Code of Conduct and the Operating Framework, a document which sets out the Group's culture and values, as well as its key policies and procedures, all in accordance with the principles of good corporate governance. – Considered the new regulations affecting the Board and the Company including the Modern Slavery Act and Gender Pay Gap reporting. **Relations with shareholders:** – Engaged with our retail shareholders at the AGM. – Actively engaged with institutional shareholders, investors and other stakeholders throughout the year.	– Ensure that the Company remains at the forefront of developing and embedding best practice in responsible business behaviour. – Maintain and enhance DS Smith's culture and values and key policies and procedures and ensure these are rolled out to acquired businesses, including our Anti-Slavery and Human Trafficking Policy. – Continue to strengthen internal controls and reporting. – Review level of institutional holdings and consider actions to broaden the Group's shareholder base further. – Designing the remuneration policy, in consultation with shareholders and other key stakeholders, for approval by shareholders at the AGM in 2017. – Further understanding and plan actions in relation to new regulations over the period.
ORGANISATIONAL CAPACITY	– Monitored health and safety performance across the Group and reviewed the lessons learned, to keep our employees and others affected by our operations safe. – Held meetings between the Board and senior talent pipeline to further improve information flow. – Reviewed the governance framework and continued training and awareness drives for key policies.	– Continue to monitor senior executive talent management and development plans to provide succession for all key positions. – Continue to increase the diversity of the Board and management team.
BOARD DEVELOPMENT	– Continued to focus on the composition, balance and effectiveness of the Board. Reviewed Board composition and discussed and acted on the recommendations of the Nomination Committee. – Undertook an internal evaluation of the Board, its Committees and individual Directors, with the aim of becoming the best Board we can be. Following the evaluation an action plan was developed.	– Enhance the Board's strategic understanding of geopolitical and economic risks in international markets. – Use Board visits to promote understanding of markets and the business development opportunities they offer. – Annual evaluation of Board performance – to be led internally.

Effectiveness

The composition, experience and balance of skills on the Board are regularly reviewed to ensure that there is the right mix on the Board and its committees to enable them to work effectively.

BOARD EVALUATION

The Board carried out an internal evaluation which consisted of three main stages:

Step 1: A comprehensive questionnaire was sent to the individual Board Directors with the aim of facilitating a discussion, in accordance with the UK Corporate Governance Code, on whether all aspects of Board effectiveness are being addressed. The process was used constructively as a mechanism to improve Board effectiveness, maximise strengths and tackle weaknesses.

Step 2: One-to-one interviews were conducted with the Chairman to give Directors a chance to discuss any issues raised and individual feedback was provided to each Director on their own performance. The Senior Independent Director held separate one-to-one interviews with all Directors to discuss the performance of the Chairman. A presentation of the overall findings, with anonymous voting results, was presented to the Board. Committee feedback was given to the Chairs to discuss at the relevant committee meetings.

Step 3: The Board discussed the outcome of the evaluation and a formal action plan was agreed which would be implemented over the coming year.

STEP 1: QUESTIONNAIRES COMPLETED AND ONE-TO-ONE INTERVIEWS WITH CHAIRMAN OF THE BOARD

STEP 2: INDIVIDUAL FEEDBACK AND PRESENTATION OF FINDINGS TO THE BOARD

STEP 3: BOARD DISCUSSION AND ACTION PLAN AGREED AND IMPLEMENTED

The Board also considered over the year a number of key outcomes from the external Board evaluation that took place in 2014/15 and the progress of these is also demonstrated in the table below.

BOARD EVALUATION – ACTION AND OUTCOMES

AREA	ACTIONS IN 2015/16	AREAS FOR CONSIDERATION IN 2016/17
Board role and composition	– The Board held a session on the strategic talent requirements of the business to provide the basis for shaping the talent strategy.	– The Nomination Committee should hold an annual strategic discussion on talent, focused on the skills and capabilities needed to deliver the Plan over the medium/long term. – Over time the Board should consider seeking to re-balance towards industrial, manufacturing and international experience.
Effectiveness	– The prior year strategy implementation was included as part of the Corporate Plan Board presentation. – Reviewed the Risk Register. Risk is discussed more broadly at least once a year as part of the schedule of topics discussed at Board dinners.	– The non-Executive Directors to continue to use their talents and experience to provide a sounding board for the Executive Directors. – Training sessions for Directors, particularly for members of the Audit and Remuneration Committees and on governance.
Relations with stakeholders	– A programme of shareholder consultation meetings was held. – Employee survey findings were reported to the Board.	– Non-Executive Directors should visit at least one site per annum outside of Board arranged visits. – The Company Secretary to arrange for an annual external 360° perspective on how the Group is regarded.
Board behaviours and Committees	– The programme of more structured discussion at Board dinners was continued. – The Board was encouraged to attend events and visit locations in order to meet members of the GOC and their leadership teams.	– The Board to explore the possibility of further interaction outside Board meetings. – The Board to explore holding short non-Executive Directors only sessions at the end of each Board meeting.

BOARD EVALUATION LIFE CYCLE

The independence of the Chairman and the non-Executive Directors was considered as part of the annual Board effectiveness review. The Chairman's performance was discussed. The recommendation from Institutional Shareholder Services Inc (ISS) on other directorships for a chairman was considered as part of this discussion. The Board unanimously agreed that Gareth Davis has demonstrated total commitment to his role as Chairman throughout his term in office.

In view of the fact that Jonathan Nicholls has been on the Board for six years, there was a rigorous review of his performance. The Board concluded that he remains independent in judgement and character, his commitment to the Company is undiminished and his performance continues to be effective.

All the non-Executive Directors bring a strong independent oversight to the Board and following this year's review the Board considers that all of the non-Executive Directors continue to demonstrate their independence. Biographical details of each Director can be found on pages 52 to 54.

Following this evaluation, the Board recommends the re-election of all the Directors at the 2016 AGM.

In addition to formal Board meetings, the Chairman and Executive Directors maintain regular contact with all Directors and hold informal meetings with non-Executive Directors to discuss issues affecting the Company. Individual Directors are encouraged to make site visits during the year.

SUCCESSION PLANNING

Succession planning and the succession pipeline remain a key agenda item for the Board. Further information can be found in the Nomination Committee report on page 74.

Iain Simm was appointed as Group General Counsel and Company Secretary on 6 June 2016. Michael Hampson served as interim Group General Counsel and Company Secretary after Matt Jowett left the Group for another role in January 2016, until Iain's appointment.

> "I believe we have an active and energised Board which has a strong set of ethics."
>
> **Kathleen O'Donovan**
> Non-Executive Director

Effectiveness continued

DIRECTOR INDUCTION

On appointment, any new Director is given appropriate induction training designed to orientate and familiarise them with DS Smith's business, organisation, governance, strategy and key risks. The programme is tailored to their specific needs, taking into account their individual qualifications and experience.

DS Smith aims to provide a well-structured induction programme, designed by the Chairman in consultation with the Company Secretary, to all Directors. The programme includes individual time with the Chairman, Group Chief Executive, Group Finance Director, Company Secretary and key advisers, and an opportunity to meet major shareholders.

Directors are invited to visit various sites as well as major business units to provide an introduction to all parts of the business, helping to deepen their understanding of the DS Smith Group.

On joining in June, Iain Simm received a similar comprehensive induction programme.

CONFLICTS

As part of our annual review process, during the Board meeting in April 2016 we reviewed and reconsidered all situations entered in the conflicts register. Each of the Directors in office reviews their individual position regularly and new Directors review their individual positions prior to joining the Board. As a routine item, Directors are asked, at the start of each Board meeting, to declare any interests that might conflict with the agenda items under discussion. The Company has also put procedures in place via the Company Secretary whereby the Directors can notify any future conflicts or potential conflicts of interest that may arise so that the Board can consider whether authorisation is appropriate. Any such notifications are reviewed at the next Board meeting and, if considered appropriate, authorised. Directors do not participate in the discussion, or vote regarding their own conflicts. If authorised, any conflicts are entered in the conflicts register.

BOARD TRAINING

The Chairman, supported by the Group General Counsel and Company Secretary, takes responsibility for ensuring that Directors receive accurate, timely and clear information across a wide range of matters relevant for the Board to operate effectively.

There are half-yearly updates on governance matters and explanations of how these impact on DS Smith. Presentations are made by internal management and the Board, from time to time, also requests external advisers to provide briefings to support better awareness of issues and to facilitate decision-making.

Directors are also encouraged to attend external seminars on areas of relevance to their role to further enhance their knowledge.

OUR BOARD IN ACTION

In October 2015 the Board visited the Packaging site at Margarethen am Moos in Austria. The Board met the local management team headed by Dieter Glawischnig, Managing Director Austria. They received reports on the growth and development in Austria and also the activities in the Margarethen am Moos and Kalsdorf plants.

A plant tour was led by the production manager, Erwin Proell, who gave the Board a more comprehensive picture of the technical equipment and the production facilities.

Miles Roberts praised the extremely encouraging business development in Margarethen after the partial replacement of the new corrugator and the implementation of the new business system, CBS.

The Board also received an update from the Managing Director of the south eastern Europe Packaging division on the Duropack acquisition integration process.

> "I was impressed by the strong lean thinking demonstrated by the local team and the exemplary cleanliness in the Margarethen am Moos plant."

Jonathan Nicholls
Senior Independent Director

Relations with stakeholders

We aim to provide balanced, clear and transparent communications which allow our shareholders to understand how we see our prospects and the market environments in which we operate.

The Company has a programme of regular meetings, site visits, results briefings and trading updates with its institutional shareholders, equity analysts and investors. These provide opportunities to discuss the progress of the business. All presentations given to institutional shareholders are made available on our website, www.dssmith.com, along with press releases, transcripts, audio files and current and historic Annual Reports. The Board receives feedback from major shareholders following the full and half-year results. Together, the Chairman, the Executive Directors, the Group Communications Director and the Investor Relations Director ensure the Board is briefed on shareholders' views, such that any issues or concerns are fully understood and considered by the Board.

In order to assist in developing an understanding of the views of major shareholders, periodically the Company commissions a survey of investors undertaken by external consultants. The results of the survey are presented to the Board.

The Senior Independent Director is available to discuss with shareholders any major issues that cannot be resolved through normal channels and to raise these with the Board if appropriate.

The AGM is used as an opportunity to communicate with private shareholders, including a short presentation on the business and current trading position. There is an opportunity for questions from investors to the Chairman of the Board and the chairmen of the Audit and Remuneration Committees. All Directors make themselves available to meet shareholders after the formal business of the meeting. To ensure compliance with the Code, separate resolutions are proposed on each discrete subject. All Directors will retire and stand for re-election this year.

To reflect the voting preferences of all shareholders wishing to vote at the AGM, the Company will take a poll on all resolutions put to shareholders. We offer all our shareholders the choice of submitting proxy votes either electronically or in paper format. We also offer them the facility to abstain. The final results are published through a Regulatory Information Service and on the Company's website following the AGM.

At our 2015 AGM, we received votes representing approximately 78% (2014: 74%) of our issued share capital.

Our next AGM will be held on Tuesday 6 September 2016, and all Directors plan to be in attendance. Full details are contained in the Notice of Meeting available on our website and, where applicable, posted with this Annual Report.

SITE VISITS

Site visits provide invaluable insight into the business for Directors. During the period, the Board visited the Margarethen am Moos Packaging plant in Austria. The Board aims to undertake one site visit per year. Individual Directors can visit on an ad hoc basis and Miles Roberts and Adrian Marsh visit many sites throughout the year as part of their roles as Group Chief Executive and Group Finance Director.

MAY 2015
- Trading update
- Remuneration consultation with key investors

JUNE 2015
- Full-year results
- London/Scotland roadshow

JULY 2015
- US roadshow
- European roadshow

AUGUST 2015
- Discussions with investors and advisory bodies prior to AGM

SEPTEMBER 2015
- AGM
- AGM statement
- Investor conferences

OCTOBER 2015
- Trading update
- Capital Markets day

NOVEMBER 2015
- Remuneration consultation with key investors
- Investor conference

DECEMBER 2015
- Half-year results
- London/Scotland roadshow

JANUARY 2016
- Sharesave invitation made to employees

FEBRUARY 2016
- US roadshow

MARCH 2016
- Trading update
- Investor site visit

APRIL 2016
- Information sent to all shareholders about UK GAAP

Risk governance

RISK GOVERNANCE – READY TO LOOK AHEAD

The Group continues to maintain rigorous procedures for understanding and managing its strategic risks. We recognise that risks, and the way we manage their potential consequences, are part of our day-to-day thinking and key to accomplishing our strategic priorities.

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

THE GROUP'S RISK AND GOVERNANCE FRAMEWORK ADDRESSES TWO OBJECTIVES:

- Ensures the Group's most significant risk exposures are understood and managed in accordance with an agreed level of risk appetite and risk tolerance.
- Ensures regular reporting of both risk exposures and the operating effectiveness of the controls.

THE BOARD

- Considers and defines the nature and level of risk that the Group is prepared to accept in order to deliver its business strategies.
- The Board is responsible for maintaining the Group's risk management systems and regularly reviews the Group's key risks.
- Annually, the Board reviews and approves the internal statements on risk appetite and tolerance in relation to the Group's principal risks and its strategic objectives.

THE AUDIT COMMITTEE

- Annually reviews the adequacy and effectiveness of our risk management system in relation to the key risks and uncertainties and their influence on the strategic priorities of the Group.

THE GROUP

- The Group Operations Committee (GOC) takes responsibility as the Group's risk committee because the GOC fully understands what risks could affect the delivery of our Corporate Plan. The GOC is responsible for identifying, reviewing, evaluating and determining the actions necessary to manage the principal threats to and opportunities to achieve the Group objectives. It has the authority to prioritise risk-related resources and set action plans in relation to the management of key risks. Each Division presents its risk management plans and resources to the GOC annually for critique and challenge for the proper allocation of resource.

THE DIVISIONS

- Continue to identify, assess, prioritise and manage risks on a daily basis as a source of sustainable business opportunity and competitive advantage. The responsibility for designing, operating, monitoring and maintaining effective risk management within Divisions is delegated to the management of each Division. Divisional management teams apply judgement in the evaluation of the risks they face to achieve their objectives. They determine which risks are considered acceptable and assess the consequences of those risks while ensuring the costs of the relevant controls are proportionate to the benefits provided.

INTERNAL CONTROL

The Board has overall responsibility for the Group's system of internal control, including financial, operational and compliance controls, and risk management systems, and for reviewing its effectiveness. Such a system, however, can only be designed to manage rather than to eliminate risk and therefore can provide only reasonable and not absolute assurance against material misstatement or loss. In accordance with the FRC's guidance on risk management, internal control and related financial and business reporting, we have in place the procedures necessary to ensure that there is an ongoing process for identifying, evaluating and managing the significant risks to the Group. These procedures have been in place throughout the year under review and up to the date of the approval of these financial statements. Our risk governance process, including how it is reviewed by the Board and the operation of the Group Risk Committee, is described in more detail on page 64.

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

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

INTERNAL AUDIT

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

The Internal Audit plan is determined on a risk assessment basis and is reviewed and approved by the Audit Committee. Internal Audit's findings are reported to Group and divisional business management as well as to the Audit Committee.

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

GOING CONCERN

In considering the going concern basis for preparing the financial statements, the Directors have considered the Company's objectives and strategy and risks and uncertainties in achieving its objectives and its review of business performance, which are all set out in the Strategic Report, Operating Review and Financial Review sections of this Annual Report and Accounts. The Group's liquidity and funding arrangements are described in notes 18 and 20 to the financial statements, as well as in the capital structure and treasury management section of the Strategic Report. The Directors consider that the Group has significant covenant and liquidity headroom in its borrowing facilities for the foreseeable future.

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

VIABILITY STATEMENT

See p 41 for our viability statement

Directors' report

ACQUISITIONS AND DIVESTMENTS

2015/16

Acquisition costs of £9 million relate to professional advisory, legal and consultancy fees and attributable salary costs relating to the review of potential deals, and deals completed during the year including the acquisition of Duropack and Lantero.

Gains on acquisitions and divestments of £23 million comprise the profit on sale of StePac of £9 million, with the majority of the remainder relating to a £10 million gain on the step acquisition of the Lantero business (where previously the Group held an associate interest).

2014/15

During the year ended 30 April 2015, the Group completed various business combination transactions with total cash consideration of £28 million, and various business disposals with total cash consideration of £18 million which are not considered material to the Group individually or in aggregate.

SHARE CAPITAL

Details of the issued share capital and the rights and restrictions attached to the shares, together with details of movements in the Company's issued share capital during the year, are shown in note 24. Pursuant to the Company's employee share option schemes, 2,784,230 ordinary shares of 10 pence each were issued during the year. 103,785 shares pursuant to the Company's employee share option schemes were issued between 1 May 2016 and 22 June 2016 inclusive. The Company has not utilised its authority to make market purchases of up to 94,217,513 shares granted to it at the 2015 AGM but, in line with market practice, will be seeking to renew such authority at this year's AGM.

DIVIDENDS

An interim dividend of 4.0 pence net per ordinary share was paid on 3 May 2016 and the Directors recommend a final dividend of 8.8 pence net per ordinary share which, together with the interim dividend, increases the total dividend for the year to 12.8 pence (2014/15: 11.4 pence). Subject to approval of shareholders at the AGM to be held on 6 September 2016, the final dividend will be paid on 1 November 2016 to shareholders on the register at the close of business on 30 September 2016.

POLITICAL DONATIONS

No political donations were made during the year ended 30 April 2016 (2014/15: nil). DS Smith has a policy of not making donations to political organisations or independent election candidates or incurring political expenditure anywhere in the world as defined in the Political Parties, Elections and Referendums Act 2000.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

OTHER DISCLOSURES

This Directors' Governance Report fulfils the requirements of the Directors' report for the purposes of the Companies Act 2006. The Strategic Report can be found on pages 1 to 47, and encompasses our Corporate Social Responsibility Report. The UK Corporate Governance Code 2014 can be accessed at www.frc.org.uk.

In line with the Regulations which implement the EU Accounting Directive (SI 2015/980) a complete list of the Group's subsidiaries has been included on pages 147 to 148 to comply with s409 of the Act.

We have chosen, in accordance with the Companies Act 2006 to include certain information in our Strategic Report that would otherwise be required to be disclosed in the Directors' report as follows:

Subject matter	Page
Important events since the financial year-end	23
Likely future developments in the business	24
Use of financial instruments	29
Employment of disabled persons	32
Employee involvement	33
Greenhouse gas emissions	39

The information that fulfils the requirements of the Corporate Governance Statement for the purposes of the Disclosure and Transparency Rules can be found on pages 48 to 76, and forms part of the Directors' report.

SHAREHOLDER WAIVER OF DIVIDEND

The trustee of the Employee Benefit Trust (the Trust), which is used to purchase shares on behalf of the Company as described in note 24, has the power to vote or not vote, at its absolute discretion in respect of any shares in the Company held unallocated in the Trust. However, in accordance with good practice, the trustee adopts a policy of not voting in respect of such shares. The Company discloses, for the purposes of Listing Rule 9.8.4, that the trustee has a dividend waiver in place in respect of shares which are the beneficial property of the Trust.

RESEARCH AND DEVELOPMENT

We invested £4 million in research and development in 2015/16.

SUBSTANTIAL SHAREHOLDERS

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

As at 30 April 2016, the following information had been received, in accordance with DTR5, from holders of notifiable interests in the Company's issued share capital.

	Ordinary shares held	%	Nature of holding
Standard Life Investments Limited	94,123,364	9.95	Direct & indirect
Aviva plc	59,627,178	6.31	Direct & indirect
Ameriprise Financial, Inc. and its group	57,156,338	6.05	Direct & indirect
BlackRock, Inc.	52,722,807	5.59	Indirect
Old Mutual plc	47,403,372	5.03	Indirect
Norges Bank	28,411,390	3.01	Direct

In the period 1 May to 22 June 2016 the following change was disclosed in accordance with the Disclosure and Transparency Rules:
Aviva plc 7.22% (direct and indirect).

DISCLOSURE OF INFORMATION TO THE AUDITOR

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

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

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

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

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

By order of the Board

Iain Simm
Group General Counsel and Company Secretary
22 June 2016

OUR BOARD IN ACTION

Business activities are strategically planned through our annual Corporate Plan process. It is used to develop the Group's strategy, based on the strategic direction, and the implementation plans for each Operating Division and Group Function to ensure the objectives are delivered.

The Corporate Plan's focus is primarily on strategic actions, supported by high level financials. The Corporate Plan covers a three year horizon and is reviewed annually with the Board in October. Progress in implementing the specific actions in the plan is formally reviewed quarterly.

"Board agenda items have a strong correlation to business plan themes which connects the Corporate Plan and the progress towards achieving it."

Louise Smalley
Non-Executive Director

Governance

Introduction to the committees

We aim to provide balanced, clear and transparent communications which allow our shareholders to understand how we see our prospects and the market environments in which we operate.

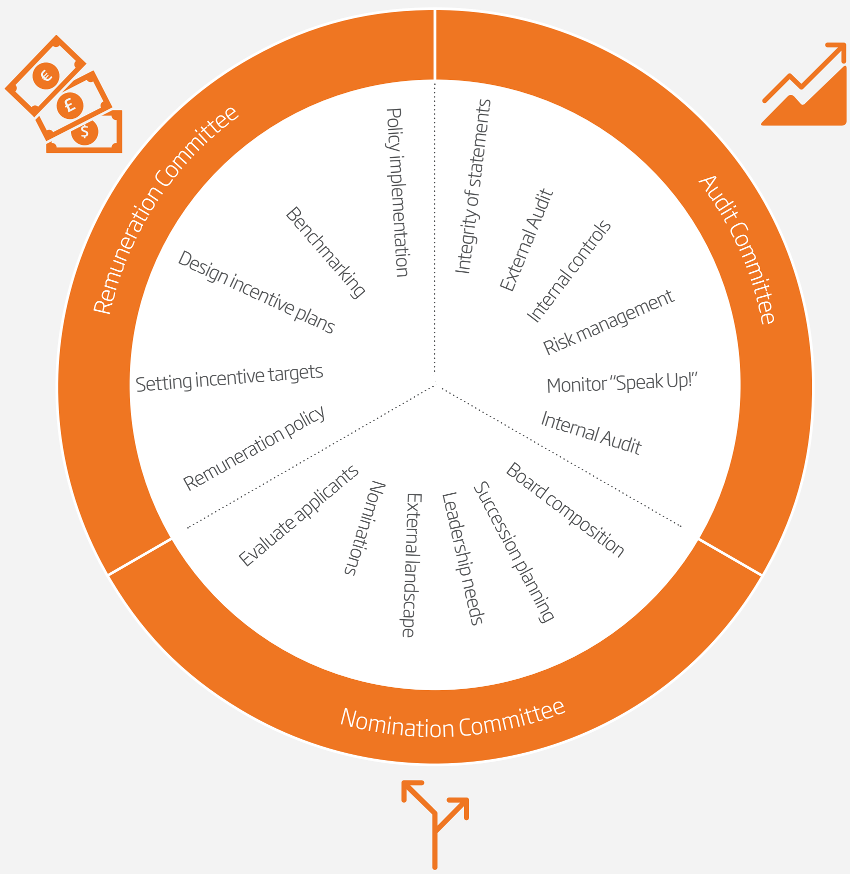
BOARD COMMITTEES

For the Board to operate effectively and to give full consideration to key matters, Board Committees have been established by the Board. A summary of the role of each Board Committee is set out in the table opposite. The full terms of reference of each Committee are available at www.dssmith.com and reports on the membership of, and work undertaken by, the Audit, Nomination and Remuneration Committees during 2015/16 are given on pages 70 to 96.

GENERAL PURPOSES COMMITTEE

The Board has delegated certain powers, mainly of a routine nature, to the General Purposes Committee, which comprises the Group Chief Executive and the Group Finance Director under the chairmanship of the Group Chief Executive.

BOARD COMMITTEE RESPONSIBILITIES



	KEY ACTIVITIES IN 2015/16	KEY PRIORITIES IN 2016/17	INTRODUCTION
AUDIT COMMITTEE	– Reviewed and recommended for approval the half-year and full-year results and advised on whether the Annual Report was fair, balanced and understandable – Focused on classification of exceptional items, acquisition accounting and taxation – Assessed risk management and risk review updated in light of new FRC guidance	– Review of provision of non-audit services in light of revisions to the UK Corporate Governance Code – Review Group's Key Risks and the reporting thereon – Review and, if appropriate, recommend for approval the half-year and full-year results – Oversee the external and internal audit process	"It is important that we continue to rise to the challenge during the audit process." Jonathan Nicholls
NOMINATION COMMITTEE	– Executive succession planning, taking into account the Group's strategy – Talent management – Considered diversity issues, including gender – Employee feedback survey results	– Maintain ongoing succession plans – Further reinforce the diversity of culture and expertise in the Board's composition – Consider ways to improve diversity in the pipeline for senior management roles	"We need to continue to push on talent management." Gareth Davis
REMUNERATION COMMITTEE	– Reviewed the implementation of the remuneration policy – Consulted with shareholders and other key stakeholders on the implementation of the remuneration policy – Set targets for the incentive plans for the year ahead	– Review the design of the long-term incentives to ensure they are still fit for purpose – Draft the remuneration policy for consideration by shareholders at the 2017 AGM – Consult with shareholders and other key stakeholders on the draft remuneration policy prior to the AGM	"Intelligent remuneration is a key focus." Kathleen O'Donovan

Audit Committee report

Overseeing effective controls.

DEAR SHAREHOLDERS

The Audit Committee's work in the current year reflects both developments within the Group, including the continued acquisition and divestment activities, and the increased corporate reporting requirements.

The Committee has continued to conduct its usual oversight of financial results, internal audit reviews and the management of risk across the Group, taking into account the enlarging footprint of the Group and the new requirements. Meetings are scheduled around the end of the half and full year, as well as before the publication of the associated half and full-year financial reports, so as to ensure the Committee is able to review and debate, on a timely basis, areas of significant risk and judgement.

The Committee has continued to monitor the evolution of the Group's financial reporting and control framework as well as overseeing the risk management programme, with particular regard for how the two interact to underpin the Group's longer-term viability assessment.

The UK Corporate Governance Code 2014 (the Code) requires the Board to confirm that the Annual Report presents a fair, balanced and understandable assessment of the Group's position and performance, business model and strategy. Under its terms of reference, following a request from the Board, the Committee undertook procedures to advise on this matter.

Jonathan Nicholls
Chairman of the Audit Committee

SIGNIFICANT MATTERS CONSIDERED IN 2015/16

In 2015/16, the Audit Committee's work on other significant accounting and financial reporting issues included a focus on the key areas outlined as follows:

RISK MANAGEMENT AND CORPORATE GOVERNANCE

A number of key activities had been undertaken to take account of the updated FRC guidance on risk management, internal control and related financial and business reporting including a refresh of the process of managing risk across the Group.

The Audit Committee reviewed the process updates, Risk Review update and Group-level Risk Assurance Map.

The Audit Committee has supported the Board in responding to the amendments to the Code published in September 2014. The Audit Committee considered the requirements for, and the processes and assumptions underlying, the new viability statement set out on page 41, as provided for by the Code, ensuring that the model used for scenario and sensitivity testing aligned clearly with the principal risks of the Group, and reviewing the proposed wording for the statement. The Audit Committee was satisfied that the viability statement had been prepared on an appropriate basis and that the statement is justified.

CLASSIFICATION AND PRESENTATION OF EXCEPTIONAL ITEMS

The Group has continued to deliver programmes to restructure the business to evolve and optimise the operational footprint and the support infrastructure. The costs of these programmes, together with other elements of income and cost (including acquisition costs, impairments and gains or losses on business disposals), are classified as exceptional because of their nature, incidence or size. The Directors believe that such a classification assists in the understanding of the underlying trading and financial results of the Group. The Audit Committee has reviewed the appropriateness of the income and costs included in, and excluded from,

2015/16 OVERVIEW

KEY RESPONSIBILITIES

- The accounting principles, policies and practices adopted in the Group's accounts.
- External financial reporting and associated announcements.
- Managing the appointment, independence, effectiveness and remuneration of the Group's external Auditor, including the policy on the award of non-audit services.
- Initiating and supervising a competitive tender process for the external audit when next required.
- The resourcing, plans and effectiveness of Internal Audit performed on behalf of the Group by an accountancy firm (currently KPMG), which is independent from the Group's external Auditor.
- The adequacy and effectiveness of the internal control environment.
- The Group's risk management processes and performance.
- To establish and oversee fraud prevention arrangements and reports under the "Speak Up!" policy.
- The Group's compliance with the Code.

The Audit Committee's terms of reference, which have been reviewed by the Committee in 2016, can be found at www.dssmith.com/investors/corporate-governance/committees

CALENDAR OF EVENTS (FINANCIAL YEAR)

Q1

- Reviewed Annual Report and Accounts and advised the Board on whether they were fair, balanced and understandable.
- Reviewed external and internal audit reports as part of the year end cycle and considered the effectiveness of the external Audit.

Q2

- Internal audit findings and management responses reported and debated, and management actions monitored for timely completion.
- Reviewed and approved the Deloitte external audit plan.

Q3

- Internal Audit Operational Review, including the Audit plan for 2016/17.
- Reviewed internal controls action plan.
- Discussed the requirement under the 2014 UK Corporate Governance Code to report on viability, and agreed appropriate outlook period.

Q4

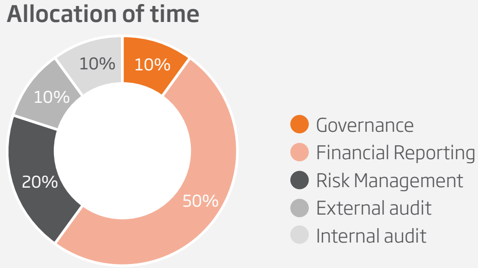
- Reviewed Group's response to new UK GAAP.
- Reviewed the Group's response to the viability reporting requirements.
- Confirmed external audit and internal audit plan.
- Received update of Group's key risks and mitigation process including "Speak Up!" reports.

MEMBERSHIP AND ATTENDANCE

In addition to the Audit Committee members, the Chairman, the Group Chief Executive, the Group Finance Director, representatives from Internal Audit and the Group Financial Controller attend parts of these meetings by invitation. The Board is satisfied that Jonathan Nicholls and the members of the Audit Committee have both current and relevant financial experience (as set out on pages 52 to 54).

Members	Member since	Attended	Potential	Meeting attendance
Jonathan Nicholls	Dec 2009	4	4	100%
Chris Britton	Mar 2013	4	4	100%
Ian Griffiths	Jun 2014	4	4	100%
Kathleen O'Donovan	Dec 2012	4	4	100%
Louise Smalley	Jun 2014	3	4	75%
Total meetings			**4**	

Allocation of time



ADVISERS

Internal	External
– Group Financial Controller – KPMG (internal audit)	– Deloitte LLP

Audit Committee report continued

exceptional items by challenging and seeking explanations from management. The Audit Committee review and challenge of reports prepared by management and the external Auditor is a recurring agenda item in all Audit Committee meetings. The external Auditor reports on these matters at the half and full year. The Audit Committee is satisfied with the resulting presentation.

ACQUISITION ACCOUNTING

The Group has made significant investments in new acquisitions during the year with consequential accounting considerations including, inter alia, identification and fair values of intangible assets, fair values of other assets, goodwill arising and step-up gains of prior interests held. The Audit Committee has reviewed the results of the work undertaken in these areas which has included, for the major acquisitions, engagement of external professional advisers on the fair values of tangible assets, and the identification and fair values of intangible assets.

TAXATION

The focus by the Audit Committee on taxation during the year considered the high current level of fiscal authority activity, the upcoming country-by-country reporting requirements and the Group's expansion into new markets. Taxation represents a significant cost to the business in both cash and accounting terms, and the Group is exposed to differing tax regimes and risks which affect both the carrying values of tax balances (including deferred tax) and the resultant income statement charges. The Audit Committee reviewed the tax charge for the half year and the full year, including the underlying tax effect, the appropriateness of and movement in tax provisions recognised, and the risks associated with them.

OPERATION OF THE AUDIT COMMITTEE

During the year, the Audit Committee met four times and met privately with the external Auditor after each meeting. The Chairman of the Audit Committee also held separate private meetings during the year with the external Auditor, representatives from Internal Audit and the Group Finance Director and his team. The Audit Committee received sufficient, reliable and timely information from management to enable it to fulfil its responsibilities. The Audit Committee is satisfied that the Group's executive compensation arrangements do not prejudice robust controls and good stewardship.

EXTERNAL AUDITORS

Pursuant to the terms of the Auditor Effectiveness and Independence Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Process and Audit Committee Responsibilities) Order 2014 (the Competition & Markets Authority Order), the Audit Committee is now solely responsible for negotiating and agreeing the external Auditors' 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, and to make recommendations to the Board as to the external Auditors' appointment pursuant to any such process.

The Audit Committee meets with the external Auditor to determine annually their qualifications, expertise, resources, independence, objectivity and effectiveness. In addition, the performance of the external and internal audit functions is evaluated. The Audit Committee receives written confirmation from the external Auditor as to any relationships that might have a bearing on their independence, whether they consider themselves independent within the meaning of the UK regulatory and professional requirements, and on their quality control processes and ethical standards. The independence of the external Auditor was also confirmed as part of the 2013/14 tender process. In addition, in order to ensure the independence and objectivity of the Auditor, the Audit Committee maintains and regularly reviews the Auditor Independence Policy which covers services which may be provided by, and fees paid to, auditors. Under professional standards, the partner responsible for the audit is generally changed every five years; the most recent rotation took place in 2013/14. The Audit Committee is satisfied with Deloitte's independence and effectiveness.

There are no contractual restrictions on the Group with regard to Deloitte's appointment.

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

Deloitte LLP were first appointed as external Auditor to the Group companies in 2006. In 2013/14, the Company carried out a competitive tender for the role of Statutory Auditor, following which Deloitte were reappointed. The lead audit partner rotates every five years and Ian Waller, the current lead audit partner, has been in post since 2013/14 and is due to rotate after the 2017/18 year end.

The Committee's policy is that the role of external Auditor will be put out to tender at least every 10 years in line with the Competition and Markets Authority and EU rules or at other times should specific circumstances require this. Our current intention is to put the audit out to tender for the 2023/24 year end. The Committee has the discretion to put the audit out to tender at any time and will continue to keep this under review on an annual basis in conjunction with the assessment of the effectiveness of the external audit process. The audit fee negotiations are approved by the Audit Committee.

The Audit Committee confirms that the Company has complied with the provisions of the Competition & Markets Authority Order throughout its financial year ended 30 April 2016 and up to the date of this report.

INTEGRATION CASE STUDY

Oversight of the integration of the acquisitions made during the year has been a key priority for the Audit Committee. Ensuring that good financial controls are in place from day one is an essential component of a successful acquisition, beginning with putting in place appropriate delegated authorities, then ensuring the acquired businesses put in place DS Smith policies and guidance. The dedicated integration team manages the transition in partnership with colleagues in the new businesses, covering not only the financial control and reporting environment, but also treasury procedures, value capture, synergy tracking and integration cost control.

Management receives regular updates on the integration and management of the acquired businesses from risk management, integration and financial reporting teams throughout the year as the integration and associated restructuring programmes progress. The Audit Committee takes a close interest in the internal audit, external audit and risk management activities in relation to the new acquisitions and, mindful of the Group's acquisition programme, reviews and approves specific integration guidance embedded in the financial control procedures.

"Integration of good financial controls is essential to a successful acquisition."

NON-AUDIT FEES

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

Non-audit services and fees are reported to the Audit Committee twice a year. For guidance, annual non-audit fees payable to the external Auditor should not exceed 75% of the annual Group audit fee without prior formal approval of the Audit Committee.

During 2015/16, total non-audit fees were 25% of the annual Group audit fee (2014/15: 25%). In addition, £5.4 million was paid to other accounting firms for non-audit work, including £0.6 million for work relating to Internal Audit.

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

KEY PRIORITIES IN 2016/17

- Review of the viability statement.
- Review of provision of non-audit services.
- Carry out an assessment of the external Auditor's effectiveness.
- Test whether there has been any impairment to the balance sheet and review going concern.
- Review the Group's Key Risks and the reporting thereon.
- Review and, if appropriate, approve the half-year and full-year results.
- Review the Internal Audit report on internal control matters and review management response.
- Evaluate systems of internal control across the Group, including IT controls.

Nomination Committee report

The Board and the Committee pay full regard to the benefits of diversity.

Gareth Davis
Chairman

DEAR SHAREHOLDERS

The Nomination Committee has an important role in leading the process for Board appointments and for evaluating the balance of skills and experience across the Board to help support our strategy.

The Committee keeps under review and evaluates the composition of the Board and its committees to maintain the appropriate balance of skills, knowledge, experience and independence to ensure their continued effectiveness. Appropriate succession plans for the non-Executive Directors, Executive Directors and the Group's senior management are also kept under review.

SUCCESSION PLANNING

The Nomination Committee has continued to scrutinise the robustness of succession planning arrangements for the Executive Directors and each executive management role, together with the adequacy of the pipeline of leadership talent below the GOC. Strengthening the pipeline of executive talent in the Group has remained a key focus during the year. We continue to develop our talent pipeline in order to support the growth targets in the Corporate Plan; activities over the year included a discussion of the senior level roles that would need to be filled in the coming months and the available internal candidates to take on these roles.

The Committee is aware of the need to ensure that the organisation is not overly dependent on one individual and has been taking steps over the last few years to address this by strengthening the executive team below the Group Chief Executive. We have promoted high performing managers to the GOC, which is our equivalent of the Executive Committee, and we have also recruited senior executives from outside the Group to join our team.

BOARD DIVERSITY

The Board uses the Nomination Committee to ensure that its composition is diverse, particularly in terms of different backgrounds and experience, as this brings a variety of perspectives, skills and knowledge to the Board and the Group as a whole.

Diversity management is a long-term commitment and the Nomination Committee continues to support the development of diversity, both at Board level and within the Group as a whole, to create a more gender-balanced Group.

It is evident from the research gathered so far that there are many ways in which DS Smith could address gender diversity and that there is a clear business case for doing so. The Board remains committed to strengthening the pipeline of senior female executives within the business and is taking steps to ensure that there are no barriers to women succeeding at any level within DS Smith.

In preparation for the Gender Pay Gap regulations coming into force we have begun our planning to understand the level of any difference between male and female pay throughout the Group.

The Board and the Group as a whole consider diversity as an important factor when looking to strengthen the talent pipeline. Our approach to diversity and inclusion is about recognising that the ideal working environment is one which allows all our employees to perform at their best and develop to their full potential. We do not tolerate any discrimination based on culture, nationality, race, religion, gender, gender identity, disability, sexual orientation or age.

We value diversity of gender, age and nationality as well as individual characteristics such as a broad life experience when evaluating diversity within DS Smith. This is important for us since we believe it to be a key factor behind high performing and innovative teams.

2015/16 OVERVIEW

2015/16 HIGHLIGHTS

- Review of Board composition.
- Evaluation of talent pipeline and considered plans for developing key individuals.
- Evaluation of Directors' performance.
- Review of Group General Counsel and Company Secretary role prior to appointment of Iain Simm.

2016/17 KEY PRIORITIES

- Maintain ongoing succession plans.
- Further reinforce the diversity and cultural expertise in the Board's composition.
- Further strengthen the senior management team.
- Annual evaluation of the Committee in the first quarter of 2017.

CALENDAR OF EVENTS (FINANCIAL YEAR)

Q1

- Approved the revised terms of reference

Q2

- Reviewed the role specification and process for the appointment of the General Counsel and Company Secretary

Q3

- Evaluated the performance of Jonathan Nicholls and Kathleen O'Donovan
- Recommended the appointment of Iain Simm as Group General Counsel and Company Secretary

Q4

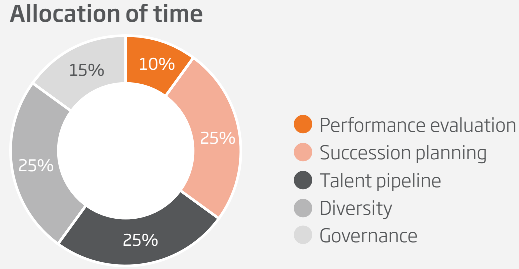
- Evaluated the performance of Chris Britton
- Evaluated the Chairman's performance
- Reviewed the terms of reference

MEMBERSHIP AND ATTENDANCE

The Nomination Committee is formed of the Chairman, the Group Chief Executive and all the non-Executive Directors. The Committee meets at least four times a year.

Members	Member since	Attended	Potential	Meeting attendance
Gareth Davis	1 Jun 2010	5	5	100%
Chris Britton	6 Mar 2013	5	5	100%
Ian Griffiths	23 Jun 2014	5	5	100%
Jonathan Nicholls	1 Dec 2009	5	5	100%
Kathleen O'Donovan	4 Dec 2012	5	5	100%
Miles Roberts	4 May 2010	5	5	100%
Louise Smalley	23 Jun 2014	5	5	100%
Total meetings			**5**	

Allocation of time



ADVISERS

Internal	External
– Group General Counsel and Company Secretary – Group Human Resources Director	– Executive search firm agencies who are signatories to the Executive Search Firms voluntary Code of Conduct on gender diversity (none retained this year)

Governance

Nomination Committee report continued

COMPANY SECRETARY

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

THE BOARD

This year, as it does annually, the Nomination Committee has also reviewed the composition of the Board. As part of this review, the Nomination Committee:

- considered the number of Executive and non-Executive Directors on the Board and whether the balance is appropriate;
- reviewed the membership of the Board Committees;
- considered the background, professions and core skills and experience of the Directors to ensure the right mix of skills;
- considered and confirmed that all the non-Executives remain independent; and
- considered diversity, including gender.

The Nomination Committee carefully evaluated the performance of Gareth Davis, the Group's Chairman. This process was led by the Senior Independent Director and Gareth Davis was not present during this process. As part of the review, the Committee considered the following points from the Code:

- The Chairman is responsible for leadership of the Board and ensuring its effectiveness in all aspects of its role.
- All Directors should be able to allocate sufficient time to the Company to effectively discharge their responsibilities.

The Nomination Committee concluded that Gareth's other responsibilities do not detract from his ability to perform his role at DS Smith. His other commitments strengthen the experience he brings to DS Smith and he has not missed a Board or Committee meeting since his appointment. The Nomination Committee recommended to the Board that his term of appointment be extended for a further three years.

The Nomination Committee also evaluated the performance of Kathleen O'Donovan and Chris Britton whose three-year terms expired in December 2015 and March 2016 respectively, and Jonathan Nicholls whose second three-year term expired also in December 2015. Neither Chris, Kathleen nor Jonathan was present when their performance was being considered. The Nomination Committee carefully considered the performance of and contribution made by Chris Britton, Kathleen O'Donovan and Jonathan Nicholls and remains satisfied that the performance of each Director continues to be effective. In particular the Nomination Committee considered Jonathan's length of tenure and concluded that this had not compromised his independence in any way. The Nomination Committee recommended to the Board that the terms of appointment for each non-Executive Director be extended for a further three years.

Following this review the Nomination Committee has concluded that the Board continues to have an appropriate mix of skills and experience to operate effectively. The Directors collectively bring a range of expertise and experience of different business sectors to Board deliberations which helps to ensure constructive and challenging debate around the boardroom table.

FUTURE PROOFING

We will continue to report annually against these objectives and other initiatives taking place within the Company which promote gender and other forms of diversity.

The Board has made some significant progress against the key policy objectives during the year, as highlighted above. During the year, the business has continued to embrace all forms of diversity with the continuation of a number of initiatives:

- The annual Board evaluation process includes an assessment of the Board's diversity including gender, helping to objectively consider its composition and effectiveness. Full details of how we have progressed during the year and full details of the 2016/17 action plan are on page 60.
- A number of programmes to help people in our communities. DS Smith is one of the founder members of the Nestlé Alliance for YOUth, an alliance of leading companies in Europe that recognise that youth unemployment is a major social and economic issue and are committed to helping solve it.

Gareth Davis

Gareth Davis
Chairman

KEY RESPONSIBILITIES

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

The Nomination Committee's terms of reference can be found at www.dssmith.com/investors/corporate-governance/committees

Remuneration Committee report

Promoting long-term success through performance-related remuneration.

Kathleen O'Donovan
Chairman of the Remuneration Committee

DEAR SHAREHOLDERS

On behalf of the Board, I am pleased to be able to present to you our Remuneration Report for 2015/16. I hope to demonstrate to you how our remuneration strategy continues to align the interests of the Executive Directors with shareholders through the implementation of our remuneration policy, approved by shareholders at the AGM in 2014, and to show how this is closely linked to the Group's performance. To aid understanding we have linked each element of the remuneration policy with its implementation during the year and, where appropriate, how we intend to implement it during 2016/17. We are not making any changes to the policy this year, nor to the way that we will be operating the policy.

REMUNERATION PRACTICE

Much has been said and written over the past few years regarding pay for senior executives and practice in this area continues to evolve. After speaking with our shareholders and based on our experience, we believe that there are 10 key aspects which need to be considered regarding remuneration. Our approach to each one is noted below.

INVESTORS

- **Reducing complexity:** our Executive Directors have a salary, an annual bonus and a single long-term share plan (the PSP). Other plans such as the share matching plan have been discontinued.
- **Bias towards variable pay:** fixed pay for our Executive Directors is around half of total target remuneration and a quarter of maximum remuneration.
- **Targets are transparent:** the three year target ranges for the PSP are fully disclosed. The targets for the annual bonus plan are disclosed retrospectively (with a 12 month lag) in the Annual Report.
- **Discretion should be used sparingly:** the Remuneration Committee can use discretion, for example after a substantial restructuring, but has not done so in the year under review and would disclose and fully explain if it had.
- **Comparator groups:** we keep the comparator groups under close review to ensure that they are the most appropriate for benchmarking against. We include UK listed companies with a similar market capitalisation, turnover, international spread of operations and complexity.

EMPLOYEES

- **Executives are aligned with the people they manage:** managers below Board level have access to the same remuneration elements. They have a salary appropriate to their role and responsibilities which is reviewed annually across their peer group (internal and external). The annual increase to the salary is based on an assessment of cost of living increases. Increases beyond this are based on changes in circumstance. Managers are also beneficiaries of the annual bonus plan and the PSP.
- **Executives align their interests with shareholders:** the Group Chief Executive is required to build up a holding of 225% of his salary in shares (175% for the Group Finance Director) within five years of appointment. Their bonuses and the vesting of their PSP awards are driven by the indicators that drive shareholder value.

BUSINESS

- **Biased to a long-term focus:** the PSP opportunity is higher than the bonus opportunity for the Executive Directors. Long-term performance is further encouraged through deferral of 50% of the annual bonus (deferred for three further years) and the PSP takes three years to vest with the vested shares being held for a further two years, a total of five years.
- **Rewards aligned to performance and shareholder value:** the annual bonus is calculated on the annual financial profit performance and ROACE. The PSP is based on two key financial indicators which drive long-term shareholder value (EPS and ROACE), and the market's assessment of them through relative TSR. In the last five years DS Smith's TSR has been 200% compared to the FTSE index of 60.5%. We do not use non-financial measures for any aspect of variable pay for our Directors.
- **Bonuses can be recovered:** we have malus provisions to allow for adjustments to rewards not yet vested as well as clawback provisions where bonuses have already been paid.

Governance

Remuneration Committee report continued

OVERVIEW

2015/16 ACTIVITIES

- Approval of the 2014/15 Annual Report on Remuneration presented at the AGM on 8 September 2015.
- Review of the Company's performance against targets during the year ended 30 April 2016.
- Approval of Company and Directors' performance objectives for the year ended 30 April 2016.
- Review of:
  - Group Chief Executive's and Group Finance Director's remuneration;
  - Chairman's annual fee; and
  - Non-Executive Directors' fees and recommendations thereon to the Board.
- Approval of share-based incentive plan awards and vestings.
- Approval of Sharesave Plan invitation.

2016/17 PRIORITIES

- Design the remuneration policy for the next three years.
- Consult with shareholders and other key stakeholders on the draft remuneration policy.
- The Committee will continue its regular dialogue with shareholders and will hold meetings where appropriate.

CALENDAR OF EVENTS (FINANCIAL YEAR)

JUNE
- Approved the Directors' Report on Remuneration
- Confirmed targets and approved awards for the bonus and share-based incentive plans

SEPT
- Reviewed market practice
- Consulted with shareholders on the Directors' Report on Remuneration prior to the resolution to approve it being passed at the AGM

JAN
- Held meetings with shareholders
- Considered the approach to the 2015/16 Directors' Remuneration Report
- Approved Sharesave Plan grants

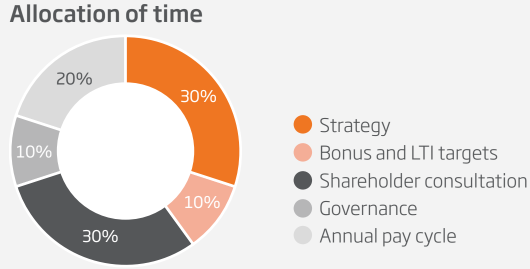
APRIL
- Reviewed draft of the Directors' Report on Remuneration
- Considered ISS "Pay for Performance" proposals
- Approved the Chairman's fee increase

MEMBERSHIP AND ATTENDANCE

The Committee is chaired by Kathleen O'Donovan and all members of the Committee are independent non-Executive Directors. The Committee consults with the Group Chief Executive, who may attend meetings of the Committee, although he is not involved in deciding his own remuneration. The Committee is assisted by the Group General Counsel and Company Secretary and the Group Human Resources Director.

Members	Member since	Attended	Potential	Meeting attendance
Kathleen O'Donovan	December 2012	5	5	100%
Chris Britton	March 2013	5	5	100%
Gareth Davis	June 2010	5	5	100%
Ian Griffiths	June 2014	5	5	100%
Jonathan Nicholls	December 2009	5	5	100%
Louise Smalley	June 2014	4	5	80%
Total meetings			**5**	

Allocation of time



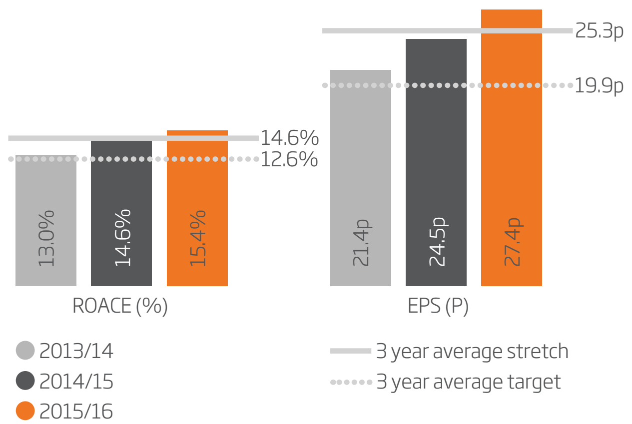
ADVISERS

Internal	External
– Group General Counsel and Company Secretary – Group Human Resources Director	– New Bridge Street

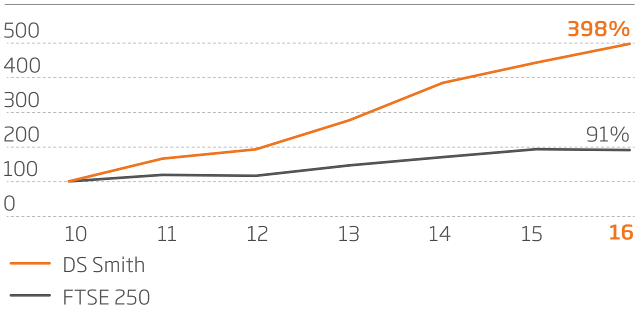
CONTEXT FOR DECISIONS TAKEN DURING THE YEAR

Our vision five years ago was to become the leader in recycled packaging for consumer goods. In order to achieve this, we needed to win market share and expand into new markets, and we have succeeded in that aim. There is a clear opportunity to build on this leadership position and we are committed to taking it. DS Smith continues to drive growth, returns and cash, growing ahead of the corrugated market and integrating new businesses into our pan-European operation. One of the underpins for achieving our vision is our remuneration policy.

PSP targets against Group performance



Total shareholder return from May 2010



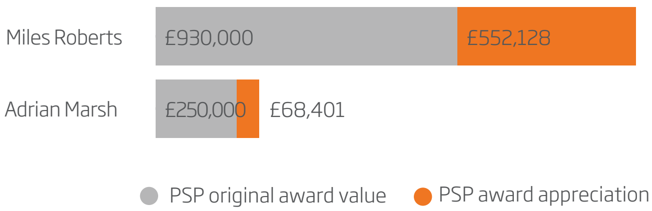
THREE YEAR AVERAGE EARNINGS PER SHARE (EPS) GROWTH

Our EPS performance targets are based on a three year average. Assuming steady growth, in order to meet these targets the Company has to achieve an average compound percentage growth in EPS over the three-year performance period of between 6% and 13% per annum.

These results demonstrate that once again our experienced management team has driven significant performance improvements during the year. DS Smith's strategy to deliver long-term sustainable and profitable growth remains paramount and our remuneration policy is designed to support this strategy. The Group has continued strong financial performance and consistent year-on-year incremental improvement in key financial measures. This demonstrates the importance of management's continuing focus on delivering against a clear strategy, supported by a remuneration policy which provides an appropriate balance between fixed and variable pay.

The Committee understands the trust placed in it by shareholders not to reward failure. Challenging performance conditions, which are aligned with the strategic objectives of the Group, have to be met before our share-based incentive plans can vest. This ensures that when the strategic objectives are met an appropriate level of remuneration follows. Our incentive plans have recovery and withholding provisions.

PSP awards values



Value of original award based on share price on 22 July 2013 of £2.495 for Miles Roberts and a share price on 10 December 2013 of £3.122 for Adrian Marsh. The estimated appreciation value of the vested shares is based on the average share price during the three months to 30 April 2016 (£3.872). Adrian Marsh's award does not vest until 10 December 2016.

ALIGNMENT WITH OUR SHAREHOLDERS

Employees at all levels are encouraged to have an interest in the Company's shares both through direct shareholdings and through our multi-award winning Sharesave Plan. Our more senior employees interests are aligned to shareholders through their shareholding requirements and through our share-based incentive plans. Employees at all levels have an interest in the performance of the share price.

The market assessment of our share performance is reflected in total shareholder return (TSR).

Remuneration Committee report continued

DIRECTORS' REMUNERATION FOR 2015/16

No substantial changes relating to Directors' remuneration were made during the year, and all payments have been made in accordance with the remuneration policy approved by shareholders.

- The Group Chief Executive's salary was increased by 2.5%, in line with the average increase for the workforce generally.
- In line with our stated policy to move the Group Finance Director's salary to a mid-market level over time and subject to satisfactory performance, his salary was increased by 5%.
- A bonus of 158% of salary was earned by the Group Chief Executive and 118.5% of salary by the Group Finance Director (in line with the maximum bonus opportunity of 200% of salary for the Group Chief Executive and 150% of salary for the Group Finance Director).
- Vesting of the Performance Share Plan (PSP), Deferred Share Bonus Plan (DSBP) and Share Matching Plan (discontinued in 2014) (SMP) awards granted to the Group Chief Executive in July 2013 and the PSP award made to the Group Finance Director in December 2013 is dependent on Company performance over the three year period ended 30 April 2016. The PSP award will vest at 94%, the DSBP award will vest at 100% and the SMP award will vest at 88% as there has been full achievement of the total shareholder return (TSR) target, 89% achievement of the return on average capital employed (ROACE) target and 87% achievement of the earnings per share (EPS) target.
- An award under our PSP of 200% of salary was made to the Group Chief Executive and 175% of salary to the Group Finance Director.
- The fee payable to the non-Executive Chairman was increased by 2.5% and the non-Executive Directors' base fees by 2.5%.

Full details of the remuneration package receivable by each Director for the year ended 30 April 2016 are provided in the single total figure of remuneration table, on page 92.

APPROACH FOR 2016/17

We have set out in this report the key elements of the implementation in 2015/16 of the shareholder-approved remuneration policy. Having simplified our remuneration policy in 2014, the SMP has been discontinued and no further awards will be made under it. Full details of the policy can be found in our 2013/14 Annual Report available on our website.

The Committee has reviewed the operation of our remuneration policy for 2016/17 and has concluded that the policy should continue to be implemented on the basis agreed by shareholders at the 2014 AGM. The following key decisions taken during the year were:

- The Group Chief Executive's and Group Finance Director's salary will be increased by 3%, in line with the workforce generally.
- These increases will take effect from 1 August 2016.
- An award under our PSP of 225% of salary will be made to the Group Chief Executive and 175% of salary to the Group Finance Director.
- The fee payable to the non-Executive Chairman will be increased by 3% and the non-Executive Directors' base fees by 3%.
- Targets for the 2016/17 annual bonus plan have been set in line with the financial plan. Due to their commercial sensitivity, they are not disclosed within this report, but will be disclosed retrospectively in next year's report.
- Under the PSP, the Committee has considered the performance conditions and has determined that an equal mix of EPS, TSR and ROACE remains appropriate and these are fully disclosed in the annual report on remuneration.
- Shares that vest under the PSP awarded this year to Executive Directors must be retained (net of those sold to pay tax) for a further two years before they can be sold.

FUTURE POLICY

The policy currently being operated was last approved by shareholders at the AGM in 2014. In line with best practice, the Committee will present a remuneration policy for approval by the shareholders at the AGM in 2017. The Committee will continue to engage with our major shareholders and their representative bodies regarding our remuneration policy.

We have received feedback and views from shareholders on matters related to remuneration during the year. Shareholders do not speak with a single voice and, as a Committee, we have to balance individual shareholder perspectives with our overall responsibility to ensure that remuneration arrangements enable us to attract and retain talented employees to deliver sustainable shareholder returns. In the interests of the Group, we have reviewed the effectiveness of the application of our remuneration policy to date and continue to be satisfied that the overall approach provides good alignment of executive behaviour with shareholder interests and does not encourage excessive risk taking.

The annual report on remuneration explains how our policy has been implemented during the year under review and, alongside this letter, will be subject to an advisory vote at our AGM (resolution 3). We hope that you will support it.

Kathleen O'Donovan
Chairman of the Remuneration Committee
22 June 2016

MANAGEMENT TEAM ACHIEVEMENTS

In 2015/16, the senior management team, lead by Miles Roberts and Adrian Marsh, achieved a number of key goals. These were not formal objectives under the remuneration policy but we have listed them to help put the implementation of our remuneration policy into context.

The outcomes of the initiatives listed below can be seen in more detail in the Strategic Report on pages 1 to 47. These included:

– customer and business leadership;
– building key strategic relationships with customers;
– positioning DS Smith in the wider business and broader community;
– improving colleague engagement;
– building the talent pipeline across the Group;
– delivering effective management of the Group's capital; and
– further upgrading the finance function.

Key achievements

– Good volume growth across the business
– Reinvigorated our employee engagement programme, "OWN IT!"
– Increased the Group's ROACE to 15.4%, an improvement of 70 bps at constant currency
– Increased Group return on sales to 9.3%, an increase of 50 bps at constant currency
– Improved health and safety
– Invested £433 million in acquisitions
– Successful integration of five acquired businesses

REMUNERATION POLICY

The policy, which was explained in detail on page 60 to 65 in the 2013/14 Annual Report (a copy of which can be found on the Group's website www.dssmith.com/investors/annual-reports/) was approved by shareholders at the AGM in 2014 and took effect from 17 September 2014. The Committee believes that the policy strikes the right balance between providing clarity on its intentions and retaining flexibility to deal with the unexpected over the next year. We set out in this report the key elements of our policy to allow cross-reference against its operation in the year.

REWARD SCENARIOS

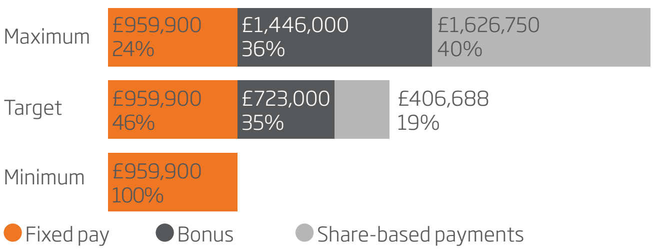
The balance between fixed and variable "at risk" elements of remuneration changes with performance. The Company's remuneration policy results in a significant proportion of remuneration received by Executive Directors being dependent on Company performance. The total remuneration of the Executive Directors for a minimum, target and maximum performance in 2016/17 is presented in the charts below:

TOTAL REMUNERATION

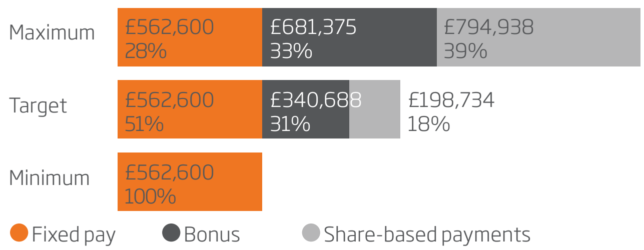
The charts illustrate the remuneration policy from 1 August 2016. The charts are indicative as share price movement and dividend accrual have been excluded. Assumptions made for each scenario are as follows:

– **Minimum:** fixed remuneration only (i.e. latest known salary, benefits and pension).
– **Target:** fixed remuneration plus half of maximum annual bonus opportunity plus 25% vesting at threshold of performance shares. Note that the Company does not have a stated target for its financial measures or incentive payouts.
– **Maximum:** fixed remuneration plus maximum annual bonus opportunity plus 100% vesting of performance shares.

Miles Roberts



Adrian Marsh



Remuneration Committee report continued

ANNUAL REPORT ON REMUNERATION

TOTAL REMUNERATION IN MORE DEPTH

In the following pages you will find, set out against each policy element, the operation and performance metrics, the opportunity for that element, how it was implemented in 2015/16 and how it will be implemented in 2016/17.

The annual report on remuneration will be subject to an advisory shareholder vote at the AGM on 6 September 2016.

OUR REMUNERATION POLICIES IN DETAIL

- Basic Salary p82
- Annual Bonus p83
- Performance Share Plan p85
- All Employee Share Plan p88
- Share Ownership Guidelines p89
- Pension p90
- Benefits p90

BASIC SALARY

TO HELP RECRUIT AND RETAIN KEY SENIOR EXECUTIVES.
TO PROVIDE A MID-MARKET SALARY RELATIVE TO COMPARABLE COMPANIES, IN TERMS OF SIZE AND COMPLEXITY.

POLICY SUMMARY

OPERATION AND PERFORMANCE METRICS

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.

Salaries are benchmarked against similar roles within a selected group of UK businesses of similar size with substantial overseas operations.

OPPORTUNITY

Salaries will normally be increased in line with increases for the workforce in general/increases for senior management/inflation 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 the 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.

IMPLEMENTATION IN 2015/16

The Remuneration Committee takes into consideration, in particular, the experience, performance, and internal and external relative positioning for total reward of the individuals, and also takes into account the average budgeted increase in base salaries of the Group's workforce. Base salaries for 2016/17 will be increased by 3% from 1 August 2016 as shown opposite. This increase leaves the Group Chief Executive's salary below the mid-market level advocated by our policy.

	Salaries effective from:	
	1 August 2015	1 August 2016
Miles Roberts	£702,000	£723,000
Adrian Marsh	£441,000	£454,250

ANNUAL BONUS

TO INCENTIVISE EXECUTIVES TO ACHIEVE 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.

POLICY SUMMARY

OPERATION AND PERFORMANCE METRICS

Targets are set annually and relate to areas of the business over which the executive has particular control.

Bonus payouts are determined by the Committee after the year end, based on performance against predetermined objectives, at least the vast majority of which are 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 and are paid together with an amount equal to the value of dividends payable on the vested shares during the deferral period. The deferred element is subject to forfeiture for 'bad leavers' who depart prior to vesting.

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.

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 or if there is serious misconduct.

OPPORTUNITY

Maximum bonus potential of 200% of base salary (which will apply to the Group Chief Executive, with the Group Finance Director having an opportunity of 150% 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).

Remuneration Committee report continued

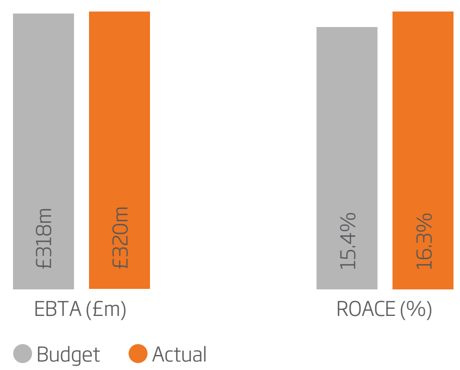
ANNUAL BONUS CONTINUED

IMPLEMENTATION IN 2015/16

Annual bonus payments were determined with reference to performance over the financial year ended 30 April 2016. The bonus vested on a straight-line basis of 95% – 105% of the budget as approved by the Board, split 50/50 between budgeted ROACE (15.4%) and budgeted earnings before tax and amortisation (EBTA) (£318 million). In assessing the actual performance achieved the Committee assesses, and may make an adjustment for, the impact of events that were not envisaged in the budget. In assessing actual performance achieved against budget, the Remuneration Committee made the standard adjustments for budgeted exchange rate and unbudgeted acquisitions and disposals during the year. This resulted in lower EBTA of £320 million and higher ROACE of 16.3%. The ROACE difference reflects the lower return from acquisitions in the early stages of ownership. No element of the annual bonus is guaranteed.

The annual bonus is designed to drive the achievement of the Group's financial and strategic business targets. The annual bonus opportunity is based on a formal review of performance against stretching financial targets.

2015/16 bonus



Miles Roberts	Adrian Marsh
Maximum potential bonus is 200% of basic annual salary, of which half will be deferred in shares.	Maximum potential bonus is 150% of basic annual salary, of which half will be deferred in shares.
Targets adjusted EBTA growth and improved ROACE.	Targets adjusted EBTA growth and improved ROACE.
At target, 50% of maximum bonus will be payable.	At target 50% of maximum bonus will be payable.
Bonus earned 158% of salary – £1,109,160.	Bonus earned 118.5% of salary – £522,585.

THE 2016/17 BONUS WILL OPERATE ON THE SAME BASIS AS FOR 2015/16

The annual bonus plan for the Executive Directors and other senior executives is operated as shown above. Bonus results are determined by the Committee after the year end, based on performance against targets. Bonus awards are measured against the achievement of Group objectives. Maximum bonus opportunity for 2015/16 is shown above for the Executive Directors and is generally between 70% and 100% for the other most senior executives.

In the event of an acquisition in the year, the Committee will assess whether the financial performance of the acquired business should be included and targets adjusted accordingly, or simply excluded. Adjustments to targets will continue to be disclosed in the relevant Directors' Remuneration report.

IMPLEMENTATION FOR 2016/17

The maximum annual bonus opportunity for 2016/17 will remain unchanged at 200% and 150% of salary for the Group Chief Executive and Group Finance Director respectively. The target bonus will also remain at the same level as a percentage of salary at half of the maximum. For 2016/17, the annual bonus plan will comprise two discrete elements for the Executive Directors:

– 50% on EBTA performance; and
– 50% on ROACE performance.

The targets are challenging relative to the 2016/17 business plan and show growth over 2015/16. They are deemed by the Committee to be commercially sensitive so will be disclosed retrospectively (along with performance against them) in next year's Directors' Remuneration report.

PERFORMANCE SHARE PLAN (PSP)

TO INCENTIVISE EXECUTIVE DIRECTORS TO ACHIEVE RETURNS FOR SHAREHOLDERS OVER A LONGER TIMEFRAME.

TO HELP RETAIN EXECUTIVES AND ALIGN THEIR INTERESTS WITH SHAREHOLDERS THROUGH BUILDING A SHAREHOLDING IN THE COMPANY.

POLICY SUMMARY

OPERATION AND PERFORMANCE METRICS

Awards of nil-cost options are made annually with vesting dependent on the achievement of performance conditions over the three subsequent years.

Awards will vest, subject to performance, on the third anniversary of grant and will be subject to an additional two-year holding period post vesting during which time awarded shares may not be sold (other than for tax).

The Committee reviews the quantum of awards annually to ensure that they are in line with market levels and appropriate given the performance of the individual and the Company.

Vesting of awards is based on:

i. the Company's Total Shareholder Return performance measured over no less than three years against a peer group of companies selected by the Committee as at the start of the performance period. The vesting scale is median to upper quartile of the group of companies, with nothing vesting for below median performance; and

ii. internal audited financial measures of performance (e.g. Earnings Per Share, Return on Average Capital Employed) selected by the Committee over a period of no less than three financial years.

Dividend equivalents arising over the period between the grant date and the vesting date will be paid in cash or shares.

Clawback provisions apply to the PSP so that individuals are liable to repay/forfeit some or all of their shares if there is a material misstatement of results or if there is serious misconduct.

OPPORTUNITY

Maximum annual awards: 225% of base salary (which will apply to the Group Chief Executive, with the Group Finance Director having an opportunity of having a maximum opportunity of 175% of base salary).

25% of the relevant part of the award will vest for achieving threshold performance, increasing to full vesting for the achievement of maximum performance.

Remuneration Committee report continued

PERFORMANCE SHARE PLAN (PSP) CONTINUED

PERFORMANCE CONDITIONS

TOTAL SHAREHOLDER RETURN (TSR)

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

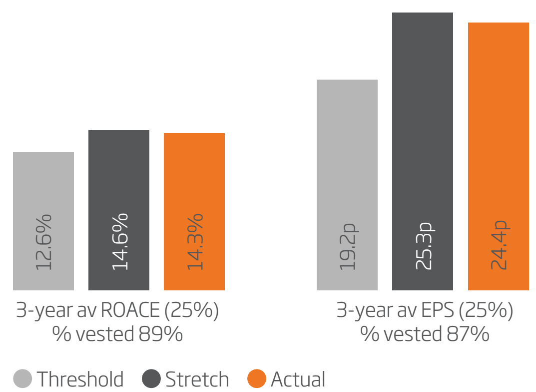
THREE YEAR AVERAGE ADJUSTED EARNINGS PER SHARE (EPS)

Adjusted EPS is disclosed in the Company's Annual Report and Accounts and is the portion of the Group's after tax profit allocated to each outstanding share. Adjusted EPS is an indicator of the underlying performance of the DS Smith Group. The extent to which an award subject to this performance condition vests depends on the Company's average adjusted EPS performance over the full three-year performance period.

THREE YEAR AVERAGE RETURN ON AVERAGE CAPITAL EMPLOYED (ROACE)

ROACE is disclosed in the Company's Annual Report and Accounts. It is defined as operating profit before amortisation and exceptional items divided by average capital employed and is a measure of the efficiency and profitability of the Company's assets and investments. The extent to which an award subject to this performance condition vests depends on the Company's average adjusted ROACE over the full three-year performance period.

Performance targets on long-term incentives



Total shareholder return (50%) – the relative TSR performance against the constituents of the FTSE 250 Industrial Goods and Services supersector with median being the threshold target, upper quartile the stretch target.

Actual performance exceeded the upper quartile with 100% of this element of the award vesting.

IMPLEMENTATION IN 2015/16

AWARDS VESTING

The PSP and SMP awards granted on 23 July 2013 and the PSP award granted on 10 December 2013 are based on performance to the year ended 30 April 2016. The performance conditions attached to these awards and actual performance against these conditions are set out in the table below.

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

Executive Director	Award	Number of shares at grant	Number of shares to vest	Number of shares to lapse	Re-investment of dividends	Total	Estimated value[1] (£'000)
Miles Roberts	PSP	372,745	350,380	22,365	32,398	382,778	1,482
	SMP	229,237	201,729	27,508	18,652	220,381	853
Adrian Marsh	PSP	80,076	75,271	4,805	6,960	82,231	318

1 The estimated value of the vested shares is based on the average share price during the three months to 30 April 2016 (£3.872). These shares will vest on the third anniversary of grant.

The SMP awards were in respect of 75% of salary (calculated based on the maximum matching ratio of 1.5:1 on the first 50% of salary worth of shares awarded under the Deferred Share Bonus Plan (DSBP)). No further awards will be made under the SMP. Matching awards normally vest three years after grant, to the extent to which the applicable performance conditions have been satisfied and the related DSBP award has not lapsed, and provided the participant is still employed within the Group. If a DSBP award lapses before the vesting of the related matching award, then that matching award will lapse at the same time. Details of the performance conditions are set out in the table on page 87. The performance period for the 2013 award ended on 30 April 2016.

The table on page 93 sets out details of the Executive Directors' outstanding share awards.

AWARDS GRANTED

On 24 July 2015, PSP awards were granted to the Executive Directors. The share price on the date of grant was £3.846. The Group Chief Executive's award was 200% of base salary and the Group Finance Director's award was 175% of base salary. Awards normally vest three years after grant, to the extent that the applicable performance conditions have been satisfied. Shares that vest under the PSP awarded during the year to Executive Directors must be retained for a further two years before they can be sold.

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

Plan	Year	3 year average ROACE	3 year average EPS	TSR
Performance Share Plan	2013	12.6% - 14.6%	19.9p - 25.3p	Median – upper quartile[1]
	2014	13.0% - 15.0%	24.0p - 28.0p	
	2015	13.0% - 15.0%	26.6p - 30.4p	
Share Matching Plan	2013	12.6% - 14.6%	19.9p - 25.3p	
	2014	13.0% - 15.0%	24.0p - 28.0p	
	2015	N/A	N/A	N/A

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

2013 PSP award: 50% based on relative TSR, 25% based on three year average adjusted EPS and 25% based on three year average adjusted ROACE. The performance period for this award ended on 30 April 2016. Details of the number of shares to vest are set out on page 86.

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

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

2013 and 2014 SMP award: 50% based on three year average adjusted EPS and 50% based on three year average adjusted ROACE. 25% of the award vests for achieving threshold performance, increasing on a straight-line basis to full vesting for maximum performance.

Under the PSP, the Committee has the power to vary the metrics used each year and their relative weightings. It also has the power to review the specific targets for each award to ensure that they remain appropriate, but the new targets must be at least as challenging in the circumstances as the original targets were when they were set.

In the event of an acquisition in the three year performance period, the Committee will assess whether the financial performance of the acquired business should be included and targets adjusted accordingly. The financial performance of a business being disposed of may be excluded from the Group's financial performance and the targets adjusted accordingly. Adjustments to targets will continue to be disclosed in the relevant year's Directors' Remuneration report.

IMPLEMENTATION IN 2016/17

As explained in the 2014 report, linked to the discontinuation of the SMP, the PSP opportunity for the Group Chief Executive would increase to 225% of salary, phased over two years. The award to be made in July 2016 will be at 225% of salary for the Group Chief Executive. The award to be made to the Group Finance Director will remain at 175% of salary. Shares that vest under the PSP awarded this year to Executive Directors must be retained for a further two years before they can be sold. The Committee will continue to review the award level to ensure it remains appropriate. The awards will continue to be granted as nil-cost options.

The PSP will continue to be subject to three performance measures: relative TSR, three year average adjusted EPS and three year average adjusted ROACE with equal weighting on each element. The respective targets for the 2016 award will be:

% vesting as a proportion	Relative TSR[1] one third	3 year average EPS[2] one third	3 year average adjusted ROACE[3] one third
100%	Upper quartile	34.3p	15.7%
Between 25% and 100%	Between median and upper quartile	30.1p - 34.3p	14.5% - 15.7%
25%	Median quartile	30.1p	14.5%

1 Relative TSR performance measured over three years against a group of 44 companies within the Industrial Goods & Services supersector within the FTSE 250 as at the start of the performance period.

2 Three year average adjusted EPS, as disclosed in the Annual Report, over the forthcoming three financial years, commencing with the financial year in which the award is made. Assuming steady growth, in order to meet these targets the Company has to achieve an average compound percentage increase in EPS over the three year performance period of between 6% and 13% per annum.

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

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

The adjusted EPS/ROACE for all three years will be added up, divided by three and compared to the targets above. For a growing business these targets are more demanding than if only the third year's performance is compared to these targets.

Governance

Remuneration Committee report continued

ALL EMPLOYEE SHARE PLAN

ENCOURAGES LONG-TERM SHAREHOLDING IN THE COMPANY.

POLICY SUMMARY

OPERATION AND PERFORMANCE METRICS

Executive Directors have the opportunity to participate in the UK or international Sharesave plans on the same terms as other eligible employees. The UK plan is operated on an 'equal terms basis' to secure approved UK HMRC tax status. There are no performance conditions applicable to awards.

OPPORTUNITY

Following recent UK HMRC changes to the limits, the maximum participation level is now £500 per month (or local currency equivalent). This limit is subject to change in line with the UK HMRC limit from time to time.

IMPLEMENTATION IN 2015/16

We believe that our Sharesave Plan (SAYE) is a valuable way of aligning our employees' interests with those of our long-term shareholders. Executive Directors are eligible (along with all employees of the Company and participating subsidiaries of the Group) to participate in the SAYE. We were very pleased to win the Ifs ProShare's Best International Share Plan award in 2014 and Global Equity Organization's Most Innovative (in 2016) and Best Plan Effectiveness (in 2015) awards for our SAYE. These awards recognise our commitment to delivering opportunity for all of our employees to participate in a plan that allows employees across our businesses to be engaged with the strategic direction and to share in the financial success of DS Smith.

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

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

Executive Director	Options held at 30 April 2015	Options granted during the year	Options exercised during the year	Options lapsed during the year	**Options held at 30 April 2016**	Exercise price (p)	Dates from which exercisable	Expiry date
Miles Roberts	3,345	–	–	–	**3,345**	269.0	1 Apr 17	30 Sep 17
Adrian Marsh	3,345	–	–	–	**3,345**	269.0	1 Apr 17	30 Sep 17

SHARE OWNERSHIP GUIDELINES

TO FURTHER ALIGN THE INTERESTS OF EXECUTIVES WITH THOSE OF SHAREHOLDERS.

POLICY SUMMARY

OPERATION AND PERFORMANCE METRICS	OPPORTUNITY
Executive Directors are expected to maintain a shareholding in the Company's shares as a multiple of their base salary within five years of appointment (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. Non-Executive Directors are expected to build up and then maintain a shareholding that is equivalent to a percentage of their annual fee (50%) from the Company within two years of their date of appointment.	None

IMPLEMENTATION IN 2015/16

Failure to meet the minimum shareholding requirement is taken into account when determining eligibility for share–based incentive awards. Current shareholdings are summarised in the following table:

			Options held					
Name of Director	**Total as at 30 April 2016**	Total as at 30 April 2015[1]	Unvested and subject to performance conditions[2]	Unvested and subject to continued employment	Vested but not exercised	Shareholding required (% salary/fee)	Current shareholding (% salary/fee)[3]	Requirement met
Executive Directors								
Miles Roberts	**1,329,068**	973,436	1,573,172	471,637	–	225%	722%	Yes
Adrian Marsh	**–**	–	531,327	122,802	–	175%	–	See note 4
Non-Executive Directors								
Gareth Davis	**106,900**	106,900	–	–	–	50%	159%	Yes
Chris Britton	**10,550**	10,550	–	–	–	50%	74%	Yes
Ian Griffiths	**15,000**	15,000	–	–	–	50%	105%	Yes
Jonathan Nicholls	**109,307**	109,307	–	–	–	50%	580%	Yes
Kathleen O'Donovan	**10,471**	10,471	–	–	–	50%	62%	Yes
Louise Smalley	**14,615**	14,615	–	–	–	50%	103%	Yes

1 The PSP and SMP awards granted in 2013 to Miles Roberts as detailed in the table on page 86, included in the table, will vest on 23 July 2016 but are not subject to any further performance conditions.

2 The PSP award granted in 2013 to Adrian Marsh, as detailed in the table on page 86, included in the table, will vest on 10 December 2016 but is not subject to any further performance conditions.

3 Based on a share price of £3.813 (being the closing price on 30 April 2016) multiplied by the current year shareholding.

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

There have been no changes to the shareholdings set out above between the financial year end and the date of the report. It is currently intended that any ordinary shares required to fulfil entitlements under the DSBP will be provided by the David S. Smith Group General Employee Benefit Trust (the Trust), which buys shares on the market to do so. The Trust may also be used to fulfil certain entitlements under the PSP, SMP and the SAYE (along with new issue shares for other entitlements).

Remuneration Committee report continued

PENSION

TO REMAIN COMPETITIVE IN THE MARKETPLACE AND PROVIDE INCOME IN RETIREMENT.

POLICY SUMMARY

OPERATION	OPPORTUNITY
Executive Directors can elect to either: – participate in the Group's Registered Defined Contribution Plan (DC Plan), with life cover equal to four times basic salary; or – receive a salary supplement; or – a combination of the above. Members of the DC Plan are required to contribute a minimum of 3% of their basic salary to qualify for matching employer contributions, with higher levels of employer contributions payable if members pay a higher contribution.	Maximum: 30% of base salary (including a maximum DC Plan contribution). Future appointments to the Board would have a maximum of 25% of base salary.

IMPLEMENTATION IN 2015/16

Miles Roberts receives an annual pension cash allowance of 30% of basic salary, in lieu of pension benefits. This payment is not considered to be salary for the purpose of calculating any bonus payment. Adrian Marsh receives an annual pension allowance of 20% of basic salary and contributes into the DC Plan up to the level of his annual allowance with the remainder taken as cash. The annual pension allowance is not pensionable and is not considered to be salary for the purpose of calculating any bonus payment.

BENEFITS

TO HELP RETAIN EMPLOYEES AND REMAIN COMPETITIVE IN THE MARKETPLACE.

POLICY SUMMARY

OPERATION	OPPORTUNITY
Directors receive a car allowance, income protection insurance, life cover and medical insurance. Additional benefits (including a relocation allowance) may be provided from time to time where they are in line with market practice.	Benefit levels may be increased in line with market levels and 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.

IMPLEMENTATION IN 2015/16

Benefits included car allowance, taxable fuel, income protection, life cover and medical insurance.

These will run on an unchanged basis for 2016/17.

FEES FOR NON-EXECUTIVE DIRECTORS AND THE CHAIRMAN

ATTRACT AND RETAIN HIGH PERFORMING INDIVIDUALS.

POLICY SUMMARY

OPERATION AND PERFORMANCE METRICS

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 comparator 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 performance of their duties as Director (e.g. hospitality, communication and travel-related benefits).

OPPORTUNITY

No prescribed maximum annual increase.

Aggregate annual fees limited to £750,000 by Articles of Association.

Non-Executive Directors have letters of appointment for a term of three years whereupon they are normally renewed, but generally for no more than three terms in aggregate. In each case, the notice period is one month by the Company or the Director. Non-Executive Directors are not eligible for payments on termination. In line with the Code, all non-Executive Directors are subject to annual re-election by shareholders at our AGM.

CHAIRMAN AND NON-EXECUTIVE DIRECTORS' LETTERS OF APPOINTMENT AS AT APRIL 2016

		Date of contract	Unexpired period at date of report
Gareth Davis	Chairman	26 April 2016	Two years eleven months
Chris Britton		7 March 2016	Two years ten months
Ian Griffiths		14 April 2014	One year two months
Jonathan Nicholls	Senior Independent Director	24 November 2015	Two years six months
Kathleen O'Donovan		24 November 2015	Two years six months
Louise Smalley		14 April 2014	One year two months

The letters of appointment detail the time commitment expected of each non-Executive Director and are available for viewing at the registered office during normal business hours and prior to and at the AGM.

The rates for the Chairman's and non-Executive Directors' fees with effect from 1 August 2016 are:

Chairman's and non-Executive Directors' fees	Base fee (£)	Senior Independent Director fee (£)	Chairman of Audit Committee fee (£)	Chairman of Remuneration Committee fee (£)	Total (£)
Gareth Davis	263,680	–	–	–	263,680
Chris Britton	55,900	–	–	–	55,900
Ian Griffiths	55,900	–	–	–	55,900
Jonathan Nicholls	55,900	7,500	10,000	–	73,400
Kathleen O'Donovan	55,900	–	–	10,000	65,900
Louise Smalley	55,900	–	–	–	55,900

Governance

Remuneration Committee report continued

SINGLE TOTAL FIGURE OF REMUNERATION FOR EACH DIRECTOR (AUDITED)

	Salary/fees[1] £'000		Benefits[2] £'000		Annual bonus[3] £'000				Long-term incentives[4] £'000		Pensions[5] £'000		**2015/16 total £'000**	2014/15 total £'000
					Cash		Deferred shares							
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15		
Executive Directors														
Group Chief Executive Miles Roberts	698	681	22	22	555	603	555	603	2,335	3,414	208	204	**4,373**	5,527
Group Finance Director Adrian Marsh	436	415	19	73	261	277	261	277	318	–	88	83	**1,383**	1,125
Total	1,134	1,096	41	95	816	880	816	880	2,653	3,414	296	287	**5,756**	6,652

	Salary/fees[1] 2015/16	Salary/fees[1] 2014/15	Benefits[2] 2015/16	Benefits[2] 2014/15	Cash 2015/16	Cash 2014/15	Deferred shares 2015/16	Deferred shares 2014/15	Long-term incentives[4] 2015/16	Long-term incentives[4] 2014/15	Pensions[5] 2015/16	Pensions[5] 2014/15	**2015/16 total £'000**	2014/15 total £'000
Non-Executive Directors														
Chairman Gareth Davis	254	248	–	–	–	–	–	–	–	–	–	–	**254**	248
Chris Britton	54	53	–	–	–	–	–	–	–	–	–	–	**54**	53
Ian Griffiths[6]	54	41	–	–	–	–	–	–	–	–	–	–	**54**	41
Jonathan Nicholls	71	70	–	–	–	–	–	–	–	–	–	–	**71**	70
Kathleen O'Donovan	64	63	–	–	–	–	–	–	–	–	–	–	**64**	63
Louise Smalley[6]	54	41	–	–	–	–	–	–	–	–	–	–	**54**	41
Total	551	516	–	–	–	–	–	–	–	–	–	–	**551**	516

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

2 Taxable benefits in 2015/16 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. The benefits total for Adrian Marsh for 2014/15 includes the reimbursement of relocation expenses of £30,000 received net of tax of £24,545 incurred by the Company, in accordance with Group policy.

3 The total annual bonus paid for performance over the financial year ending 30 April 2016 for Miles Roberts was £1,109,160 (2014/15: £1,205,600) and for Adrian Marsh was £522,585 (2014/15: £554,400). 50% is deferred into shares as described in the policy table on page 83.

4 The value of LTIs for 2015/16 represents the estimated value of the 2013 PSP (the performance period for this award ended on 30 April 2016) and the 2013 Share Matching Plan (the performance period for this award ended on 30 April 2016). The value of LTIs for 2014/15 represents the actual value of the 2012 PSP (the performance period for this award ended on 30 April 2015).

5 Miles Roberts receives an annual pension allowance of 30% of basic salary. Adrian Marsh elected to pay contributions at a level that qualified for a Company contribution of 20%. Further details are contained in the Executive Directors' pension section on page 90.

6 Ian Griffiths and Louise Smalley were appointed to the Board on 23 June 2014.

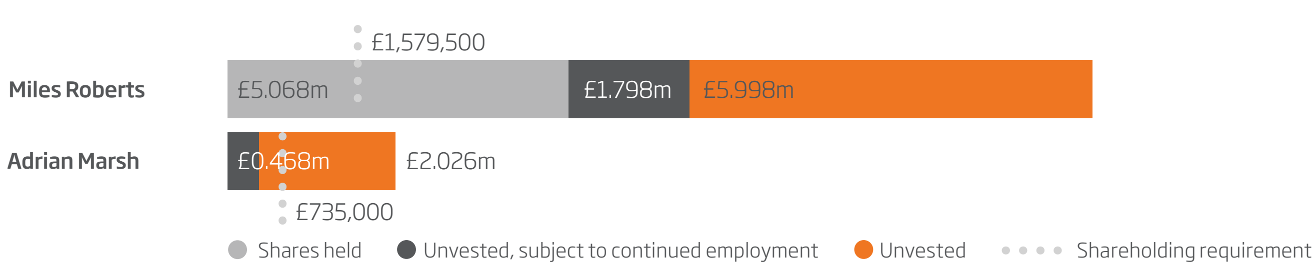
OUTSTANDING SHARE AWARDS

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

	Award date	Awards held at 30 April 2015	Granted	Notional dividend shares accrued	Exercised/ vested	Lapsed/ forfeited	Market price on date of award (p)	Market price at date of exercise (p)	Awards held at 30 April 2016	Vesting date if performance conditions are met	Expiry date
Miles Roberts											
PSP	16 Jul 12	577,507	–	48,670	577,089	49,088	148.1	407.0	–	16 Jul 15	16 Jul 22
PSP	23 Jul 13	372,745	–	–	–	–	249.5	–	372,745	23 Jul 16	23 Jul 23
PSP	30 Jul 14	375,700	–	–	–	–	267.5	–	375,700	30 Jul 17	30 Jul 24
PSP	24 Jul 15	–	356,214	–	–	–	384.6	–	356,214	24 Jul 18	24 Jul 25
									1,104,659		
DSBP	16 Jul 12	192,502	–	–	192,502	–	148.1	407.0	–	16 Jul 15	16 Jul 22
DSBP	23 Jul 13	152,825	–	–	–	–	249.5	–	152,825	23 Jul 16	23 Jul 23
DSBP	30 Jul 14	158,733	–	–	–	–	267.5	–	158,733	30 Jul 17	30 Jul 24
DSBP	24 Jul 15	–	156,734	–	–	–	384.6	–	156,734	24 Jul 18	24 Jul 25
									468,292		
SMP	16 Jul 12	288,753	–	22,074	261,739	49,088	148.1	407.0	–	16 Jul 15	16 Jul 22
SMP	23 Jul 13	229,237	–	–	–	–	249.5	–	229,237	23 Jul 16	23 Jul 23
SMP	30 Jul 14	238,099	–	–	–	–	267.5	–	238,099	30 Jul 17	30 Jul 24
									467,336		
Adrian Marsh											
PSP	10 Dec 13	80,076	–	–	–	–	312.2	–	80,076	10 Dec 16	10 Dec 23
PSP	30 Jul 14	186,915	–	–	–	–	267.5	–	186,915	30 Jul 17	30 Jul 24
PSP	24 Jul 15	–	191,107	–	–	–	384.6	–	191,107	24 Jul 18	24 Jul 25
									458,098		
DSBP	30 Jul 14	47,383	–	–	–	–	267.5	–	47,383	30 Jul 17	30 Jul 24
DSBP	24 Jul 15	–	72,074	–	–	–	384.6	–	72,074	24 Jul 18	24 Jul 25
									119,457		
SMP	30 Jul 14	71,074	–	–	–	–	267.5	–	71,074	30 Jul 17	30 Jul 24
									71,074		

EXECUTIVE DIRECTORS' SHAREHOLDINGS AGAINST POLICY

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



Adrian Marsh joined the Board in September 2013 and has until September 2018 to build up a shareholding that is equivalent to 175% of his salary.

Remuneration Committee report continued

SERVICE CONTRACTS AND PAYMENT FOR LOSS OF OFFICE

The Committee's policy is that the notice periods for Executive Directors appointed in future will not exceed one year. Service contracts may be terminated without notice and without payment or compensation, except for sums earned up to the date of cessation, on the occurrence of certain events, such as gross misconduct. 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). Termination payments will not exceed contractual entitlements. For future Directors' contracts, if the Company exercises its right to make a payment in lieu of notice (PILON), such payments will not exceed an amount equal to basic salary for any unexpired notice period.

	DATE OF CONTRACT	NOTICE PERIOD[1]
Group Chief Executive Miles Roberts	4 May 2010	The service contract may be terminated by 12 months' notice by the Company, and by the Executive Director. The Company may terminate the contract with immediate effect by making a payment equal to basic salary and pension allowance for any unexpired period of notice.
Group Finance Director Adrian Marsh	24 September 2013	The service contract may be terminated by 12 months' notice by the Company, and by the Executive Director. The Company may terminate the contract with immediate effect by making a payment equal to basic salary for any unexpired period of notice.

1 Any such termination payment may be made in a lump sum or in monthly instalments from the termination date. These monthly payments will be reduced to take account of any alternative employment or consultancy income during the period over which such instalments are payable.

IN THE CASE OF A "GOOD LEAVER":

- annual cash bonus will be paid out, subject to Company performance, on the normal payment date unless the Committee determines that the payment will be made early on the date of cessation of employment. The payout will be reduced on a pro-rata basis to reflect the proportion of the performance period served;
- deferred bonus shares will vest in full on the date of cessation of employment; and
- PSP and SMP 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 cessation of employment (in exceptional circumstances only). Awards will be reduced on a pro-rata basis.

FOR ALL OTHER LEAVERS:

- all performance-related elements of pay will lapse immediately.

For all leavers, the Committee may also determine to make a payment in reimbursement of a reasonable level of legal fees in connection with a settlement agreement.

RECRUITMENT (AND APPOINTMENT) POLICY

The remuneration package for a new Executive Director will be set in accordance with the terms of the Company's approved remuneration policy in force at the time of appointment.

In exceptional circumstances, the Committee may offer additional cash or share-based elements. Any such payments would be for the specific purpose of recruiting an Executive Director key to the operation of the Group. They would not exceed what is felt to be a fair estimate of remuneration lost when leaving the former employer and would reflect (as far as possible) the nature and time horizons attaching to that remuneration and the impact of any performance conditions. Shareholders will be informed of any such payments on 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 into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment would continue.

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 Poundland Group plc and retained fees of £55,000 for the year ended 30 April 2016 (2014/15: £23,340 for the period from date of appointment to 30 April 2015). Adrian Marsh does not currently have any remunerated external appointments.

PAYMENTS TO PAST DIRECTORS OR FOR LOSS OF OFFICE (AUDITED)

No payments were made to past Executive Directors during the year ended 30 April 2016 (2014/15: Nil). No payments were made in respect of loss of office during the year ended 30 April 2016 (2014/15: Nil).

STATEMENT OF CHANGE IN PAY OF GROUP CHIEF EXECUTIVE COMPARED WITH OTHER EMPLOYEES (AUDITED)

The table below shows the change in the Group Chief Executive's remuneration compared to the average of the Group's employees. As stated earlier, his salary increase effective from 1 August 2016 will be in line with the workforce generally at 3%.

	Group Chief Executive	All employees[1]
	Percentage change 2015 to 2016	Percentage change 2015 to 2016
Salary	**2.5%**	**2.4%**
Benefits	**0.0%**	**0.4%**
Bonus	**(10)%**	**0.0%**

1 Represents approximately three quarters of the Group's employees, taken mainly from the countries with the largest employee populations.

RELATIVE IMPORTANCE OF SPEND ON PAY

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

£ million unless otherwise stated	2016	2015	Percentage change
Overall expenditure on employee pay[1]	**895**	845	5.9%
Dividend paid in the year	**108**	94	14.9%

1 Total remuneration reflects overall employee costs. See financial statements note 6 for further information.

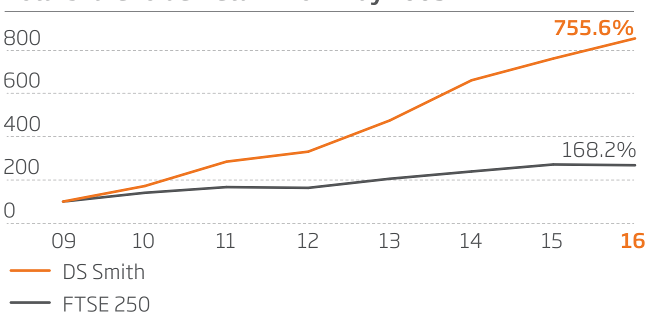
REMUNERATION OF THE GROUP CHIEF EXECUTIVE

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

	2009/10[1]	2010/11	2011/12	2012/13	2013/14	2014/15	**2015/16**
Total remuneration (£'000)	1,499	1,796	2,170	6,057	3,696	5,527	**4,373**
Annual bonus (%)	100%	100%	100%	82%	85%	88%	**79%**
LTIP vesting (%)	28%	100%	100%	100%	98%	92%	**94%**

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

Total shareholder return from May 2009



REVIEW OF PAST PERFORMANCE – TOTAL SHAREHOLDER RETURN GRAPH

This graph illustrates the Company's TSR performance since 1 May 2009, relative to the FTSE 250 Index. The Company is a member of the FTSE 250 Index and, accordingly, this index is considered to be the most appropriate comparator group for this purpose. This graph looks at the value, at 30 April 2016, of £100 invested in DS Smith over the last seven financial years compared with that of £100 invested in the FTSE 250 Index. The other points plotted are the values at intervening financial year ends.

Remuneration Committee report continued

REMUNERATION COMMITTEE GOVERNANCE

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

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

New Bridge Street (a part of Aon plc) has been appointed by the Committee to provide advice on the remuneration of Executive Directors and other senior executives. New Bridge Street also provides advice to the Company in connection with the operation of the Company's share-based incentive plans. New Bridge Street is a signatory to the Code of Conduct for remuneration consultants and a member of the Remuneration Consultants Group. New Bridge Street did not provide any other services to the Company during the year. Aon's risk solutions business performed work in Italy for the Group during the year, but otherwise Aon did not provide any other services. The total fees in respect of New Bridge Street's services to the Committee during the year were £70,588.

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

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

Prior to the 2015 AGM the Committee Chairman engaged with shareholders on the implementation of the remuneration policy; one shareholder expressed concern with certain aspects of the Company's remuneration. Since the AGM the Committee Chairman engaged with those shareholders who did not support the Company's remuneration arrangements at the last AGM. Views expressed have been considered by the Committee and will form part of the review of the Remuneration Policy for next year.

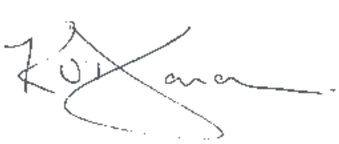
VOTING ON THE REMUNERATION REPORT AT THE 2015 AGM

At the AGM held in 2015, votes cast by proxy and at the meeting in respect of the Directors' remuneration were as follows:

Resolution	Votes for including discretionary votes	Percentage for	Votes against	Percentage against	Total votes cast excluding votes withheld	Votes withheld[1]	Total votes cast (including discretionary votes)
Directors' Remuneration report	611,133,179	82.39	130,602,511	17.61	741,735,690	504,077	742,239,767

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

On behalf of the Board



Kathleen O'Donovan
Chairman of the Remuneration Committee
22 June 2016

Directors' responsibilities statement

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 *Reduced Disclosure Framework* has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

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

By order of the Board

Miles Roberts
Group Chief Executive
22 June 2016

Adrian Marsh
Group Finance Director
22 June 2016

Independent Auditor's report to the members of DS Smith Plc

OPINION ON FINANCIAL STATEMENTS OF DS SMITH PLC

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 April 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 34. The financial statements also comprise the parent Company Balance Sheet and related notes 1 to 17. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

GOING CONCERN AND THE DIRECTORS' ASSESSMENT OF THE PRINCIPAL RISKS THAT WOULD THREATEN THE SOLVENCY OR LIQUIDITY OF THE GROUP

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

We have nothing material to add or draw attention to in relation to:

- the Directors' confirmation on page 41 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 40 – 47 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement on page 65 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the Directors' explanation on page 41 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

INDEPENDENCE

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

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

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

The Audit Committee has requested that, while not currently required under International Standards on Auditing (UK and Ireland), we include in our report any key observations in respect of these assessed risks of material misstatement.

RISK	HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE RISK
Classification and presentation of exceptional items The presentation and consistency of costs and income within exceptional items is a key determinant in the assessment of the quality of the Group's underlying earnings. Management judgement is required in determining whether an item is exceptional. For the year ended 30 April 2016, the Group incurred net exceptional and acquisition related costs of £79 million. Refer to note 4 for details of the exceptional items in the year and note 1(W) for management's policy for identifying exceptional items.	Exceptional items have been evaluated as to their nature in order to assess whether their classification and presentation are in line with the Group's accounting policy and guidance from the Financial Reporting Council. The quantification of such items has been assessed by agreeing to source documentation. We have reviewed management's application of the policy for consistency with previous accounting periods. We also assessed whether the disclosures within the financial statements provide sufficient detail for the reader to understand the nature of these items. **Key observations** We are satisfied that the amounts classified as exceptional items are reasonable in all material respects and the related disclosure of these items in the financial statements is appropriate.
Tax The value of the tax provisions recorded in respect of a number of uncertain tax positions require judgements in respect of the likely outcome of negotiations with various tax authorities. Refer to note 1(U) for management's process for estimating and recording tax provisions and note 22 for detail of the deferred tax balances.	We worked with our tax audit specialists, including those in required local jurisdictions, to challenge the estimates and judgements made by management when calculating the income tax payable in each territory and the associated provisions held. We reviewed the correspondence with the taxation authorities in significant locations, as well as reviewing the support or opinions received from external counsel or other advisors where management has utilised such opinions to appraise the likely outcome of technical tax treatments and assessing the reasonableness of the provisions made. **Key observations** We are satisfied that the assumptions used in calculating the tax charge are appropriate.
Acquisition accounting There is a risk that the acquisition accounting for the businesses acquired in the year, primarily related to Duropack (£153m) and Lantero (£102m) as set out in note 31, has not been correctly applied. Specifically, there is a risk that incorrect assumptions such as the discount, tax and growth rates used, result in inaccurate valuations of intangible assets.	We have challenged the key assumptions made by management in accounting for the acquisitions. Specifically, we have reviewed the discount, tax and growth rates by reference to external market data and in doing so we involved our own valuation specialists to assist us in our assessment. **Key observations** We are satisfied that the assumptions used in calculating the value of intangible assets are appropriate.

Last year our report included two other risks which are not included in our report this year: carrying value of goodwill, tangible and intangible assets and investment balances, and the adequacy of working capital provisions.

The forecast performance of the Group indicates there is adequate headroom on each of the cash generating units. The carrying value of goodwill and intangible assets is no longer considered to be a key risk to the Group financial statements.

The adequacy of working capital provisions is no longer considered to be a key risk to the Group financial statements given the Group's high inventory turn and the low credit risk attached to the Group's receivables balances, more of which are now insured. The policy applied in calculating the inventory and receivable provisions is broadly consistent year on year.

The description of the risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 70.

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.

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.

We determined materiality for the Group to be £13 million (2014/15: £12 million), which is approximately 5% (2014/15: 5%) of profit before tax and exceptional items. We exclude the effect of exceptional items to provide a stable basis for materiality, as these items are expected to be volatile year on year and profit before tax and exceptional items is a key metric for users of the accounts.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £650,000 (2014/15: £240,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We have increased this threshold after assessing with the Committee what is considered to be trivial. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements. Audits of all components are performed at a materiality level up to 50% of Group materiality.

We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

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

Based on that assessment, we focused our Group audit scope primarily on the audit work at nine components (2014/15: seven) located in the United Kingdom, France, Germany, Italy, Spain, Austria and the Netherlands. These nine components represent the principal business units within the Group's key reportable segments and, accordingly, provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. The Group audit team takes an active part in the conduct of the audits at these components and follows a programme of planned site visits that is designed to ensure that the Senior Statutory Auditor or another senior member of the Group audit team visits each of the full scope components or attends close out meetings. These components accounted for 57% (2014/15: 51%) of revenue and 53% (2014/15: 52%) of profit before tax and exceptional items.

For the remaining locations within our audit scope, the component auditor performed audit procedures on significant risks and material balances and provided reporting to the Senior Statutory Auditor. In line with our programme of rotational visits, senior members of our audit team visited two components located in Denmark and Greece. Where no visits were carried out, the Senior Statutory Auditor or another senior member of the Group audit team held discussions with the local audit partner in the current year. The remaining locations accounted for 30% (2014/15: 43%) of revenue and 36% (2014/15: 42%) of profit before tax and exceptional items.

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

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

ADEQUACY OF EXPLANATIONS RECEIVED AND ACCOUNTING RECORDS

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

DIRECTORS' REMUNERATION
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

CORPORATE GOVERNANCE STATEMENT
Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

OUR DUTY TO READ OTHER INFORMATION IN THE ANNUAL REPORT
Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

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

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR
As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland).

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

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

Ian Waller
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
22 June 2016

Consolidated Income Statement

Year ended 30 April 2016

Continuing operations	Note	**Before exceptional items 2016 £m**	**Exceptional items (note 4) 2016 £m**	**After exceptional items 2016 £m**	Before exceptional items 2015 £m	Exceptional items (note 4) 2015 £m	After exceptional items 2015 £m
Revenue	2	**4,066**	**-**	**4,066**	3,820	–	3,820
Operating costs	3, 4	**(3,687)**	**(92)**	**(3,779)**	(3,485)	(31)	(3,516)
Operating profit before amortisation, acquisitions and disposals	2	**379**	**(92)**	**287**	335	(31)	304
Amortisation of intangible assets, acquisitions and disposals	10, 4	**(51)**	**14**	**(37)**	(46)	(9)	(55)
Operating profit		**328**	**(78)**	**250**	289	(40)	249
Finance income	5	**1**	**-**	**1**	3	–	3
Finance costs	4, 5	**(42)**	**(1)**	**(43)**	(35)	(4)	(39)
Employment benefit net finance expense	25	**(6)**	**-**	**(6)**	(6)	–	(6)
Net financing costs		**(47)**	**(1)**	**(48)**	(38)	(4)	(42)
Profit after financing costs		**281**	**(79)**	**202**	251	(44)	207
Share of loss of equity accounted investments, net of tax	4, 12	**(1)**	**-**	**(1)**	–	(7)	(7)
Profit before income tax		**280**	**(79)**	**201**	251	(51)	200
Income tax (expense)/credit	4, 7	**(61)**	**27**	**(34)**	(54)	10	(44)
Profit for the year from continuing operations		**219**	**(52)**	**167**	197	(41)	156
Profit for the year attributable to:							
Owners of the parent		**219**	**(52)**	**167**	197	(41)	156
Non-controlling interests		**-**	**-**	**-**	–	–	–
Earnings per share							
Adjusted from continuing and total operations[1]							
Basic	8	**27.4p**			24.5p		
Diluted	8	**27.0p**			24.3p		
From continuing and total operations							
Basic	8			**17.7p**			16.6p
Diluted	8			**17.5p**			16.4p

1 Adjusted for amortisation and exceptional items.

Consolidated Statement of Comprehensive Income

Year ended 30 April 2016

	Note	2016 £m	2015 £m
Profit for the year		**167**	156
Items which will not be reclassified subsequently to profit or loss			
Actuarial gain/(loss) on employee benefits	25	**11**	(65)
Income tax on items which will not be reclassified subsequently to profit or loss	7	**(5)**	10
Items which may be reclassified subsequently to profit or loss			
Foreign currency translation differences		**49**	(105)
Movements in cash flow hedges		**(2)**	5
Income tax on items which may be reclassified subsequently to profit or loss	7	**4**	(22)
Other comprehensive income/(expense) for the year, net of tax		**57**	(177)
Total comprehensive income/(expense) for the year		**224**	(21)
Total comprehensive income/(expense) attributable to:			
Owners of the parent		**224**	(21)
Non-controlling interests		**–**	–

Consolidated Statement of Financial Position

At 30 April 2016

	Note	2016 £m	2015 £m
Assets			
Non-current assets			
Intangible assets	10	**1,089**	855
Property, plant and equipment	11	**1,678**	1,342
Equity accounted investments	12	**4**	17
Other investments	13	**3**	3
Deferred tax assets	22	**58**	58
Other receivables	15	**3**	5
Derivative financial instruments	21	**17**	24
Total non-current assets		**2,852**	2,304
Current assets			
Inventories	14	**338**	256
Other investments	13	**-**	1
Income tax receivable		**11**	38
Trade and other receivables	15	**696**	548
Cash and cash equivalents	19	**134**	95
Derivative financial instruments	21	**40**	13
Assets held for sale	17	**7**	46
Total current assets		**1,226**	997
Total assets		**4,078**	3,301
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	20	**(1,073)**	(781)
Employee benefits	25	**(188)**	(200)
Other payables	16	**(8)**	(5)
Provisions	23	**(5)**	(7)
Deferred tax liabilities	22	**(141)**	(121)
Derivative financial instruments	21	**(9)**	(13)
Total non-current liabilities		**(1,424)**	(1,127)
Current liabilities			
Bank overdrafts	19	**(19)**	(13)
Interest-bearing loans and borrowings	20	**(185)**	(2)
Trade and other payables	16	**(1,118)**	(927)
Income tax liabilities		**(109)**	(147)
Provisions	23	**(36)**	(34)
Derivative financial instruments	21	**(47)**	(18)
Liabilities held for sale	17	**-**	(15)
Total current liabilities		**(1,514)**	(1,156)
Total liabilities		**(2,938)**	(2,283)
Net assets		**1,140**	1,018
Equity			
Issued capital	24	**94**	94
Share premium		**716**	715
Reserves		**327**	210
Total equity attributable to owners of the parent		**1,137**	1,019
Non-controlling interests		**3**	(1)
Total equity		**1,140**	1,018

Approved by the Board of Directors of DS Smith Plc on 22 June 2016 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 2016

	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 2014		**94**	**715**	**(31)**	**4**	**–**	**350**	**1,132**	**(1)**	**1,131**
Profit for the year		–	–	–	–	–	156	156	–	156
Actuarial loss on employee benefits	25	–	–	–	–	–	(65)	(65)	–	(65)
Foreign currency translation differences		–	–	–	(105)	–	–	(105)	–	(105)
Cash flow hedges fair value changes		–	–	(18)	–	–	–	(18)	–	(18)
Movement from cash flow hedge reserve to income statement	21	–	–	23	–	–	–	23	–	23
Income tax on other comprehensive income	7	–	–	(1)	(21)	–	10	(12)	–	(12)
Total comprehensive income/(expense)		**–**	**–**	**4**	**(126)**	**–**	**101**	**(21)**	**–**	**(21)**
Share-based payment expense (net of tax)		–	–	–	–	–	2	2	–	2
Dividends paid	9	–	–	–	–	–	(94)	(94)	–	(94)
Other changes in equity in the year		**–**	**–**	**–**	**–**	**–**	**(92)**	**(92)**	**–**	**(92)**
At 30 April 2015		**94**	**715**	**(27)**	**(122)**	**–**	**359**	**1,019**	**(1)**	**1,018**
Profit for the year		–	–	–	–	–	167	167	–	167
Actuarial gain on employee benefits	25	–	–	–	–	–	11	11	–	11
Foreign currency translation differences		–	–	–	49	–	–	49	–	49
Cash flow hedges fair value changes		–	–	(20)	–	–	–	(20)	–	(20)
Movement from cash flow hedge reserve to income statement	21	–	–	18	–	–	–	18	–	18
Income tax on other comprehensive income	7	–	–	–	4	–	(5)	(1)	–	(1)
Total comprehensive (expense)/income		**–**	**–**	**(2)**	**53**	**–**	**173**	**224**	**–**	**224**
Issue of share capital		–	1	–	–	–	–	1	–	1
Employee share trust		–	–	–	–	(3)	(4)	(7)	–	(7)
Acquisition of subsidiary with non-controlling interests	31	–	–	–	–	–	–	–	4	4
Share-based payment expense (net of tax)		–	–	–	–	–	8	8	–	8
Dividends paid	9	–	–	–	–	–	(108)	(108)	–	(108)
Other changes in equity in the year		**–**	**1**	**–**	**–**	**(3)**	**(104)**	**(106)**	**4**	**(102)**
At 30 April 2016		**94**	**716**	**(29)**	**(69)**	**(3)**	**428**	**1,137**	**3**	**1,140**

Consolidated Statement of Cash Flows

Year ended 30 April 2016

Continuing operations	Note	**2016 £m**	2015 £m
Operating activities			
Cash generated from operations	27	**444**	463
Interest received		**1**	3
Interest paid		**(33)**	(37)
Tax paid		**(49)**	(28)
Cash flows from operating activities		**363**	401
Investing activities			
Acquisition of subsidiary businesses, net of cash and cash equivalents	31	**(313)**	(28)
Divestment of subsidiary and equity accounted businesses, net of cash and cash equivalents	31	**21**	18
Capital expenditure		**(229)**	(167)
Proceeds from sale of property, plant and equipment and intangible assets		**28**	18
Decrease in restricted cash		**–**	3
Loan to associate		**–**	(2)
Cash flows used in investing activities		**(493)**	(158)
Financing activities			
Proceeds from issue of share capital		**1**	–
Decrease in borrowings		**(337)**	(352)
Increase in borrowings		**605**	233
Repayment of finance lease obligations		**(5)**	–
Dividends paid to Group shareholders	9	**(108)**	(94)
Cash flows from/(used in) financing activities		**156**	(213)
Increase in cash and cash equivalents		**26**	30
Net cash and cash equivalents at 1 May		**82**	64
Reclassification to held for sale		**–**	(6)
Exchange gains/(losses) on cash and cash equivalents		**7**	(6)
Net cash and cash equivalents at 30 April	19	**115**	82

Notes to the Consolidated Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PREPARATION

These financial statements are consolidated financial statements for the Group consisting of DS Smith Plc, a company registered in the UK, and all its subsidiaries. The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('adopted IFRSs'), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements are also in compliance with IFRSs as issued by the International Accounting Standards Board (IASB).

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

The consolidated financial statements have been prepared on a going concern basis as set out on page 65 of the Directors' Governance report. The Directors consider that adequate resources exist for the Company to continue in operational existence for the foreseeable future.

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect whether and how policies are applied, and the reported amounts of assets and liabilities, income and expenses. Judgements made by management in the application of adopted IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment are discussed in accounting policy 1(X).

The following new accounting standards, amendments or interpretations have been adopted by the Group as of 1 May 2015:

- IFRIC 21 Levies
- Annual Improvements to IFRSs 2011 – 2013 cycle
- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
- Annual Improvements to IFRSs 2010 – 2012 cycle

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

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

(B) BASIS OF CONSOLIDATION

(I) SUBSIDIARIES

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control is achieved when the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Income Statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

(II) INTERESTS IN EQUITY ACCOUNTED INVESTMENTS

The Group's interests in equity accounted investments comprise of 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 retrospectively applied.

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

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

Revenue from the sale of goods is recognised when:

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

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

(D) SUPPLIER REBATES

The Group receives income from its suppliers, mainly in the form of volume based rebates and early settlement discounts. They are recognised as a reduction in operating costs in the year to which they relate. At the period end the Group is sometimes required to estimate supplier income due from annual agreements for volume rebates.

(E) GOVERNMENT GRANTS

(I) EMISSION QUOTAS

The Group participates in Phase II of the EU Emissions Trading Scheme. Emission quotas received in a period are initially recognised at a nominal value of nil. As a result, no asset or liability is initially recognised in the statement of financial position. A provision is recognised if there is any anticipated shortfall in the level of quotas received or purchased when compared with actual emissions in any given period, measured at the market price of such quotas at the reporting date. Excess emission quotas acquired as part of a business combination are recognised as intangible assets at their fair value on the date of acquisition.

(II) OTHER

Other government grants are recognised in the statement of financial position initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attached to them. Grants that compensate the Group for expenses incurred are offset against the expenses in the same periods in which the expenses are incurred. Grants relating to assets are released to the income statement over the expected useful life of the asset to which it relates on a basis consistent with the depreciation policy. Depreciation is provided on the full cost of the assets before deducting grants.

(F) DIVIDENDS

Dividends attributable to the equity holders of the Company paid during the year are recognised directly in equity.

(G) FOREIGN CURRENCY TRANSLATION

The consolidated financial statements are presented in sterling, which is the Group's presentational currency. Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the foreign exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation of monetary assets and liabilities are recognised in the Consolidated Income Statement. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the transactions.

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

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

(H) INTANGIBLE ASSETS

(I) GOODWILL

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

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

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss recognised in the Consolidated Income Statement.

(II) INTELLECTUAL PROPERTY

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

(III) COMPUTER SOFTWARE

Computer software that is integral to a related item of hardware is included within property, plant and equipment. All other computer software is treated as an intangible asset.

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(H) INTANGIBLE ASSETS CONTINUED

(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 AND OTHER INVESTMENTS

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each item of property, plant and equipment, and major components that are accounted for separately (or in the case of leased assets, the lease period, if shorter). Land is not depreciated.

The estimated useful lives are as follows:

Freehold and long leasehold properties	10-50 years
Plant and equipment, fixtures and fittings (including IT hardware)	2-25 years
Motor vehicles	3-5 years

Other investments consist of available for sale investments in unquoted equity and debt securities which are carried at cost, less any impairment, and restricted cash.

Gains or losses arising on the sale of surplus property assets are recorded through operating profit before exceptional items. For further information on current year gains or losses, see note 27.

(J) IMPAIRMENT

The carrying amounts of the Group's assets, including tangible and intangible non-current assets, are reviewed at each reporting date to determine whether there are any indicators of impairment. If any such indicators exist, the asset's recoverable amount is estimated. Goodwill is tested for impairment annually at the same time, regardless of the presence of an impairment indicator. An impairment loss is recognised whenever the carrying amount of an asset, collection of assets or its CGU exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(I) CASH GENERATING UNITS

For the purposes of impairment testing, each segment, split by process, is a separate CGU. Impairment testing of property, plant and equipment and other intangibles is carried out at an individual CGU level. Goodwill impairment testing is carried out based on regional groupings of CGUs as illustrated in note 10, as this is the lowest level at which goodwill is monitored for internal management purposes.

(II) CALCULATION OF RECOVERABLE AMOUNT

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

(III) REVERSALS OF IMPAIRMENT

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

(K) DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments, primarily interest rate, currency and commodity swaps, to manage interest rate, currency and commodity risks associated with the Group's underlying business activities and the financing of these activities. The Group has a policy not to, and does not, undertake any speculative activity in these instruments.

Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivative financial instruments are accounted for as hedges when designated as hedges at the inception of the contract and when the financial instruments provide an effective hedge of the underlying risk.

For the purpose of hedge accounting, hedges are classified as:

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

Notes to the Consolidated Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(K) DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

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

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

Cash flow hedges: the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the income statement. Amounts taken to equity are transferred to the income statement in the same period during which the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or roll-over, the hedged transaction ceases to be highly probable, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs and are transferred to the income statement or to the initial carrying amount of a non-financial asset or liability as above. If a forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement.

Hedges of net investment in a foreign entity: the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the income statement. Amounts taken to equity are transferred to the income statement when the foreign entity is sold.

Any gains or losses arising from changes in the fair value of all other derivatives are taken to the income statement. These may arise from derivatives for which hedge accounting is not applied because they are not effective as hedging instruments.

The net present value of the expected future payments under options over interests held by non-controlling interests in the Group's subsidiaries is shown as a financial liability. At the end of each period, the valuation of the liability is reassessed with any changes recognised in profit or loss for the period.

(L) TREASURY SHARES

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

(M) TRADE AND OTHER RECEIVABLES

Trade and other receivables are stated at their cost less impairment provisions.

(N) INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on a weighted average cost or first-in first-out basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(O) CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

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

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

(P) BORROWINGS

Borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost unless designated in a fair value hedge relationship, with borrowing costs being accounted for on an accruals basis in the income statement using the effective interest method.

At the reporting date, accrued interest is recorded separately from the associated borrowings within current liabilities.

(Q) EMPLOYEE BENEFITS

(I) DEFINED CONTRIBUTION SCHEMES

Contributions to defined contribution pension schemes are recognised as an employee benefit expense within personnel expenses in the income statement, as incurred.

(II) DEFINED BENEFIT SCHEMES

The Group's net obligation in respect of defined benefit pension schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to its present value amount and recognised in the income statement as personnel expense; a corresponding liability for all future benefits is established on the statement of financial position and the fair value of any schemes' assets is deducted.

The discount rate is the yield at the reporting date on AA credit rated bonds that have maturity dates approximating to the duration of the schemes' obligations. The calculation is performed by a qualified actuary using the projected unit method. Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(Q) EMPLOYEE BENEFITS CONTINUED

(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 as personnel expense, 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.

(R) PROVISIONS

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, a reliable estimate can be made of the amount of the obligation and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are discounted to present value where the effect is material.

(S) TRADE AND OTHER PAYABLES

Trade and other payables are stated at their cost.

(T) LEASES

(I) FINANCE LEASES

Assets held under finance leases are recognised as assets of the Group at the inception of the lease at the lower of their fair value and the present value of the minimum lease payments. Depreciation on leased assets is charged to the income statement on the same basis as owned assets. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the income statement so that a constant periodic rate of interest is recognised on the outstanding balance of the liability.

(II) OPERATING LEASES

Operating lease rentals are charged to the income statement on a straight-line basis over the lease term. Any premium or discount on the acquisition of a lease is spread over the life of the lease on a straight-line basis.

(U) TAXATION

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted in each jurisdiction at the reporting date, and any adjustment to tax payable in respect of previous years.

The Group is subject to corporate taxes in a number of different jurisdictions and judgement is required in determining the appropriate provision for transactions where the ultimate tax determination is uncertain. In such circumstances, the Group recognises liabilities for anticipated taxes based on the best information available and where the anticipated liability is both probable and estimable. Such liabilities are classified as current when the Group expects to settle the liability within 12 months with the remainder as non-current. Any interest and penalties accrued are included in income taxes in both the Consolidated Income Statement and the Consolidated Statement of Financial Position. Where the final outcome of such matters differs from the amount recorded, any differences may impact the income tax and deferred tax provisions in the period in which the final determination is made.

Deferred tax is provided for using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The tax effect of certain temporary differences is not recognised, principally with respect to goodwill; temporary differences arising on the initial recognition of assets or liabilities (other than those arising in a business combination or in a manner that initially impacts accounting or taxable profit); and temporary differences relating to investment in subsidiaries and equity accounted investees to the extent that they will probably not reverse in the foreseeable future and the Group is able to control the reversal of such temporary differences. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(V) ASSETS HELD FOR SALE

Non-current assets, or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies.

Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss.

Notes to the Consolidated Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(W) EXCEPTIONAL ITEMS
Items of income or expenditure that are significant by their nature, size or incidence, and for which separate presentation would assist in the understanding of the trading and financial results of the Group, are classified and disclosed as exceptional items. Such items include business disposals, restructuring and optimisation, acquisition related and integration costs, and impairments.

(X) CRITICAL ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATES
The application of the Group's accounting policies requires management to make estimates and assumptions. These estimates and assumptions affect the reported assets and liabilities and financial results of the Group. Actual outcomes could differ from the estimates and assumptions used.

The Group's accounting policies that are most critical to an understanding of the results and position of the Group, and the judgements involved in their application, are as follows:

(I) ACQUISITIONS
Acquisitions are accounted for using the acquisition method based on the fair value of the consideration paid. Assets and liabilities are measured at fair value, and the purchase price is allocated to assets and liabilities based on these fair values. Determining fair values involves the use of significant estimates and assumptions (including discount rates, asset lives, customer attrition rates and recoverability), and the value of intangible assets and property, plant and equipment for material acquisitions is typically determined by external qualified valuers.

(II) PENSIONS AND OTHER EMPLOYEE BENEFITS
IAS 19 *Employee Benefits (Revised 2011)* requires the Group to make assumptions including, but not limited to, rates of inflation, discount rates and life expectancies. The use of different assumptions, in any of the above calculations, could have a material effect on the accounting values of the relevant statement of financial position assets and liabilities which could also result in a change to the cost of such liabilities as recognised in profit or loss over time. These assumptions are subject to periodic review. See note 25 for additional information.

(III) PROVISIONS
The Group measures provisions at the Directors' best estimate of the expenditure required to settle the obligation at the reporting date. These estimates are made, taking account of information available and different possible outcomes, and are reviewed on a regular basis.

(IV) 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.

(V) EXCEPTIONAL ITEMS
In applying the exceptional items accounting policy to items of income and expenditure, the Group takes account of the origination and of similar items in prior years to ensure consistency and appropriate presentation.

(Y) IFRS STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT YET EFFECTIVE
The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued new standards and interpretations with an effective date after the date of these financial statements.

International Financial Reporting Standards (IFRS/IAS)		Effective date – financial year ending
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11	30 April 2017
IAS 1	Disclosure Initiative – Amendments to IAS 1	30 April 2017
Amendments to IAS 27	Equity Method in Separate Financial Statements	30 April 2017
Amendments to IAS 16 and IAS 38	Acceptable Methods of Depreciation and Amortisation	30 April 2017
IFRS 9	Financial Instruments	30 April 2019
IFRS 15	Revenue from Contracts with Customers	30 April 2019
IFRS 16	Leases	30 April 2020

Of these, IFRS 9 *Financial Instruments* and IFRS 16 *Leases* are expected to have the most significant effect.

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 concerns the classification and measurement of financial assets and financial liabilities, the de-recognition of financial instruments and hedge accounting.

IFRS 16 prescribes a single lessee accounting model that requires the recognition of an asset and corresponding liability for all leases with terms over 12 months unless the underlying asset is of low value.

The Group does not anticipate that the adoption of the remaining standards and interpretations that are effective for the year ending 30 April 2017 will have a material effect on its financial statements. These standards have all been endorsed by the EU, with the exception of IFRS 9, IFRS 15 and IFRS 16.

2. SEGMENT REPORTING

OPERATING SEGMENTS

IFRS 8 *Operating Segments* requires operating segments to be identified on the same basis as is used internally for the review of performance and allocation of resources by the Group Chief Executive (who is the Chief Operating Decision Maker as defined by IFRS 8). Further details of these segments are given in the Strategic Report on page 25.

There has been a minor change in operating segments, with Austria moving from the 'DACH and Northern Europe' segment into the 'Central Europe and Italy' segment. 'DACH and Northern Europe' has been renamed 'DCH and Northern Europe' to accommodate this change. No restatement has been deemed necessary on the grounds of materiality.

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 is managed at a Group level and therefore has not been allocated across the segments.

Year ended 30 April 2016	Note	**UK £m**	**Western Europe £m**	**DCH and Northern Europe £m**	**Central Europe and Italy £m**	**Plastics £m**	**Total continuing operations £m**
External revenue		**864**	**1,044**	**853**	**1,022**	**283**	**4,066**
EBITDA		**112**	**113**	**118**	**122**	**41**	**506**
Depreciation	11	**(27)**	**(36)**	**(25)**	**(30)**	**(9)**	**(127)**
Operating profit[1]		**85**	**77**	**93**	**92**	**32**	**379**
Unallocated items:							
Amortisation	10						**(51)**
Exceptional items	4						**(78)**
Total operating profit (continuing operations)							**250**
Analysis of total assets and total liabilities							
Segment assets		**747**	**959**	**899**	**1,031**	**175**	**3,811**
Unallocated items:							
Equity accounted investments 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 for amortisation and exceptional items.

Financial Statements

Notes to the Consolidated Financial Statements continued

2. SEGMENT REPORTING CONTINUED

Year ended 30 April 2015	Note	UK £m	Western Europe £m	DCH and Northern Europe £m	Central Europe and Italy £m	Plastics £m	Total continuing operations £m
External revenue		905	941	922	750	302	3,820
EBITDA		107	99	119	89	38	452
Depreciation	11	(26)	(34)	(23)	(24)	(10)	(117)
Operating profit[1]		81	65	96	65	28	335
Unallocated items:							
Amortisation	10						(46)
Exceptional items	4						(40)
Total operating profit (continuing operations)							249
Analysis of total assets and total liabilities							
Segment assets		709	728	829	612	174	3,052
Unallocated items:							
Equity accounted investments and other investments							21
Derivative financial instruments							37
Cash and cash equivalents							95
Tax							96
Total assets							3,301
Segment liabilities		(250)	(314)	(166)	(188)	(61)	(979)
Unallocated items:							
Borrowings and accrued interest							(805)
Derivative financial instruments							(31)
Tax							(268)
Employee benefits							(200)
Total liabilities							(2,283)
Capital expenditure		42	35	39	41	10	167

1 Adjusted for amortisation and exceptional items.

GEOGRAPHICAL AREAS

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

	External revenue		**Non-current assets**		**Capital expenditure**	
Continuing operations	**2016 £m**	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
UK	**813**	879	**382**	357	**54**	42
France	**629**	620	**224**	211	**29**	27
Germany	**533**	579	**272**	241	**30**	28
Italy	**444**	429	**186**	161	**24**	19
Rest of the World	**1,647**	1,313	**617**	377	**92**	51
	4,066	3,820	**1,681**	1,347	**229**	167

3. OPERATING PROFIT

Continuing operations	2016 £m	2015 £m
Operating costs		
Cost of sales	**2,050**	1,926
Other production costs	**772**	740
Distribution	**284**	275
Administrative expenses	**673**	575
	3,779	3,516

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

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

Continuing operations	2016 £m	2015 £m
Depreciation – owned assets	**124**	115
– leased assets	**3**	2
Amortisation of intangible assets	**51**	46
Profit on sale of non-current assets	**(12)**	(8)
Hire of plant and machinery	**14**	14
Other operating lease rentals	**22**	21
Research and development	**4**	6

	2016			2015		
Auditor's remuneration	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Fees payable to the Company's Auditor for audit of the Company's annual accounts	**0.1**	**-**	**0.1**	0.1	–	0.1
Fees payable to the Company's Auditor and their associates for other services:						
Audit of the Company's subsidiaries, pursuant to legislation	**0.6**	**1.5**	**2.1**	0.6	0.9	1.5
Total audit fees	**0.7**	**1.5**	**2.2**	0.7	0.9	1.6
Corporate finance services	**0.2**	**-**	**0.2**	0.2	–	0.2
Audit related assurance services	**0.1**	**-**	**0.1**	0.1	–	0.1
Tax and other services	**0.2**	**-**	**0.2**	0.1	–	0.1
Total non-audit fees	**0.5**	**-**	**0.5**	0.4	–	0.4
Total Auditor's remuneration	**1.2**	**1.5**	**2.7**	1.1	0.9	2.0

A description of the work of the Audit Committee is set out in the Corporate Governance section on pages 70 to 73 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.

Notes to the Consolidated Financial Statements continued

4. EXCEPTIONAL ITEMS

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

Continuing operations	**2016 £m**	2015 £m
Acquisition related costs	**(9)**	(4)
Gains/(losses) on acquisitions and divestments	**23**	(5)
Acquisitions and disposals	**14**	(9)
Integration costs	**(12)**	–
Other restructuring costs	**(50)**	(31)
Impairment of assets	**(21)**	(4)
Other	**(9)**	4
Total pre-tax exceptional items (recognised in operating profit)	**(78)**	(40)
Income tax credit on exceptional items	**27**	10
Share of exceptional loss of associate, net of tax	**-**	(7)
Exceptional finance cost	**(1)**	(4)
Total post-tax exceptional items	**(52)**	(41)

2015/16

Acquisition costs of £9m consist of professional advisory, legal and consultancy fees and attributable internal salary costs relating to the review of potential deals, and deals completed during the year including the acquisition of Duropack and Lantero. Other acquisitions completed in the year are detailed in note 31.

Gains on acquisitions and divestments of £23m 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, £10m relates to the closure of the Wansbrough paper mill in the UK, announced in October 2015 after the completion of a consultation process. The majority of the remainder relates to further reorganisation and restructuring in the UK (£10m), DCH and Northern Europe (£17m) and Western Europe (£7m).

Impairment of assets of £21m is primarily associated with the announced closure of the Wansbrough paper mill in the UK.

Other exceptional items of £9m mainly relate to European centralisation and optimisation projects of £5m, site remediation costs of £2m, and the continuing costs of UK centralisation projects of £1m.

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

2014/15

The loss on acquisitions and divestments of £5m comprises a £3m gain on the disposal of the Foam business in Denmark and Sweden in September 2014, a gain of £2m on the step acquisition of the Italian Recycling business from 50% to 100% in July 2014, offset by a loss of £9m on the divestment of the Nantes paper mill in France in January 2015 and other losses on divestment of £1m.

Of the £31m other restructuring costs, £10m relates to UK site closures and reorganisations, £11m relates to restructuring of businesses in the DCH and Northern Europe region and £3m relates to restructuring of businesses in UK Recycling.

Other exceptional items of £4m principally relate to the release of acquisition related provisions of £16m, partially offset by the costs of continuing UK centralisation projects of £9m.

The share of exceptional loss of associate relates to the Group's share of post-tax foreign exchange losses recognised in the Group's Ukrainian associate Rubezhansk as a result of the significant decline in the value of the Ukrainian currency, Hryvnia, during the local geopolitical crisis (note 12).

The exceptional finance cost of £4m relates to the write-off of unamortised finance costs relating to the SCA acquisition following the refinancing of borrowings in May 2014.

5. FINANCE INCOME AND COSTS

Continuing operations	2016 £m	2015 £m
Interest income from financial assets	**(1)**	(1)
Other	**–**	(2)
Finance income	**(1)**	(3)
Interest on loans and overdrafts	**38**	37
Other	**5**	2
Finance costs	**43**	39

6. PERSONNEL EXPENSES

Continuing operations	2016 £m	2015 £m
Wages and salaries	**705**	672
Social security costs	**148**	135
Contributions to defined contribution pension plans	**30**	29
Service costs for defined benefit schemes (note 25)	**6**	4
Share-based payment expense (note 26)	**6**	5
Personnel expenses	**895**	845

Average number of employees	2016 Number	2015 Number
UK	**5,277**	5,374
Western Europe	**6,844**	6,010
DCH and Northern Europe	**4,860**	5,301
Central Europe and Italy	**8,585**	4,781
Rest of the World	**499**	548
Average number of employees	**26,065**	22,014

7. INCOME TAX EXPENSE

Continuing operations	2016 £m	2015 £m
Current tax expense		
Current year	**(84)**	(73)
Adjustment in respect of prior years	**6**	1
	(78)	(72)
Deferred tax credit		
Origination and reversal of temporary differences	**23**	10
Reduction in tax rates	**(4)**	–
Adjustment in respect of prior years	**(2)**	8
	17	18
Total income tax expense before exceptional items	**(61)**	(54)
Tax relating to exceptional items (note 4)	**27**	10
Total income tax expense in the income statement from continuing operations	**(34)**	(44)

The tax credit on amortisation was £12m (2014/15: £12m).

Financial Statements

Notes to the Consolidated Financial Statements continued

7. INCOME TAX EXPENSE CONTINUED

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

	2016 £m	2015 £m
Profit before income tax	**201**	200
Share of loss of equity accounted investments, net of tax	**1**	7
Profit before tax and share of loss of equity accounted investments, net of tax	**202**	207
Income tax at the domestic corporation tax rate of 20.00% (2014/15: 20.92%)	**(40)**	(43)
Effect of additional taxes and tax rates in overseas jurisdictions	**(15)**	(19)
Additional items deductible for tax purposes	**16**	18
Non-deductible expenses	**(12)**	(17)
Non-taxable gains	**3**	3
Release of prior year provisions in relation to acquired businesses	**11**	2
Change in unrecognised deferred tax assets in relation to acquired businesses	**–**	6
Reimbursement under tax indemnity in relation to acquired businesses	**3**	–
Adjustment in respect of prior years	**4**	9
Effect of change in corporation tax rates	**(4)**	(3)
Income tax expense – total Group	**(34)**	(44)

The Finance Act 2015 included a staged 2% reduction in the main UK Corporation tax rate to 18% which was substantively enacted on 26 October 2015. Accordingly, the rate applied to UK deferred tax assets and liabilities is 18% (2014/15: 20%). There has subsequently been an announcement that the rate of UK corporation tax will reduce to 17% from 2020.

TAX ON OTHER COMPREHENSIVE INCOME AND EQUITY

	Gross 2016 £m	**Tax credit/ (charge) 2016 £m**	**Net 2016 £m**	Gross 2015 £m	Tax credit/ (charge) 2015 £m	Net 2015 £m
Actuarial gain/(loss) on employee benefits	**11**	**(5)**	**6**	(65)	10	(55)
Foreign currency translation differences and reclassification from translation reserve to income statement arising on divestment	**49**	**4**	**53**	(105)	(21)	(126)
Movements in cash flow hedges	**(2)**	**–**	**(2)**	5	(1)	4
Other comprehensive income/(expense) for the year, net of tax	**58**	**(1)**	**57**	(165)	(12)	(177)
Issue of share capital	**1**	**–**	**1**	–	–	–
Employee share trust	**(7)**	**–**	**(7)**	–	–	–
Acquisition of subsidiary with non-controlling interests	**4**	**–**	**4**	–	–	–
Share-based payment expense	**6**	**2**	**8**	5	(3)	2
Dividends paid to Group shareholders	**(108)**	**–**	**(108)**	(94)	–	(94)
Other comprehensive (expense)/income and changes in equity	**(46)**	**1**	**(45)**	(254)	(15)	(269)

8. EARNINGS PER SHARE

BASIC EARNINGS PER SHARE FROM CONTINUING OPERATIONS

	2016	2015
Profit from continuing operations attributable to ordinary shareholders	**£167m**	£156m
Weighted average number of ordinary shares	**943m**	941m
Basic earnings per share	**17.7p**	16.6p

DILUTED EARNINGS PER SHARE FROM CONTINUING OPERATIONS

	2016	2015
Profit from continuing operations attributable to ordinary shareholders	**£167m**	£156m
Weighted average number of ordinary shares	**943m**	941m
Potentially dilutive shares issuable under share-based payment arrangements	**11m**	9m
Weighted average number of ordinary shares (diluted)	**954m**	950m
Diluted earnings per share	**17.5p**	16.4p

The number of shares excludes the weighted average number of the Company's own shares held as treasury shares during the year of 1m (2014/15: nil).

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:

	2016			2015		
	£m	**Basic - pence per share**	**Diluted - pence per share**	£m	Basic – pence per share	Diluted – pence per share
Basic earnings	**167**	**17.7p**	**17.5p**	156	16.6p	16.4p
Add back amortisation, after tax	**39**	**4.2p**	**4.1p**	34	3.6p	3.6p
Add back exceptional items, after tax	**52**	**5.5p**	**5.4p**	41	4.3p	4.3p
Adjusted earnings	**258**	**27.4p**	**27.0p**	231	24.5p	24.3p

9. DIVIDENDS PROPOSED AND PAID

	2016		2015	
	Pence per share	**£m**	Pence per share	£m
2014/15 interim dividend – paid	**-**	**-**	3.7p	35
2014/15 final dividend – paid	**-**	**-**	7.7p	73
2015/16 interim dividend – paid	**4.0p**	**38**	–	–
2015/16 final dividend – proposed	**8.8p**	**83**	–	–

	2016 £m	2015 £m
Paid during the year	**108**	94

The interim dividend in respect of 2015/16 of 4.0 pence per share (£38m) was paid after the year end on 3 May 2016. The 2014/15 interim and final dividends were paid during the 2015/16 financial year. A final dividend in respect of 2015/16 of 8.8 pence per share (£83m) has been proposed by the Directors after the reporting date.

Notes to the Consolidated Financial Statements continued

10. INTANGIBLE ASSETS

	Goodwill £m	Software £m	Intellectual property £m	Customer related £m	Other £m	Total £m
Cost						
At 1 May 2015	588	38	22	340	48	1,036
Acquisitions	83	2	–	113	1	199
Additions	–	2	1	–	18	21
Adjustment related to business combinations in prior year	3	–	–	–	–	3
Disposals	–	(1)	–	–	–	(1)
Reclassification	–	7	1	–	(5)	3
Currency translation	36	2	–	30	4	72
At 30 April 2016	**710**	**50**	**24**	**483**	**66**	**1,333**
Amortisation and impairment						
At 1 May 2015	(25)	(25)	(13)	(104)	(14)	(181)
Amortisation	–	(6)	(2)	(43)	–	(51)
Disposals	–	1	–	–	–	1
Currency translation	(1)	(2)	–	(9)	(1)	(13)
At 30 April 2016	**(26)**	**(32)**	**(15)**	**(156)**	**(15)**	**(244)**
Carrying amount						
At 1 May 2015	563	13	9	236	34	855
At 30 April 2016	**684**	**18**	**9**	**327**	**51**	**1,089**

	Goodwill £m	Software £m	Intellectual property £m	Customer related £m	Other £m	Total £m
Cost						
At 1 May 2014	631	35	26	373	53	1,118
Acquisitions	15	–	–	8	–	23
Additions	–	5	–	–	3	8
Divestments	(6)	–	–	–	(2)	(8)
Disposals	–	(1)	(2)	–	(2)	(5)
Reclassification to held for sale	(1)	–	–	–	–	(1)
Reclassification	–	3	–	–	–	3
Currency translation	(51)	(4)	(2)	(41)	(4)	(102)
At 30 April 2015	588	38	22	340	48	1,036
Amortisation and impairment						
At 1 May 2014	(27)	(25)	(14)	(76)	(15)	(157)
Amortisation	–	(3)	(2)	(39)	(2)	(46)
Disposals	–	1	2	–	1	4
Currency translation	2	2	1	11	2	18
At 30 April 2015	(25)	(25)	(13)	(104)	(14)	(181)
Carrying amount						
At 1 May 2014	604	10	12	297	38	961
At 30 April 2015	563	13	9	236	34	855

10. INTANGIBLE ASSETS CONTINUED

GOODWILL

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

	2016 £m	2015 £m
UK	**159**	147
Western Europe	**160**	140
DCH and Northern Europe	**197**	187
Central Europe and Italy	**121**	46
Plastics	**47**	43
Total goodwill	**684**	563

GOODWILL IMPAIRMENT TESTS – KEY ASSUMPTIONS AND METHODOLOGY

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill may be impaired. The recoverable amounts of the groups of CGUs are determined from value-in-use calculations. No impairment arose in the year ended 30 April 2016 as the recoverable amount of the groups of CGUs, based on value-in-use calculations, exceeded the carrying amounts.

The key assumptions in the value-in-use calculations are:

- the cash flow forecasts have been derived from the most recent Board approved budget for the year ending 30 April 2017 and are based upon past performance, known changes and expectations of current market conditions, taking into account the cyclical nature of the business;
- the sales volume and price assumptions underlying the cash flow forecasts are the Directors' estimates of likely future changes based upon historic performance and the current economic outlooks for the economies in which the Group operates. These are viewed as the key operating assumptions as they determine the Directors' approach to margin and cost maintenance;
- the cash flow forecasts for capital expenditure are based upon past experience and include the replacement capital expenditure required to generate the terminal cash flows;
- cash flows beyond the budgeted period (2018 and beyond) have been determined using a long-term growth rate specific to each of the CGU groups based upon external sources such as the International Monetary Fund's World Economic Outlook Database. This resulted in an average growth rate for the total Group of 2.0%; and
- the pre-tax adjusted discount rate is derived from the weighted average cost of capital ('WACC') for the Group of 9.5% (2014/15: 9.5%). The discount rate is a function of the cost of debt and equity. The cost of equity is largely based upon the risk free rate for 30 year German Bund yields (75%) and 30 year UK gilts (25%), adjusted for the relevant country market risk premium, ranging from 0% to 12.5%, which reflects the increased risk of investing in country specific equities and the relative volatilities of the equity of the Group compared to the market as a whole. This Group rate has been adjusted for the risks inherent in the countries in which the CGU group operates that are not reflected in the cash flow projections.

GOODWILL IMPAIRMENT TESTS – SENSITIVITIES

The value-in-use is based upon anticipated discounted future cash flows and results in significant headroom across all CGU groups. Whilst the Directors believe the assumptions used are realistic, it is possible that a reduction in the headroom would occur if any of the above key assumptions were adversely changed. Factors which could cause an impairment are:

- significant underperformance relative to the forecast; and
- deteriorations in the economies in which the Group operates.

To support their assertions, the Directors have conducted sensitivity analyses to determine the impact that would result from the above situations. Key sensitivities tested included future growth and discount rates. In these cases, if estimates of future growth were reduced to 0% per annum, or if the estimated discount rates applied to the cash flows were increased by 1%, there would still be significant headroom to support the carrying value of the assets.

Based on this analysis the Directors believe that a reasonably possible change in any of the key assumptions detailed above would not cause the carrying value of CGU groups to exceed their recoverable amounts. Therefore at 30 April 2016 no impairment charge is required against the carrying value of goodwill.

Notes to the Consolidated Financial Statements continued

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 2015	559	1,694	41	94	2,388
Acquisitions	80	114	4	7	205
Additions	14	82	4	120	220
Adjustment relating to business combination in prior year	(3)	–	–	–	(3)
Disposals	(16)	(74)	(2)	–	(92)
Transfers	18	47	4	(69)	–
Reclassification (to)/from held for sale	3	48	–	–	51
Reclassification	–	(3)	–	–	(3)
Currency translation	38	105	5	5	153
At 30 April 2016	**693**	**2,013**	**56**	**157**	**2,919**
Depreciation and impairment					
At 1 May 2015	(104)	(922)	(20)	–	(1,046)
Depreciation charge	(19)	(103)	(5)	–	(127)
Impairment	(4)	(15)	–	–	(19)
Disposals	3	49	1	–	53
Reclassification to/(from) held for sale	(3)	(33)	–	–	(36)
Currency translation	(9)	(55)	(2)	–	(66)
At 30 April 2016	**(136)**	**(1,079)**	**(26)**	**–**	**(1,241)**
Carrying amount					
At 1 May 2015	455	772	21	94	1,342
At 30 April 2016	**557**	**934**	**30**	**157**	**1,678**

	Land and buildings £m	Plant and equipment £m	Fixtures and fittings £m	Under construction £m	Total £m
Cost					
At 1 May 2014	589	1,713	47	86	2,435
Acquisitions	10	23	2	–	35
Additions	11	71	3	93	178
Divestments	(4)	(12)	–	–	(16)
Disposals	(9)	(37)	(2)	(1)	(49)
Transfers	11	69	(3)	(77)	–
Reclassification to held for sale	–	(8)	–	–	(8)
Currency translation	(49)	(125)	(6)	(7)	(187)
At 30 April 2015	559	1,694	41	94	2,388
Depreciation and impairment					
At 1 May 2014	(102)	(938)	(23)	–	(1,063)
Depreciation charge	(17)	(97)	(3)	–	(117)
Impairment	–	(4)	–	–	(4)
Divestments	2	12	–	–	14
Disposals	2	35	2	–	39
Reclassification to held for sale	–	4	–	–	4
Currency translation	11	66	4	–	81
At 30 April 2015	(104)	(922)	(20)	–	(1,046)
Carrying amount					
At 1 May 2014	487	775	24	86	1,372
At 30 April 2015	455	772	21	94	1,342

The amounts above include land and buildings held under finance lease agreements. At 30 April 2016, the carrying amount of property, plant and equipment held under finance leases was £21m (30 April 2015: £6m). Assets under construction mainly relate to production machines being built for various sites across the Group.

12. EQUITY ACCOUNTED INVESTMENTS

	2016 £m	2015 £m
At 1 May	**17**	24
Disposal	**(10)**	(3)
Share of loss of associate	**(1)**	–
Reclassification	**–**	4
Share of Rubezhansk exceptional charge	**–**	(7)
Currency translation	**(2)**	(1)
At 30 April	**4**	17

PRINCIPAL EQUITY ACCOUNTED INVESTMENTS

	Nature of business	Principal country of operation	Ownership interest **2016**	Ownership interest 2015
OJSC Rubezhansk Paper and Packaging Mill (Rubezhansk)	Paper and packaging	Ukraine	**49.6%**	49.6%
Turkish Group	Paper, packaging and recycling	Turkey	**–**	49.0%
Lantero Group	Packaging	Spain	**100%**	25.0%

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

RUBEZHANSK

For four months during the year ended 30 April 2015, the foreign exchange rate between the Ukrainian Hryvnia weakened against the US dollar by over 10% in each month driven by the ongoing political unrest in Ukraine. The Group's share of the resultant post-tax foreign exchange loss on retranslation of the associate's US dollar loan liability in the prior year was classified as an exceptional item in the financial statements for 2014/15 (note 4). The Group continues to monitor the carrying values of its interest with particular reference to the ongoing political unrest.

TURKEY

During the year ended 30 April 2016, the Group disposed of direct and indirect holdings in the following Turkish businesses: Yalova Ambalaj Sanayi ve Ticaret AŞ; Kaplamin Ambalaj Sanayi ve Ticaret AŞ; OVA Oluklu Mukavva Ambalaj Sanayi. ve Ticaret AŞ; Atkasan Atık Değerlendireme San. Ve Tic. AŞ and Selkasan Kağit ve Paketleme Malzemeleri Imalat San. Ve Tic. AŞ. Direct holdings varied between 2.2% and 49.0%. See note 31 for further details.

LANTERO GROUP

During the year ended 30 April 2016, the Group acquired 100% of the corrugated activities of Grupo Lantero, including those operations in which DS Smith previously held an equity accounted minority. See note 31 for further details.

SUMMARY OF FINANCIAL INFORMATION OF ASSOCIATES

The following items are an aggregate of the financial statements of the Group's main associates on a 100% basis.

	2016 £m	2015 £m
Assets	**61**	304
Liabilities	**(36)**	(168)
Revenue	**82**	359
Loss after tax	**(2)**	(18)
Other comprehensive expense	**–**	(1)

13. OTHER INVESTMENTS

	2016 £m	2015 £m
Other investments	**3**	3
Total non-current investments	**3**	3
Other investments	**–**	1
Total current investments	**–**	1

Notes to the Consolidated Financial Statements continued

14. INVENTORIES

	2016 £m	2015 £m
Raw materials and consumables	**178**	132
Work in progress	**20**	14
Finished goods	**140**	110
	338	256

Inventory provisions at 30 April 2016 were £29m (30 April 2015: £22m). Inventory write-offs in the year totalled £4m (2014/15: £4m).

15. TRADE AND OTHER RECEIVABLES

	2016		2015	
	Non-current £m	Current £m	Non-current £m	Current £m
Trade receivables	**-**	**598**	–	450
Provisions for bad and doubtful receivables	**-**	**(33)**	–	(26)
Prepayments and other receivables	**3**	**131**	5	124
	3	**696**	5	548

			Of which past due but not impaired				
Trade receivables	Net carrying amount £m	Of which neither impaired nor past due £m	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 2016	**565**	**479**	**55**	**19**	**5**	**4**	**3**
At 30 April 2015	424	360	41	15	4	3	1

MOVEMENT IN BAD AND DOUBTFUL RECEIVABLES ALLOWANCE

	2016 £m	2015 £m
At 1 May	**(26)**	(27)
Uncollectible amounts written off	**2**	–
Decrease/(increase) in allowance recognised in the income statement	**1**	(1)
Acquisitions	**(8)**	–
Currency translation	**(2)**	2
At 30 April	**(33)**	(26)

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and diverse. Management believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful receivables.

16. TRADE AND OTHER PAYABLES

	2016		2015	
	Non-current £m	Current £m	Non-current £m	Current £m
Trade payables	**-**	**817**	–	653
Non-trade payables and accrued expenses	**8**	**301**	5	274
	8	**1,118**	5	927

17. ASSETS AND LIABILITIES HELD FOR SALE

	2016 £m	2015 £m
Intangible assets	–	1
Property, plant and equipment	**7**	20
Inventories	–	7
Cash	–	6
Trade and other receivables	–	12
Total assets held for sale	**7**	46
Trade and other payables	–	(15)
Total liabilities held for sale	–	(15)

Assets held for sale at 30 April 2016 primarily relate to property, plant and equipment in Germany and the Netherlands. Assets and liabilities held for sale at 30 April 2015 primarily relate to assets in the UK and the StePac business in the Plastics division.

18. NET DEBT

	2016 £m	2015 £m
Non-current liabilities	**(1,073)**	(781)
Current liabilities	**(185)**	(2)
Derivative financial instruments	**19**	17
Net cash and cash equivalents	**115**	82
Other deposits	**25**	33
Net debt	**(1,099)**	(651)

The movement in net debt is as follows:

	At 1 May 2015 £m	Continuing operations cash flow £m	Acquisitions £m	Foreign exchange, fair value and non-cash movements £m	At 30 April 2016 £m
Cash and cash equivalents	95	8	24	7	**134**
Overdrafts	(13)	(4)	(2)	–	**(19)**
Net cash and cash equivalents	82	4	22	7	**115**
Other deposits	33	(9)	–	1	**25**
Interest-bearing loans and borrowings due – after one year	(776)	(125)	(58)	(99)	**(1,058)**
Interest-bearing loans and borrowings due – within one year	(1)	(134)	(45)	–	**(180)**
Finance leases	(6)	5	(17)	(2)	**(20)**
Derivative financial instruments					
– assets	21	–	–	4	**25**
– liabilities	(4)	(1)	–	(1)	**(6)**
	(733)	(264)	(120)	(97)	**(1,214)**
Net debt	**(651)**	**(260)**	**(98)**	**(90)**	**(1,099)**

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

Non-cash movements relate to amortisation of fees incurrent on debt issuance.

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

Notes to the Consolidated Financial Statements continued

19. CASH AND CASH EQUIVALENTS

	2016 £m	2015 £m
Bank balances	**131**	79
Short-term deposits	**3**	16
Cash and cash equivalents (Consolidated Statement of Financial Position)	**134**	95
Bank overdrafts	**(19)**	(13)
Net cash and cash equivalents (Consolidated Statement of Cash Flows)	**115**	82

20. INTEREST-BEARING LOANS AND BORROWINGS

	2016			2015		
	Current £m	**Non-current £m**	**Total £m**	Current £m	Non-current £m	Total £m
Bank and other loans[1]	**(115)**	**(306)**	**(421)**	(1)	(367)	(368)
Medium-term notes and other fixed-term debt						
$95m USD private placement 5.80% coupon August 2016[2]	**(65)**	**-**	**(65)**	–	(63)	(63)
€59m euro private placement shelf facility 4.40% coupon August 2018	**-**	**(46)**	**(46)**	–	(43)	(43)
€59m euro private placement shelf facility 4.83% coupon August 2020	**-**	**(46)**	**(46)**	–	(43)	(43)
$400m USD private placement 4.48% weighted average coupon August 2017-2022[3]	**-**	**(272)**	**(272)**	–	(260)	(260)
€500m euro medium term note 2.25% coupon September 2022	**-**	**(388)**	**(388)**	–	–	–
Finance lease liabilities	**(5)**	**(15)**	**(20)**	(1)	(5)	(6)
	(185)	**(1,073)**	**(1,258)**	(2)	(781)	(783)

1 Drawings under a short-term bank revolving credit facility and other bank loans.

2 Swapped to floating-rate €17m based on 6 month EURIBOR plus a margin, and fixed-rate £41m using cross-currency interest rate swaps.

3 Swapped to fixed-rate £130m and fixed-rate €160m using cross-currency interest rate swaps.

Borrowings are unsecured and measured at amortised cost, except for £14m of note purchase agreements in a fair value hedge relationship.

The syndicated bank revolving credit facility (£800m) was extended in May 2015 under its one year extension option, taking maturity to 2020. Drawdowns under the facility bear interest at a margin over the applicable LIBOR or EURIBOR rate.

In September 2015 the Group issued a €500m fixed rate coupon Euro Medium Term Note. The proceeds were used to repay the Group's syndicated bank term loan facility of €300m and drawings under the syndicated bank revolving credit facility.

There have been no breaches of covenants during the year ended 30 April 2016 in relation to the above loans and borrowings.

Of the total borrowing facilities available to the Group, the undrawn committed facilities available at 30 April were as follows:

	2016 £m	2015 £m
Expiring between two and five years	**500**	649

20. INTEREST-BEARING LOANS AND BORROWINGS CONTINUED

The repayment profile of the Group's borrowings, after taking into account the effect of cross-currency and interest rate swaps, is as follows:

	2016				
	1 year or less £m	**1-2 years £m**	**2-5 years £m**	**More than 5 years £m**	**Total £m**
Interest-bearing loans and borrowings					
Fixed-rate	**(58)**	**(20)**	**(155)**	**(592)**	**(825)**
Floating-rate	**(127)**	**(2)**	**(303)**	**(1)**	**(433)**
Total interest-bearing loans and borrowings	**(185)**	**(22)**	**(458)**	**(593)**	**(1,258)**

	2015				
	1 year or less £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Interest-bearing loans and borrowings					
Fixed-rate	(1)	(51)	(372)	(194)	(618)
Floating-rate	(1)	(14)	(150)	–	(165)
Total interest-bearing loans and borrowings	(2)	(65)	(522)	(194)	(783)

The Group's borrowings, after taking into account the effect of cross-currency and interest rate swaps, are denominated in the following currencies:

	2016				
	Sterling £m	**Euro £m**	**US dollar £m**	**Other £m**	**Total £m**
Interest-bearing loans and borrowings					
Fixed-rate	**(194)**	**(630)**	**–**	**(1)**	**(825)**
Floating-rate	**(15)**	**(315)**	**(48)**	**(55)**	**(433)**
	(209)	**(945)**	**(48)**	**(56)**	**(1,258)**
Net cash and cash equivalents (including bank overdrafts)					
Floating-rate	**–**	**93**	**3**	**19**	**115**
Net borrowings at 30 April 2016	**(209)**	**(852)**	**(45)**	**(37)**	**(1,143)**

	2015				
	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m
Interest-bearing loans and borrowings					
Fixed-rate	(179)	(439)	–	–	(618)
Floating-rate	–	(110)	(33)	(22)	(165)
	(179)	(549)	(33)	(22)	(783)
Net cash and cash equivalents (including bank overdrafts)					
Floating-rate	24	44	3	11	82
Net borrowings at 30 April 2015	(155)	(505)	(30)	(11)	(701)

At 30 April 2016, 75% of the Group's interest-bearing loans and borrowings, after taking into account the effect of cross-currency swaps, were denominated in euros in order to hedge the underlying assets of the Group's European operations (30 April 2015: 70%). Interest rates on floating-rate borrowings are based on London Interbank Offered Rate (LIBOR), Euro Interbank Offered Rate (EURIBOR) or base rates.

FINANCE LEASE LIABILITIES

	2016			2015		
	Future minimum lease payments £m	**Interest £m**	**Present value of minimum lease payments £m**	Future minimum lease payments £m	Interest £m	Present value of minimum lease payments £m
Less than one year	**5**	**–**	**5**	1	–	1
Between one and five years	**14**	**(1)**	**13**	3	–	3
More than five years	**2**	**–**	**2**	2	–	2
Finance lease liabilities	**21**	**(1)**	**20**	6	–	6

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:

	2016		2015	
	Carrying amount £m	**Fair value £m**	Carrying amount £m	Fair value £m
Financial assets				
Cash and cash equivalents	**134**	**134**	95	95
Available for sale – other investments	**3**	**3**	4	4
Loans and receivables	**699**	**699**	553	553
Derivative financial instruments	**57**	**57**	37	37
Total financial assets	**893**	**893**	689	689
Financial liabilities				
Trade and other payables	**(1,126)**	**(1,126)**	(932)	(932)
Bank and other loans	**(421)**	**(421)**	(368)	(368)
Medium-term notes and other fixed-term debt	**(817)**	**(876)**	(409)	(500)
Finance lease liabilities	**(20)**	**(20)**	(6)	(6)
Bank overdrafts	**(19)**	**(19)**	(13)	(13)
Derivative financial instruments	**(56)**	**(56)**	(31)	(31)
Total financial liabilities	**(2,459)**	**(2,518)**	(1,759)	(1,850)

The fair value is the amount for which an asset or liability could be exchanged or settled on an arm's-length basis. For financial instruments carried at fair value, market prices or rates are used to determine fair value where an active market exists. The Group uses forward prices for valuing forward foreign exchange and commodity contracts and uses valuation models with present value calculations based on market yield curves to value note purchase agreements, the medium-term note, cross-currency swaps and interest rate swaps. All derivative financial instruments are shown at fair value in the Consolidated Statement of Financial Position.

Under IAS 39 *Financial Instruments: Recognition and Measurement*, only the portions of the note purchase agreements which form part of an effective fair value hedge are carried at fair value in the Consolidated Statement of Financial Position. The majority of the Group's medium-term notes and other fixed-term debt are in effective cash flow and net investment hedges and are therefore held at amortised cost. The fair values of financial assets and liabilities which bear floating rates of interest are estimated to be equivalent to their book values.

IFRS 7 *Financial Instruments: Disclosures* requires the classification of fair value measurements using the fair value hierarchy that reflects the significance of the inputs used in making the assessments.

All of the Group's financial instruments are Level 2 financial instruments in accordance with the fair value hierarchy, where inputs are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

21. FINANCIAL INSTRUMENTS CONTINUED

(B) DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into derivative financial instruments, primarily interest rate, foreign exchange and commodity contracts, to manage the risks associated with the Group's underlying business activities and the financing of these activities. Derivatives designated as effective hedging instruments are carried at their fair value.

The assets and liabilities of the Group at 30 April in respect of derivative financial instruments are as follows:

	Assets		Liabilities		Net	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Derivatives held to:						
Manage the interest rate and currency exposures on business activities, borrowings and net investments	**25**	21	**(6)**	(4)	**19**	17
Derivative financial instruments included in net debt	**25**	21	**(6)**	(4)	**19**	17
Derivatives held to hedge future transactions						
Energy costs	**32**	16	**(50)**	(27)	**(18)**	(11)
Total derivative financial instruments	**57**	37	**(56)**	(31)	**1**	6
Current	**40**	13	**(47)**	(18)	**(7)**	(5)
Non-current	**17**	24	**(9)**	(13)	**8**	11
	57	37	**(56)**	(31)	**1**	6

(C) CASH FLOW, FAIR VALUE AND NET INVESTMENT HEDGES

(I) CASH FLOW HEDGING RESERVE MOVEMENTS

The following table identifies the movements in the cash flow hedging reserve during the year. All figures are post-tax.

	2016 £m	2015 £m
At 1 May	**(27)**	(31)
Unrealised fair value gain/(loss) on designated cash flow hedges		
Cross-currency and interest rate swaps	**4**	3
Commodity contracts	**(22)**	(22)
Loss recycled from equity to the income statement		
Commodity contracts	**16**	23
At 30 April	**(29)**	(27)

The losses recycled to the income statement from the cash flow hedging reserve during the year are reflected in the following items in the income statement:

	2016 £m	2015 £m
Revenue	**-**	–
Cost of sales	**18**	23
Total loss recycled from equity to the income statement during the year	**18**	23

(II) FAIR VALUE HEDGES

At 30 April 2016, the Group held interest rate and foreign exchange swap contracts as fair value hedges of the interest rate and foreign exchange risk on fixed rate debt payable by the Group. The receive leg of the swap contracts is identical in all critical aspects to the terms of the underlying debt and therefore the hedging is treated as highly effective. The pre-tax loss on hedging derivative instruments taken to the income statement during the year was £1m (2014/15: gain of £5m) offset by a pre-tax gain on the fair value of the debt of £1m (2014/15: loss of £5m).

(III) HEDGES OF NET INVESTMENTS IN FOREIGN OPERATIONS

The Group holds cross-currency interest rate swap contracts as hedges of long-term investments in foreign subsidiaries. The pre-tax loss on the hedges recognised in equity during the year was £21m (2014/15: gain of £30m). This loss is matched by a similar gain in equity on the retranslation of the hedged foreign subsidiary's net assets resulting in a net gain of £nil (2014/15: net gain of £nil) treated as hedge ineffectiveness in the income statement.

Notes to the Consolidated Financial Statements continued

21. FINANCIAL INSTRUMENTS CONTINUED

(D) RISK IDENTIFICATION AND RISK MANAGEMENT

(I) CAPITAL MANAGEMENT

The Group defines its managed capital as equity, as presented in the Consolidated Statement of Financial Position, and net debt (see note 18).

	2016 £m	2015 £m
Net debt	**1,099**	651
Total equity	**1,140**	1,018
Managed capital	**2,239**	1,669

There have been no changes to the components of managed capital during the year. Managed capital is different from capital employed (defined as property, plant and equipment, goodwill and intangible assets, working capital, capital debtors/creditors, provisions and assets/liabilities held for sale). Managed capital relates to our sources of funding, whereas return on average capital employed is our measure of the level of return being generated by the asset base.

The Group funds its operations from the following sources of capital: operating cash flow, borrowings, shareholders' equity and, where appropriate, disposals of non-core businesses. The Group's objective is to achieve a capital structure that results in an appropriate cost of capital whilst providing flexibility in short and medium-term funding so as to accommodate significant investments or acquisitions. The Group also aims to maintain a strong balance sheet and to provide continuity of financing by having a range of maturities and borrowing 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 regularly and includes the Group Finance Director, the Group General Counsel and Company Secretary, the Group Financial Controller, the Group Treasurer and the Group Head of Tax. The Group Treasury function operates in accordance with policies and procedures approved by the Board and controlled by the Group Treasurer. 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 floating interest rates exposing it to future cash flow risk. The risk is managed by maintaining a mix of fixed and floating-rate borrowings and by the use of interest rate swap contracts which modify the interest payable on the Group's underlying debt instruments. The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

At 30 April 2016, 66% of the Group's interest-bearing loans and borrowings were at fixed rates of interest (30 April 2015: 79%). The sensitivity analysis below shows the impact on profit and total equity of a 100 basis points rise in market interest rates (representing management's assessment of the reasonably possible change in interest rates) in all currencies in which the Group had variable-rate borrowings at 30 April 2016.

To calculate the impact on the income statement for the year, the interest rates on all variable-rate external interest-bearing loans and cash deposits have been increased by 100 basis points, and the resulting increase in the net interest charge has been adjusted for the effect of the Group's interest rate derivatives. Changes in the carrying value of derivative financial instruments only affect the Group's income statement.

21. FINANCIAL INSTRUMENTS CONTINUED

(D) RISK IDENTIFICATION AND RISK MANAGEMENT CONTINUED

(II) MARKET RISK CONTINUED

The results are presented before non-controlling interests and tax.

	2016		2015	
	Impact on profit £m	**Impact on total equity £m**	Impact on profit £m	Impact on total equity £m
Increase in market interest rates by 100 basis points	**(6)**	**(6)**	(5)	(5)

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal amounts. At 30 April 2016, losses of £13m (30 April 2015: losses of £17m) net of tax are deferred in equity in respect of cash flow hedges of interest rate risk. These will be recycled to the income statement in the period in which the hedged item also affects the income statement, which will be during the period to 2022.

FOREIGN EXCHANGE RISK

FOREIGN EXCHANGE RISK ON INVESTMENTS

The Group is exposed to foreign exchange risk arising from net investments in Group entities, the functional currencies of which differ from the Group's presentational currency, sterling. The Group partly hedges this exposure through borrowings denominated in foreign currencies and through cross-currency swap contracts. Gains and losses for hedges of net investments are recognised in equity.

FOREIGN EXCHANGE RISK ON BORROWINGS

The Group is exposed to foreign exchange risk on borrowings denominated in foreign currencies. The Group hedges this exposure through cross-currency swaps designated as either cash flow or fair value hedges.

FOREIGN EXCHANGE RISK ON TRANSACTIONS

Foreign currency transaction risk arises where a business unit makes product sales or purchases in a currency other than its functional currency. Part of this risk is hedged using foreign exchange contracts which are designated as cash flow hedges.

At 30 April 2016, losses net of tax deferred in equity in respect of cash flow hedges were £nil (30 April 2015: £nil).

The Group's main currency exposure is to the euro and the following significant exchange rates applied during the year:

	2016		2015	
	Average	**Closing**	Average	Closing
euro	**1.340**	**1.272**	1.290	1.368

The following sensitivity analysis shows the impact on the Group's results of a 10% increase and decrease in the sterling exchange rate against all other currencies representing management's assessment of the reasonably possible change in foreign exchange rates. The analysis is restricted to financial instruments denominated in a foreign currency and excludes the impact of financial instruments designated as net investment or fair value hedges.

Net investment and fair value hedges are excluded as the impact of the foreign exchange movements on these are offset by equal and opposite movements in the hedged items.

The results are presented before non-controlling interests and tax.

	2016		2015	
	Impact on profit £m	**Impact on total equity £m**	Impact on profit £m	Impact on total equity £m
10% strengthening of sterling	**-**	**12**	–	6
10% weakening of sterling	**-**	**(15)**	–	(7)

Notes to the Consolidated Financial Statements continued

21. FINANCIAL INSTRUMENTS CONTINUED

(D) RISK IDENTIFICATION AND RISK MANAGEMENT CONTINUED

COMMODITY RISK

The Group's main commodity exposures are to changes in gas and electricity prices. This commodity price risk is managed by a combination of physical supply agreements and derivative instruments. At 30 April 2016, losses of £16m net of tax are deferred in equity in respect of cash flow hedges in accordance with IAS 39 (30 April 2015: losses of £10m). These will be recycled 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.

	2016		2015	
	Impact on profit £m	**Impact on total equity £m**	Impact on profit £m	Impact on total equity £m
10% increase in electricity prices	**-**	**1**	–	1
10% increase in gas prices	**-**	**11**	–	13

(III) CREDIT RISK

Credit risk is the risk that a customer or counterparty to a financial instrument will fail to perform or fail to pay amounts due, causing financial loss to the Group. In the current economic environment, the Group has placed increased emphasis on the management of credit risk. The carrying amount of financial assets at 30 April 2016 was £893m 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 15 for information on credit risk with respect to trade receivables.

(IV) LIQUIDITY RISK

Liquidity risk is the risk that the Group, although solvent, will have difficulty in meeting its obligations associated with its financial liabilities as they fall due.

The Group manages its liquidity risk by maintaining a sufficient level of undrawn committed borrowing facilities. At 30 April 2016, the Group had £500m of undrawn committed borrowing facilities (30 April 2015: £649m). The Group mitigates its refinancing risk by raising its debt requirements from a number of different sources with a range of maturities.

The following table is an analysis of the undiscounted contractual maturities of financial liabilities (including the effect of cross-currency and interest rate swaps).

		Contractual repayments		
At 30 April 2016	**Total £m**	**1 year or less £m**	**1-5 years £m**	**More than 5 years £m**
Non-derivative financial liabilities				
Trade and other payables	**1,126**	**1,118**	**8**	**-**
Bank and other loans	**425**	**115**	**310**	**-**
Medium-term notes and other fixed-term debt	**823**	**65**	**162**	**596**
Finance lease liabilities	**21**	**5**	**14**	**2**
Bank overdrafts	**19**	**19**	**-**	**-**
Interest payments on borrowings	**148**	**27**	**90**	**31**
Total non-derivative financial liabilities	**2,562**	**1,349**	**584**	**629**

21. FINANCIAL INSTRUMENTS CONTINUED
(D) RISK IDENTIFICATION AND RISK MANAGEMENT CONTINUED

At 30 April 2015	Total £m	Contractual repayments 1 year or less £m	1-5 years £m	More than 5 years £m
Non-derivative financial liabilities				
Trade and other payables	932	927	5	–
Bank and other loans	372	–	372	–
Medium-term notes and other fixed-term debt	409	–	165	244
Finance lease liabilities	6	2	3	1
Bank overdrafts	13	13	–	–
Interest payments on borrowings	103	21	59	23
Total non-derivative financial liabilities	1,835	963	604	268

Refer to note 29 for an analysis of the Group's future operating lease payments and to note 30 for a summary of the Group's capital commitments.

The following table is an analysis of the undiscounted contractual maturities of derivative financial instruments excluding interest payments and receipts. Where the payable and receivable legs of these derivatives are denominated in foreign currencies, the contractual payments or receipts have been calculated based on exchange rates prevailing at the respective year-ends.

Where applicable, interest and foreign exchange rates prevailing at the reporting date are assumed to remain constant over the future contractual maturities.

At 30 April 2016	**Total £m**	**Contractual payments/(receipts) 1 year or less £m**	**1-5 years £m**	**More than 5 years £m**
Derivative financial liabilities				
Energy derivatives	**18**	**13**	**5**	**-**
Interest rate and currency swaps:				
Payments	**601**	**138**	**144**	**319**
Receipts	**(631)**	**(146)**	**(151)**	**(334)**
Total net derivative financial (assets)/liabilities	**(12)**	**5**	**(2)**	**(15)**

At 30 April 2015	Total £m	Contractual payments/(receipts) 1 year or less £m	1-5 years £m	More than 5 years £m
Derivative financial liabilities				
Energy derivatives	12	8	4	–
Interest rate and currency swaps:				
Payments	574	40	197	337
Receipts	(606)	(44)	(213)	(349)
Total net derivative financial (assets)/liabilities	(20)	4	(12)	(12)

Notes to the Consolidated Financial Statements continued

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	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
At 1 May	**(131)**	(155)	**54**	48	**23**	10	**(9)**	18	**(63)**	(79)
Acquired/disposed	**(28)**	(2)	**-**	–	**5**	–	**1**	–	**(22)**	(2)
Credit/(charge) for the year	**13**	18	**1**	(2)	**10**	13	**(3)**	(11)	**21**	18
Recognised directly in equity	**-**	–	**(4)**	8	**-**	–	**(7)**	(21)	**(11)**	(13)
Currency translation	**(12)**	8	**2**	–	**1**	–	**1**	5	**(8)**	13
At 30 April	**(158)**	(131)	**53**	54	**39**	23	**(17)**	(9)	**(83)**	(63)

At 30 April 2016, 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:

	2016 £m	2015 £m
Deferred tax liabilities	**(141)**	(121)
Deferred tax assets	**58**	58
Net deferred tax	**(83)**	(63)

The deferred tax asset in respect of tax losses primarily relates to the UK and is expected to be utilised over the next five years.

The Group has total unrecognised deferred tax assets relating to tax losses of £9m (30 April 2015: £9m). These losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise these benefits.

No deferred tax liability is recognised on temporary differences of £276m (30 April 2015: £286m) relating to unremitted earnings of overseas subsidiaries as the Group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future. The temporary differences at 30 April 2016 represent only the unremitted earnings of those overseas subsidiaries where remittance to the UK of those earnings may still result in a tax liability, principally as a result of dividend withholding taxes levied by the overseas jurisdiction in which these subsidiaries operate.

23. PROVISIONS

	Restructuring £m	Other £m	Total £m
At 1 May 2015	15	26	41
Charged to income	50	1	51
Credited to income	–	(1)	(1)
Utilised	(49)	(1)	(50)
Currency translation	6	(6)	–
At 30 April 2016	**22**	**19**	**41**
Non-current	1	4	5
Current	21	15	36
	22	**19**	**41**

The restructuring provision includes amounts associated with the closures, restructuring and integration costs described in note 4. Other provisions mainly relate to site restorations and to provisions for vacant leaseholds. The timing of the utilisation of these provisions is uncertain, except where the associated costs are contractual, in which case the provision is utilised over the time period specified in the contract.

24. CAPITAL AND RESERVES

SHARE CAPITAL

	Number of shares			
	2016 millions	2015 millions	**2016 £m**	2015 £m
Ordinary equity shares of 10 pence each:				
Issued, allotted, called up and fully paid	**945**	942	**94**	94

During the year ended 30 April 2016, 2,784,230 ordinary shares of 10 pence each were issued as a result of exercises of employee share options. The net movement in share capital and share premium is disclosed in the Consolidated Statement of Changes in Equity.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In respect of the Company's shares that are held by the Group, all rights are suspended until those shares are reissued.

TRANSLATION RESERVE

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations and the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

HEDGING RESERVE

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

SHARE PREMIUM

The share premium account represents the difference between the issue price and the nominal value of shares issued.

OWN SHARES

The reserve for the Company's own shares comprises the cost of the Company's shares held by the Group. The Group operates a General Employee Benefit Trust, which acquires shares in the Company that can be used to satisfy the requirements of the Performance Share Plan and the Share Matching Plan. At 30 April 2016, the Trust held 1.6m shares (30 April 2015: 0.1m shares). The market value of the shares at 30 April 2016 was £4.4m (30 April 2015: £0.3m). 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.

Notes to the Consolidated Financial Statements continued

25. EMPLOYEE BENEFITS

Balance sheet	Total 2016 £m	Total 2015 £m	UK 2016 £m	UK 2015 £m	Overseas 2016 £m	Overseas 2015 £m
Present value of post-retirement obligations	**(1,142)**	(1,197)	**(1,006)**	(1,063)	**(136)**	(134)
Fair value of plan assets						
Equities/multi-strategy	**237**	568	**229**	560	**8**	8
Debt instruments	**137**	410	**124**	388	**13**	22
Derivatives	**427**	–	**427**	–	**-**	–
Insurance contracts	**-**	6	**-**	–	**-**	6
Real estate	**2**	–	**-**	–	**2**	–
Cash and cash equivalents	**24**	12	**3**	6	**21**	6
Other	**130**	6	**130**	–	**-**	6
	957	1,002	**913**	954	**44**	48
Net post-retirement plan deficit	**(185)**	(195)	**(93)**	(109)	**(92)**	(86)
Other employee benefit liabilities	**(3)**	(5)	**-**	–	**(3)**	(5)
Total employee benefit liabilities	**(188)**	(200)	**(93)**	(109)	**(95)**	(91)
Related deferred tax asset	**43**	48	**17**	22	**26**	26
Net employee benefit liabilities	**(145)**	(152)	**(76)**	(87)	**(69)**	(65)

EMPLOYEE BENEFIT SCHEMES

At 30 April 2016, 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 assumption, 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 risk to which the Group Scheme is exposed (the 'Technical Provisions' basis). The most recent funding valuation was carried out as at 30 April 2013, following which a deficit recovery plan was agreed with the Trustee Board on 18 July 2014. This recovery plan agreed that the Group would remove the deficit by paying annual contributions, starting at £15.7m in the year ended 30 April 2015 and increasing by approximately 2% per annum, for a period of 8 years and 9 months, such that the final contribution is made by 31 January 2023. The next funding valuation is being carried out as at 30 April 2016.

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 to a level by 30 April 2035 that does not rely on contributions from the Group.

In March 2016, a new investment strategy was designed and introduced with the aim to significantly reduce risk whilst maintaining the existing level of expected return. To achieve this, the Group Scheme's actual exposure to equity assets was reduced and the revised strategy aims to more closely align movements in the Group Scheme's assets to that of its liabilities. To do this, it has looked to hedge its inflation and interest rate risk exposure. Through the use of derivatives it has managed to maintain a similar level of overall return but with lower expected variability, despite the reduction in equity exposure. To help the Trustee Board to monitor, review and assess investment matters, the Investment and Funding Committee (the 'IFC'), which consists of representatives from the Trustee Board and the Group, meets on a quarterly basis throughout the year.

The Group Scheme exposes the Group to risks, such as longevity risk, currency risk, inflation risk, interest rate risk and investment risk. As the Group Scheme's obligation is to provide lifetime pension benefits to members upon retirement, increases in life expectancy will result in an increase in the Group Scheme's liabilities. Other assumptions used to value the defined benefit obligation are also uncertain.

The largest defined contribution arrangement operated by the Group is in the UK. The UK defined contribution scheme is a trust-based arrangement offering members a range of investments. All assets are held independently from the Group. The Group also operates a small unfunded arrangement in the UK.

OVERSEAS SCHEMES

The countries where the Group operates the most significant defined benefit post-retirement arrangements are:

- France – various mandatory retirement indemnities, post-retirement medical plans and jubilee arrangements (benefits paid to employees after completion of a certain number of years of service) the majority of which are determined by the applicable Collective Bargaining Agreement;
- Italy – mandatory end-of-service lump sum benefits in respect of pre-2007 service;
- Germany – jubilee arrangements and non-contributory defined benefit pension schemes; and
- Netherlands – transitional arrangements on closure of defined benefit scheme.

In general, local trustees or similar bodies manage the post-retirement and medical plans in accordance with local regulations. Other employee benefits relate to pre-retirement benefits in Germany.

Overseas schemes expose the Group to risks such as longevity risk, currency risk, inflation risk, interest rate risk, investment risk, life expectancy risk and healthcare cost risk. Actions taken by the local regulator, or changes to legislation, could result in stronger local funding requirements for pension schemes, which could affect the Group's future cash flow.

MOVEMENTS IN THE LIABILITY FOR EMPLOYEE BENEFIT PLANS' OBLIGATIONS RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2016 £m	2015 £m
Schemes' liabilities at 1 May	**(1,202)**	(1,059)
Acquisitions	**(9)**	–
Interest cost	**(38)**	(43)
Service cost recognised in the Consolidated Income Statement	**(6)**	(4)
Member contributions	**–**	(1)
Settlement/curtailment	**2**	2
Pension payments	**45**	40
Unfunded benefits paid	**7**	6
Actuarial gains/(losses) – financial assumptions	**46**	(142)
Actuarial gains – experience	**3**	2
Actuarial gains/(losses) – demographic	**10**	(6)
Currency translation	**(8)**	12
Reclassification	**5**	(9)
Schemes' liabilities at 30 April	**(1,145)**	(1,202)

Notes to the Consolidated Financial Statements continued

25. EMPLOYEE BENEFITS CONTINUED

MOVEMENTS IN THE FAIR VALUE OF EMPLOYEE BENEFIT PLANS' ASSETS RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2016 £m	2015 £m
Schemes' assets at 1 May	**1,002**	908
Employer contributions	**17**	17
Member contributions	**-**	1
Settlement/curtailment	**-**	(2)
Interest income	**33**	39
Actuarial (losses)/gains	**(48)**	81
Pension payments	**(45)**	(40)
Currency translation	**3**	(2)
Reclassification	**(5)**	–
Schemes' assets at 30 April	**957**	1,002

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 2016	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	**196**	**231**	**530**	**456**	**307**	**153**	**55**

The weighted average duration for the Group Scheme is 18 years.

The Group made agreed contributions of £16m to the Group Scheme in 2015/16 (2014/15: £16m). A charge over certain assets of the Group has been made as security for certain unfunded arrangements. The Group's current best estimate of contributions expected to be made to the Group Scheme in the year ending 30 April 2017 is approximately £16m.

SIGNIFICANT ACTUARIAL ASSUMPTIONS

Principal actuarial assumptions for the Group Scheme are as follows:

	2016	2015
Discount rate for scheme liabilities	**3.5%**	3.5%
Inflation	**1.8%**	2.1%
Pre-retirement pension increases	**1.8%**	1.9%
Future pension increases for pre 30 April 2005 service	**1.9%**	2.2%
Future pension increases for post 30 April 2005 service	**1.6%**	1.8%

For other overseas arrangements, the weighted average actuarial assumptions are a discount rate of 1.5% (30 April 2015: 1.2%) and an inflation rate of 1.5% (30 April 2015: 1.4%).

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 2016, the mortality base table used is S1NMA/S1NFA (year of birth) with a +1 year age rating, with CMI 2015 projections with a 1.25% per annum long-term rate of improvement used for future longevity improvement. At 30 April 2015 the mortality base table used was S1NMA/S1NFA (year of birth) with a +1 year age rating, with CMI 2014 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:

	2016		2015	
	Male	**Female**	Male	Female
Life expectancy at age 65				
Member currently aged 65	**21.3**	**23.7**	21.5	23.9
Member currently aged 45	**23.0**	**25.6**	23.1	25.7

25. EMPLOYEE BENEFITS CONTINUED

SENSITIVITY ANALYSIS

The sensitivity of the liabilities in the Group Scheme to each significant actuarial assumption is summarised in the following table, showing the impact on the defined benefit obligation if each assumption is altered by the amount specified in isolation, whilst assuming that all other variables remain the same. In practice, this approach is not necessarily realistic since some assumptions are related. This sensitivity analysis applies to the defined benefit obligation only and not to the net defined benefit pension liability, the measurement of which depends on a number of factors including the fair value of plan assets.

	Increase in pension liability £m
0.5% decrease in discount rate	**(85)**
0.5% increase in inflation	**(58)**
1 year increase in life expectancy	**(29)**

EXPENSE RECOGNISED IN THE CONSOLIDATED INCOME STATEMENT

	Total	
	2016 £m	2015 £m
Post-retirement benefits current service cost	**(6)**	(3)
Other employee benefit liabilities current service cost	**-**	(1)
Total service cost	**(6)**	(4)
Net interest cost on net pension liability	**(5)**	(4)
Pension Protection Fund levy	**(1)**	(2)
Employment benefit net finance expense	**(6)**	(6)
Total expense recognised in the Consolidated Income Statement	**(12)**	(10)

ITEMS RECOGNISED IN OTHER COMPREHENSIVE INCOME/(EXPENSE)

Remeasurement of defined benefit obligation – effect of change in financial assumptions	**59**	(146)
Return on plan assets excluding amounts included in employment benefit net finance expense	**(48)**	81
Total gains/(losses) recognised in other comprehensive income/(expense)	**11**	(65)

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 2010 and 2014 are subject to three performance measures:

i. 50% of each award based on a TSR component;

ii. 25% of each award based on average adjusted EPS; and

iii. 25% of each award based on average adjusted ROACE.

Awards made in 2015 are subject to three performance measures:

i. 33.3% of each award based on a TSR component;

ii. 33.3% of each award based on average adjusted EPS; and

iii. 33.3% of each award based on average adjusted ROACE.

The 2010, 2011 and 2012 awards have vested, but have not yet been fully exercised.

Notes to the Consolidated Financial Statements continued

26. SHARE-BASED PAYMENT EXPENSE CONTINUED

(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 award has vested, but has not yet been fully exercised.

(iii) A Share Matching Plan (SMP) is operated for Executive Directors and senior executives with the first award made in 2012/13. The award will vest after three years subject to remaining in service and the satisfaction of performance conditions measured over the three financial years commencing with the year of grant. The performance conditions of the award are based 50% on average adjusted EPS and 50% on average adjusted ROACE. No further awards under this Plan will be made subsequent to the 2014/15 award granted in July 2014.

The 2012 award has vested, but has not yet been fully exercised.

(iv) A Long-Term Incentive Plan (LTIP) is operated for selected senior managers with the first award made in 2013/14. The award will vest after three years subject to remaining in service and the satisfaction of performance conditions measured over the three financial years commencing with the year of grant. The performance conditions of the award are based 50% on average adjusted EPS and 50% on average adjusted ROACE.

(v) An international Sharesave Plan was introduced in January 2014 with a further invitation being made in January 2016. All employees of the Company and participating subsidiaries were eligible to participate in this Plan. Under this HMRC approved Plan, options are granted to participants who have contracted to save up to a maximum of £250 (or local currency equivalent) across all open invitations per month over a period of three years at a discount of up to 20% to the average closing mid-market price of a DS Smith Plc ordinary share on the three dealing days prior to invitation. Options cannot normally be exercised until a minimum of three years has elapsed. In common with most plans of this type there are no performance conditions applicable to options granted under this Plan. The provisions of this Plan are subject to minor country specific variances. A standard US Stock Purchase Plan, which received shareholder approval at the 2014 AGM, was also introduced in January 2014 and a subsequent invitation was made in 2016. US employees of the Group are eligible to participate in this Plan. Options are granted to participants who have contracted to save up to $405 per month over a period of two years at a discount of up to 15% to the average closing mid-market price of a DS Smith Plc ordinary share on the day before grant. Options cannot normally be exercised until a minimum of two years has elapsed.

Full details of the awards described in (i), (ii), (iii) and (v) are set out in the Remuneration report on pages 77 to 96.

Options outstanding and exercisable under share arrangements at 30 April 2016 were:

	Options outstanding				Options exercisable	
	Number of shares	Option price range (p)	Weighted average remaining contract life (years)	Weighted average exercise price (p)	Number exercisable	Weighted average exercise price (p)
Performance Share Plan	6,205,877	Nil	1.0	Nil	814,682	Nil
Deferred Share Bonus Plan	1,451,290	Nil	1.1	Nil	219,917	Nil
Share Matching Plan	836,696	Nil	0.7	Nil	90,704	Nil
Sharesave Plan	9,268,985	269.0 – 302.0	1.7	280.4	Nil	Nil

	Options outstanding				Options exercisable	
	Value (£)	Option price range (p)	Weighted average remaining contract life (years)	Weighted average exercise price (p)	Value exercisable	Weighted average exercise price (p)
Long-Term Incentive Plan	4,721,790	Nil	1.4	Nil	Nil	Nil

26. SHARE-BASED PAYMENT EXPENSE CONTINUED

The effect on earnings per share of potentially dilutive shares issuable under share-based payment arrangements is shown in note 8.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Performance Share Plan		Deferred Share Bonus Plan		Share Matching Plan	
2016	**Weighted average exercise price (p)**	**Options ('000s)**	**Weighted average exercise price (p)**	**Options ('000s)**	**Weighted average exercise price (p)**	**Options ('000s)**
At 1 May 2015	Nil	6,841	Nil	1,490	Nil	1,320
Granted	Nil	1,783	Nil	482	Nil	–
Exercised	Nil	(1,793)	Nil	(419)	Nil	(371)
Lapsed	Nil	(625)	Nil	(102)	Nil	(112)
At 30 April 2016	**Nil**	**6,206**	**Nil**	**1,451**	**Nil**	**837**
Exercisable at 30 April 2016	**Nil**	**815**	**Nil**	**220**	**Nil**	**91**

	Sharesave Plan		Long-Term Incentive Plan	
2016 continued	**Weighted average exercise price (p)**	**Options ('000s)**	**Weighted average exercise price (p)**	**Options (£'000s)**
At 1 May 2015	269.0	6,832	Nil	3,118
Granted	302.0	3,225	Nil	1,604
Exercised	269.0	(203)	Nil	–
Lapsed	270.5	(585)	Nil	–
At 30 April 2016	**280.4**	**9,269**	**Nil**	**4,722**
Exercisable at 30 April 2016	**Nil**	**–**	**Nil**	**–**

	Performance Share Plan		Substitute Share Bonus Award		Deferred Share Bonus Plan	
2015	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)
At 1 May 2014	Nil	7,164	Nil	116	Nil	1,244
Granted	Nil	2,221	Nil	–	Nil	552
Exercised	Nil	(2,443)	Nil	(116)	Nil	(306)
Lapsed	Nil	(101)	Nil	–	Nil	–
At 30 April 2015	Nil	6,841	Nil	–	Nil	1,490
Exercisable at 30 April 2015	Nil	336	Nil	–	Nil	–

	Share Matching Plan		Sharesave Plan		Long-Term Term Incentive Plan	
2015 continued	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options (£'000s)
At 1 May 2014	Nil	877	263.2	7,962	Nil	1,558
Granted	Nil	443	Nil	–	Nil	1,560
Exercised	Nil	–	130.6	(305)	Nil	–
Lapsed	Nil	–	263.2	(825)	Nil	–
At 30 April 2015	Nil	1,320	269.0	6,832	Nil	3,118
Exercisable at 30 April 2015	Nil	–	269.0	–	Nil	–

Notes to the Consolidated Financial Statements continued

26. SHARE-BASED PAYMENT EXPENSE CONTINUED

The average share price of the Company during the financial year was 386.4 pence (2014/15: 306.2 pence).

The fair value of awards granted in the period relates to the PSP and DSBP schemes.

The fair value of the PSP award granted during the year, determined using the stochastic valuation model, was £5.4m. The significant inputs into the model were: a share price of 382.9p for the PSP at the grant date; the exercise prices shown above; an expected initial volatility of the share price of 26.5% and long-term volatility of 28.6%; the scheme life disclosed above; an annual risk-free interest rate of 1.06% and an expected dividend yield of nil. The volatility of share price returns measured as the standard deviation of expected share price returns is based on statistical analysis of average weekly share prices from 1 January 1970.

The total charge for the year relating to share-based payments recognised as personnel expenses was £6m (2014/15: £5m).

27. CASH GENERATED FROM OPERATIONS

Continuing operations	**2016 £m**	2015 £m
Profit for the year	**167**	156
Adjustments for:		
Pre-tax integration costs and other exceptional items	**92**	31
Amortisation of intangible assets and acquisitions and disposals	**37**	55
Cash outflow for exceptional items	**(77)**	(49)
Depreciation	**127**	117
Profit on sale of non-current assets*	**(12)**	(8)
Share of loss of equity accounted investments, net of tax	**1**	7
Employment benefit net finance expense	**6**	6
Share-based payment expense	**6**	5
Finance income	**(1)**	(3)
Finance costs	**43**	39
Other non-cash items (including other deposits)	**2**	(7)
Income tax expense	**34**	44
Change in provisions	**(18)**	(15)
Change in employee benefits	**(19)**	(16)
Cash generation before working capital movement	**388**	362
Changes in:		
Inventories	**(25)**	(13)
Trade and other receivables	**33**	65
Trade and other payables	**48**	49
Working capital movement	**56**	101
Cash generated from continuing operations	**444**	463

* Includes gains on the sale of surplus property assets of £10m (2014/15: £6m).

28. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2016 £m	2015 £m
Continuing operations		
Operating profit before amortisation and exceptional items	**379**	335
Depreciation	**127**	117
Adjusted EBITDA	**506**	452
Working capital movement	**56**	101
Change in provisions	**(18)**	(15)
Change in employee benefits	**(19)**	(16)
Other	**(5)**	(4)
Cash generated from operations before exceptional cash items	**520**	518
Capital expenditure	**(229)**	(167)
Proceeds from sale of property, plant and equipment and other investments	**28**	18
Tax paid	**(49)**	(28)
Net interest paid	**(32)**	(34)
Free cash flow	**238**	307
Cash outflow for exceptional items	**(77)**	(49)
Dividends paid	**(108)**	(94)
Acquisition of subsidiary businesses, net of cash and cash equivalents	**(313)**	(28)
Divestment of subsidiary and equity accounted businesses, net of cash and cash equivalents	**21**	18
Net cash flow	**(239)**	154
Proceeds from issue of share capital	**1**	–
Loans and borrowings acquired	**(120)**	(30)
Reclassification	**-**	(9)
Net movement on debt	**(358)**	115
Foreign exchange, fair value and other non-cash movements (note 18)	**(90)**	61
Net debt movement - continuing operations	**(448)**	176
Opening net debt	**(651)**	(827)
Closing net debt	**(1,099)**	(651)

29. OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

	2016 £m	2015 £m
Less than one year	**27**	27
Between one and five years	**53**	45
More than five years	**15**	11
	95	83

Operating lease payments represent rentals payable by the Group for certain of its properties, machines, vehicles and office equipment.

30. CAPITAL COMMITMENTS AND CONTINGENCIES

At 30 April 2016, the Group had committed to incur capital expenditure of £26m (30 April 2015: £3m).

The Group is not subject to a material litigation, but has a number of contingent liabilities that arise in the ordinary course of business on behalf of trading subsidiaries including, inter alia, intellectual property disputes and regulatory enquiries in areas such as health and safety, environmental, and anti-trust. No losses are anticipated to arise on these contingent liabilities.

As a result of previous acquisitions, various contingent liabilities were identified and included within provisions, as required by IFRS 3 *Business Combinations*. Whilst it is difficult to reasonably estimate the ultimate outcome of these claims, the Directors' best estimate has been updated and included in the closing provision balance at 30 April 2016.

Notes to the Consolidated Financial Statements continued

31. ACQUISITIONS AND DIVESTMENTS

(A) ACQUISITION OF DUROPACK

On 31 May 2015, the Group acquired the Duropack business. The acquisition was 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. The transaction was subject to customary post-completion adjustments.

Duropack, a recycled corrugated board packaging business, has market-leading positions across south eastern Europe, holding the number one or two position in many of the geographies in which it operates. It is well invested with high quality assets and operates a "short paper, long fibre" model similar to that of the Group.

The Group expects that this acquisition will improve its position in higher growth south eastern European geographies, further strengthening pan-European capabilities to our existing customer base in addition to providing access to new customers.

The following table summarises the consideration paid for the Duropack business and provisional fair value of assets acquired and liabilities assumed.

	Carrying values before acquisition £m	Provisional fair values £m
Intangible assets	2	44
Property, plant and equipment	95	97
Other non-current assets	3	1
Assets held for sale	-	1
Net deferred tax assets/(liabilities)	5	(5)
Inventories	22	20
Trade and other receivables	53	49
Interest-bearing loans and borrowings	(70)	(73)
Employee benefits	(6)	(6)
Cash and cash equivalents	15	15
Trade and other payables	(29)	(33)
Other non-current liabilities	(2)	(1)
Provisions	(1)	(3)
Total identifiable net assets acquired	**87**	**106**
Non-controlling interest acquired		(4)
Goodwill		51
Total consideration		**153**
Satisfied by:		
Cash consideration		153

Net cash flow arising on acquisition	
Cash consideration	153
Bank break fees paid	3
Cash and cash equivalents acquired	(15)
Total cash outflow	**141**

A detailed exercise has been undertaken to assess the fair value of assets acquired and liabilities assumed, with the use of third party experts where appropriate. The fair value of intangible assets and property, plant and equipment has been assessed by reference to work performed by an independent valuation specialist. The intangible assets acquired as part of the acquisition relate to customer relationships.

If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised.

Deferred tax is recognised on the temporary timing differences created by the fair value adjustments.

The trade and other receivables comprise gross contractual amounts due of £52m. At the acquisition date, it is estimated that contractual cash flows of £3m will not be collected.

Goodwill of £51m arising on the acquisition of Duropack (which is not expected to be tax deductible) includes anticipated synergies from integrating Duropack into the Group, and the skills and technical talent of the Duropack workforce.

31. ACQUISITIONS AND DIVESTMENTS CONTINUED

(B) ACQUISITION OF LANTERO

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 business is a well-invested Iberian corrugated producer with a strong focus in the FMCG sector, operating seven sites across Spain. This acquisition significantly strengthens the Group's operations in Spain, an important and growing market for corrugated packaging. This acquisition increases the Group's offering to pan-European customers in this large and growing market. The acquisition was effected by the purchase of equity, and the total consideration, including the assumption of debt, was €190m.

The following table summarises the consideration paid for the Lantero business and provisional fair value of assets acquired and liabilities assumed.

	Carrying values before acquisition £m	Provisional fair values £m
Intangible assets	**1**	**41**
Property, plant and equipment	**69**	**79**
Net deferred tax assets/(liabilities)	**1**	**(5)**
Inventories	**10**	**10**
Trade and other receivables	**65**	**65**
Interest-bearing loans and borrowings	**(34)**	**(34)**
Cash and cash equivalents	**4**	**4**
Trade and other payables	**(49)**	**(50)**
Provisions	**-**	**(2)**
Total identifiable net assets acquired	**67**	**108**
Less fair value of pre-existing interest in Lantero		**(10)**
Goodwill		**4**
Total consideration		**102**
Satisfied by:		
Cash consideration		**102**

Net cash flow arising on acquisition	
Cash consideration	**102**
Cash and cash equivalents acquired	**(4)**
Total cash outflow	**98**

A detailed exercise has been undertaken to assess the fair value of assets acquired and liabilities assumed, with the use of third party experts where appropriate. The fair value of intangible assets and property, plant and equipment has been assessed by reference to work performed by an independent valuation specialist. The intangible assets acquired as part of the acquisition relate to customer relationships.

If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised.

Deferred tax is recognised on the temporary timing differences created by the fair value adjustments.

The trade and other receivables comprise gross contractual amounts due of £67m. At the acquisition date, it is estimated that contractual cash flows of £2m will not be collected.

The remeasurement to fair value of the Group's existing 25% interests in certain Lantero Group entities resulted in a gain of £10m. This gain has been included in exceptional items (note 4).

Goodwill of £4m arising on the acquisition of Lantero (which is not expected to be tax deductible) includes anticipated synergies from integrating Lantero into the Group, and the skills and technical talent of the Lantero workforce.

Notes to the Consolidated Financial Statements continued

31. ACQUISITIONS AND DIVESTMENTS CONTINUED

(C) 2015/16 ACQUISITIONS AND DISPOSALS

During the year ended 30 April 2016, the Group acquired Duropack (see (A) above) and Lantero (see (B) above).

In the year ended 30 April 2016, Duropack and Lantero contributed combined revenue of £300m and operating profit before amortisation and exceptional items of £26m to the Group's results. If the acquisitions had occurred on 1 May 2015, estimated revenue and operating profit before amortisation and exceptional items for the combined entity would have been £4,122m and £382m respectively.

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

(D) 2014/15 ACQUISITIONS AND DISPOSALS

For various business combinations completed in the year ended 30 April 2015, 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 2016, resulting in a net increase in goodwill of £3m. Neither the acquisitions nor disposals during the year ended 30 April 2015 were considered material to the Group individually or in aggregate.

(E) ACQUISITION RELATED COSTS

The Group incurred acquisition related costs of £9m (2014/15: £4m). In 2015/16 these primarily related to the acquisition of the Duropack and Lantero Groups, the Greek corrugated packaging business of Cukurova Group and Milas Packaging, 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.

32. RELATED PARTIES

IDENTITY OF RELATED PARTIES

In the normal course of business the Group undertakes a wide variety of transactions with certain of 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 Annual Remuneration Report. Certain key management also participate in the Group's share-based incentive programme (note 26). Included within the share-based payment expense is a charge of £2m (2014/15: £1m) relating to key management.

Transactions with pension trustees are disclosed in note 25.

OTHER RELATED PARTY TRANSACTIONS

	2016 £m	2015 £m
Sales to equity accounted investees	**2**	3
Purchases from equity accounted investees	**1**	6
Amounts due from equity accounted investees	**–**	2
Advances to non-controlling interest	**2**	3

33. SUBSEQUENT EVENTS

On 21 June 2016, the Group reached agreement to purchase Gopaca, a corrugated producer in Portugal. This is subject to competition clearance and is expected in calendar Q3 2016. On 22 June 2016, the Group purchased Creo, a UK display, packaging and design business.

The two acquisitions are not material to the Group individually or in aggregate.

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

34. DS SMITH GROUP COMPANIES

The Group's ultimate parent company is DS Smith Plc.

Group companies are grouped by the countries in which they are incorporated or registered. Unless otherwise noted, the undertakings below are wholly owned and consolidated by DS Smith and the share capital held comprises ordinary or common shares which are held by Group subsidiaries. Principal companies are identified in **bold**.

Fully owned subsidiaries

Australia
Total Marketing Support Pacific Pty Ltd
Austria
ARO Holding GmbH
DS Smith Austria Holdings GmbH
DS Smith Packaging Austria GmbH
DS Smith Packaging South East GmbH
Sulipo Zweite Beteiligungsverwaltungs GmbH
Wirth Verpackung GmbH
Belgium
D.W. Plastics N.V.
DS Smith Packaging Belgium NV
DS Smith Packaging Marketing NV
Bosnia
DS Smith Recycling Bosnia d.o.o.
Duropack Sarajevo d.o.o.
Bulgaria
DS Smith Bulgaria S.A. [3]
DS Smith Packaging Bulgaria Ltd.
Rapak EAD
China
DS Smith Shanghai Trading Ltd
Croatia
Belišće Energetika d.o.o.
Bilokalnik-IPA d.d. [8]
DS Smith Belišće Croatia d.o.o.
DS Smith Plastics Karlovac d.o.o.
DS Smith Unijapapir Croatia d.o.o.
Duropack Karton d.o.o.
Hrvatski Radio Vapovština d.o.o. [5]
Cyprus
Aerozone Limited [11]
Czech Republic
DS Smith Packaging Czech Republic s.r.o.
DS Smith Triss s.r.o.
Lovobal s.r.o.
Denmark
DS Smith Packaging Denmark A/S
Estonia
DS Smith Packaging Estonia A.S.
Finland
DS Smith Packaging Baltic Holding Oy
DS Smith Packaging Finland Oy
DS Smith Packaging Pakkausjaloste Oy
Eastpac Oy
France
DS Smith Chouanard S.A.S.
DS Smith Ducaplast S.A.S.
DS Smith Finance SNC
DS Smith France S.A.S.
DS Smith Hêtre Blanc SNC
DS Smith Packaging Anjou S.A.S.
DS Smith Packaging Atlantique S.A.S.
DS Smith Packaging Auneuil S.A.S.
DS Smith Packaging Bretagne S.A.S.U.
DS Smith Packaging C.E.R.A.
DS Smith Packaging Consumer S.A.S.
DS Smith Packaging Contoire Hamel S.A.S.U.
DS Smith Packaging Corrugated Services S.A.S.
DS Smith Packaging Display and Services S.A.S.
DS Smith Packaging Fegersheim S.A.S.
DS Smith Packaging France S.A.S.
DS Smith Packaging Kaypac S.A.S.
DS Smith Packaging Larousse S.A.S.
DS Smith Packaging Mehun – CIM S.A.S.
DS Smith Packaging Nord-Est S.A.S.
DS Smith Packaging Normandie Ondulé S.A.S.U.
DS Smith Packaging Normandie S.A.S.
DS Smith Packaging Premium SA
DS Smith Packaging Services S.A.S.
DS Smith Packaging Sud Est S.A.S.U.
DS Smith Packaging Sud Ouest S.A.S.U.
DS Smith Packaging Systems S.A.S.U.
DS Smith Packaging Velin S.A.S.U.
DS Smith Packaging Vervins S.A.S.
DS Smith Paper Kaysersberg S.A.S.
DS Smith Perche SNC
DS Smith Plastics France S.A.S.
DS Smith Recycling France S.A.S.
DS Smith Rivatex S.A.S.
Otor Lease S.A.S.U.
Rowlandson France S.A.S.
Société Rouennaise de Participations SA
Tecnicartón France S.A.S.
Germany
Bretschneider Verpackungen GmbH [9]
Delta Packaging Services GmbH
DS Smith CREA – Display GmbH
DS Smith Hamburg Display GmbH
DS Smith Packaging Arenshausen Mivepa GmbH
DS Smith Packaging Arnstadt GmbH
DS Smith Packaging Beteiligungen GmbH
DS Smith Packaging Deutschland Stiftung
DS Smith Packaging Deutschland Stiftung & Co KG
DS Smith Paper Deutschland GmbH
DS Smith Pre-Press Services GmbH
DS Smith Recycling Deutschland GmbH
DS Smith Rhein Display GmbH
DS Smith Stange B.V. & Co. KG
DS Smith Transport Services GmbH
DS Smith Wirth Verpackungen GmbH
Rapak GmbH
Gibraltar
DS Smith Finco (IRE) Limited
Greece
DS Smith Cretan Hellas S.A.
DS Smith Hellas S.A.
Hong Kong
The Less Packaging Company (Asia) Limited
Hungary
DS Smith Packaging Füzesabony Kft
DS Smith Packaging Hungary Kft
India
DS Smith Products & Services India Private Limited
The Less Packaging Company (India) Private Limited
Ireland
David S. Smith (Ireland) Unlimited Company
DS Smith Packaging Ireland Limited
Italy
DS Smith Holding Italia SpA
DS Smith Packaging Italia SpA
DS Smith Paper Italia S.r.l.
Italmaceri Srl
Scatolificio GABO Srl [6]
Tecnocarta Srl
Toscana Ondulati SPA [4]
Latvia
SIA DS Smith Packaging Latvia
Lithuania
UAB DS Smith Packaging Lithuania
Luxembourg
DS Smith (Luxembourg) S.à.r.l.
DS Smith Perch Luxembourg S.à.r.l.
DS Smith Re S.A.
Macedonia (the Former Yugoslav Republic of)
DS Smith AD Skopje [7]
Malaysia
Total Marketing Support (36) Malaysia Sdn. Bhd.
Morocco
DS Smith Maroc S.a. r.l.
Tecnicartón Tánger S.A.R.L. AU
Netherlands
David S. Smith (Netherlands) B.V.
DS Smith (Holdings) B.V.
DS Smith Baars B.V.
DS Smith de Hoop Holding B.V.
DS Smith Hellas Netherlands B.V.
DS Smith Italy B.V.
DS Smith Packaging Almelo B.V.
DS Smith Packaging Barneveld B.V.

Notes to the Consolidated Financial Statements continued

34. DS SMITH GROUP COMPANIES CONTINUED

Fully owned subsidiaries continued

Netherlands continued
DS Smith Packaging Belita B.V.
DS Smith Packaging Holding B.V.
DS Smith Packaging International B.V.
DS Smith Packaging Netherlands B.V.
DS Smith Recycling Benelux B.V.
DS Smith Recycling Holding B.V.
DS Smith Salm B.V.
DS Smith Tilburg C.V.
DS Smith Toppositie B.V.

New Zealand
Rapak Asia Pacific Limited

Poland
DS Smith Packaging sp. z o.o.
DS Smith Polska sp. z o.o.

Portugal
Tecnicartón Portugal Unipessoal LDA

Romania
DS Smith Bucharest S.R.L.
DS Smith Packaging Romania S.R.L.

Russia
David S. Smith Vostok

Serbia
DS Smith Inos Papir Servis d.o.o.
DS Smith Packaging d.o.o. Kruševac
Papir Servis DP d.o.o.

Slovakia
DS Smith Packaging Slovensko s.r.o.
DS Smith Slovakia s.r.o.
DS Smith Turpak Obaly a.s. [2]

Slovenia
DS Smith Packaging d.o.o. Rakek
Duropack d.o.o.

South Africa
TMS 360 SA (PTY) Ltd

Spain
DS Smith Andorra S.A.U.
Bertako S.L.U.
DS Smith Carton Plastico s.a.
DS Smith Packaging Alcala S.L.U.
DS Smith Packaging Cartogal S.L.U.
DS Smith Packaging Dicesa S.A. [6]
DS Smith Packaging Flak S.L.
DS Smith Packaging Galicia SA
DS Smith Packaging Holding S.L.U.
DS Smith Packaging Madrid S.L.
DS Smith Packaging Penedes S.A.U.
DS Smith Packaging TCT S.A.
Tecnicartón, S.L.

Sweden
DS Smith Packaging Sweden AB
DS Smith Packaging Sweden Holding AB

Switzerland
DS Smith Packaging Switzerland AG

Thailand
DS Smith Rapak (Thailand) Limited

Turkey
DS Smith Ambalaj A.Ş.

UK
A. A. Griggs and Company Limited
Abbey Corrugated Limited
Ashton Corrugated
Ashton Corrugated (Southern) Limited
Avonbank Paper Disposal Limited
Biber Paper Converting Limited
Calara Holding Limited
Conew Limited
Corrugated Products Limited
D.W. Plastics (UK) Limited
David S Smith (Pension Contributions) Limited
David S. Smith Nominees Limited
DS Smith (UK) Limited
DS Smith Business Services Limited
DS Smith Corrugated Packaging Limited
DS Smith Display Holding Limited
DS Smith Dormant Eight Limited
DS Smith Dormant Five Limited
DS Smith Dormant Seven Limited
DS Smith Euro Finance Limited
DS Smith Finco Limited [1]
DS Smith Haddox Limited
DS Smith Holdings Limited [1]
DS Smith International Limited
DS Smith Italy Limited
DS Smith Logistics Limited
DS Smith Packaging Limited
DS Smith Paper Limited
DS Smith Pension Trustees Limited
DS Smith Perch Limited
DS Smith Plastics Limited
DS Smith Recycling UK Limited
DS Smith Saver Plus Trustees Limited
DS Smith Sudbrook Limited
DS Smith Supplementary Life Cover Scheme Limited
DS Smith Ukraine Limited
DSS Eastern Europe Limited
DSS Poznan Limited
DSSH No. 1 Limited
First4Boxes Limited [10]
Grovehurst Energy Limited
JDS Holding
Miljoint Limited
Multigraphics Holdings Limited
Multigraphics Limited
Multigraphics Services Limited
Pavidda Paper Limited
Priory Packaging Limited
rapak psi Limited
Reed & Smith Limited
SRP New Thames Limited
St. Regis Holdings plc
St. Regis International Limited
St. Regis Kemsley Limited
St. Regis Packaging (Scotland) Limited
St. Regis Paper Company Limited
The Brand Compliance Company Limited
The Less Packaging Company Limited
The Wansbrough Paper Company Limited
TheBannerPeople.Com Limited
Tillotsons Corrugated Cases Limited
Total Marketing Support Global Limited
Total Marketing Support Limited
Treforest Mill plc
TRM Packaging Limited
TRM Trustees Limited
W. Rowlandson & Company Limited
Waddington & Duval Limited

USA
David S. Smith (America), Inc.
David S. Smith (Holdings) America, Inc.
DS Smith USA Corporation
DSS Rapak, Inc.
Rapak, LLC
The Less Packaging Company, Inc.

Associate entities

Netherlands
Industriewater Eerbeek B.V. [13]
Stort Doonweg B.V. [11]

Ukraine
Rubizhanskiy Kartonno-Tarniy Kombinat [12]

Serbia
Papir Pet d.o.o. [11]

1 directly held by DS Smith Plc
2 98.89% ownership interest at 30 April 2016
3 99.7% ownership interest at 30 April 2016
4 92% ownership interest at 30 April 2016
5 87.5% ownership interest at 30 April 2016
6 80% ownership interest at 30 April 2016
7 78.22% ownership interest at 30 April 2016
8 75.9% ownership interest at 30 April 2016
9 51% ownership interest at 30 April 2016
10 50.1% ownership interest at 30 April 2016
11 50% ownership interest at 30 April 2016
12 49.6% ownership interest at 30 April 2016
13 37.5% ownership interest at 30 April 2016

Parent Company Statement of Financial Position

At 30 April 2016

	Note	2016 £m	2015 [1]£m
Assets			
Non-current assets			
Intangible assets	3	**20**	6
Property, plant and equipment	4	**1**	1
Investments in subsidiaries	5	**1,833**	1,833
Deferred tax assets		**39**	23
Other receivables	6	**1,278**	263
Derivative financial instruments	9	**17**	24
Total non-current assets		**3,188**	2,150
Current assets			
Trade and other receivables	6	**145**	121
Cash and cash equivalents	13	**-**	19
Derivative financial instruments	9	**40**	13
Total current assets		**185**	153
Total assets		**3,373**	2,303
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	8	**(1,049)**	(774)
Employee benefits	11	**(33)**	(38)
Other payables	7	**(225)**	(201)
Provisions	10	**-**	(1)
Derivative financial instruments	9	**(9)**	(13)
Total non-current liabilities		**(1,316)**	(1,027)
Current liabilities			
Interest-bearing loans and borrowings	8	**(293)**	(142)
Trade and other payables	7	**(414)**	(66)
Income tax liabilities		**(4)**	(2)
Derivative financial instruments	9	**(47)**	(18)
Total current liabilities		**(758)**	(228)
Total liabilities		**(2,074)**	(1,255)
Net assets		**1,299**	1,048
Equity			
Issued capital	12	**94**	94
Share premium account	12	**716**	715
Reserves	12	**489**	239
Shareholders' equity		**1,299**	1,048

1 Restated on adoption of Financial Reporting Standard 101 (FRS 101), *Reduced Disclosure Framework* (see note 17).

Approved by the Board of Directors of DS Smith Plc (company registered number 1377658) on 22 June 2016 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 2016

	Share capital £m	Share premium £m	Hedging reserve £m	Own shares £m	Retained earnings £m	Total equity £m
At 1 May 2014 (as previously reported)	**94**	**715**	**(31)**	**–**	**410**	**1,188**
Effect of transition to FRS 101 (note 17)	–	–	–	–	(21)	(21)
At 1 May 2014	**94**	**715**	**(31)**	**–**	**389**	**1,167**
Loss for the year	–	–	–	–	(19)	(19)
Actuarial loss on employee benefits	–	–	–	–	(16)	(16)
Cash flow hedge movements	–	–	5	–	–	5
Income tax on other comprehensive income	–	–	(1)	–	2	1
Total comprehensive income/(expense)	**–**	**–**	**4**	**–**	**(33)**	**(29)**
Share-based payment expense (net of tax)	–	–	–	–	4	4
Dividends paid	–	–	–	–	(94)	(94)
Other changes in equity in the year	**–**	**–**	**–**	**–**	**(90)**	**(90)**
At 30 April 2015[1]	**94**	**715**	**(27)**	**–**	**266**	**1,048**
Profit for the year	–	–	–	–	359	359
Actuarial gain on employee benefits	–	–	–	–	2	2
Cash flow hedge movements	–	–	(2)	–	–	(2)
Income tax on other comprehensive income	–	–	–	–	(2)	(2)
Total comprehensive (expense)/income	**–**	**–**	**(2)**	**–**	**359**	**357**
Issue of share capital	–	1	–	–	–	1
Employee share trust	–	–	–	(3)	(4)	(7)
Share-based payment expense (net of tax)	–	–	–	–	8	8
Dividends paid	–	–	–	–	(108)	(108)
Other changes in equity in the year	**–**	**1**	**–**	**(3)**	**(104)**	**(106)**
At 30 April 2016	**94**	**716**	**(29)**	**(3)**	**521**	**1,299**

1 Restated on adoption of Financial Reporting Standard 101 (FRS 101), *Reduced Disclosure Framework* (see note 17).

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 amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

The accounts are prepared under the historical cost convention.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own income statement or statement of comprehensive income.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Statement of Cash Flows and related notes;
- a comparative period reconciliation for share capital;
- disclosures in respect of transactions with wholly owned subsidiaries;
- comparative period reconciliations for tangible fixed assets and intangible assets;
- an additional statement of financial position for the beginning of the earliest comparative period as required by IFRS 1 *First-time Adoption of International Financial Reporting Standards;*
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRSs; and
- disclosures in respect of Key Management Personnel.

As the Group Financial Statements include the equivalent disclosures, the Company has also taken advantage of the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 *Share-based Payment* in respect of group settled share-based payments
- IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instruments*

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

In the transition to FRS 101, the Company has applied IFRS 1 *First-time adoption of International Financial Reporting Standards*. An explanation of how the transition to FRS 101 has affected the Company is provided in note 17.

(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 2 and 25 years.

(E) INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are valued at cost less provisions for impairment.

(F) DEFERRED TAXATION

Deferred tax is provided for using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(G) EMPLOYEE BENEFITS

(I) DEFINED BENEFIT SCHEMES

The Company is the sponsoring employer for a UK funded, defined benefit scheme, the DS Smith Group Pension scheme (the 'Group Scheme').

The Group has in place a stated policy for allocating the net defined benefit cost relating to the Group Scheme to participating Group entities.

Accordingly, both the Company's Statement of Financial Position and income statement reflect the Company's share of the net defined benefit liability and net defined benefit cost in respect of the Group scheme, allocated per the stated policy. Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

(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.

Notes to the Parent Company Financial Statements continued

1. PRINCIPAL ACCOUNTING POLICIES CONTINUED

(II) SHARE-BASED PAYMENT TRANSACTIONS CONTINUED

At each reporting date, the Company revises its estimate of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in profit and loss, and a corresponding adjustment to equity. Where applicable, the fair value of employee services received by subsidiary undertakings within the DS Smith Plc Group in exchange for options granted by the Company is recognised as an expense in the financial statements of the subsidiary by means of a recharge from the Company.

(H) SHARES HELD BY EMPLOYEE SHARE TRUST

Shares held to satisfy options are accounted for in accordance with IAS 32 *'Financial Instruments: Presentation'* and Standards Interpretation Committee 12 *'Consolidation of Special Purpose Entities' (SIC 12)*. All differences between the purchase price of the shares held to satisfy options granted and the proceeds received for the shares, whether on exercise or lapse, are charged to reserves.

(I) FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments, primarily interest rate, currency and commodity swaps, to manage interest rate, currency and commodity risks associated with the Group's underlying business activities and the financing of these activities. The Group has a policy not to, and does not, undertake any speculative activity in these instruments. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivative financial instruments are accounted for as hedges when designated as hedges at the inception of the contract and when the financial instruments provide an effective hedge of the underlying risk. Any gains or losses arising from the hedging instruments are offset against the hedged items.

For the purpose of hedge accounting, hedges are classified as:

– fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; and
– cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

(J) DIVIDEND INCOME

Dividend income from subsidiary undertakings is recognised in the income statement when paid.

2. EMPLOYEE INFORMATION

The average number of employees employed by the Company during the year was 159 (2014/15: 118).

	2016 £m	2015 £m
Wages and salaries	**21**	21
Social security costs	**4**	2
Pension costs	**1**	1
Total	**26**	24

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	**Intangible assets under construction £m**	**Total £m**
Cost			
At 1 May 2015	1	5	6
Additions	–	15	15
Transfers	3	(3)	–
At 30 April 2016	4	17	21
Amortisation			
At 1 May 2015	–	–	–
Amortisation charge	(1)	–	(1)
At 30 April 2016	(1)	–	(1)
Carrying amount			
At 1 May 2015	1	5	6
At 30 April 2016	**3**	**17**	**20**

4. PROPERTY, PLANT AND EQUIPMENT

	Plant and equipment £m	Total £m
Cost		
At 1 May 2015	2	2
Additions	–	–
At 30 April 2016	2	2
Depreciation		
At 1 May 2015	(1)	(1)
Depreciation charge	–	–
At 30 April 2016	(1)	(1)
Carrying amount		
At 1 May 2015	1	1
At 30 April 2016	**1**	**1**

5. INVESTMENTS IN SUBSIDIARIES

	Shares in Group undertakings £m
At 30 April 2015	1,833
At 30 April 2016	**1,833**

The Company's principal trading subsidiary undertakings at 30 April 2016 are shown in note 34 to the consolidated financial statements.

6. TRADE AND OTHER RECEIVABLES

	2016		2015	
	Non-current £m	**Current £m**	Non-current £m	Current £m
Trade receivables	**–**	**1**	–	3
Amounts owed by subsidiary undertakings	**1,278**	**126**	263	100
Other receivables	**–**	**7**	–	15
Prepayments and accrued income	**–**	**11**	–	3
	1,278	**145**	263	121

7. TRADE AND OTHER PAYABLES

	2016		2015	
	Non-current £m	**Current £m**	Non-current £m	Current £m
Trade payables	**–**	**18**	–	11
Amounts owed to subsidiary undertakings	**225**	**370**	201	28
Other tax and social security payables	**–**	**7**	–	–
Non-trade payables, accruals and deferred income	**–**	**19**	–	27
	225	**414**	201	66

Non-current amounts owed to subsidiaries include £223m (30 April 2015: £201m), which are subject to interest at rates based on LIBOR or EURIBOR, are unsecured, and are repayable between 2018 and 2024.

Notes to the Parent Company Financial Statements continued

8. INTEREST-BEARING LOANS AND BORROWINGS

	2016		2015	
	Non-current £m	**Current £m**	Non-current £m	Current £m
Bank loans and overdrafts	**297**	**228**	–	142
Medium-term notes and other fixed-term debt	**752**	**65**	774	–
	1,049	**293**	774	142

Disclosures in respect of the Group's interest-bearing loans and borrowings are provided in note 20 to the consolidated financial statements.

9. DERIVATIVE FINANCIAL INSTRUMENTS

The assets and liabilities of the Company at 30 April in respect of derivative financial instruments are as follows:

	Assets		**Liabilities**		**Net**	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Derivatives held to:						
Manage the interest rate and currency exposures on business activities, borrowings and net investments	**25**	21	**(6)**	(4)	**19**	17
Derivative financial instruments included in net debt	**25**	21	**(6)**	(4)	**19**	17
Derivatives held to hedge future transactions						
Energy costs	**32**	16	**(50)**	(27)	**(18)**	(11)
Total derivative financial instruments	**57**	37	**(56)**	(31)	**1**	6
Current	**40**	13	**(47)**	(18)	**(7)**	(5)
Non-current	**17**	24	**(9)**	(13)	**8**	11
	57	37	**(56)**	(31)	**1**	6

Disclosures in respect of the Group's derivative financial instruments are provided in note 21 to the consolidated financial statements.

10. PROVISIONS

	Restructuring £m	**Total £m**
At 1 May 2015	1	1
Utilised	(1)	(1)
At 30 April 2016	**–**	**–**

The restructuring provision includes amounts associated with restructuring and integration costs.

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 of the consolidated financial statements, where full disclosures relating to these schemes are given.

	2016 £m	2015 £m
Present value of funded obligations	**(999)**	(1,056)
Present value of unfunded obligations	**(7)**	(7)
Fair value of scheme assets	**913**	954
Total IAS 19 deficit, net	**(93)**	(109)
Allocated to other participating employers	**60**	71
Company's share of IAS 19 deficit, net	**(33)**	(38)

12. SHARE CAPITAL AND RESERVES

Details of the Company's share capital 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 Company made a profit for the year of £359m (2014/15: loss of £19m) including the recognition of intra-group dividends.

As at 30 April 2016, the Company had distributable reserves of £489m.

13. CASH AND CASH EQUIVALENTS

Included within cash and cash equivalents is £nil (30 April 2015: £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 2016, these guarantees amounted to £5m (30 April 2015: £7m).

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 Annual Remuneration 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.

17. EXPLANATION OF TRANSITION TO FRS 101 FROM PREVIOUSLY APPLIED UK GAAP

As stated in note 1, these are the Company's first financial statements prepared in accordance with FRS 101. The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 30 April 2016, the comparative information for the year ended 30 April 2015 and the opening FRS 101 statement of financial position as at 1 May 2014 (the Company's date of transition).

In preparing its FRS 101 financial statements, the Company has adjusted amounts reported previously in its financial statements prepared in accordance with its previous basis of accounting (UK GAAP).

RECONCILIATION OF PROFIT

Under previous UK GAAP, the Company was not required to, and did not, present a Statement of Comprehensive Income. There are two adjusting items on transition to FRS 101:

– Under previous UK GAAP, a multi-employer exemption was applied which meant that the deficit on the pension scheme was not recorded on the balance sheet of any of the participating employer companies. As such, in the Company's income statement, the contributions paid by the Company relating to defined benefit pension schemes were recognised as an expense. Under FRS 101, as detailed above, the Company's income statement reflects the Company's share of the net defined benefit cost (including share of employment benefit net finance expense), allocated as per the Group's stated policy. This has the impact in the year ended 30 April 2015 of decreasing operating expenses by £16m and increasing employment benefit net finance expense by £1m.
– The Company's tax expense is recalculated as a result of the change in operating expenses due to the defined benefit pension adjustment. This has the impact in the year ended 30 April 2015 of increasing the tax expense by £3m.

RECONCILIATION OF EQUITY AT 1 MAY 2014 (TRANSITION DATE)

The net assets on the transition date of 1 May 2014 under previous UK GAAP were £1,188m, and following transition to FRS 101 these were adjusted to £1,167m. The difference relates to the Company's share of the net defined benefit liability, allocated per the stated policy, and the associated deferred tax asset. All other FRS 101 adjustments upon transition are balance sheet reclassifications, and as such, have a nil impact on the total equity position.

Notes to the Parent Company Financial Statements continued

17. EXPLANATION OF TRANSITION TO FRS 101 FROM PREVIOUSLY APPLIED UK GAAP CONTINUED

RECONCILIATION OF EQUITY AT 30 APRIL 2015

30 April 2015	Note	Previous UK GAAP £m	FRS 101 transition adjustments £m	FRS 101 £m
Assets				
Non-current assets				
Intangible assets	(c)	–	6	6
Property, plant and equipment	(c)	7	(6)	1
Investments in subsidiaries		1,833	–	1,833
Deferred tax assets	(a)	19	4	23
Other receivables	(d)	62	201	263
Derivative financial instruments	(b)	24	–	24
Total non-current assets		1,945	205	2,150
Current assets				
Trade and other receivables	(a) (b)	110	11	121
Cash and cash equivalents		19	–	19
Derivative financial instruments	(b)	13	–	13
Total current assets		142	11	153
Total assets		2,087	216	2,303
Liabilities				
Non-current liabilities				
Interest-bearing loans and borrowings	(a)	(774)	–	(774)
Employee benefits		–	(38)	(38)
Other payables	(d)	–	(201)	(201)
Provisions		(1)	–	(1)
Derivative financial instruments	(b)	(13)	–	(13)
Total non-current liabilities		(788)	(239)	(1,027)
Current liabilities				
Interest-bearing loans and borrowings	(a)	(142)	–	(142)
Trade and other payables	(b)	(66)	–	(66)
Income tax liabilities	(b)	(2)	–	(2)
Derivative financial instruments	(b)	(18)	–	(18)
Total current liabilities		(228)	–	(228)
Total liabilities		(1,016)	(239)	(1,255)
Net assets		1,071	(23)	1,048
Issued capital		94	–	94
Share premium account		715	–	715
Reserves	(a)	262	(23)	239
Shareholders' equity		1,071	(23)	1,048

EXPLANATION OF MATERIAL ADJUSTMENTS BETWEEN PREVIOUS UK GAAP AND FRS 101

(a) Under previous UK GAAP, a multi-employer exemption was applied which meant that the deficit on the pension scheme was not recorded on the balance sheet of any of the participating employer companies. As there is a stated Group policy to charge the net defined benefit pension scheme and cost to participating subsidiaries, only the Company's share is recognised on transition to FRS 101. A deferred tax asset has also been recorded on the newly recognised defined benefit pension liability, and a receivable from subsidiary undertakings reflects pension contributions paid on behalf of subsidiaries. This adjustment is the only adjustment with a net impact on equity.

(b) As part of the FRS 101 transition, derivative financial instruments, income tax liabilities and deferred tax, netted within trade and other receivables and trade and other payables (named debtors and creditors under previous UK GAAP) have been disclosed separately on a gross basis.

(c) Under previous UK GAAP, computer software costs were classified as property, plant and equipment. Under FRS 101, computer software costs are capitalised as intangible assets. At 30 April 2015, computer software costs of £6m have been reclassified from property, plant and equipment to intangible assets.

(d) Under FRS 101, at 1 May 2014 and 30 April 2015, £12m and £201m of amounts due to subsidiaries previously netted within amounts owed by subsidiary undertakings have been reclassified from other receivables to other payables, respectively.

Five-year financial summary

Unaudited

Continuing operations	2012 £m[1]	2013 £m[1]	2014 £m	2015 £m	**2016 £m**
Revenue	1,969	3,669	4,035	3,820	**4,066**
Operating profit[2]	141	249	307	335	**379**
Amortisation	(8)	(45)	(51)	(46)	**(51)**
Share of (loss)/profit of equity-accounted investments before exceptional items, net of tax	(1)	1	–	–	**(1)**
Net financing costs before exceptional items	(25)	(44)	(48)	(38)	**(47)**
Profit before taxation and exceptional items	107	161	208	251	**280**
Acquisitions and disposals	(18)	(69)	(46)	(4)	**14**
Other exceptional items	(70)	(10)	5	(47)	**(93)**
Profit before income tax	19	82	167	200	**201**
Adjusted earnings per share[2]	12.5p	17.1p	21.4p	24.5p	**27.4p**
Dividends per share	5.9p	8.0p	10.0p	11.4p	**12.8p**
Adjusted return on sales[2]	7.2%	6.8%	7.6%	8.8%	**9.3%**
Adjusted return on average capital employed[2,3,4]	14.3%	12.2%	13.0%	14.6%	**15.4%**

1 Restated for IAS 19 *Employee Benefits (Revised 2011)*.

2 Before amortisation and exceptional items.

3 Adjusted return on average capital employed is defined as operating profit before amortisation and exceptional items divided by average capital employed.

4 Average capital employed is the average monthly capital employed for the last 12 months. Capital employed is made up of property, plant and equipment, goodwill and intangible assets, working capital, capital debtors/creditors, provisions and assets/liabilities held for sale. The definition of capital employed is different from the definition of managed capital as defined in note 21 to the consolidated financial statements, which consists of equity as presented in the Consolidated Statement of Financial Position, plus net debt.

Shareholder Information

FINANCIAL DIARY

6 September 2016	Annual General Meeting
29 September 2016	Ex-dividend date for final dividend
1 November 2016	Payment of final dividend
8 December 2016*	Announcement of half-year results for the six months ended 31 October 2016
6 April 2017*	Ex-dividend date for interim dividend
2 May 2017*	Payment of interim dividend
22 June 2017*	Announcement of full-year results for the year ended 30 April 2017

* Provisional date

COMPANY WEBSITE

The Company's website at www.dssmith.com contains the latest information for shareholders, including press releases and an updated financial diary. E-mail alerts of the latest news, press releases and financial reports about DS Smith Plc may be obtained by registering for the e-mail news alert service on the website.

SHARE PRICE INFORMATION

The latest price of the Company's ordinary shares is available from the FT Cityline service. To access this service, telephone +44 (0) 9058 171 690. For call charges, please check with your provider as costs may vary. Alternatively click on www.londonstockexchange.com. DS Smith's ticker symbol is SMDS. It is recommended that you consult your financial adviser and verify information obtained from these services before making any investment decision.

REGISTRARS

Please contact the Registrars at the address above to advise of a change of address or for any enquiries relating to dividend payments, lost share certificates or other share registration matters. The Registrars provide on-line facilities at www.shareview.co.uk. Once you have registered you will be able to access information on your DS Smith Plc shareholding, update your personal details and amend your dividend payment instructions on-line without having to call or write to the Registrars.

DIVIDENDS

Shareholders who wish to have their dividends paid directly into a bank or building society account should contact the Registrars. In addition, the Registrars are now able to pay dividends in 90 foreign currencies. This service enables the payment of your dividends directly into your bank account in your home currency. For international payments, a charge is deducted from each dividend payment to cover the costs involved. Please contact the Registrars to request further information.

SHARE DEALING SERVICES

The Registrars offer a real-time telephone and internet dealing service for the UK. Further details including terms and rates can be obtained by logging on to the website at www.shareview.co.uk/dealing or by calling 0845 603 7037. Lines are open between 8am and 4.30pm, Monday to Friday.

REGISTERED OFFICE AND ADVISERS

SECRETARY AND REGISTERED OFFICE

Iain Simm
DS Smith Plc
350 Euston Road
London NW1 3AX
Registered in England No: 1377658

AUDITORS

Deloitte LLP
2 New Street Square
London EC4A 3BZ

SOLICITORS

Allen & Overy LLP
One Bishops Square
London E1 6AD

PRINCIPAL CLEARING BANK

The Royal Bank of Scotland
280 Bishopsgate
London EC2M 4RB

STOCKBROKERS

Citigroup
Citigroup Centre
33 Canada Square
Canary Wharf
London E14 5LB

J.P. Morgan Cazenove
25 Bank Street
London E14 5JP

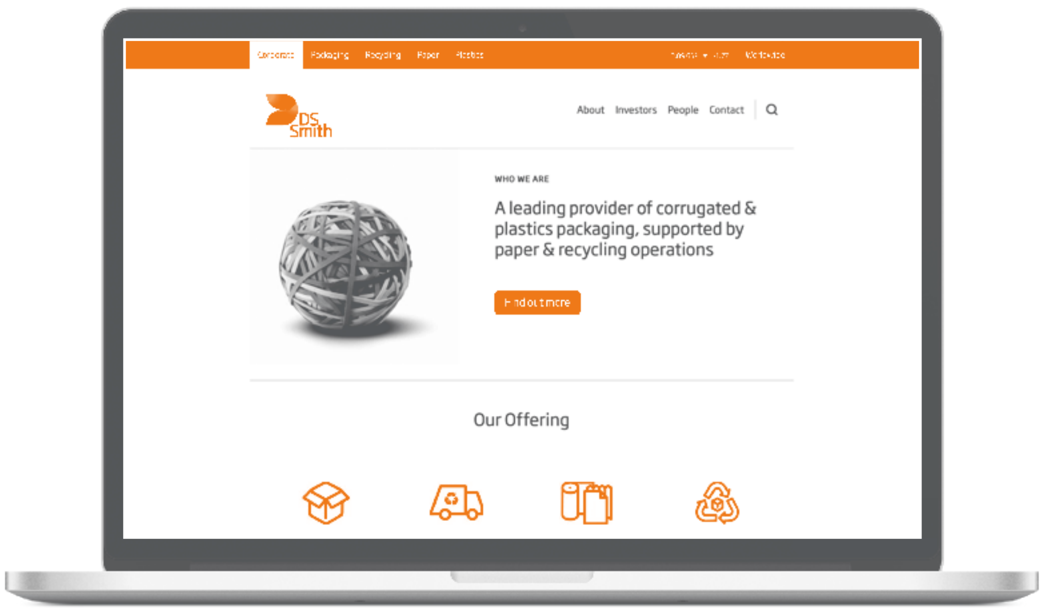
REGISTRARS

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

REGISTRARS QUERIES

Information on how to manage your shareholdings can be found at https://help.shareview.co.uk. The pages at this web address provide answers to commonly asked questions regarding shareholder registration, links to downloadable forms and guidance notes. If your question is not answered by the information provided, you can send your enquiry via secure e-mail from these pages. You will be asked to complete a structured form and to provide your shareholder reference, name and address. You will also need to provide your e-mail address if this is how you would like to receive your response. In the UK you can telephone 0871 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.

Stay up to date
www.dssmith.com



ONLINE COMMUNICATIONS
Results and presentations, investor and shareholder information are available in the investors section of our website:

dssmith.com/investors

ANNUAL REPORTS
Current and archived annual reports are available in the investors section of our website:

dssmith.com/investors/annual-reports

PEOPLE
DS Smith is made up of a team of c. 26,000 employees across 36 countries. More information about our people and career opportunities is available in the people section of our website:

dssmith.com/people

SUSTAINABILITY
DS Smith publishes a separate sustainability report. The report describes the environmental, social and economic perspectives of DS Smith's sustainability initiatives, with additional information available on our website:

dssmith.com/company/sustainability

DS SMITH WORLDWIDE
Find out more about our global divisions and the countries in which we operate and get in touch with us:

dssmith.com/contact/locations

Find us on

linkedin.com/company/ds-smith

@dssmithpack

facebook.com/dssmith.group

youtube.com/user/DSSmithGroup

@dssmithgroup

DS Smith Plc
350 Euston Road
Regent's Place
London
NW1 3AX

Telephone +44 (0)20 7756 1800
www.dssmith.com

MIX
Paper from responsible sources
FSC® C107262
www.fsc.org

Printed in the UK by Principal Colour Ltd on Lumi Silk made from FSC® certified fibre

Principal Colour Ltd are certified to the ISO 14001 Environmental Management System.

Designed and produced by Black Sun Plc (London)
www.blacksunplc.com +44 (0) 20 7736 0011