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29 June 2017

For immediate release

DS SMITH PLC

PROPOSED ACQUISITION OF INTERSTATE RESOURCES

DS Smith Plc (**DS Smith** or the **Company**) today announces that it, along with its wholly-owned U.S. subsidiary, DS Smith Holdings, Inc. (together with the Company, the **Buyer**), has entered into a conditional agreement to acquire 80 per cent. of the total issued share capital of Indevco Management Resources, Inc. (**IMRI**), the holding company for the Interstate Resources, Inc. group (IMRI and its subsidiaries together, the **IRI Group**), from Merpas Co. S.à r.l. (**Merpas**) for consideration of US$920 million (approximately £722 million) (the **Initial Acquisition**). The Buyer will also assume or procure repayment of 100 per cent. of the IRI Group's financial indebtedness at Completion, expected to be approximately US$226 million (approximately £177 million). The consideration for the Initial Acquisition will be subject to customary post-Completion net debt and working capital adjustments.

The Buyer intends to satisfy the consideration through: (i) a payment of US$846 million (approximately £664 million) in cash, to be satisfied out of the proceeds of a £280 million cash placing (net of commissions and expenses) (the **Placing**), utilisation of up to £400 million from a new bridge facility (the **New Debt Facilities**) and the rest from existing cash resources; and (ii) the issue of consideration shares with a value of US$300 million (approximately £235 million) to Merpas (the **Consideration Shares**).

The Buyer and Merpas UKCo (an entity within the Merpas group that will hold the shares in IMRI) have also agreed that, on fixed dates over the next four years, Merpas UKCo can require the Buyer to acquire some or all of the remaining shares in IMRI on agreed terms and, on the fifth anniversary of Completion, the Buyer shall (unless the Buyer and Merpas UKCo agree otherwise) acquire any shares in IMRI that it does not already own, on agreed terms (any such further acquisition of shares in IMRI being a **Further Acquisition** and, together with the Initial Acquisition, the **Acquisition**).

The IRI Group is a family-owned integrated packaging and paper producer concentrated on the East Coast of the United States, operating from 19 production sites and having approximately 1,500 employees. For the year ended 31 December 2016, the IRI Group had revenues of $618 million.

The IRI Group operates across the entire packaging chain including wood procurement, paper manufacturing, design, packaging manufacturing and customer logistics. Customers in the United States accounted for 94 per cent. of turnover in the year ended 31 December 2016, with the majority of the IRI Group's customer base for its packaging products being FMCG and food customers.

The Acquisition aligns with the global convergence of DS Smith's customers' requirements and is expected to create a higher quality, higher margin group with more growth potential.

Highlights of the Acquisition

- A well-positioned, balanced and invested platform to build a significant market position

- Significant customer pull for DS Smith's innovative fibre-based packaging solutions in one of the world's largest packaging markets

- Strengthens the Group's global supply chain

- Significant pre-tax cost synergies and working capital benefits

- Earnings per share (**EPS**) accretive immediately[1]

- Expected pre-tax return on invested capital above DS Smith's pre-tax weighted average cost of capital in the first full financial year following Completion

- Pre-tax return on invested capital and EPS accretion expected to accelerate as additional drivers of value are delivered[2]

Commenting on the Acquisition, DS Smith's Group Chief Executive, Miles Roberts, said:

"*We are delighted to announce the proposed acquisition of Interstate Resources, a well-positioned and attractive entry point for us into the US market. We have seen significant customer pull for our innovative packaging solutions in the US and are excited by the opportunity to grow and support our customers' needs over this large and growing market. It is a further important step in our strategy, further building a higher quality, higher margin group with more growth potential. We very much look forward to working with all the employees, customers and suppliers of Interstate Resources.*"

Commenting on the Acquisition, INDEVCO Group CEO and Interstate Resources, Inc. CEO, Neemat Frem, said:

"*The IRI Group has been part of the INDEVCO family since 1982. We feel that the best way to live up to the legacy of our group and to maintain a path of solid growth is to embark on this landmark transaction. A strategic combination with DS Smith provides a great opportunity for the IRI Group, its employees, customers, suppliers and other stakeholders.*

DS Smith has a strong track record of achieving sustainable growth and shares similar values and a customer focus with INDEVCO. This gives us great faith and optimism about the future and becoming stronger together. As a result, we have maintained a level of ownership which enables us to participate in the IRI Group's future success in the US while enabling INDEVCO to focus on and expand its other activities."

Summary

DS Smith plans to build upon the IRI Group's well-invested operational asset base, technology and distribution network in the Eastern United States to support the IRI Group's existing customers and DS Smith's multi-national customers, many of whom have operations in the US. This is expected to enhance DS Smith's customer relationships, increase DS Smith's global brand exposure and provide a long term growth opportunity. DS Smith will draw upon its experience in previous integrations to realise the combined strength of the IRI Group and DS Smith.

DS Smith believes that the Acquisition represents a compelling and attractive opportunity for DS Smith to expand its international fibre-based packaging footprint in the US market with a well-established, high quality and reputable independent group with an experienced management team. The Acquisition also provides a clear opportunity for DS Smith to further differentiate itself with customers and provides security and cost benefits in relation to fibre and paper supply.

[1] This should not be construed as a profit forecast or interpreted to mean that the future earnings per share, profits, margins or cash flows of the DS Smith Group will necessarily be greater than the historic published figures.
[2] See footnote 1.

Commenting on enhancing their customer relationship with DS Smith, Mondelēz's Director of Procurement North American Region & Global Paper Procurement, Brian Harasymchuk, said:

"*Mondelēz has a strong relationship with DS Smith, our sole supplier of corrugated packaging in Europe, based on shared vision and values. DS Smith's entry into the North American market is an exciting development, and we look forward to continuing the growth of our partnership over coming months*."

Commenting on enhancing their customer relationship with DS Smith, Nestlé's Global Head of Procurement – Packaging, Christophe Dupas, said:

"*DS Smith has been a strategic supplier to Nestlé for many years in Europe. Like for all key business partners, Nestlé supports DS Smith's strategy to become a global supplier of corrugated packaging, and this announcement is an important step towards realizing that ambition. We look forward to working with DS Smith across our business to continue to develop mutual value generation and shared understanding*."

Synergies and financial effects of the Acquisition

DS Smith has a strong track record of integrating acquisitions, realising cost and working capital synergies and driving revenue growth. The experience accumulated within DS Smith from previous acquisitions (such as Duropack, Lantero, Otor and SCA Packaging) provides the framework to execute a successful combination of DS Smith and the IRI Group. DS Smith is confident from the market research, customer engagement and due diligence conducted that it will achieve similar success in respect of the acquisition of the IRI Group.

The Board believes that the Acquisition presents significant opportunities for recurring pre-tax synergies of approximately \$25 million (£20 million) by 30 April 2021. In addition, the DS Smith Board believes that one-off working capital benefits of approximately \$95 million (£75 million) may arise owing to opportunities to enhance cash performance given the combined capabilities of the manufacturing and operational infrastructure of the Enlarged Group.

DS Smith estimates one-off cash costs to implement the integration and deliver these synergies of \$55 million (£43 million) to \$60 million (£47 million), of which the full one-off costs will be incurred by 30 April 2021.

The DS Smith Directors believe that the Initial Acquisition will be accretive immediately to EPS following Completion.[3] In addition, after taking into account cost synergy benefits, the Initial Acquisition is expected to deliver a pre-tax return on invested capital above DS Smith's pre-tax weighted average cost of capital by 30 April 2019.

The DS Smith Directors are confident in the outlook for the IRI Group in 2017 in light of recent positive corrugated box volume growth, increased shipment volumes from the paper mills and recently announced containerboard price increases. In the five months to 31 May 2017, the IRI Group's net revenue and adjusted operating profit both showed positive growth over the prior year and 2017 will also benefit from prior year acquisitions, providing confidence in further progression for the year to 31 December 2017.

Acquisition key terms, financing and timings

The Buyer has entered into the Acquisition Agreement to acquire 80 per cent. of the total issued share capital of IMRI from Merpas for consideration of US\$920 million (approximately £722 million). The Buyer will also assume or procure repayment of 100 per cent. of the IRI Group's financial

[3] This should not be construed as a profit forecast or interpreted to mean that the future earnings per share, profits, margins or cash flows of the DS Smith Group will necessarily be greater than the historic published figures.

indebtedness at Completion, expected to be approximately US$226 million (approximately £177 million). The consideration will be subject to customary post-Completion net debt and working capital adjustments.

The Buyer intends to satisfy the consideration through: (i) a payment of US$846 million (approximately £664 million) in cash, to be satisfied out of the net proceeds of the Placing, utilisation of the New Debt Facilities and existing cash resources; and (ii) the issue of the Consideration Shares with a value of US$300 million (approximately £235 million), calculated by reference to the average Closing Price of the Ordinary Shares on 23 June 2017, 26 June 2017 and 27 June 2017, to Merpas.

The Buyer and Merpas UKCo have also agreed that, on fixed dates over the next four years, Merpas UKCo can require the Buyer to acquire some or all of the remaining shares in IMRI on agreed terms and, on the fifth anniversary of Completion, the Buyer shall (unless the Buyer and Merpas UKCo agree otherwise) acquire any shares in IMRI that it does not already own, on agreed terms.

Merpas has undertaken that, for a period of six months from Completion, neither it nor any of its group members will, except with the prior written consent of the Buyer, directly or indirectly, sell, transfer, pledge, encumber, assign or otherwise dispose of or cause any change in the beneficial ownership of any Consideration Shares, subject to certain limited exceptions. This restriction will continue to apply for a further six months in respect of 50 per cent. of the Consideration Shares and, in respect of those shares not subject to the restriction after the first six months, Merpas has undertaken that any sales of such shares will be made only through Citi and JPMS. This commitment highlights Merpas's confidence in the outlook of the Enlarged Group.

Based on DS Smith's consolidated financials for the year ended 30 April 2017, the IRI Group's combined financials for the year ended 31 December 2016 and utilisation of the New Debt Facilities to fund part of the cash portion of the consideration for the Initial Acquisition, the net debt/EBITDA ratio of the Enlarged Group from Completion is expected to be approximately 2.2 times. The Board remains committed to DS Smith's medium-term financial criteria of a net debt/EBITDA ratio of less than or equal to 2.0 times and to DS Smith's existing investment grade rating.

The Acquisition constitutes a Class 1 transaction for the purposes of the Listing Rules of the Financial Conduct Authority and, therefore, requires the approval of DS Smith's shareholders (the **Shareholders**). A circular including a notice of General Meeting to be convened for the purpose of seeking such shareholder approval is expected to be posted to Shareholders on or around 7 July 2017. The Initial Acquisition is expected to complete in the third quarter of the 2017 calendar year.

Presentation and dial-in details

A presentation to investors and analysts will be held at 9.00 a.m. today at the Lincoln Centre, 18 Lincoln Inn Fields, London WC2A 3ED. Dial-in access for the presentation is available with details as follows: +44 (0)20 3003 2666 (standard access) or 0808 109 0700 (UK toll free) Password: DS Smith. The slides accompanying the presentation will be available on our website shortly before the start of the presentation. A replay will be available for seven days on +44 (0) 20 8196 1998, PIN 7063164#. An audio file and transcript will also be available on www.dssmith.com/investors/results-and-presentations.

The preceding summary should be read in conjunction with the full text of the announcement.

The person responsible for arranging the release of this announcement on behalf of DS Smith is Iain Simm, Company Secretary.

For further information, please contact:

DS Smith Plc +44 (0) 20 7756 1800

Hugo Fisher, Group Communications Director
Rachel Stevens, Investor Relations Director

Citigroup Global Markets Limited +44 (0) 20 7986 0000
(Joint Financial Adviser and Joint Sponsor)
Andrew Seaton
Jan Skarbek
Christopher Wren

J.P. Morgan Limited / J.P. Morgan Securities plc +44 (0) 20 7742 8000
(Joint Financial Adviser / Joint Sponsor)
Mark Breuer
Virginia Khoo
Richard Walsh

Bell Pottinger
John Sunnucks +44 (0) 20 3772 2549
Ben Woodford +44 (0) 20 3772 2566

Terms used in this announcement shall, unless the context otherwise requires, have the same meanings given to them in Appendix 3 (*Definitions and Glossary*).

Citigroup Global Markets Limited (**Citi**) and J.P. Morgan Securities plc (**JPMS**) are acting as joint sponsors to DS Smith in connection with the Acquisition. Citi and J.P. Morgan Limited (**JPML**) are acting as joint financial advisers to DS Smith in connection with the Acquisition. Each of JPMS and JPML (together, **JPM**) conducts its UK investment banking business as J.P. Morgan Cazenove.

Important Notice

This announcement is for information purposes only and is not intended to and does not constitute, or form part of, any offer or invitation to purchase, subscribe for or otherwise acquire or dispose of, or any solicitation to purchase or subscribe for or otherwise acquire or dispose of, any securities in any jurisdiction. Persons needing advice should consult an independent financial adviser. The information contained in this announcement is not for release, publication or distribution to persons in any jurisdiction where to do so might constitute a violation of local securities laws or regulations.

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No person has been authorised to give any information or to make any representations other than those contained in this announcement and, if given or made, such information or representations must not be relied on as having been authorised by the Company, Citi or JPM. None of the above take any responsibility or liability for, and can provide no assurance as to the reliability of, other information that you may be given. Subject to the Listing Rules, the Prospectus Rules and the Disclosure Guidance and Transparency Rules, the issue of this announcement shall not, under any circumstances, create any implication that there has been no change in the affairs of the Company or the IRI Group since the date of this announcement or that the information in this announcement is correct as at any time subsequent to the date of this announcement.

The distribution of this announcement in certain jurisdictions may be restricted by law. No action has been taken by the Company, Citi or JPM that would permit an offering of such shares or possession or distribution of this announcement or any other offering or publicity material relating to such shares in any jurisdiction where action for that purpose is required. Persons into whose possession this announcement comes should inform themselves about and observe any such restrictions.

Certain statements contained in this announcement or incorporated by reference into it constitute, or may be deemed to constitute, "forward-looking statements" with respect to the financial condition, results of operations and business of the DS Smith Group and, upon Completion, the Enlarged Group and certain plans and objectives of the Directors with respect thereto. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use forward-looking terminology including words such as "anticipate", "target", "expect", "estimate", "intend", "aim", "plan", "predict", "projects", "continue", "assume", "goal", "believe", "will", "may", "should", "would", "could" or, in each case, their negative, or other variations thereon or words of similar meaning, which identify certain of these forward-looking statements. Other forward-looking statements can be identified in the context in which the statements are made. In particular, any statements regarding the Company's strategy, plans, objectives, goals and other future events or prospects are forward-looking statements.

An investor should not place undue reliance on forward-looking statements because they involve known and unknown risks, uncertainties and other factors that are in many cases beyond the Company's control. Forward-looking statements are based on assumptions and assessments made by the Directors in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe appropriate. By their nature, forward-looking statements involve risk and uncertainty, and any forward-looking statements in this announcement relating to the Acquisition reflect the Company's view with respect to future events as of the date of this announcement and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the condition of the Acquisition being satisfied, management's maintenance of the business and the process of integrating the Acquisition following completion of the Acquisition including the retention of certain key IRI Group management, foreign exchange risks related to the price of the Acquisition, the successful realisation of the Enlarged Group's growth strategy, the successful realisation of the anticipated synergies and strategic benefits, an adequate return on its investment from the Acquisition and foreign exchange rate fluctuation between the US dollar and pound sterling, as well as the principal risks and uncertainties facing the business as described in the risk factors highlighted in the Company's 2016 annual report and the 2016 EMTN prospectus dated 19 April 2016. The factors described in the context of such forward-looking statements in this announcement could cause actual results and developments to differ materially from those expressed in or implied by such forward-looking statements.

The Company cautions investors that forward-looking statements are not guarantees of future performance and that its actual results of operations and financial condition, and the development of the industry in which it operates, may differ materially from those made in or suggested by the forward-looking statements contained in this announcement and/or information incorporated by reference into it.

Each forward-looking statement speaks only as of the date it was made and is not intended to give any assurances as to future results. Furthermore, forward-looking statements contained in this announcement that are based on past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Except as required by the FSMA, the Listing Rules and/or the Disclosure Guidance and Transparency Rules, none of the Company, JPM or Citi undertakes any obligation to update or revise these forward-looking statements, and will not publicly release any revisions it may make to these forward- looking statements that may result from new information, events or circumstances arising after the date of this announcement. The Company will comply with its obligations to publish updated information as required by the FSMA, the Listing Rules and/or the Disclosure Guidance and Transparency Rules or otherwise by law and/or by any regulatory authority, but assumes no further obligation to publish additional information.

Any indication in this announcement of the price at which Ordinary Shares have been bought or sold in the past cannot be relied upon as a guide to future performance. No statement in this announcement is intended to be a profit forecast and no statement in this announcement should be interpreted to mean that earnings per share of the Company for the current or future financial years would necessarily match or exceed the historical published earnings per share of the Company.

The Placing Shares and the Consideration Shares referred to in this announcement have not been and will not be registered under the US Securities Act of 1933, as amended (the **Securities Act**), or under any securities laws of any state or other jurisdiction of the United States and may not be offered or sold into or within the United States absent registration or an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities law. There will be no public offering of the Placing Shares or the Consideration Shares in the United States.

This announcement does not constitute a recommendation concerning any investor's options with respect to the Placing. The price and value of securities can go down as well as up. Past performance is not a guide to future performance. The contents of this announcement are not to be construed as legal, business, financial or tax advice. Each Shareholder or prospective investor should consult his, her or its own legal adviser, business adviser, financial adviser or tax adviser for legal, financial, business or tax advice.

Neither the content of the Company's website nor any website accessible by hyperlinks on the Company's website is incorporated in, or forms part of, this announcement.

A copy of the Circular when published will be available from the registered office of the Company and on the

Company's website at http://www.dssmith.com. The Company will publish a further announcement upon the publication of the Circular.

Unless otherwise indicated, references to **pounds sterling**, **sterling**, **pence**, **p** or **£** are to the lawful currency of the United Kingdom, references to **US dollars**, **$** or **US$** are to the lawful currency of the United States and references to **€** are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

Unless otherwise stated in this announcement, for current US$ amounts, a rate of £1 to US$1.2750 has been used.

DS Smith Plc (**DS Smith** or the **Company**)
Proposed acquisition of Interstate Resources

1. Introduction

The Company today announces that it, along with its wholly-owned U.S. subsidiary, DS Smith Holdings, Inc. (together with the Company, **Buyer**), has entered into a conditional agreement (the **Acquisition Agreement**) to acquire 80 per cent. of the total issued share capital of Indevco Management Resources, Inc. (**IMRI**), the holding company for the Interstate Resources, Inc. group (IMRI and its subsidiaries together, the **IRI Group**), from Merpas Co. S.à r.l. (**Merpas**) for consideration of US$920 million (approximately £722 million) (the **Initial Acquisition**). The Buyer will also assume or procure repayment of 100 per cent. of the IRI Group's financial indebtedness at Completion, expected to be approximately US$226 million (approximately £177 million). The consideration for the Initial Consideration will be subject to customary post-Completion net debt and working capital adjustments.

The Buyer intends to satisfy the consideration through: (i) a payment of US$846 million (approximately £664 million) in cash, to be satisfied out of the net proceeds of the Placing, utilisation of up to £400 million from a new bridge facility (the **New Debt Facilities**) and the rest from existing cash resources; and (ii) the issue of consideration shares with a value of US$300 million (approximately £235 million) (the **Consideration Shares**), calculated by reference to the average Closing Price of the Ordinary Shares on 23 June 2017, 26 June 2017 and 27 June 2017, to Merpas.

The Buyer and Merpas UKCo (an entity within the Merpas group that will hold the shares in IMRI) will enter into a Shareholders' Agreement on Completion which will govern the relationship between the Buyer and Merpas UKCo in respect of the governance of IMRI and pursuant to which, among other things, on fixed dates over the next four years, Merpas UKCo can require the Buyer to acquire some or all of the remaining shares in IMRI on agreed terms and, on the fifth anniversary of Completion, the Buyer shall (unless the Buyer and Merpas UKCo agree otherwise) acquire any shares in IMRI that it does not already own, on agreed terms (any such further acquisition of shares in IMRI being a **Further Acquisition** and, together with the Initial Acquisition, the **Acquisition**). DS Smith proposes to fund any Further Acquisition through cash and debt facilities available to it at such time.

Merpas has undertaken that, for a period of six months from Completion, neither it nor any of its group members will, except with the prior written consent of the Buyer, directly or indirectly, sell, transfer, pledge, encumber, assign or otherwise dispose of or cause any change in the beneficial ownership of any Consideration Shares, subject to certain limited exceptions. This restriction will continue to apply for a further six months in respect of 50 per cent. of the Consideration Shares and, in respect of those shares not subject to the restriction after the first six months, Merpas has undertaken that any sales of such shares will be made only through Citi and JPMS. This commitment highlights Merpas's confidence in the outlook of the Enlarged Group.

The IRI Group is a family-owned integrated packaging and paper producer concentrated on the East Coast of the United States, operating from 19 production sites and having approximately 1,500 employees. For the year ended 31 December 2016, the IRI Group had revenues of $618 million.

The IRI Group operates across the entire packaging chain including wood procurement, paper manufacturing, design, packaging manufacturing and customer logistics. Customers in the United States accounted for 94 per cent. of turnover in the year ended 31 December 2016. The IRI Group produces an excess of paper of approximately 40 per cent. over the amount required for its packaging products, which is sold externally.

The majority of the IRI Group's customer base for its packaging products is FMCG and food customers with the balance being made up of corrugated sheets, industrial and wholesale distribution customers. The IRI Group's largest customer accounts for approximately 8 per cent. of the IRI Group's revenues with the top five customers accounting for approximately 25 per cent. of revenues. Levels of utilisation in the packaging operations offer potential for further organic growth in the IRI Group's current plants.

DS Smith believes that the Acquisition represents a compelling and attractive opportunity for DS Smith to expand its international fibre-based packaging footprint in the US market with a well-established, high quality and reputable independent group with an experienced management team.

DS Smith is a leading Pan-European provider of corrugated packaging in Europe and specialist plastic packaging worldwide, supported by paper and recycling operations. DS Smith has a growing business with multi-national customers, some of whom, including Mondelēz and Nestlé, have indicated their support for working with DS Smith in providing its solutions in the US. The IRI Group provides a strong platform for DS Smith to address these customer opportunities and DS Smith intends to invest further to develop its business in the US, a large, profitable and growing market.

Specifically, DS Smith plans to build upon the IRI Group's well-invested operational asset base, technology and distribution network in the Eastern United States to support the IRI Group's existing customers and DS Smith's global and multi-national customers, many of whom have operations in the US. DS Smith will draw upon its experience in previous integrations to leverage the IRI Group's US market presence and management expertise to realise the combined strength of DS Smith and the IRI Group.

The Board believes that the Acquisition is strategically and financially attractive and expects it to create significant value for customers and consistent and attractive returns for Shareholders.

Due to the size of the Acquisition in relation to the size of DS Smith, the Acquisition constitutes a Class 1 transaction for the purposes of the Listing Rules and, therefore, requires the approval of DS Smith's Shareholders. The Acquisition is conditional on, among other things, such approval being given. Further details of the Acquisition, together with a notice convening a General Meeting to consider the Acquisition, will be contained in the Circular which is expected to be sent to Shareholders on or around 7 July 2017.

Assuming Completion occurs, the cash portion of the consideration for the Initial Acquisition will be financed by a combination of the net proceeds of the Placing (which is being announced today), utilisation of the New Debt Facilities and existing cash resources.

In the event that Completion does not occur, the DS Smith Directors' current intention is that the net proceeds of the Placing will be invested on a short-term basis while the DS Smith Directors evaluate other acquisition opportunities. If no acquisitions can be found over the medium term that are a suitable strategic fit and pass DS Smith's investment decision criteria, the DS Smith Directors will consider how best to return capital to Shareholders.

2. Background to and reasons for the Acquisition

The Board believes that the Acquisition represents a compelling and attractive opportunity to enter one of the largest fibre-based packaging markets and accelerate DS Smith's vision to be the leading supplier of sustainable packaging solutions on a broader geographic basis. The Acquisition responds to requests from some of DS Smith's multi-national customers for DS Smith to provide its solutions in the US.

The Board believes that the Acquisition will create significant value for customers and expects it to create consistent and attractive returns for Shareholders by:

- leveraging the significant DS Smith customer pull and demand for DS Smith's innovative fibre-based packaging solutions in one of the world's largest packaging markets, thereby enhancing DS Smith's customer relationships;

- providing DS Smith with a well-positioned, balanced and invested platform to build a significant market position, replicate its success in Europe and drive growth from fibre-based packaging in an attractive geography (the US), thereby strengthening DS Smith's business model;

- delivering estimated annualised pre-tax cost synergies from procurement and operational efficiencies at an annual run-rate of approximately $25 million by 30 April 2021 and working capital benefits of approximately $95 million by 30 April 2020 (with estimated one-off cash costs to implement the integration and deliver these synergies of $55 million to $60 million); and

- offering an expected pre-tax return on invested capital above DS Smith's pre-tax weighted average cost of capital by 30 April 2019 and anticipated to be accretive immediately to EPS following Completion.[4]

Overall, the Acquisition is expected to create a higher quality, higher margin group with more growth potential. The Board believes that the Acquisition provides a compelling and attractive entry point into one of the largest packaging markets globally and significantly strengthens the Group's global supply chain capabilities. In doing so, DS Smith expects to create significant value for its customers and offer DS Smith shareholders attractive financial returns.

2.1 Leveraging the significant DS Smith customer pull and demand for DS Smith's innovative fibre-based packaging solutions in one of the world's largest packaging markets, thereby enhancing DS Smith's customer relationships

In 2016, the US fibre-based corrugated packaging market produced approximately 35 billion square meters and had a value of approximately $48 billion. Relative to Europe, this market is characterised as being well positioned for development, in terms of the provision of innovative lightweight, fibre-based packaging solutions. DS Smith's customers' requirements are converging globally and these customers are very supportive of DS Smith deploying its capabilities, innovation and partnership credentials, in the US.

The US is also home to some of the largest global brands, many of which are consumer brands, requiring high volumes of high-quality, shelf-ready packaging solutions to cater for their global brand and product offerings.

DS Smith engages with its customers with the aim to help them sell more of their primary product, while reducing their overall customer supply chain costs, delivering value and managing their risk. In order to do so, DS Smith uses its market insights and innovation as well as detailed understanding of supply chains.

This consumer and retail insight is based on frequent engagement with customers and retailers, and is communicated to its customers through its network of Impact Centres which demonstrate the interaction between packaging, the retail environment, and buying decisions. This is particularly relevant to packaging that becomes part of the retail display, known as retail-ready packaging (or shelf-ready packaging), whilst at the same time delivering the usual protection functions through the supply chain, where DS Smith has significant experience within Europe.

[4] This should not be construed as a profit forecast or interpreted to mean that the future earnings per share, profits, margins or cashflows of the DS Smith Group will necessarily be greater than the historic published figures.

DS Smith seeks to offer its products to customers on the basis of the quality and necessary performance characteristics (principally, strength) of the corrugated packaging supplied. DS Smith has developed proprietary technology to be able to test the strength characteristics of corrugated board as it is produced and converted into boxes, which enables DS Smith to deliver consistent product on this basis. This compares to the historic industry practice of pricing corrugated boxes on weight, which could lead to boxes being manufactured to be heavier than required. Even taking into account differences in supply chains and historic customer preference for heavier solutions, the average weight of corrugated board remains relatively high in the US as compared to Europe and has fallen more slowly. Given the high cost of raw materials as a proportion of the manufacturing cost of a corrugated box, DS Smith sees substantial efficiency from using the optimum quantity and grade of paper fibre for corrugated board, and engineering the product to a quality standard, providing important benefits to both customers and DS Smith.

Many of DS Smith’s customers, in particular its multi-national customers, are seeking to improve the efficiency of their supplier bases through more central procurement of products such as corrugated packaging, which historically have been procured locally. This offers a company of the size and capability of DS Smith the opportunity to work strategically with major customers across multiple regions and countries, for example with Mondelēz in Europe, where DS Smith has supplied all its corrugated packaging since 2014. DS Smith sees a material opportunity to replicate this successful strategy in the United States.

2.2 Providing DS Smith with a well-positioned, balanced and invested platform to build a significant market position, replicate its success in Europe and drive growth from fibre-based packaging in an attractive geography (the US), thereby strengthening DS Smith’s business model

The IRI Group is a well-established and well-invested integrated packaging and paper production group. Since becoming part of the INDEVCO group in 1982, management has demonstrated its commitment to developing a high-quality asset base across the Eastern United States. Over the past five years, the IRI Group has invested approximately $175 million of capex to continue providing high-performance, innovative packaging and paper solutions in a sustainable manner. The IRI Group has a highly experienced management team and a long-standing key operational team. The IRI Group management has a proven track record of delivering growth via greenfield packaging sites and bolt-on acquisitions. With the IRI Group well positioned to capitalize on the strong fundamentals of the US market, the DS Smith Group will look to build on this position to further drive organic and inorganic growth opportunities.

The US economy is forecast to grow 2.3 per cent. in 2017 and 2.5 per cent. in 2018, compared to 1.7 per cent. and 1.6 per cent. in the Euro Area over the same periods and is expected to support growth in US containerboard demand which is forecast to grow at 1.6 per cent. CAGR between 2016 and 2019.

The IRI Group (including the effect of certain joint ventures and excluding the effects of discontinued operations) owns 12 corrugated manufacturing plants, seven warehouses, two paper mills (one kraft and one recycled corrugated medium), a timber plant, a lumber plant and a biomass power plant, all of which are located in the US. The Acquisition is therefore expected to transform the scale and breadth of the Group’s operations in the US.

There is a clear opportunity to work more closely with a number of DS Smith’s existing customers in the US where the IRI Group has existing operations, and to leverage DS Smith’s expertise in a new market, thereby further differentiating DS Smith with its customers. Accordingly, and in direct response to DS Smith customer requests, the Enlarged Group will be able to efficiently supply existing Pan-European and multi-national FMCG and global e-commerce customers with innovative packaging solutions from the Enlarged Group’s manufacturing facilities across Europe and the US. The substantial pull that DS Smith is experiencing from within its current European customer base includes global brands such as Mondelēz and Nestlé.

In addition to the opportunities from the IRI Group's existing customer base, the Board believes that, given the concentration of strong global brands present in the US market, there is also considerable potential to drive additional revenue growth through the development of relationships with new customers.

The Board believes that the Enlarged Group will benefit from an increased and more balanced geographic scope, a greater focus on global brands, and will continue to build on its growth within its core Pan-European and multi-national customer base.

The Board believes there is also an opportunity to leverage DS Smith's innovative lightweight, fibre-based packaging expertise. The IRI Group shares DS Smith's strong emphasis on design and innovation. DS Smith's strategy to focus on value-added technology and new products has enabled DS Smith to reduce its customers' supply chain costs, increasing the value of DS Smith's products to customers, and therefore assisting the recovery of raw material inflation. The Enlarged Group will continue to invest in packaging innovation and drive value into all areas of the supply chain.

2.3 Delivering estimated annualised pre-tax cost synergies from procurement and operational efficiencies at an annual run-rate of approximately $25 million by 30 April 2021 and working capital benefits of approximately $95 million by 30 April 2020 (with estimated one-off cash costs to implement the integration and deliver these synergies of $55 million to $60 million)

DS Smith has a strong track record of integrating acquisitions, realising cost and working capital synergies and driving revenue growth. DS Smith is confident from the market research conducted, customer engagement and due diligence conducted that it will achieve similar success in respect of the acquisition of the IRI Group.

The Board believes the Enlarged Group will also, with a broader geographical presence, be well positioned to benefit from enhanced growth prospects. The attractive returns delivered by DS Smith's Duropack, Lantero, Otor and SCA Packaging acquisitions demonstrate the benefit accruing from functional disciplines (including commercial, procurement, human resources and finance) operating across a broader business. The experience accumulated within DS Smith also provides the framework to execute a successful combination of DS Smith and the IRI Group.

The Board has developed clear paths to synergy achievement and believes that the Acquisition presents significant opportunities for recurring pre-tax synergies of approximately $25 million (£20 million) by 30 April 2021.

These synergies are expected to be realised through cost reduction, with approximately 80 per cent. through operational efficiencies, including the optimisation of paper uses and implementing DS Smith's technology and operational practices in the IRI Group, and approximately 20 per cent. through the introduction of centralised procurement processes. Approximately two thirds of the run-rate pre-tax cost synergies will be implemented by 30 April 2020, with the full run-rate pre-tax cost synergies by 30 April 2021.

In addition, the DS Smith Board believes that one-off working capital benefits of approximately $95 million (£75 million) may arise owing to opportunities to enhance cash performance given the combined capabilities of the manufacturing and operational infrastructure of the Enlarged Group, two thirds achieved by 30 April 2019, with the remaining one third by 30 April 2020.

DS Smith estimates one-off cash costs to implement the integration and deliver these synergies of $55 million (£43 million) to $60 million (£47 million), of which the full one-off costs will be incurred by 30 April 2021.

The estimated synergies are contingent on the Initial Acquisition completing, could not be achieved independently and reflect both beneficial elements and relevant costs. The expected cost synergies have been calculated on the basis of the existing procurement and operational structures of DS Smith and the IRI Group. In assessing the estimate of cost synergies, the Board and management have been aided by their integration experience, having completed 15 acquisitions since 2010 including the integration of Otor and SCA Packaging and, more recently, Duropack in South-Eastern Europe and Lantero in Spain. However, the above statement of estimated synergies relates to future actions and circumstances, which, by their nature involve risks, uncertainties, contingencies and other factors. The figures set out in the preceding paragraphs are unaudited numbers based on management estimates.

2.4 Offering an expected pre-tax return on invested capital above DS Smith's pre-tax weighted average cost of capital by 30 April 2019 and anticipated to be accretive immediately to EPS following Completion[5]

The Board believes that the Acquisition will be financially beneficial to Shareholders taking into account the terms of the Acquisition and the expected cost synergies. The Directors believe that the Acquisition will offer an expected pre-tax return on invested capital above DS Smith's pre-tax weighted average cost of capital by 30 April 2019, using only cost synergies and before exceptional costs. The Directors believe the Enlarged Group will also benefit from increased scale and diversity that will enable it to further reduce its weighted average cost of capital.

The Acquisition is expected to be accretive immediately to EPS following Completion[6], excluding any benefit other than cost synergies.

In light of the scale and size of the proposed Initial Acquisition, the Board believes that it has taken a prudent approach to structuring and financing the Initial Acquisition and associated expenses through a mixture of equity and debt, approximately: £280 million from the Placing (net of commissions and expenses); up to £400 million from the New Debt Facilities; and the rest from existing cash resources, balancing a conservative financing structure and returns for Shareholders. The Board believes it is prudent to create a diverse funding structure that combines existing cash resources, the New Debt Facilities and the use of DS Smith equity (in the form of the Placing and the Consideration Shares) to provide the flexibility both to acquire the IRI Group and to retain financial strength and flexibility given the current macroeconomic climate and future growth opportunities.

Based on DS Smith's consolidated financials for the year ended 30 April 2017, the IRI Group's combined financials for the year ended 31 December 2016 and utilisation of the New Debt Facilities to fund part of the cash portion of the consideration for the Initial Acquisition, the net debt/EBITDA ratio of the Enlarged Group from Completion is expected to be approximately 2.2 times. The Board remains committed to DS Smith's medium-term financial criteria of a net debt/EBITDA ratio of less than or equal to 2.0 times and to DS Smith's existing investment grade rating. This targeted leverage profile is intended to give DS Smith significant headroom against its current banking covenants and is consistent with the Group's aim 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 rating.

3. Information on the IRI Group

The IRI Group (including the effect of certain joint ventures and excluding the effects of discontinued operations) operates facilities in the United States, which include 12 corrugated manufacturing plants, seven warehouses, two paper mills (one kraft and one recycled corrugated medium), a timber plant, a lumber plant and a biomass power plant. In the year ended 31 December 2016, the IRI Group

[5] This should not be construed as a profit forecast or interpreted to mean that the future earnings per share, profits, margins or cashflows of the DS Smith Group will necessarily be greater than the historic published figures.
[6] This should not be construed as a profit forecast or interpreted to mean that the future earnings per share, profits, margins or cashflows of the DS Smith Group will necessarily be greater than the historic published figures.

(including the effect of certain joint ventures and excluding discontinued operations) sold 534 kilotonnes of CCM (of which 342 kilotonnnes was kraftliner and 192 kilotonnes was recycled linerboard) and had corrugated sales volumes of 0.44 billion square metres (approximately 260 kilotonnes). The Board believes the IRI Group has significant capacity to support growth and customer acquisition. The IRI Group has approximately 1,500 employees. For the year ended 31 December 2016, the IRI Group had revenues of $618 million.

The IRI Group has four main product divisions: paper division, container division, timber division, and other. The IRI Group's paper division consists of paper mills in Riceboro, Georgia and Reading, Pennsylvania. The IRI Group produces kraft linerboard at its mill in Riceboro and corrugated medium at its mill in Reading. The IRI Group's Riceboro kraft linerboard paper mill is located in an area with abundant fibre, a primary material in the production of kraft linerboard. The kraft linerboard paper mill produced an average of 954 tonnes per day of linerboard in 2016. The IRI Group's corrugated medium paper mill in Reading is located in an area with good access to OCC, a primary material used in the production of corrugated medium. The corrugated medium paper mill produces 100 per cent. recycled lightweight and high performance corrugated medium. In 2016, it produced an average of 529 tonnes of corrugated medium per day. Kraft linerboard and corrugated medium are the two types of paper that make up CCM. The IRI Group's paper division supplies its container division with CCM for the production of corrugated packaging.

The IRI Group's 12 corrugated manufacturing plants in the eastern United States that comprise its container division produce a variety of corrugated solutions. Corrugated containers include high graphic corrugated retail and shelf-ready packaging, point-of-purchase displays, shipping and transport boxes, corrugated sheets, and top sheets.

The IRI Group's container division provides the following key products and services:

- *Custom corrugated display solutions*: Custom corrugated display solutions include retail ready packaging which is eye-catching and ready for the shelf, floor displays, pallet displays, promotional packaging and other packages designed for display.

- *Corrugated shipping containers*: Corrugated shipping containers are designed to be durable packaging in a variety of sizes and strengths to meet customers' packaging and shipping needs. These include corrugated boxes, bulk bins, corrugated trays, edge and corner protectors, folders, internal partitions, protective foam and packaging and void fillers.

- *Specialty applications*: The container division offers a variety of specialty services including design, colour management and a testing lab. Speciality applications also include digital cutting and creasing, top sheets and wax boxes, as well as a lithographic label printing operation, with specialised printing and labelling services.

- *Supply chain solutions*: The container division offers supply chain solutions including fulfilment and distribution, inventory management and warehousing services.

The IRI Group's timber division consists of Newport Timber LLC, a timber plant, RB Lumber LLC, a lumber plant, and St. George Timberland Holding Inc., a land and timberland business, all located in Riceboro, Georgia. The IRI Group initiated the development of St. George Timberland Holding Inc., in November 2012. St. George Timberland Holding Inc.'s operations consist of approximately 19,000 owned acres of timberland in the southeastern region of the United States.

The IRI Group has other additional operations, primarily power producing assets, that support its packaging and paper production operations. The IRI Group manages energy costs through its Evergreen Community Power (**ECP**) project, a biomass cogeneration power plant which transforms waste products into heat, located adjacent to its corrugated medium paper mill in Reading, and a solar field located near one of its corrugated container production plants, the RFC Container Co. in

Vineland, New Jersey. The ECP project provides for the entire steam and electricity needs of the IRI Group's corrugated medium paper mill in Reading, Pennsylvania and sells its excess electricity to a regional power plant. The solar field supplies all of the energy needs of the IRI Group's adjacent corrugated container plant in New Jersey.

Summary unaudited combined financial information relating to the IRI Group

Appendix 1 (*Summary unaudited historical financial information relating to the IRI Group*) sets out summary unaudited combined historical financial information relating to the IRI Group, which has been prepared in a form that is consistent with the accounting policies adopted in the Company's latest annual accounts. The summary unaudited combined historical financial information relating to the IRI Group is subject to final review by the Company's auditors and therefore could change between the date of this announcement and completion of the audit process.

4. Information on the DS Smith Group

DS Smith is a leading international supplier of recycled packaging for consumer goods through its recycling, packaging, paper and plastics operations. As at 30 April 2017, DS Smith employed approximately 26,000 people across its approximately 200 manufacturing locations and 36 Impact and PackRight Centres, in 37 countries. DS Smith operates five core divisions: UK, Western Europe, DCH and Northern Europe, Central Europe and Italy and Plastics. For the 2017 Financial Year, the Group's customer base for its corrugated box products was made up of approximately 67 per cent. FMCG and food, with no customer accounting for more than three per cent. of Group revenues.

For the 2017 Financial Year, DS Smith reported revenue of £4,781 million, Adjusted Operating Profit of £443 million, operating profit before exceptional items of £378 million and profit before income tax and exceptional items of £326 million.

DS Smith is listed on the main market of the London Stock Exchange and is a member of the FTSE 250 index. As at 28 June 2017 (being the latest practicable date before publication of this announcement), DS Smith had a market capitalisation of approximately £4,226 million. In the 2017 Financial Year, DS Smith's sales volumes included 2.5 million tonnes of CCM, 3.7 million tonnes of corrugated board and 5.2 million tonnes of recycled fibre.

The DS Smith Group's principal operations are designing and manufacturing corrugated packaging. In order to support its packaging business, the DS Smith Group has a recycling business that collects used paper and corrugated cardboard, from which the DS Smith Group's paper manufacturing facilities make the CCM used in corrugated packaging. The DS Smith Group also designs and manufactures certain types of plastic packaging, in particular, the plastic bags and taps for bag-in-box packaging and rigid crates for bottled liquids.

Since 2010, DS Smith has transformed both its geographic footprint and customer offering capability. Its major acquisitions during the period comprise Otor (€247 million), SCA Packaging (€1.6 billion), Duropack (€305 million) and Lantero (€190 million). Consistent with its strategic goal of increasing size and profitability, DS Smith is continuously seeking further opportunities to expand its scale and improve the quality of its businesses through strategic acquisitions.

The DS Smith Group also has an independent consultancy business to help its customers make their designs work harder for their brands by enhancing product utility and reducing environmental impact. Its consultants offer a global solution from offices based in the UK, Belgium, the US, India and China. The DS Smith Group also offers global sourcing support through its Total Marketing Support operations for customers who seek a consistent approach from their display packaging sourced in regions beyond DS Smith's current manufacturing footprint.

The Company today separately announces its preliminary consolidated financial statements for the year ended 30 April 2017.

5. Principal terms and conditions of the Acquisition

5.1 Acquisition Agreement

On 28 June 2017, the Buyer, Merpas and IMRI entered into the Acquisition Agreement for the acquisition by DS Smith and DS Smith Holdings of 80 per cent. of the total issued share capital of IMRI from Merpas for consideration of US$920 million (approximately £722 million). The Buyer will also assume or procure repayment of 100 per cent. of the IRI Group's financial indebtedness at Completion, expected to be approximately US$226 million (approximately £177 million). The consideration will be subject to customary post-Completion net debt and working capital adjustments.

The Buyer intends to satisfy the consideration through: (i) a payment of US$846 million (approximately £664 million) in cash, to be satisfied out of the net proceeds of the Placing, utilisation of the New Debt Facilities and existing cash resources; and (ii) the issue of the Consideration Shares with a value of US$300 million (approximately £235 million), calculated by reference to the average Closing Price of the Ordinary Shares on 23 June 2017, 26 June 2017 and 27 June 2017, to Merpas. At Completion, DS Smith will acquire a number of shares in IMRI equivalent in value to the Consideration Shares, and DS Smith Holdings will acquire the remaining shares in IMRI that are the subject of the Initial Acquisition.

The Directors believe that the separation of the Acquisition into the Initial Acquisition and the Further Acquisition will be mutually beneficial for DS Smith and the IRI Group, as it allows the interests of DS Smith and Merpas to be aligned for an initial period during which time DS Smith will benefit from the input and expertise of the IRI Group's senior management team. The shareholders of Merpas, who have owned the IRI Group since 1982, believe the integration of the IRI Group into an international packaging focused group will provide significant opportunities for the development of the IRI Group's business and accordingly Merpas (through Merpas UKCo) is initially retaining a 20 per cent. equity participation in the IRI Group, as well as receiving $300 million of the consideration for the Initial Acquisition in Consideration Shares.

The Acquisition Agreement contains representations, warranties, covenants, undertakings and conditions that are customary for a transaction of this size and nature.

Completion is conditional upon the satisfaction or, where applicable, waiver of the conditions set out in the Acquisition Agreement. These conditions include, among other things: (a) the Resolution being passed at the General Meeting; (b) all applicable waiting periods under the HSR Act in the US having expired or been terminated without the imposition of specified remedies; (c) the approval of the application for Admission and authorisation for issuance of the Consideration Shares; and (d) the absence of a material adverse change in the IRI Group.

The Acquisition Agreement contains certain termination rights for each of the Buyer and Merpas that are exercisable by mutual written consent or written notice to the other in the event that, among other things: (a) Completion has not occurred on or before 31 December 2017 or, if either party has exercised its right to extend the period within which the conditions to Completion must occur, on or before 31 March 2018, unless there is a knowing and intentional breach of any provision of the Acquisition Agreement by that party that is the primary reason for Completion not occurring on or before such date; (b) the DS Smith Board changes its recommendation that Shareholders vote in favour of the Resolution at the General Meeting; (c) the Resolution has not been duly passed at the General Meeting; or (d) any party is in breach of any provision of the Acquisition Agreement such that certain conditions to Completion cannot be satisfied, which breach has not been remedied by the offending party within 30 days of the offending party receiving notice of its breach.

DS Smith may be required to publish a prospectus in connection with the Initial Acquisition in order to admit the Consideration Shares to the premium listing segment of the Official List. If required, the prospectus will be published by DS Smith shortly before Completion. DS Smith expects the Initial Acquisition to complete in the third quarter of the 2017 calendar year.

Pursuant to the Acquisition Agreement, Merpas has undertaken that, for a period of six months from Completion, neither it nor any of its group members will, except with the prior written consent of DS Smith, directly or indirectly, sell, transfer, pledge, encumber, assign or otherwise dispose of or cause any change in the beneficial ownership of any Consideration Shares, subject to certain limited exceptions including, among other things, transferring any Consideration Shares to a wholly owned subsidiary of Merpas or to any third party pursuant to an offer by such third party to all Shareholders to purchase all the Ordinary Shares or pursuant to any scheme of arrangement of DS Smith. This restriction will continue to apply for a further six months in respect of 50 per cent. of the Consideration Shares and, in respect of those shares not subject to the restriction after the first six months, Merpas has undertaken that any sales of such shares will be made only through Citi and JPMS.

Further details of the terms of the Acquisition Agreement will be contained in the Circular.

5.2 Shareholders' Agreement

Following Completion, the respective governance and other rights of the Buyer and Merpas UKCo in IMRI will be governed by the Shareholders' Agreement to be entered into at Completion.

The Shareholders' Agreement contains customary governance provisions, reserved matters and restrictions on transfers of shares. The Shareholders' Agreement also contains certain customary warranties given by Merpas UKCo and the Buyer as of the date of Completion and customary post-Completion undertakings given by Merpas UKCo.

Pursuant to the Shareholders' Agreement, on 1 September 2018, 1 September 2019, 1 September 2020 and 1 September 2021, Merpas UKCo will have the option to sell to the Buyer either all of the shares in IMRI then held by Merpas UKCo or a number of shares in IMRI held by Merpas UKCo representing not less than 10 per cent. of the shares in IMRI then issued and outstanding. If Merpas UKCo holds shares in IMRI on 1 September 2022 or Merpas UKCo holds less than 10 per cent. of the shares in IMRI then issued and outstanding on any date before 1 September 2022, Merpas UKCo will be required to sell all of the shares in IMRI then held by it to the Buyer. Further, within one month of a change of control of DS Smith, Merpas UKCo will have option to sell to the Buyer all of the shares in IMRI then held by it. If any of the above circumstances occur (each, a **Further Acquisition**), the Buyer will pay cash for any shares in IMRI sold to it by Merpas UKCo with such shares valued on the basis of the higher of: (i) the initial enterprise value of the IRI Group; and (ii) IRI Group's consolidated EBITDA for the last 12 months multiplied by eight (or ten in the event of a change of control of DS Smith), adjusted for cash, debt and working capital pursuant to the adjustment mechanics provided in the Acquisition Agreement. DS Smith proposes to fund any Further Acquisition through cash and debt facilities available to it at such time.

Further details of the terms of the Shareholders' Agreement will be contained in the Circular.

5.3 Greencoat Licence Agreement

On Completion, IMRI and Indevco Plastics, Inc. (**Indevco Plastics**), an affiliate of IMRI that is not being acquired by DS Smith pursuant to the Acquisition, will enter into an exclusive licence agreement (the **Licence Agreement**), under which Indevco Plastics will grant IMRI an exclusive licence under certain Greencoat-related patents, trademarks and trade secrets for use by IMRI in the field of packaging in the United States for a one time licensing fee of US$1,000. Under the terms of the Licence Agreement, responsibility for prosecution, maintenance and enforcement of the licensed intellectual property will be allocated between the parties. The Licence Agreement will include customary representations, warranties, covenants and indemnities. Each party will indemnify the other party and its affiliates and representative against claims made against them or losses incurred by them as a result of the other party's breach of the representations, warranties and covenants. The term of the Licence Agreement will be until the end of the term of the last expired patent right or trademark right thereunder (whichever is latest). The Licence Agreement will be terminable by IMRI for convenience and by either party for a material uncured breach by the other party.

6. Financing of the Initial Acquisition

The consideration for the Initial Acquisition will be US$920 million (approximately £722 million). The Buyer will also assume or procure repayment of 100 per cent. of the IRI Group's financial indebtedness at Completion, expected to be approximately US$226 million (approximately £177 million). The consideration will be subject to customary post-Completion net debt and working capital adjustments.

The Buyer intends to satisfy the consideration for the Initial Acquisition through: (i) a payment of US$846 million (approximately £664 million) in cash; and (ii) the issue of the Consideration Shares with a value of US$300 million (approximately £235 million) to Merpas.

Sources of financing for the cash portion of the consideration for the Initial Acquisition

Proceeds of the Placing

DS Smith today separately announces that it intends to raise funds through the Placing to fund part of the cash portion of the consideration for the Initial Acquisition.

New Debt Facilities

On 28 June 2017, DS Smith entered into a £400 million bridge facility agreement (the **New Debt Facilities Agreement**) with Citi and JPMS as bookrunners and mandated lead arrangers, Citibank N.A., London Branch and JPMorgan Chase Bank, N.A., London Branch as original lenders (the **Original Lenders**) and Citibank Europe Plc, UK Branch as agent. The New Debt Facilities Agreement provides for DS Smith to receive one loan (the **Loan**) from the Original Lenders, which may be used to finance the Initial Acquisition and pay related costs and expenses, and for general corporate purposes. The Loan is available to be drawn until the date falling six months after the date of the New Debt Facilities Agreement.

Existing cash resources

DS Smith's net cash reserves were approximately £139 million as at 30 April 2017.

Consideration Shares

The number of Consideration Shares to be allotted and issued to Merpas will be 52,474,156 Ordinary Shares as has an aggregate value of US$300 million (approximately £235 million), calculated by reference to the average Closing Price of the Ordinary Shares on 23 June 2017, 26 June 2017 and 27 June 2017. For the purpose of this calculation, such average Closing Price has been converted from pounds sterling into US dollars using the London closing mid-point on 23 June 2017, 26 June 2017 and 27 June 2017, as obtained from Reuters.

Subject to the receipt of any documents required to be delivered by Merpas at Completion in respect of the allotment and issue of the Consideration Shares, the Consideration Shares will be allotted and issued to Merpas at Completion in registered form and will be capable of being held in both certificated and uncertificated form.

The Consideration Shares will be issued as fully paid and will rank *pari passu* in all respects with the Ordinary Shares, including the right to receive and retain in full all dividends and other distributions (if any) declared, made or paid by reference to a record date after the issuance of the relevant Consideration Shares. Applications will be made to the FCA for the Consideration Shares to be admitted to listing on the premium segment of the Official List and to the London Stock Exchange for the Consideration Shares to be admitted to trading on the Main Market. It is expected that the Consideration Shares will be issued, and that Admission will become effective, at 8.00 a.m. on the day following the date of Completion. Dealings in the Consideration Shares by Merpas are restricted for a period of twelve months from Completion by the terms of the Acquisition Agreement, subject to certain limited exceptions, as discussed above.

7. Dividend policy

The Board considers dividends to be an important component of the Enlarged Group shareholders' returns. It is the Board's intention to continue DS Smith's current dividend policy for the Enlarged Group, taking into account the Enlarged Group's leverage, earnings growth potential and future expansion plans. The Board currently intends to set the amount of the dividend so that dividends are progressive and the Board anticipates that dividend cover should be, on average, 2.0 to 2.5 times throughout the cycle.

8. Current trading, prospects and trend information

8.1 DS Smith

The Company today announces that it has published its preliminary consolidated financial statements for the year ended 30 April 2017. The Company has continued to trade in line with management's expectations.

8.2 IRI Group

Net revenues in the five months to 31 May 2017 showed positive growth over the prior year, driven by higher containerboard prices, increased shipment volumes from the paper mills and from the acquisition of RFC Container Co., a corrugated container production plant, on 3 January 2017. Adjusted operating profit for the five months to 31 May 2017 was ahead of the prior year with net revenue growth partly offset by increased cost of goods sold resulting primarily from higher OCC prices. An additional recently announced containerboard price increase across all grades gives the Directors confidence in further progression for the year to 31 December 2017.

9. Management and employees

No changes will be made to the DS Smith Board as a result of the Acquisition, and the DS Smith Board will continue to comprise the Chairman, two Executive Directors (the Group Chief Executive and the Group Finance Director) and five independent Non-Executive Directors. The Board will continue to adhere to the UK Corporate Governance Code.

Neemat Frem, CEO of Interstate Resources, Inc., will be appointed to DS Smith's U.S. sub-committee.

The IRI Group has high-quality employees and an experienced management team which is expected to contribute further to the success of the Enlarged Group. Upon Completion, the IMRI Board will consist of five directors, four of which will be appointed by the Buyer and one of which will be appointed by Merpas UKCo. IMRI management will continue to conduct the day-to-day operations of the IRI Group. The Board intends to fully respect the existing rights of all employees of the IRI Group.

The organisational structure of the Enlarged Group will be established with the intention of maximising available synergies and benefits. An Integration Programme Office has been established to support the executive management team which will run the Enlarged Group.

10. Financial effects of the Acquisition on DS Smith

The Board believes that the Acquisition will be financially beneficial to Shareholders taking into account the terms of the Acquisition and the expected cost synergies. The Directors believe that the Acquisition will offer an expected pre-tax return on invested capital above DS Smith's pre-tax weighted average cost of capital by 30 April 2019, using only cost synergies and before exceptional costs. The Directors believe the Enlarged Group will also benefit from increased scale and diversity that will enable it to further reduce its weighted average cost of capital.

The Acquisition is expected to be accretive immediately to EPS following Completion[7], excluding any benefit other than cost synergies.

The DS Smith Directors are confident in the outlook for the IRI Group in 2017 in light of recent positive corrugated box volume growth, increased shipment volumes from the paper mills and recently announced containerboard price increases. In the five months to 31 May 2017, the IRI Group's net revenue and adjusted operating profit both showed positive growth over the prior year and will also benefit from prior year acquisitions, providing confidence in further progression for the year to 31 December 2017.

Based on DS Smith's consolidated financials for the year ended 30 April 2017, the IRI Group's combined financials for the year ended 31 December 2016 and utilisation of the New Debt Facilities to fund part of the cash portion of the consideration for the Initial Acquisition, the net debt/EBITDA ratio of the Enlarged Group from Completion is expected to be approximately 2.2 times. The Board remains committed to DS Smith's medium-term financial criteria of a net debt/EBITDA ratio of less than or equal to 2.0 times and to DS Smith's existing investment grade rating. This targeted leverage profile is intended to give DS Smith significant headroom against its current banking covenants and is consistent with the Group's aim 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 rating.

The Directors believe that, following the Acquisition, the Enlarged Group should continue to achieve DS Smith's stated medium-term financial return criteria.

11. Unaudited pro forma financial information relating to the Enlarged Group

Appendix 2 (*Unaudited pro forma financial information relating to the Enlarged Group*) sets out unaudited pro forma financial information relating to the Enlarged Group and related notes.

12. Further information

Further details of the Acquisition, together with a notice convening a General Meeting to consider the Acquisition, will be contained in the Circular which is expected to be sent to Shareholders on or around 7 July 2017.

[7] This should not be construed as a profit forecast or interpreted to mean that the future earnings per share, profits, margins or cashflows of the DS Smith Group will necessarily be greater than the historic published figures.

APPENDIX 1

SUMMARY UNAUDITED HISTORICAL FINANCIAL INFORMATION RELATING TO THE IRI GROUP

Combined Income Statement

Continuing operations	**Before exceptional items 2016 $m**	**Exceptional items 2016 $m**	**After exceptional items 2016 $m**	Before exceptional items 2015 $m	Exceptional items 2015 $m	After exceptional items 2015 $m	Before exceptional items 2014 $m	Exceptional items 2014 $m	After exceptional items 2014 $m
Revenue	**618**	**–**	**618**	618	–	618	582	–	582
Operating costs	**(554)**	**(1)**	**(555)**	(536)	4	(532)	(515)	(3)	(518)
Operating profit before amortisation, acquisitions and disposals	**64**	**(1)**	**63**	82	4	86	67	(3)	64
Amortisation of intangible assets, acquisitions and disposals	**-**	**-**	**-**	-	-	-	-	-	-
Operating profit	**64**	**(1)**	**63**	82	4	86	67	(3)	64
Finance income	**1**	**–**	**1**	-	-	-	-	-	-
Finance costs	**(13)**	**–**	**(13)**	(11)	(2)	(13)	(10)	(3)	(13)
Net financing costs	**(12)**	**-**	**(12)**	(11)	(2)	(13)	(10)	(3)	(13)
Profit after financing costs	**52**	**(1)**	**51**	71	2	73	57	(6)	51
Share of profit/(loss) of equity accounted investments, net of tax and distributions	**-**	**-**	**-**	-	-	-	1	-	1
Profit before income tax	**52**	**(1)**	**51**	71	2	73	58	(6)	52
Income tax expense	**(15)**	**-**	**(15)**	(24)	-	(24)	(16)	-	(16)
Profit for the year	**37**	**(1)**	**36**	47	2	49	42	(6)	36
Profit for the year attributable to:									
Owners of the parent	**37**	**(1)**	**36**	47	2	49	42	(6)	36
Non-controlling interests	**-**	**-**	**-**	-	-	-	-	-	-
	37	**(1)**	**36**	47	2	49	42	(6)	36

Combined Statement of Comprehensive Income

	2016 $m	2015 $m	2014 $m
Profit for the year	**36**	49	36
Items which will not be reclassified subsequently to profit or loss			
Actuarial (loss)/gain on employee benefits	**1**	-	(6)
Income tax on items which will not be reclassified subsequently to profit or loss	**-**	-	2
Other comprehensive income/(expense) for the year, net of tax	**1**	-	(4)
Total comprehensive income/(expense) for the year	**37**	49	32
Total comprehensive income/(expense) attributable to:			
Owners of the parent	**37**	49	32
Non-controlling interests	**-**	-	-

Combined Statement of Financial Position

	2016 $m	2015 $m	2014 $m
Assets			
Non-current assets			
Intangible assets	**13**	13	13
Biological assets	**10**	11	8
Property, plant and equipment	**340**	347	349
Equity accounted investments	**7**	7	7
Other receivables	**42**	50	10
Total non-current assets	**412**	428	387
Current assets			
Inventories	**43**	43	40
Income tax receivable	**7**	9	19
Trade and other receivables	**68**	69	58
Cash and cash equivalents	**25**	16	12
Total current assets	**143**	137	129
Total assets	**555**	565	516
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	**(217)**	(247)	(227)
Employee benefits	**(7)**	(13)	(21)
Other payables	**(4)**	(3)	(3)
Deferred tax liabilities	**(58)**	(56)	(54)
Derivative financial instruments	**(1)**	(2)	(2)
Other long term liabilities	**(20)**	(31)	(33)
Total non-current liabilities	**(307)**	(352)	(340)
Current liabilities			
Bank overdrafts	**(11)**	(9)	(8)
Interest-bearing loans and borrowings	**-**	-	(3)
Employee benefits	**(1)**	(1)	(1)
Trade and other payables	**(45)**	(49)	(59)
Total current liabilities	**(57)**	(59)	(71)
Total liabilities	**(364)**	(411)	(411)
Net assets	**191**	154	105
Equity			
Share capital	**-**	-	-
Reserves	**191**	154	102
Total equity attributable to owners of the parent	**191**	154	102
Non-controlling interest	**-**	-	3
Total equity	**191**	154	105

Combined Statement of Changes in Equity

	Share capital $m	Reserves $m	Total equity attributable to owner of the parent $m	Non-controlling interest $m	Total equity $m
At 1 January 2014	**-**	**60**	**60**	**13**	**73**
Profit for the year	-	36	36	-	36
Actuarial gain on employee benefits	-	(6)	(6)	-	(6)
Income tax on other comprehensive income	-	2	2	-	2
Total comprehensive income	**-**	**32**	**32**	**-**	**32**
Put option redemption	-	10	10	(10)	-
At 31 December 2014	**-**	**102**	**102**	**3**	**105**
Profit for the year and total comprehensive income	-	49	49	-	49
Put option redemption	-	3	3	(3)	-
At 31 December 2015	**-**	**154**	**154**	**-**	**154**
Profit for the year	-	36	36	-	36
Actuarial gain on employee benefits	-	1	1	-	1
Total comprehensive income	**-**	**37**	**37**	**-**	**37**
At 31 December 2016	**-**	**191**	**191**	**-**	**191**

Combined Statement of Cash Flows

Continuing operations	**2016 $m**	2015 $m	2014 $m
Operating activities			
Cash generated from operations	**89**	108	96
Interest received	**1**	-	-
Interest paid	**(13)**	(15)	(14)
Tax paid	**(12)**	(10)	(21)
Cash flows from operating activities	**65**	83	61
Investing activities			
Acquisition of subsidiary businesses, net of cash and cash equivalents	**-**	-	(12)
Capital expenditure	**(34)**	(34)	(60)
Proceeds from sale of property, plant and equipment and intangible assets	**3**	-	-
Movements in loans to associates	**4**	(13)	(4)
Cash flows used in investing activities	**(27)**	(47)	(76)
Financing activities			
Distributions received from equity-accounted entities	**1**	1	1
Movement in revolving credit facility	**(30)**	7	6
Other financing activities	**(2)**	(41)	-
Cash flows from/(used in) financing activities	**(31)**	(33)	7
Increase in cash and cash equivalents	**7**	3	(8)
Net cash and cash equivalents at 1 January	**7**	4	12
Net cash and cash equivalents at 31 December	**14**	7	4

Notes:

1. Significant accounting policies

Basis of preparation

The historical combined financial information has been prepared to present the financial condition, results of operations and cash flows of the Indevco Management Resources, Inc. group (the **IRI Group**), which consists of:

- Indevco Management Resources, Inc. (**IMRI**), the ultimate holding company, registered in the USA with sole ownership of Merhill, SGT and PTH;

- Merhill Holdings S.a.r.l (**Merhill**), registered in Luxembourg, which is the sole owner of IRI;

- St. George Timber Inc, (**SGT**), with the exclusion of a property owned in Arlington, registered in the USA, which holds land and timber assets to primarily provide materials to IRI;

- Phoenix Technology Holdings Inc (**PTH**), registered in the USA, which provides engineering services to IRI; and

- Interstate Resources, Inc and all its subsidiaries, with the exclusion of Interstate Specialty Coating, LLC and Interstate Longview Reality, LLC, (collectively **IRI**), registered in the USA, which is an integrated producer of unbleached kraft linerboard, recycled medium, high-value corrugated packaging, lumber and other building products in the Eastern United States.

All transactions between companies in the IRI Group have been eliminated in the accompanying financial information (the **financial information**).

The preparation of the financial information of the IRI Group has been performed solely for inclusion in the Circular and has been prepared in accordance with the requirements of the Prospective Directive regulation and the UK Listing Rules. The accounting policies adopted and the presentation of the financial information are consistent with those used by DS Smith in its latest set of annual consolidated accounts, being the International Financial Reporting Standards as adopted by the European Union (**IFRS**).

IFRS does not provide for the preparation of combined historical information and, accordingly, in preparing the combined historical information certain accounting conventions commonly used for the preparation of historical information for inclusion in investment circulars as described in the Annexure to SIR 2000, Investment Reporting Standard applicable to public reporting engagement on historical financial information used by the UK Auditing Practiced Board, have been applied.

The application of these conventions results in a departure from IFRS regarding certain subsidiaries, assets and liabilities being excluded from the business being acquired. Subsidiaries, assets and liabilities that will not form part of the transaction have been excluded from the historical combined financial statements and all transactions relating to those subsidiaries, assets and liabilities have also been excluded. This provides the users of the financial information with a clear view of the continuing business acquired by DS Smith.

The assets, liabilities and their related operations that have been excluded from the combined financial information are as follows:

- Interstate Specialty Coating, LLC (**ISC**), a wholly owned subsidiary of IRI, manufacturer of poly-extrusion and aqueous-coated paper and paperboard products;
- Indevco Realty Longview LLC (**IRL**), a wholly owned subsidiary of IRI, which holds property assets used by other companies affiliated to, but not part of, the IRI Group; and
- a property located in Arlington, owned by SGT.

In all other respects the historical financial information has been prepared in accordance with IFRS. The financial information has been prepared under the historical cost convention. Where there is more than one recognition measure, presentation or disclosure option available under IFRS, the information has been presented in accordance with the application adopted by DS Smith's latest annual financial statements for the 2017 Financial Year.

2. Subsequent Events

On January 3, 2017, IRI Group entered into an Interest Purchase Agreement with owners of RFC Container, LLC and CEMT Holdings Group, LLC to acquire a 100% interest in both entities for a purchase price of $35m less working capital changes from November 15, 2016 versus the closing date. CEMT Holdings Group, LLC owns a 20% interest in Philcorr, LLC and Philcorr Vineland, LLC increasing IMRI's ownership interest of these two partnerships to 40%. IRI Group is in process of allocating the purchase price to net assets acquired at the time the historical combined financial information was prepared. Management estimates the acquisition will contribute $5m to profit before income tax.

APPENDIX 2

UNAUDITED PRO FORMA FINANCIAL INFORMATION RELATING TO THE ENLARGED GROUP

The unaudited pro forma financial information for the Enlarged Group and related notes have been prepared to illustrate the effect of the Initial Acquisition on the income statement of the DS Smith Group for the 2017 Financial Year as if the Initial Acquisition had taken place on 1 May 2016 and the effect on the net assets of the DS Smith Group as if the Initial Acquisition had occurred on 30 April 2017.

The following unaudited pro forma financial information is based on the consolidated financial information of the DS Smith Group for the 2017 Financial Year and the combined financial information of the IRI Group for the year ended 31 December 2016 and compiled on the basis set out in the notes to the unaudited pro forma financial information. The unaudited pro forma financial information has been prepared in a manner consistent with the accounting policies adopted for the DS Smith Group for the 2017 Financial Year.

The unaudited pro forma financial information, which has been produced for illustrative purposes only, by its nature addresses a hypothetical situation and, therefore, does not represent the Enlarged Group's actual financial position or results. The unaudited pro forma financial information of the Group has been prepared in accordance with Annex II to the Prospectus Directive Regulation, as applied by item 13.3.3R of the Listing Rules.

The unaudited pro forma financial information does not constitute financial statements within the meaning of section 434 of the Companies Act 2006.

The unaudited pro forma financial information does not take into account trading of the DS Smith Group and/or the IRI Group subsequent to 30 April 2017 (in the case of the DS Smith Group) or 31 December 2016 (in the case of the IRI Group).

Unaudited pro forma income statement

Continuing operations	DS Smith for the year ended 30 April 2017 (Note 1) £m	Adjustments: IRI Group for the year ended 31 December 2016 (Note 2) £m	Adjustments: Acquisition Adjustments (Note 3) £m	Unaudited pro forma of the Enlarged Group £m
Revenue	4,781	456	-	5,237
Operating costs	(4,395)	(410)	(14)	(4,819)
Operating profit before amortisation, acquisitions and disposals	**386**	**46**	**(14)**	**418**
Amortisation of intangible assets, acquisitions and disposals	(70)	-	-	(70)
Operating profit	**316**	**46**	**(14)**	**348**
Finance income	1	1	-	2
Finance costs	(51)	(10)	(5)	(66)
Employment benefit net finance expense	(5)	-	-	(5)
Net financing costs	(55)	(9)	(5)	(69)
Profit after financing costs	**261**	**37**	**(19)**	**279**
Share of profit of equity-accounted investments, net of tax	3	-	-	3
Profit before income tax	**264**	**37**	**(19)**	**282**
Income tax (expense)/credit	(56)	(10)	4	(62)
Profit for the year	**208**	**27**	**(15)**	**220**

Notes:

(1) The financial information of the DS Smith Group has been extracted, without material adjustment, from the 2017 Annual Report and Accounts. The financial information is inclusive of amounts which are disclosed in the 2017 Annual Report and Accounts as exceptional items.

(2) The financial information of the IRI Group has been extracted, without material adjustment, from the unaudited historical financial information of the IRI Group for the year ended 31 December 2016 converted into pounds sterling using the average exchange rate for the year ended 31 December 2016 of $1:£0.7381.

(3) This adjustment includes:

(a) The estimated one-off transaction expenses of £14m which are required by IFRS 3 to be charged to the income statement. One-off transaction costs of £5m relating to the share placing with existing DS Smith equity holders have been netted against equity as required by IAS 32.

(b) A charge of £3m has been recognised in "Finance costs" to reflect the estimated annual interest charges calculated under the effective interest method and payable under the bridging financing entered into to finance part of the Initial Acquisition. This is expected to be an ongoing annual cost.

(c) One-off debt issuance costs of £2m have been amortised to "Finance costs".

(d) Tax impacts of the above, based on an effective tax rate of 22%. Only the £1m tax credit related to the annual interest charge is expected to be an ongoing annual cost.

Unaudited pro forma statement of net assets

		Adjustments			
	DS Smith Group as at 30 April 2017 (Note 1) £m	IRI Group as at 31 December 2016 (Note 2) £m	Transaction Funding (Note 3) £m	Acquisition Adjustments (Note 4) £m	Unaudited pro forma of the Enlarged Group £m
Assets					
Non-current assets					
Goodwill and intangible assets	1,178	10	-	752	1,940
Biological assets	-	8	-	-	8
Property, plant and equipment	1,866	267	-	-	2,133
Equity accounted investments	9	6	-	-	15
Other investments	3	-	-	-	3
Deferred tax assets	79	-	-	-	79
Other receivables	3	33	-	-	36
Derivative financial instruments	19	-	-	-	19
Total non-current assets	**3,157**	**324**	**-**	**752**	**4,233**
Current assets					
Inventories	406	34	-	-	440
Income tax receivable	10	5	-	-	15
Trade and other receivables	766	53	-	-	819
Cash and cash equivalents	139	19	678	(487)	349
Derivative financial instruments	13	-	-	-	13
Assets held for sale	2	-	-	-	2
Total current assets	**1,336**	**111**	**678**	**(487)**	**1,638**
Total assets	**4,493**	**435**	**678**	**265**	**5,871**
Liabilities					
Non-current liabilities					
Interest-bearing loans and borrowings	(1,144)	(170)	-	-	(1,314)
Employee benefits	(181)	(6)	-	-	(187)
Other payables	(14)	(3)	-	-	(17)
Provisions	(5)	-	-	-	(5)
Deferred tax liabilities	(133)	(45)	-	-	(178)
Derivative financial instruments	(11)	(1)	-	-	(12)
Other long term liabilities	-	(16)	-	-	(16)
Put option liability	-	-	-	(180)	(180)
Total non-current liabilities	**(1,488)**	**(241)**	**-**	**(180)**	**(1,909)**
Current liabilities					
Bank overdrafts	(16)	(8)	-	-	(24)
Interest-bearing loans and borrowings	(119)	-	(398)	-	(517)
Employee benefits	-	(1)	-	-	(1)
Trade and other payables	(1,358)	(35)	-	(19)	(1,412)
Income tax liabilities	(120)	-	-	-	(120)
Provisions	(24)	-	-	-	(24)
Derivative financial instruments	(13)	-	-	-	(13)
Total current liabilities	**(1,650)**	**(44)**	**(398)**	**(19)**	**(2,111)**
Total liabilities	**(3,138)**	**(285)**	**(398)**	**(199)**	**(4,020)**
Net assets	**1,355**	**150**	**280**	**66**	**1,851**

Notes:

(1) The financial information of the DS Smith Group has been extracted, without material adjustment, from the 2017 Annual Report and Accounts.

(2) The financial information of the IRI Group has been extracted, without material adjustment, from the unaudited historical financial information of the IRI Group for the year ended 31 December 2016 converted into pounds sterling using an exchange rate of $1:£0.7843.

(3) The Initial Acquisition will be financed using a mixture of sources:

	£m
Placing of shares with existing DS Smith equity holders	280
New bridging finance facility	400
Estimated cash raised	680
Debt issuance costs	(2)
Net increase in cash held	678

The £398m increase in interest-bearing liabilities includes the £400m raised from the bridging loan facility less £2m of debt issuance costs which have been netted against the liability. Of this amount, an estimated £387m will be used in the funding of the Initial Acquisition and the remaining amount used to repay existing DS Smith debt facilities.

(4) The consideration on the Initial Acquisition will be payable as a combination of the issuance of ordinary shares in DS Smith and cash. The Initial Acquisition consideration is set out below:

	£m
Consideration shares	235
Cash	487
Initial Acquisition consideration shares and cash	722

The Shareholder's Agreement grants Merpas UKCo (as defined in the announcement) the option to sell either all of or a parcel of the remaining shares in IMRI held by Merpas UKCo at certain dates. This option has been recognised as a liability.

The Initial Acquisition has been accounted for using the acquisition method of accounting. Any excess consideration above the book value of the net assets acquired has been reflected as goodwill. A fair value exercise will be completed post Initial Acquisition, therefore no account has been taken of any fair value adjustments that may arise on the Initial Acquisition and no intangible assets and tax consequences have been valued at this stage. The adjustment to goodwill has been calculated as follows:

	£m
Initial Acquisition consideration shares and cash	722
Put option liability	180
Value assigned to the IRI Group	902
Net assets acquired	(150)
Pro forma goodwill adjustment	752

An adjustment of £19m has been made to "trade and other payables" to reflect a payable for one-off transaction costs. This is made up of £14m of transaction costs and £5m of share placing costs.

(5) In preparing the unaudited pro forma statement of net assets of the Enlarged Group, no account has been taken of the trading activity or other transactions of the DS Smith Group since 30 April 2017 and no account has been taken of the trading activity or other transactions of the IRI Group since 31 December 2016

(6) The table below sets out the net debt of the Enlarged Group as if the acquisition had occurred on 30 April 2017:

	£m
DS Smith Group	(1,092)
IRI Group	(160)
Estimated cash raised	678
Cash consideration on Initial Acquisition	(487)
New bridging finance facility	(398)
	(1,459)

The net debt of the DS Smith Group has been extracted, without material adjustment, from the 2017 Annual Report and Accounts.

The net debt of the IRI Group has been extracted, without material adjustment, from the unaudited historical financial information of the IRI Group for the year ended 31 December 2016 converted into pounds sterling using an exchange rate of $1:£0.7843.

Refer to notes 3 and 4 above for details on the net debt created by the transaction funding.

APPENDIX 3

DEFINITIONS AND GLOSSARY

The following expressions have the following meanings throughout this announcement, unless the context otherwise requires:

2017 Financial Year	DS Smith's financial year ended 30 April 2017;
Acquisition	the Initial Acquisition or the Initial Acquisition together with any Further Acquisition, as the context requires;
Acquisition Agreement	the agreement entered into among DS Smith, DS Smith Holdings, Merpas and IMRI on 28 June 2017, setting out the terms and conditions of the Initial Acquisition, as described in more detail in paragraph 5.1 of this announcement;
Adjusted Operating Profit	operating profit excluding amortisation and exceptional items. Exceptional items include business disposal gains and losses, restructuring and optimisation, acquisition related and integration costs and impairments;
Admission	the proposed admission of the Consideration Shares by the UKLA to listing on the premium segment of the Official List and by the London Stock Exchange to trading on the Main Market;
Buyer	DS Smith and/or DS Smith Holdings, as the context requires;
CAGR	compound annual growth rate;
CCM	corrugated case material;
certificated	in relation to a share or other security, a share or other security, title to which is recorded in the relevant register of the share or other security concerned as being held in certificated form (that is, not in CREST);
Circular	the Class 1 circular and notice of General Meeting to be published in connection with the Acquisition, which is expected to be sent to Shareholders on or around 7 July 2017;
Citi	Citigroup Global Markets Limited;
Closing Price	the closing middle market price of a relevant share as derived from the London Stock Exchange Daily Official List of share identifiers on any particular day;
Companies Act 2006	the Companies Act 2006, as amended;
Completion	completion of the Initial Acquisition;
Consideration Shares	the new Ordinary Shares proposed to be issued by the Company to Merpas with a value of US$300 million (approximately £235 million), pursuant to the Acquisition Agreement;
Disclosure Guidance and Transparency Rules	the rules made by the FCA under Part VI of FSMA relating to the disclosure of information (as amended from time to time);
DS Smith or **the Company**	DS Smith Plc, a company incorporated in England and Wales with registered number 1377658 and having its registered office at 350 Euston Road, London, NW1 3AX;
DS Smith Board or Board	the board of Directors of DS Smith;

DS Smith Directors or Directors	the directors of the Company or, as the context requires, the directors from time to time of the Company, and **Director** shall be construed accordingly;
DS Smith Group or the Group	DS Smith and its subsidiaries and subsidiary undertakings from time to time and, where the context requires, each one of them;
DS Smith Holdings	DS Smith Holdings, Inc., a Delaware corporation with File No. 6454346 and having its registered office at Corporation Trust Center, 1209 Orange Street, Wilmington, County of New Castle, Delaware 19801;
EBITDA	earnings before interest, tax, depreciation and amortisation;
Enlarged Group	the DS Smith Group and the IRI Group together following Completion;
FCA	the Financial Conduct Authority of the United Kingdom;
FMCG	fast moving consumer goods;
FSMA	the Financial Services and Markets Act 2000, as amended from time to time;
Further Acquisition	any further acquisition, or series of acquisitions, by DS Smith of some or all of the remaining shares in IMRI pursuant to the terms of and subject to the conditions of Shareholders' Agreement;
General Meeting	the general meeting of the Company to approve the Resolution, the notice of which will be contained in the Circular;
HSR Act	the U.S. Hart-Scott-Rodino Improvements Act of 1976, as amended;
IMRI	Indevco Management Resources, Inc., a Delaware corporation with File No. 5073953 and having its registered office at 1679 South DuPont HWY, Suite 100, Dover, Delaware 19901;
IMRI Board	the board of directors from time to time of IMRI;
Initial Acquisition	the proposed acquisition by the Buyer of 80 per cent. of the total issued share capital of IMRI from Merpas;
IRI Group	IMRI and its subsidiaries and subsidiary undertakings from time to time and, where the context requires, each one of them;
JPM	JPMS and JPML, as the context requires (each of which conducts its UK investment banking activities under the marketing name J.P. Morgan Cazenove);
JPML	J.P. Morgan Limited;
JPMS	J.P. Morgan Securities plc;
Listing Rules	the Listing Rules made by the FCA under Part VI of FSMA (as amended from time to time);
London Stock Exchange	London Stock Exchange plc;
Main Market	the London Stock Exchange's main market for listed securities;
Merpas	Merpas Co. S.à r.l., a Luxembourg private limited liability company (*société à responsabilité limitée*), having its registered office at 33, boulevard du Prince Henri, L-1724 Luxembourg, Grand-Duchy of Luxembourg and registered with the Luxembourg Trade and Companies Register under number B 167.050;

Merpas UKCo	an entity within the INDEVCO group that holds shares in IMRI at the time the Shareholders' Agreement is entered into;
New Debt Facilities	the £400 million bridge facility provided to DS Smith pursuant to the New Debt Facilities Agreement, which may be used to finance the Initial Acquisition and pay related costs and expenses, and for general corporate purposes;
New Debt Facilities Agreement	the agreement entered into by DS Smith, Citi and JPMS as bookrunners and mandated lead arrangers, Citibank N.A., London Branch and JPMorgan Chase Bank, N.A., London Branch as original lenders and Citibank Europe Plc, UK Branch as agent on 28 June 2017 in relation to the New Debt Facilities;
Official List	the official list of the FCA;
Ordinary Shares	the ordinary shares of 10 pence each in the capital of DS Smith;
Placing	the placing of new Ordinary Shares by the Company to raise £280 million (net of commissions and expenses) to fund part of the cash portion of the consideration for the Initial Acquisition, as separately announced today by the Company;
Placing Shares	the new Ordinary Shares to be issued pursuant to the Placing;
PRA	the Prudential Regulation Authority of the United Kingdom;
Prospectus Directive Regulation	the Commission Regulation (EC) No 809/2004;
Resolution	the resolution to be proposed at the General Meeting, to be set out in the notice of General Meeting in the Circular;
Shareholder	a holder of Ordinary Shares from time to time;
Shareholders' Agreement	the agreement to be entered into between DS Smith, DS Smith Holdings, Merpas UKCo and IMRI on Completion relating to IMRI, as described in more detail in paragraph 5.2 of this announcement;
UKLA	the UK Listing Authority;
uncertificated or in uncertificated form	in relation to a share or other security, a share or other security, title to which is recorded in the relevant register of the share or other security concerned as being held in uncertificated form (that is, in CREST) and title to which may be transferred by using CREST;
United Kingdom or UK	the United Kingdom of Great Britain and Northern Ireland; and
United States or US or USA	the United States of America, its territories and possessions, any state of the United States of America, the District of Columbia.