Company Registration No. 00214967

DS Smith Recycling UK Limited

Annual report and financial statements for the year ended 30 April 2020

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DS Smith Recycling UK Limited

Annual report and financial statements for the year ended 30 April 2020

Officers and professional advisers

Directors

C S McIntyre
J P C Silk
W B Hicks
J S Melia

Company Secretary

Z W Stone

Registered office

350 Euston Road
London
NW1 3AX
United Kingdom

Registered number

00214967

Auditor

Deloitte LLP
Statutory Auditor
Cardiff
United Kingdom

Banker

National Westminster Bank Plc
Ashton Gate
Bristol
BS3 1JA

Solicitor

Slaughter & May
One Bunhill Row
London
EC1Y 8YY

DS Smith Recycling UK Limited

Strategic report

The Directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

Principal activities

The principal activities of the Company are the collecting, transporting, processing, sorting and selling of recyclable waste paper and other dry mixed recyclables.

Business review

During the year, as shown in the Company's income statement on page 11, sales were £175m (2019: £239m). The Company recorded a loss before income tax of £0.5m (2019: £1.3m profit).

The year saw a dynamic market where both export and mainland European domestic market changes influenced the price and fibre movement within the UK and cross-border. Demand changes for PfR in the UK market resulted in a higher surplus of supply and led to a reduction in sales prices throughout 2020 especially as the market entered the fourth quarter. Reduced demand from China resulted in sales to other export regions with lower price premiums, but enabling continuity of offtake.

In response to the dynamic fibre environment the business implemented cost control measures including business restructuring, driving lower year-on-year operating costs.

Exceptional items of £3,274,000 primarily relate to the impairment of property, plant and equipment and right-of-use assets ahead of a site closure as part of ongoing restructuring activities across the business (see note 7 of the financial statements).

The net assets of the Company, as shown in the statement of financial position on page 12, marginally decreased from £69.8m at 30 April 2019 to £69.5m at 30 April 2020.

Key performance indicators

The main driver of the business is the number of tonnes of fibre the business sources. The business continued to develop its service offering to its suppliers and customers to close the loop on the recycling of fibre and offer fibre offtake opportunities. In the year ended 30 April 2020 the business used 1,464kt tonnes of fibre which combined with a volatile price led to fall in revenue of 27%.

Return on sales, being operating profit before exceptional items expressed as a percentage of revenue, increased from 0.7% in 2019 to 1.8% in 2020 reflecting good cost control measures in the year, notably distribution costs.

Section 172(1) of the Companies Act 2006

The Board of Directors comprises the Divisional Chief Executive of Supply Engine, the Finance Director – Recycling and the Group Financial Controller. The Directors aim to promote the success of the Company for the benefit of its shareholder and the Group as a whole, taking into account the long-term consequences of its decisions and looking at those decisions through a variety of lenses. The Company contributes to the Group's 3 year corporate plan which provides long-term strategic direction for the business. The Directors and management are continuously thinking about the interests of the Company's stakeholders; about the importance of maintaining the Company's reputation for high standards of business conduct; and about the environment. The Company's key stakeholders and their differing perspectives are identified and taken into account, not only as part of the Board's annual strategy and corporate planning discussions, but also in the Board's project assessments and in Board conversations. The Company's key stakeholders have been identified as its employees, its customers, the communities in which the Company operates, non-governmental organisations and its suppliers. Examples of how this has been achieved is provided below:

Employees

The Company employs approximately 455 people and has a modern, inclusive and diverse culture. It is committed to both the principle and achievement of equal opportunities in employment and policies are designed to provide such equality irrespective of sex, creed, ethnic origin, nationality, sexual orientation, age or disability.

DS Smith Recycling UK Limited

Strategic report (continued)

Employees (continued)

Dependent upon their skills and abilities, the Company applies the same criteria to disabled persons as it does to other employees whether in selection, promotion or training. If any employee becomes disabled during employment with the Company, every effort is made to find suitable continuing employment. The Company fully recognises its responsibilities and continues to promote all aspects of health and safety in the interests of its employees and members of the public.

The Company is fully committed to ensuring that sufficient emphasis is placed on employee involvement and communication through a variety of methods, and continues to keep employees informed on matters affecting them as employees and on the various factors affecting the performance of the Company and the wider Group. The Company engage people in a number of ways: on site through team briefings and leadership visits, online and in print through newsletters and providing mechanisms for feedback through employee works councils, employee surveys and more regular pulse surveys, which inform local action plans and sharing of best practice. The Group has a confidential hotline known as 'Speak Up!' for employees to report concerns where they do not wish to go through their line manager. An example of the Company's partnership approach has been the co-creation of an employee charter setting out our shared values and principles on issues that matter to our people. Furthermore, the Group operates a Sharesave Plan which encourages employees' involvement in the Group and Company's performance.

Customers

The Company supplies both external customers, and the Group's UK Paper Division. It has a deep understanding of its customers as a result of working closely with them over many years, combining this understanding with creativity to allow the Group to develop innovative, sophisticated packaging that improves the efficiency of supply chains, saving customers money and improving their security of supply. During the Covid-19 pandemic, the Company has supported its customers as they keep essential goods, food and pharmaceuticals moving.

Communities and non-governmental organisations

The Company's employees are engaged in local community programmes to promote the protection of the environment, biodiversity and good community relations. The Directors consult with government and industry organisations as well as non-governmental organisations such as the Ellen MacArthur Foundation on the circular economy and broader sustainability issues.

Suppliers

The Company engages with all suppliers to enforce established supplier standards and a supplier code of conduct, which set out the Company's ways of working, including for example, in relation to the Company's obligations under anti-modern slavery laws and ensuring compliance with sustainability standards.

Environment

The Company recognises the importance of its environmental responsibilities and monitors its impact on the environment. The Company has testing environment targets so that it continues to improve its impact on the environment.

Initiatives designed to minimise the Company's impact on the environment include reducing and recycling waste and investment in equipment designed to improve energy efficiencies.

Principal risks and uncertainties

The Company's operation of collecting and processing recyclable waste paper is exposed to risks relating to changes in demand and quality requirements in the wider international fibre market. These risks are mitigated by management of quality through the business' operational network, contracting of fibre and development of domestic and international fibre offtake opportunities.

Changes in the sales price of waste paper, where possible, are passed on to the customer.

The risk that customers cannot meet their obligations constitutes a customer credit risk. This risk is mitigated by the strict application of our credit policy and regular management review of accounts that are rated as higher risk.

Covid-19

The Covid-19 pandemic has resulted in the shutdown of economies across the world, resulting in job losses and business failures and a global recession, including in the UK. The Directors' primary focus has been the health and wellbeing of the Company's employees. Secondly, the Directors have focused on maintaining an uninterrupted service to the Company's customers, the majority of whom are part of a supply chain which are generally classified as essential operations. Throughout the pandemic to date, services have continued. New ways of working have been implemented to reflect the latest guidance on safe operations and changes in demand. In response to the pandemic the Company has undertaken measures to reinforce the Company's financial position and ongoing performance through conserving cash and managing costs.

Future developments

The external commercial environment is expected to remain challenging during the next financial year. The business has structured its operations to address the commercial challenge and continue to meet its customers' needs and expectations. The Covid-19 pandemic remains a challenge and the Directors will continue to monitor the impact the pandemic will have on its stakeholders. The Company has already taken actions to conserve cash and manage costs and will continue to do so. Given how well its people and operations have performed during the peak of the pandemic, the Directors are confident in the Company's ability to continue to perform well in the future.

The Directors are confident that the longer-term business outlook is positive.

Approved by the Board of Directors and signed on behalf of the Board:

W B Hicks
Director
29 October 2020

DS Smith Recycling UK Limited

Directors' report

The Directors present their annual report and the audited financial statements of the Company for the year ended 30 April 2020.

Disclosures required by s416(4) which have been elevated to the Strategic report: Future developments.

Dividends

The Directors have not proposed or paid a dividend for the year ended 30 April 2020 (2019: £nil).

Directors

The Directors who held office during the year and to the date of signing the financial statements, except as noted, were as follows:

C S McIntyre

W B Hicks

J P C Silk

J F Behr (resigned 31 July 2020)

J S Melia

Secretary

Z W Stone

Directors' and officers' indemnity

During the year and up to the date of approval of these financial statements, the ultimate parent Company maintained qualifying third-party indemnity arrangements for the Directors and other officers of the Company.

Political contributions

No political contributions were made during the year (2019: £nil).

Financial risk management objectives and policies

The Directors meet periodically to discuss financial and other risks. Key price risk and credit risk are discussed during periodic reviews of the business. As a business we try to match our prices with our raw material costs. Where required, hedging instruments are entered into by the Company with the ultimate parent Company, DS Smith Plc.

Fibre pricing

We are constantly managing the risk associated with fibre pricing by managing our mix of UK and overseas purchases and the effect of regulatory changes in China.

Brexit

The UK left the EU at the start of 2020 and the transition period is expected to end on 1 January 2021. In 2020 the UK comprised c. 82% of the Company's revenue for which product was largely sourced within the UK and as such the Directors do not expect a substantial disruption in the event of an orderly transition to new trading arrangements between the UK and the EU. In the event of a disorderly transition, there could be short-term consequences, for example, disruption to haulage providers, but would expect this to be relatively contained. Discussions and planning have taken place with key trading partners to mitigate against any potential disruption to the supply chain.

Events after the balance sheet date

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

Going concern

The financial statements have been prepared using the going concern basis of accounting. In making their assessment on the appropriateness of using the going concern basis, the Directors have considered any material uncertainties relating to events or conditions that may cast significant doubt upon the continuing use of the going concern basis of accounting in future periods. The Directors have considered a period of at least 12 months from the date the financial statements are expected to be authorised for issue. The Going concern assessment was made using latest forecast trading results. The Covid-19 pandemic has resulted in increased demand in the FMCG and e-commerce Packaging segments which has helped sustain the Company's sales.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out within the strategic report. The financial position of the Company is as shown in the statement of financial position. At 30 April 2020 the Company reported net current assets of £55,323,000 (2019: £59,143,000) and net assets of £69,541,000 (2019: £69,814,000) and therefore remains solvent.

The Group has access to considerable financial resources which would be available to the Company if necessary. As a consequence, the Directors believe the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors have formed a judgement at the time of approving these financial statements, that there is a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they have continued to adopt the going concern basis in preparing these financial statements.

Streamlined Energy and Carbon Reporting

The Company is included in the Group reporting of the ultimate parent company which has provided its consolidated CO2 emissions and energy consumption on page 34 of the Strategic report in the Group's 2020 annual report.

Auditor

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

- so far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

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

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements are being made for them to be reappointed as Auditor in the absence of an Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board:

W B Hicks

Director

29 October 2020

DS Smith Recycling UK Limited

Directors' responsibilities statement

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor’s report to the members of DS Smith Recycling UK Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of DS Smith Recycling UK Limited (the “Company”):

- give a true and fair view of the state of the Company’s affairs as at 30 April 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 “Reduced Disclosure Framework”; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 24.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 “Reduced Disclosure Framework”.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council’s (the ‘FRC’s’) Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors’ use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our Auditor’s report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Independent auditor's report to the members of DS Smith Recycling UK Limited (continued)

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

David Hedditch (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Cardiff, United Kingdom

29 October 2020

DS Smith Recycling UK Limited

Income Statement

For the year ended 30 April 2020

	Notes	**Before exceptional items 2020 £'000**	**Exceptional items (note 7) 2020 £'000**	**Total 2020 £'000**	Before exceptional items 2019 £'000	Exceptional items (note 7) 2019 £'000	Total 2019 £'000
Revenue	2	**175,067**	**-**	**175,067**	238,855	-	238,855
Cost of sales		**(130,733)**	**-**	**(130,733)**	(182,622)	-	(182,622)
Gross profit		**44,334**	**-**	**44,334**	56,233	-	56,233
Distribution costs		**(28,276)**	**-**	**(28,276)**	(39,732)	-	(39,732)
Administrative expenses		**(12,928)**	**(3,274)**	**(16,202)**	(14,834)	(46)	(14,880)
Operating (loss)/ profit	3	**3,130**	**(3,274)**	**(144)**	1,667	(46)	1,621
Net Finance costs	6	**(373)**	**-**	**(373)**	(288)	-	(288)
(Loss)/profit before income tax		**2,757**	**(3,274)**	**(517)**	1,379	(46)	1,333
Income tax credit	8	**(378)**	**622**	**244**	580	-	580
(Loss)/profit for the financial year		**2,379**	**(2,652)**	**(273)**	1,959	(46)	1,913

There are no recognised gains or losses other than those detailed in the income statement, and therefore no separate statement of comprehensive income has been presented. All the results are from continuing operations.

DS Smith Recycling UK Limited

Statement of financial position

As at 30 April 2020

	Notes	2020 £'000	2019* £'000
Assets			
Non-current assets			
Intangible assets	9	**92**	345
Property, plant and equipment	10	**9,562**	8,843
Right-of-use assets	11	**17,628**	-
Deferred tax assets	12	**1,330**	1,513
Total non-current assets		**28,612**	10,701
Current assets			
Inventories	13	**401**	1,794
Trade and other receivables	14	**107,214**	103,458
Cash and cash equivalents		**5,591**	32,950
Total current assets		**113,206**	138,202
Total assets		**141,818**	148,903
Liabilities			
Non-current liabilities			
Lease liabilities	11	**(14,394)**	(30)
Total non-current liabilities		**(14,394)**	(30)
Current liabilities			
Trade and other payables	15	**(50,236)**	(76,379)
Lease liabilities	11	**(4,354)**	(14)
Income tax liabilities		**(1,655)**	(2,317)
Provisions	16	**(1,638)**	(349)
Total current liabilities		**(57,883)**	(79,059)
Net current assets		**55,323**	59,143
Total assets less current liabilities		**83,935**	69,844
Total liabilities		**(72,277)**	(79,089)
Net assets		**69,541**	69,814
Equity			
Called-up share capital	17	**9,295**	9,295
Retained earnings	17	**60,246**	60,519
Shareholder's equity		**69,541**	69,814

*Finance leases have been presented separately following the adoption of IFRS 16 *Leases* (see note 11)

The financial statements for DS Smith Recycling UK Limited (registered number 00214967) were approved by the Board of Directors and authorised for issue on 29 October 2020.

Signed on behalf of the Board of Directors:

W B Hicks
Director

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

DS Smith Recycling UK Limited

Statement of changes in equity

For the year ended 30 April 2020

	Called-up share capital £'000	Retained earnings £'000	Total equity £'000
At 1 May 2018	**9,295**	**58,606**	**67,901**
Profit for the year	-	1,913	**1,913**
Total comprehensive income	-	1,913	**1,913**
At 30 April 2019	**9,295**	**60,519**	**69,814**
Loss for the year	-	(273)	**(273)**
Total comprehensive expense	-	(273)	**(273)**
At 30 April 2020	**9,295**	**60,246**	**69,541**

DS Smith Recycling UK Limited

Notes to the financial statements for the year ended 30 April 2020

1. Principal accounting policies

Basis of preparation

The financial statements of the Company have been prepared on the going concern basis and in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101) and the UK Companies Act 2006.

FRS 101 sets out an optional reduced disclosure framework which addresses the financial reporting requirements and disclosure exemptions for the individual financial statements of subsidiaries and ultimate parents that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The Company is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the Company's registered office is shown on page 1.

These financial statements are prepared under the historical cost convention.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- statement of cash flows and related notes;
- disclosures in respect of transactions with other Group entities, including the ultimate parent Company;
- comparative period reconciliations for tangible fixed assets and intangible assets;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRSs; and
- disclosures in respect of key management personnel.

As the Group financial statements include the equivalent disclosures, the Company has also taken advantage of the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instruments;* and
- The requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 *Share-based Payment*.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The following new standards, amendments or interpretations have been adopted by the Company as of 1 May 2019:

- IFRS 16 *Leases*;
- IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*;
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*;
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*; and
- Annual improvements to IFRS standards 2015 – 2017.

Where relevant, equivalent disclosures have been made in the Group accounts.

IFRS 16 *Leases*

The Company adopted IFRS 16 on 1 May 2019 using the modified retrospective approach and practical expedients available. As per the specific transitional arrangements in the standard, comparative information has not been restated and all adjustments were made in the opening statement of financial position as at 1 May 2019. Finance lease balances under IAS 17 *Leases* at 30 April 2019 have been presented separately. As such, results for the year ended 30 April 2019 continue to be reported under the previous lease accounting standard, IAS 17 *Leases*. IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 supersedes the previous lease guidance including IAS 17 *Leases* and the related Interpretations for accounting periods beginning on or after 1 January 2019.

1. Principal accounting policies (continued)

IFRS 16 *Leases* (continued)

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Company applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 May 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Company has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Company.

IFRS 16 prescribes a single lessee accounting model that requires the recognition of a right-of-use asset and corresponding liability for all leases with terms over 12 months, unless the underlying asset is of low value. The liability is initially measured as the present value of future lease payments for the lease term.

The right-of-use asset is calculated as the lease liability adjusted by the amount of any prepaid or accrued lease payments. Lease incentives are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight-line basis. Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36. Depreciation of right-of-use assets and interest on the corresponding lease liabilities are recognised in the income statement over the lease term. In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

On implementation of IFRS 16, the Company recognised right-of-use assets of £19,514,000 and corresponding lease liabilities of £19,514,000. There was no impact on the Company's opening equity as a result of adopting IFRS 16. The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the balance sheet on 1 May 2019 was 4.9%.

The following table reconciles the difference between the operating lease commitments under IAS 17 at 30 April 2019 and the lease liability recognised on adoption of IFRS 16 on 1 May 2019:

	Total £'000
Non-cancellable operating lease rentals reported as at 30 April 2019	25,534
Impact of discounting liability under IFRS 16	(6,020)
Lease liability recognised on transition to IFRS 16 at 1 May 2019	**19,514**

The Company has applied the following practical expedients in adopting IFRS 16:

- The Company has not reassessed whether transition date contracts are or contain a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 May 2019;
- IFRS 16 has not been applied to low value assets or leases of less than 12 months in total, which will continue to be expensed to profit and loss (in cost of sales) on a straight-line basis over the lease term;
- The Company has placed reliance on previous assessments as to whether or not leases are onerous. Any onerous lease provisions were adjusted against the carrying value of the corresponding right-of-use asset on transition;
- Hindsight has been applied in determining the lease term where options to extend or terminate exist; and
- The Company applied a single discount rate to portfolios of leases with reasonably similar characteristics.

1. Principal accounting policies (continued)

IFRS 16 *Leases* (continued)

For leases classified as finance leases under IAS 17, the previous carrying amount of the lease asset and liability under IAS 17 was taken as the carrying amount of the right-of-use asset and corresponding lease liability.

IFRS standards and interpretations in issue but not yet effective

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued new standards and interpretations with an effective date after the date of these financial statements.

Effective date – financial year ending 30 April 2021:

Amendments to IFRS 3 *Business Combinations*

Amendments to IFRS 9, IAS 39 and IFRS 7 *Interest Rate Benchmark Reform*

Amendments to IAS 1 and IAS 8 *Definition of Material*

Amendments to the Conceptual Framework for Financial Reporting

It is not anticipated that the adoption of these standards and interpretations will have a material effect on the Company's financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Revenue

Revenue comprises the fair value of the sale of goods and services, net of value added tax and other sales taxes, rebates and discounts.

Revenue from the sale of goods is recognised when:

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

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

Foreign currencies

Transactions in currencies other than the Company's functional currency (foreign currencies) are recognised using the rate of exchange prevailing on the dates of the transaction. At each statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exceptional items

Items of income or expenditure that are significant by their nature, size or incidence and for which separate presentation would assist in the understanding of the trading and financial results of the Company, are classified and disclosed as exceptional items.

Such items can include business disposals, restructuring and optimisation, and impairments.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

1. Principal accounting policies (continued)

Financial instruments (continued)

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Intangible assets

Computer software that is integral to a related item of hardware is included within property, plant and equipment. All other computer software is treated as an intangible asset.

Other intangible assets that are acquired by the Company are carried at cost less accumulated amortisation and impairment.

Amortisation of intangible assets (excluding goodwill) is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets (other than goodwill) are amortised from the date they are available for use.

The estimated useful lives are as follows:

Computer software 3-5 years

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each item of property, plant and equipment, to leave the estimated residual values. Major components are accounted for separately (or in the case of leased assets, the lease period, if shorter). Land is not depreciated.

The estimated useful lives are as follows:

Freehold land and buildings	10-50 years
Plant and machinery	2-25 years

The Company does not have any short leasehold properties.

Property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrappage of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Any impairment in the value of freehold or leasehold land and buildings is charged to the income statement as appropriate.

Leases

The Company has applied IFRS 16 using the modified retrospective approach approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

Policies applicable from 1 May 2019

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

1. Principal accounting policies (continued)

Leases (continued)

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the balance sheet.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Company did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented within the tangible fixed assets line in the balance sheet.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'impairment of tangible and intangible assets' policy.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the cost of sales line item.

1. Principal accounting policies (continued)

Leases (continued)

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient. For a contracts that contain a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Policies applicable prior to 1 May 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Employee benefits

Defined contribution schemes

Contributions to defined contribution pension schemes are recognised as an employee benefit expense within personnel expenses in the income statement, as incurred.

Share-based payment transactions

The ultimate parent Company, DS Smith Plc, operates an equity-settled, share-based compensation plan covering certain employees of the Company. The fair value of these employee services received by the Company in exchange for the grant of the options is recognised as an expense in the Company's books by means of a recharge from the ultimate parent Company. The fair value of the options granted is measured using a stochastic model, taking into account the terms and conditions upon which the options were granted. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each statement of financial position date the Company revises its estimates of the numbers of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement.

Provisions

A provision is recognised in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, a reliable estimate can be made of the amount of the obligation and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are discounted to present value where the effect is material.

1. Principal accounting policies (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on a weighted average cost and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity. Provision is made for obsolete, slow-moving or defective items where appropriate.

Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years. In accordance with Group policy, the Company surrenders current year tax losses to other members of the DS Smith Group, and receives payment for those tax losses at the rate of tax prevailing in the year.

Deferred tax is provided for using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Going concern

The financial statements have been prepared using the going concern basis of accounting. In making their assessment on the appropriateness of using the going concern basis, the Directors have considered any material uncertainties relating to events or conditions that may cast significant doubt upon the continuing use of the going concern basis of accounting in future periods. The Directors have considered a period of at least 12 months from the date the financial statements are expected to be authorised for issue. The Going concern assessment was made using latest forecast trading results. The Covid-19 pandemic has resulted in increased demand in the FMCG and e-commerce Packaging segments which has helped sustain the Company's sales.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out within the strategic report. The financial position of the Company is as shown in the statement of financial position. At 30 April 2020 the Company reported net current assets of £55,323,000 (2019: £59,143,000) and net assets of £69,541,000 (2019: £69,814,000) and therefore remains solvent.

The Group has access to considerable financial resources which would be available to the Company if necessary. As a consequence, the Directors believe the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors have formed a judgement at the time of approving these financial statements, that there is a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they have continued to adopt the going concern basis in preparing these financial statements.

1. Principal accounting policies (continued)

Critical accounting judgements and key sources of estimation uncertainty

In applying the Company's accounting policies, which are described above, the Directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both the current and future periods.

Critical accounting judgements in applying the Company's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

IFRS 16 *Leases*

IFRS 16 requires the Company to discount the lease payments using the rate implicit in the lease if that rate is readily available. If that rate cannot be readily determined, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. The determination of the Company's incremental borrowing rate requires the use of various assumptions, including the credit worthiness of the Company, which, if different from those being used, could result in a significant impact in the amount recognised as right-of-use asset and lease liability, as well as in the amount of depreciation of right-of-use asset and interest expense on lease liability.

Key sources of estimation uncertainty

There are no key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

2. Revenue

	2020 **£'000**	2019 £'000
Revenue by geographical destination		
United Kingdom	**142,703**	195,007
Continental Europe	**8,723**	2,054
Rest of world	**23,641**	41,794
	175,067	238,855

All revenue is derived from the principal activity of the Company which is the sales of goods.

Notes to the financial statements for the year ended 30 April 2020 (continued)

3. Operating (loss)/profit

Operating (loss)/profit is stated after charging/(crediting):

	2020 **£'000**	2019 £'000
Auditor's remuneration – fees payable for the audit of the Company's financial statements	**78**	74
Depreciation of owned property, plant and equipment	**918**	1,032
Depreciation of right-of-use assets	**5,149**	-
Amortisation of intangible assets	**253**	634
Cost of inventory	**108,419**	160,059
Foreign exchange losses/(gains)	**112**	(67)
Restructuring and impairment (note 7)	**3,274**	46

No fees in relation to non-audit services were paid to the Company's Auditor in the current or preceding year.

4. Directors' emoluments

	2020 **£'000**	2019 £'000
Remuneration as executives (including pension contributions)	**589**	653

The emoluments of the highest paid Director were £258,156 (2019: £263,403) including pension contributions of £nil (2019: £21,131).

The number of Directors for whom pension contributions have been paid by the Company during the financial year was 2 (2019: 3).

5. Employee information

The average monthly number of staff (including Directors) employed by the Company during the financial year was:

	2020 **Number**	2019 Number
Average number of staff by activity during the year:		
Production	**300**	291
Management and administration	**155**	131
	455	422

	2020 **£'000**	2019 £'000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	**14,358**	15,237
Social security costs	**1,392**	1,490
Contributions to defined contribution pension plans (note 19)	**1,230**	987
	16,980	17,714

Wages and salaries include £132,838 (2019: £161,540) in respect of share options granted by the ultimate parent Company during the financial year. The Company's management participates in the performance share plan of the parent Company. For further details see note 20.

DS Smith Recycling UK Limited

Notes to the financial statements for the year ended 30 April 2020 (continued)

6. Net finance costs

	2020 £'000	2019 £'000
Bank interest	**181**	5
Interest received from Group undertakings	**375**	-
Foreign exchange gains	**244**	157
Finance income	**800**	162
Bank interest	**(1)**	(14)
Interest on lease liabilities	**(893)**	(1)
Foreign exchange losses	**(119)**	(199)
Factoring costs	**(160)**	(236)
Finance costs	**(1,173)**	(450)
Net finance costs	**(373)**	(288)

7. Exceptional items

	2020 £'000	2019 £'000
Restructuring and impairment	**3,274**	46

Current and prior year restructuring costs are related to continuing site rationalisation. The impairment of property, plant and equipment and right-of-use assets relate to the closure of a depot.

8. Income tax credit

	2020 £'000	2019 £'000
Current tax expense		
UK corporation tax in respect of current year	**(138)**	(616)
Adjustment in respect of prior years	**565**	1,294
Total current tax	**427**	678
Deferred tax credit/(expense)		
Origination and reversal of temporary differences	**158**	211
Change in tax rates	**124**	-
Adjustment in respect of prior years	**(465)**	(309)
Total deferred tax	**(183)**	(98)
Total income tax credit	**244**	580

8. Income tax credit (continued)

The difference between the actual tax charge and the standard rate of corporation tax in the UK of 19% (2019: 19%) is as follows:

	2020 £'000	2019 £'000
(Loss)/profit before tax	**(517)**	1,333
Income tax at the UK standard rate of corporation tax of 19% (2019: 19.00%)	**98**	(253)
Effects of:		
- Permanent differences	**(78)**	(128)
- Effect of change in corporation tax rate	**124**	(24)
- Adjustments in respect of prior years	**100**	985
Income tax credit	**244**	580

In the Finance Act 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. Accordingly, the rate applied to UK deferred tax assets is 19% (2019: 17%).

In future years, the tax charge will be affected by the extent to which any capital gains can either be rolled over or sheltered by capital losses within the Group as well as subsequently enacted changes in tax rate.

9. Intangible assets

	Software £'000
Cost	
At 1 May 2019	1,831
At 30 April 2020	1,831
Amortisation and impairment	
At 1 May 2019	(1,486)
Amortisation	(253)
At 30 April 2020	(1,739)
Net book value	
At 30 April 2020	**92**
At 30 April 2019	345

Amortisation is included within administrative expenses in the income statement.

Notes to the financial statements for the year ended 30 April 2020 (continued)

10. Property, plant and equipment

	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 May 2019	6,668	13,456	20,124
Additions	68	2,245	2,313
Disposals	(21)	(595)	(616)
Transfers	83	(83)	-
At 30 April 2020	6,798	15,023	21,821
Accumulated depreciation and impairment			
At 1 May 2019	(4,142)	(7,139)	(11,281)
Depreciation charge for the year	(333)	(585)	(918)
Impairment (see note 7)	(676)	-	(676)
Disposals	21	595	616
At 30 April 2020	(5,130)	(7,129)	(12,259)
Net book value			
At 30 April 2020	**1,668**	**7,894**	**9,562**
At 30 April 2019	2,526	6,317	8,843

During the year an impairment charge of £676,000 was booked in respect of the land and buildings in a depot ahead of its closure as part of ongoing site rationalisation. This charge is included within exceptional items (see note 7).

11. Right-of-use assets and lease liabilities

Right-of-use assets

	Land and buildings £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 May 2019	-	-	-
Recognised on adoption of IFRS 16	10,838	8,676	19,514
Additions	1,765	2,165	3,930
Disposals	-	(851)	(851)
At 30 April 2020	**12,603**	**9,990**	**22,593**
Depreciation and impairment			
At 1 May 2019	-	-	-
Depreciation charge	(924)	(4,225)	(5,149)
Impairment (see note 7)	(667)	-	(667)
Disposals	-	851	851
At 30 April 2020	**(1,591)**	**(3,374)**	**(4,965)**
Carrying amount			
At 30 April 2020	**11,012**	**6,616**	**17,628**
At 1 May 2019	-	-	-

11. Right-of-use assets and lease liabilities (continued)

Right-of-use assets (continued)

The average lease term is 4 years.

Lease liabilities

	Total £'000
At 1 May 2019 (relating to leases classified as finance leases under IAS 17)	44
Recognised on adoption of IFRS 16	19,514
Additions	3,930
Accretion of interest	893
Payments	(5,633)
At 30 April 2020	**18,748**
Current	4,354
Non-current	14,394
	18,748

During the year an impairment charge of £667,000 was booked in respect of the land and buildings in a depot ahead of its closure as part of ongoing site rationalisation. This charge is included within exceptional items (see note 7).

The maturity of lease liabilities is presented below:

	2020 £'000	2019 £'000
Amounts due for settlement:		
Between one and five years	**8,413**	8,777
After five years	**5,981**	5,531
	14,394	14,308
Within one year	**4,354**	5,206
	18,748	19,514

As detailed in note 1, the Company adopted IFRS 16 on 1 May 2019 using the modified retrospective approach.

On implementation of IFRS 16, the Company recognised right-of-use assets of £19,514,000 and corresponding lease liabilities of £19,514,000. There was no impact on the Company's opening equity as a result of adopting IFRS 16.

The following table reconciles the difference between the operating lease commitments under IAS 17 at 30 April 2019 and the lease liability recognised on adoption of IFRS 16 on 1 May 2019:

	Total £'000
Non-cancellable operating lease rentals reported as at 30 April 2019	25,534
Impact of discounting liability under IFRS 16	(6,020)
Lease liability recognised on transition to IFRS 16 at 1 May 2019	**19,514**

11. Right-of-use assets and lease liabilities (continued)

At 30 April 2020, the right-of-use assets were £17,628,000, with a corresponding lease liability of £18,748,000.

The impact of IFRS 16 on the income statement was:

	Year ended 30 April 2020 £'000
Operating lease rentals	5,620
Depreciation	(5,149)
Operating profit	471
Finance costs	(893)
Profit before tax	(422)

12. Deferred tax assets

The following are the major deferred tax assets recognised by the Company and movements during the prior and current reporting year.

	Capital allowances £'000	**Total £'000**
At 1 May 2019	1,513	1,513
Charged to income statement	(183)	(183)
At 30 April 2020	**1,330**	**1,330**

Based on forecast profits of the Company, the asset is expected to be fully recovered over the next 5 years.

13. Inventories

	2020 £'000	2019 £'000
Raw materials and consumables	**221**	657
Finished goods	**180**	1,137
	401	1,794

There is no material difference between the statement of financial position value of inventories and their replacement cost.

14. Trade and other receivables

	2020 £'000	2019 £'000
Trade receivables	**1,591**	9,232
Amounts owed by Group undertakings	**98,098**	88,148
VAT	**3,341**	1,707
Other receivables	**689**	603
Prepayments and accrued income	**3,495**	3,768
	107,214	103,458

14. Trade and other receivables (continued)

Interest is charged on the amounts owed by Group undertakings as follows:

- £91,924 on which interest is charged at 1 month LIBOR which is unsecured and with no fixed date of repayment.

15. Trade and other payables

	2020 £'000	2019 £'000
Trade payables	**33,959**	67,156
Amounts owed to Group undertakings	**13,369**	6,000
Other taxes and social security	**-**	-
Other payables	**176**	1,362
Accruals and deferred income	**2,732**	1,861
	50,236	76,379

Amounts owed to Group undertakings are unsecured, non-interest bearing and repayable on demand.

16. Provisions

	Dilapidations and onerous leases £'000
At 1 May 2019	349
Charged to income statement	1,986
Utilised during the year	(697)
At 30 April 2020	**1,638**

The dilapidations and onerous lease provisions relate to obligations on a number of leasehold properties which are expected to be utilised in the next 12 months.

17. Called-up share capital and reserves

	2020 £'000	2019 £'000
Authorised and allotted, called-up and fully paid:		
9,294,500 (2019: 9,294,500) ordinary shares of £1 each	**9,295**	9,295
	9,295	9,295

Retained earnings represents accumulated profits and losses that the Company has made since incorporation, less any dividends paid in that time.

18. Contingent liabilities

The Company is a participant in the DS Smith Group's bank arrangements which has an uncommitted overdraft facility with a net limit of £5m. The participants in the facility cross-guarantee the overdrawn balances under the facility.

19. Employee benefits

Defined contribution scheme

The Company participates in a UK defined contribution scheme, which is a trust-based arrangement offering members a range of investments. All assets are held independently from the Group.

The amount recognised as an expense for the defined contribution scheme in the year, relating to current period contributions, was £1,229,814 (2019: £987,080).

As at 30 April 2020, contributions of £nil (2019:£nil) due in respect of the current reporting period had not been paid over to the scheme and are included in other payables.

20. Share-based payments

The Company participates in the Group's share-based payment arrangements as follows:

(i) Performance Share Plan (PSP)

Awards under the PSP normally become exercisable after three years subject to remaining in service and the satisfaction of performance conditions measured over the three financial years commencing with the year of grant. Awards have been made under the PSP annually since 2008, originally based on the following performance measures, in the proportions shown below:

i. the Company's total shareholder return (TSR) compared to the constituents of the Industrial Goods and Services Supersector within the FTSE 250;

ii. average adjusted earnings per share (EPS); and

iii. average adjusted return on average capital employed (ROACE).

Awards between 2013 and 2014 are subject to three performance measures:

i. 50% of each award based on a TSR component;

ii. 25% of each award based on average adjusted EPS; and

iii. 25% of each award based on average adjusted ROACE.

Awards made between 2015 and 2016 are subject to three performance measures:

i. 33.3% of each award based on a TSR component;

ii. 33.3% of each award based on average adjusted EPS; and

iii. 33.3% of each award based on average adjusted ROACE.

Awards made in 2017, 2018 and 2019 are subject to either two performance measures, or to three performance measures:

(a) Two performance measures:

i. 50% of each award based on average adjusted EPS; and

ii. 50% of each award based on average adjusted ROACE.

(b) Three performance measures:

i. 33.3% of each award based on a TSR component;

ii. 33.3% of each award based on average adjusted EPS; and

iii. 33.3% of each award based on average adjusted ROACE.

The awards granted between 2013, 2014, and 2016 have vested but have not yet been fully exercised. The awards granted in 2012 and 2015 have vested and have been fully exercised.

(ii) Deferred Share Bonus Plan (DSBP)

This plan is operated for Executive Directors and, from 2012/13, for senior executives. Shares awarded under the Plan will vest automatically if the Director or senior executive is still employed by the Company three years after the grant of the award.

The 2012, 2014, 2015 and 2016 awards have vested, but have not yet been fully exercised.

(iii) Sharesave Plan

A Sharesave Plan was introduced in the UK in January 2014 with further invitations being made in January 2016, January 2017, January 2018 and January 2019. All employees of the Company and participating subsidiaries were eligible to participate in this Plan or an HMRC approved UK Sharesave Plan. Options are granted to participants who have contracted to save up to a maximum of £250 across all open invitations per month over a period of three years, at a discount of up to 20% to the average closing mid-market price of a DS Smith Plc ordinary share on the three dealing days prior to invitation. Options cannot normally be exercised until a minimum of three years has elapsed. In common with most plans of this type there are no performance conditions applicable to options granted under this Plan.

20. Share-based payments (continued)

Details of the share options exercised during the year and outstanding at the year-end are as follows:

2019/20	Performance Share Plan		Deferred Share Bonus Plan	
	Weighted average exercise price (p)	**Options `000**	**Weighted average exercise price (p)**	**Options `000**
Exercised	**Nil**	**15**	**Nil**	**4**
At 30 April 2020	**Nil**	**76**	**Nil**	**22**

2019/20	Sharesave Plan	
	Weighted average exercise price (p)	**Options `000**
Exercised	**303.7**	**31**
At 30 April 2020	**313.8**	**327**

Details of the share options exercised during the prior year and outstanding at the prior year-end are as follows:

2018/19	Performance Share Plan		Deferred Share Bonus Plan	
	Weighted average exercise price (p)	**Options `000**	**Weighted average exercise price (p)**	**Options `000**
Exercised	Nil	23	Nil	4
At 30 April 2019	Nil	85	Nil	18

2018/19	Sharesave Plan	
	Weighted average exercise price (p)	**Options `000**
Exercised	301.6	47
At 30 April 2019	314.3	419

21. Related parties

The Company has taken the exemption available under FRS 101 from disclosing related party transactions entered into between two or more members of the DS Smith Group, provided that the fellow group entities are wholly-owned by the Group. See note 4 for details of Directors' remuneration. There were no other related party transactions.

22. Ultimate parent undertaking and controlling party

The Company's immediate parent company is DS Smith Packaging Holding BV, a company incorporated in the Netherlands.

The ultimate parent company and the ultimate controlling party is DS Smith Plc, a company incorporated in the United Kingdom.

DS Smith Plc represents both the largest and smallest group of undertakings for which Group financial statements are prepared and of which the Company is a member. Copies of the Group financial statements are available from the Company Secretary of DS Smith Plc at its registered address 350 Euston Road, London, NW1 3AX.

The Company does not have any subsidiary undertakings.

23. Capital commitments

The Company had the following capital commitments:

	2020	2019
	£'000	£'000
Contracts for future capital expenditure not provided	**400**	-

24. Subsequent events

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