Leading the change for the circular economy

"Our circular business model positions us well to be the leading supplier of sustainable packaging solutions."

Geoff Drabble
Chair

"I am proud of the way the Group has performed in the year, supporting our customers, improving our profits and investing for growth."

Miles Roberts
Group Chief Executive

"Strong financial performance and cash generation have driven a significant reduction in our leverage during the year, positioning us well for the future."

Adrian Marsh
Group Finance Director

At a glance

DS Smith is a leading provider of sustainable fibre-based packaging across Europe and the US which is supported by recycling and papermaking operations. It plays a central role in the value chain across sectors including e-commerce, fast moving consumer goods and industrials. We have created a circular business focused on sustainable packaging.

Packaging

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

We partner with customers to provide innovative packaging solutions. We use our Circular Design Principles to improve the sustainability of our solutions. We complement our product range with consultancy services on supply chain optimisation and creative design.

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

c. 25,000 employees
c. 9.3 billion m^2 corrugated board sold in 2021/22

Paper

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

We operate 13 CCM paper mills, 11 in Europe and two in the US. Of those, two are kraftliner mills (virgin paper – one in the US, one in Europe) and the remainder are principally dedicated to the production of recycled CCM (testliner). We also have two small mills in Europe producing specialist paper grades. Fibre for our testliner is principally sourced from our own recycling operations.

c. 4,000 employees
c. 4.5 million tonnes CCM produced in 2021/22

Recycling

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

c. 1,000 employees
c. 6.2 million tonnes fibre managed in 2021/22

Our business model overview

Delivering more circular solutions for customers and wider society:

What we do →

- Provide sustainable solutions
- Replace problem plastics
- Take carbon out of supply chains
- Employ Circular Design Principles
- Provide innovative recycling solutions
- Work with resilient fast moving consumer goods (FMCG) customers

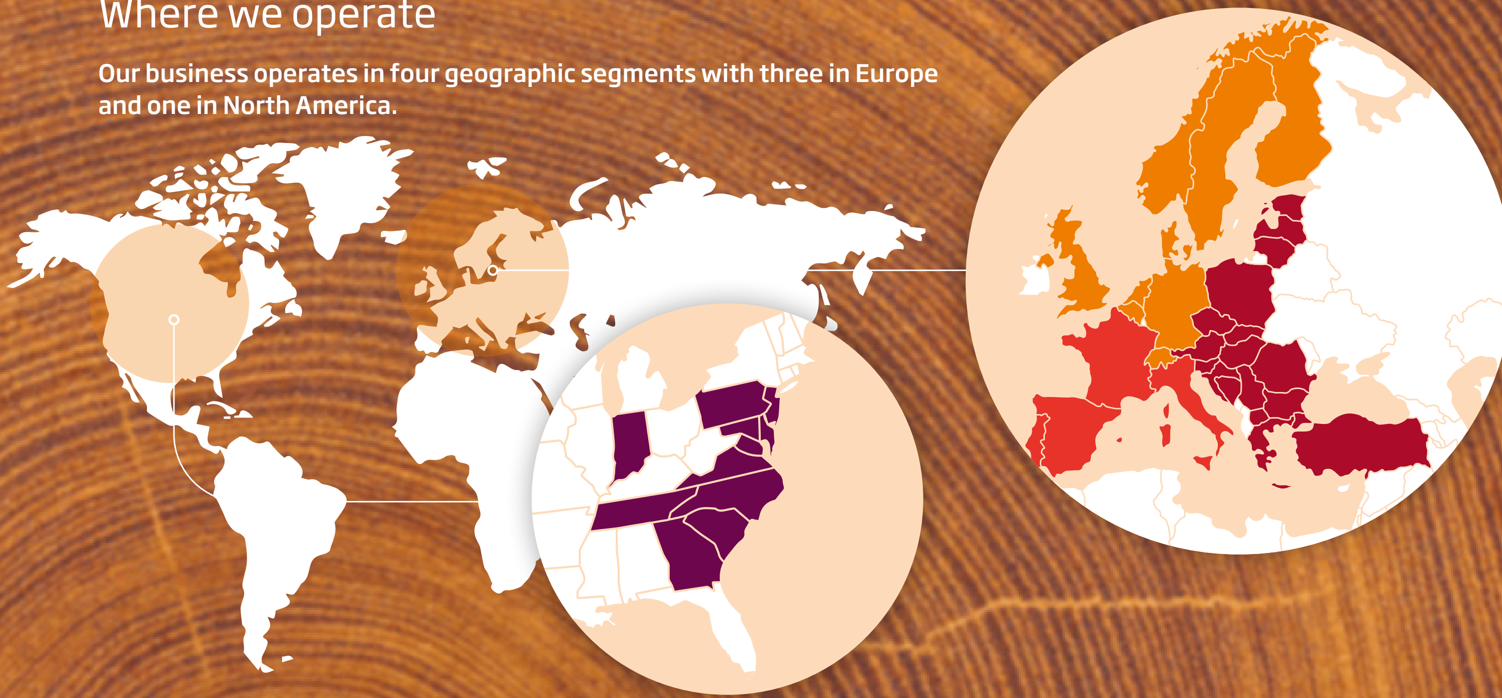
→ The value we create

- Satisfied customers
- Packaging that is sustainable
- Returns to our capital providers
- Safety and opportunities for our people
- Leadership in sustainability
- Community involvement
- An inclusive workplace

Find out more on page 14

Where we operate

Our business operates in four geographic segments with three in Europe and one in North America.



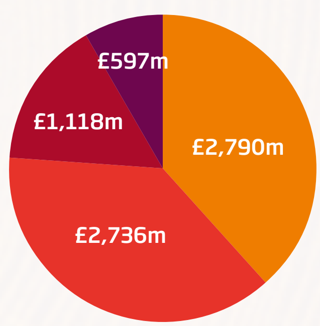
Northern Europe
Belgium, Denmark, Finland, Germany, Netherlands, Norway, Sweden, Switzerland and United Kingdom

Southern Europe
France, Italy, Portugal and Spain

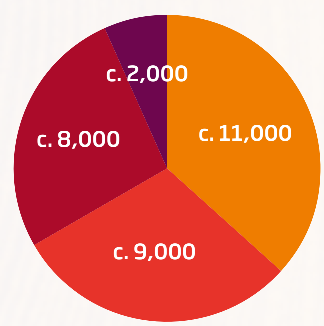
Eastern Europe
Austria, Bosnia-Herzegovina, Bulgaria, Croatia, Czechia, Estonia, Greece, Hungary, Latvia, Lithuania, North Macedonia, Poland, Romania, Serbia, Slovakia, Slovenia and Türkiye

North America
United States

2021/22 Revenue



2021/22 Employees



Our strategy

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

To delight our customers
How we engage with customers
See more on page 20

To realise the potential of our people
How we engage with our people
See more on page 24

To lead the way in sustainability
How we engage with society
See more on page 30

To double our size and profitability
How we engage with our investors
See more on page 34

Why invest in DS Smith?

We are a sector-leading, innovative business, aligned with powerful growth drivers. Our scale, innovation, sustainability credentials and strong purpose set us apart.

We are an industry leader

- **We are a leading supplier of innovative, sustainable packaging solutions** employing around 30,000 people in more than 30 countries mostly in the developed world.
- **Well-invested asset base and footprint to deliver for multinational customers** spanning 400+ sites in Europe, and in North America, where we are expanding rapidly.
- **Strong commitment to investment** in our asset base, research and development (R&D) and innovation.

We are a sustainability leader

- **We are the only solely fibre-based major packaging company in Europe** and Europe's largest cardboard and paper recycler.
- **We are driving the transition to the circular economy with a fully circular business model**, operating a 'short paper' model to drive long-term, consistent return on capital.
- **We have a leading sustainability strategy** which includes ambitious targets in plastic replacement and carbon reduction, resulting in excellent environmental, social and governance (ESG) ratings.

Strong customer base

- **We have ever-deeper relationships with our predominant customer base** of blue-chip, resilient FMCG and e-commerce brands.
- **Customer driven growth** through investment in innovation, sustainability, digital enablement and packaging capacity to gain further market share.
- **Consolidation of suppliers** – Our scope, scale and reach will further strengthen our position with some of the world's leading consumer goods companies as they reduce the number of suppliers they work with.

Strong market drivers

- **Rapid growth in e-commerce** – Our sustainable, omni-channel packaging is revolutionising packaging for the entire retail sector, both bricks and mortar and online.
- **Increasing importance of sustainability** – We are helping our customers respond by designing out waste, keeping valuable materials in use and making it easier for consumers to reuse and recycle packaging.
- **Plastic replacement** – We have already replaced over 300 million items of single-use plastic from our customers' supply chains with fibre alternatives.

Proven track record and strong balance sheet

- Strong corrugated box volume growth of 5.4 per cent.
- Adjusted operating profit growth +29 per cent[1].
- Strong free cash flow and leverage reduced to 1.6 times net debt/EBITDA.
- Investment grade credit rating.

1. Based on constant currency.

Redefining Packaging for a Changing World

Our Purpose
'Redefining Packaging for a Changing World'

Our Purpose is 'Redefining Packaging for a Changing World'. It is our reason for being. It sets out why we exist and the value we bring to our customers and all stakeholder groups.

Our Purpose focuses our DS Smith team on the rapidly changing world around us as consumers' lives and shopping habits are changing due to the acceleration of the digital world. It encourages us to look outside of the confines of the packaging industry and forward to see how these changes influence shopping patterns, such as switches from stores to home shopping, and will impact on the environment and how packaging plays its part in a more sustainable experience for all.

Our Purpose sharpens our instincts and encourages us to tackle some of the world's biggest challenges, such as replacing problem plastics.

Our Purpose feeds all parts of our organisation, including people, policies, research and development (R&D), design and customer interactions. We are redefining packaging through our four strategic goals: delighting our customers, realising the potential of our people, leading the way in sustainability and doubling our size and profitability. We believe that if we deliver in this way, we will meet our vision to be the leading supplier of sustainable packaging solutions.

We deliver our Purpose through our strategic goals...

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

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

To lead the way in sustainability: by bringing our customers into the circular economy using recyclable materials responsibly in our circular business

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

...which help us to deliver our vision
To be the leading supplier of sustainable packaging solutions

Underpinned by our values

Be caring
We take pride in what we do and we care about our customers, our people and the world around us

Be challenging
We are not afraid to constructively challenge each other and ourselves to find a better way forward

Be responsive
We seek new ideas and understanding and are quick to react to opportunities

Be trusted
We can always be trusted to deliver on our promises

Be tenacious
We get things done

Now and Next Sustainability Strategy

Now and Next is our sustainability strategy that sets out how we will tackle the sustainability challenges we are facing today, as well as those that will impact future generations.

Now and Next strategy

Our focus is on:

- Closing the loop through better design
- Protecting natural resources by making the most of every fibre
- Reducing waste and pollution through circular solutions
- Equipping people to lead the transition to a circular economy

We will continue to:
Drive carbon reduction
Care for forests and their biodiversity

- By 2025, measure and improve biodiversity in our own forests
- By 2030, reduce Scope 1, 2 and 3 GHG emissions by 46 per cent compared to 2019 and reach Net Zero emissions by 2050

NOW

We work with customers to design circular packaging solutions that achieve more from less, delivering for rapidly changing consumer lifestyles with minimum impact on the world around us.

- By 2023, manufacture 100 per cent reusable or recyclable packaging
- By 2025, optimise fibre use for individual supply chains in 100 per cent of our new packaging solutions
- By 2025, take one billion pieces of problem plastics off supermarket shelves and work with partners to find solutions for 'hard to recycle' packaging
- By 2025, engage 100 per cent of our people on the circular economy

NEXT

We will work together with partners to develop fully circular strategies, from design to production and supply to recycling, creating positive impact packaging for our changing world.

- By 2030, aim for all of our packaging to be recycled or reused and pilot 20 new business models for improving post-consumer waste quality and recycling rates
- By 2030, aim to optimise every fibre for every supply chain
- By 2030, aim to use packaging and recycling to enable the circular economy by replacing problem plastics, reducing value chain emissions and eliminating consumer packaging waste
- By 2030, engage five million people on the circular economy and circular lifestyles

How we contribute to the UN Sustainable Development Goals (SDGs)

12 RESPONSIBLE CONSUMPTION AND PRODUCTION — Responsible Consumption and Production: We keep materials in use for longer, reduce waste and pollution and protect natural resources.

13 CLIMATE ACTION — Climate Action: We reduce our emissions to combat climate change and its impacts.

15 LIFE ON LAND — Life on Land: We minimise our use of sustainably sourced fibre, protecting and restoring ecosystems.

8 DECENT WORK AND ECONOMIC GROWTH — Decent Work and Economic Growth: We commit to being a responsible employer, with high ethical, labour and employment standards.

Alignment with international frameworks

We support several international frameworks including United Nations Global Compact (UNGC), United Nations Declaration of Human Rights and the Convention on the Rights of the Child, International Labour Organization (ILO) Eight Fundamental Conventions and Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises.

People are the foundation of our success and we prioritise their health, safety and wellbeing and contribution to our communities

Progress against our Now and Next sustainability targets

In 2021/22, we continued to deliver strong progress against our Now and Next sustainability targets. Turn to pages 30-33 to learn more and see the DS Smith Sustainability Report 2022 for a complete progress review.

Now and Next sustainability target		2020/21	**2021/22**	Status
Closing the loop through better design	By 2023, manufacture 100% recyclable or reusable packaging	99%	**100%**	Achieved[1]
	By 2030, aim for all our packaging to be recycled or reused	Ongoing	**Ongoing**	On track
	By 2030, pilot twenty new business models for improving post-consumer waste quality and recycling rates	Ongoing	**Ongoing**	On track
Reducing waste and pollution	By 2025, take 1 billion pieces of problem plastics off supermarket shelves		**313 million**[2]	Ahead
	By 2025, work with partners to find solutions for 'hard to recycle' packaging	Ongoing	**Ongoing**	On track
Protecting natural resources	By 2025, optimise fibre for individual supply chains in 100% of new packaging solutions	23%	**26%**	On track
	By 2030, aim to optimise every fibre for every supply chain	Ongoing	**Ongoing**	On track
	Maintain FSC® certification at 100% of our sites	100%	**100%**	Achieved
	Maintain forest management certification at 100% of our forests	100%	**100%**	Achieved
Driving carbon reduction	By 2030, reduce Scope 1, 2 and 3 GHG emissions by 46% compared to 2019	Ongoing	**Ongoing**	On track
	By 2050, reach Net Zero GHG emissions	Ongoing	**Ongoing**	On track
	Maintain 100% of our energy consumption is ISO 50001 certified	100%	**100%**	Achieved
Measuring and improving biodiversity	By 2025, measure and improve biodiversity in our own forests	Ongoing	**Ongoing**	On track
	By 2025, launch 100 biodiversity projects across Europe and North America	57	**100**	Achieved
	By 2025, run a biodiversity programme in the local communities of our mills	3	**12**	Ahead
Managing water responsibly[3]	By 2025, achieve zero non-conformances with consents to discharge	21	**10**	On track
	By 2030, reduce water withdrawal by 1% per tonne of production per year at mills in areas at risk of water stress compared to 2019	8.10m³	**8.08m³**	Ahead
	Maintain a water stress mitigation plan at 100% of our sites in areas at risk of water stress	100%	**100%**	Achieved
Sending zero waste to landfill[3]	By 2030, send zero waste to landfill	258,225 tonnes	**255,920 tonnes**	On track
Equipping people to lead the transition to the circular economy	By 2025, engage 100% of our people on the circular economy	9%	**50%**	Ahead
	By 2030, engage five million people on the circular economy and circular lifestyles	519,000	**2.3 million**	Ahead
Respecting and promoting human rights	By 2022, conduct a human rights risk assessment	Ongoing	**Delivered**	Achieved
Contributing to our communities	Maintain 100% of sites engage in community activities each year	100%	**100%**	Achieved
Sourcing sustainably	By 2025, ensure 100% of suppliers comply with our sustainability standards	45%	**78%**	Ahead
	Maintain that 100% of the papers we use are recycled or chain of custody certified	100%	**100%**	Achieved

1. We now consider this target 'achieved' because greater than 99.5% of our packaging volume meets this standard, enabling recyclability in practice and at scale. For the remaining less than 0.5% volume that is presently not either recyclable in practice or at scale, such as some barrier coatings and foam, we continue to push for circular alternatives.
2. Cumulative total of plastic units replaced with recyclable alternatives during 2020/21 and 2021/22.
3. Our environmental metrics were previously reported on a calendar year reporting period. All of our metrics are now reported on a financial year reporting period, and therefore historic environmental metrics have been restated.

Redefining Packaging

for a Changing World

Inventing, re-imagining and redefining to deliver the circular economy

The events of the past year have impacted our customers all over the world, but through our global scale and innovative, customer-led approach we are well positioned to respond.

We must continue to lead, to predict and show our customers the way to tackle the huge challenges of new retail channels such as e-commerce and providing more sustainable, circular solutions at scale wherever they operate.

This is why we are leading the way with innovative new thinking that will accelerate the transition to the circular economy.

From our packaging to our processes, our designers and innovators are relentlessly pursuing every new opportunity to create circular solutions designed to eliminate waste and pollution, re-use or recycle products and materials, and regenerate nature.

Many of our customers are multinational industry-leading brands who require a global, consistent approach to their packaging; and they are increasingly looking for closer partnerships to grow and innovate with them.

As part of our five-year commitment to invest £100 million in research and development (R&D), we have opened a state-of-the-art laboratory at Kemsley Mill, the second largest paper mill in Europe, to advance our research into alternative fibre sources for paper and packaging products.

We have also announced a new flagship innovation centre for ideation, design, testing, piloting and collaboration near Birmingham, UK. This facility will allow us to install and test pilot product and service lines to enable customers to visualise the value that we can bring to them.

£100m

investing in innovation for the next five years

DS Smith is applying science to fibre

We are exploring a range of new materials through our £100 million R&D programme, but more than this, we are partnering with our customers to help them realise the significant benefits of the circular economy. We are embedding circularity into all of our products which is felt throughout the whole life cycle.

See more online dssmith.com

Fibre harvested from the ocean floor

Beyond optimising traditional paper fibres, this year in an industry first, we conducted initial trials exploring how seaweed fibres may be used as a raw material in a range of packaging solutions.

In particular, it could play a significant role in removing problem plastics by acting as a barrier coating to protect items like foodstuffs.

"Seaweed has exciting applications that could become the next generation of sustainable packaging solutions. Our research into alternative fibre sources has the potential to lessen pressure on forests, protecting natural resources."

Thomas Ferge, Paper and Board Development Director at DS Smith

Packaging innovation is the lifeblood of our organisation and is vital in keeping global supply chains running as they become more integrated, demanding and focused on sustainability.

"70 per cent of waste is determined at the product's design stage. That means innovative design, and the materials and processes we use, is at the heart of the transition to the circular economy."

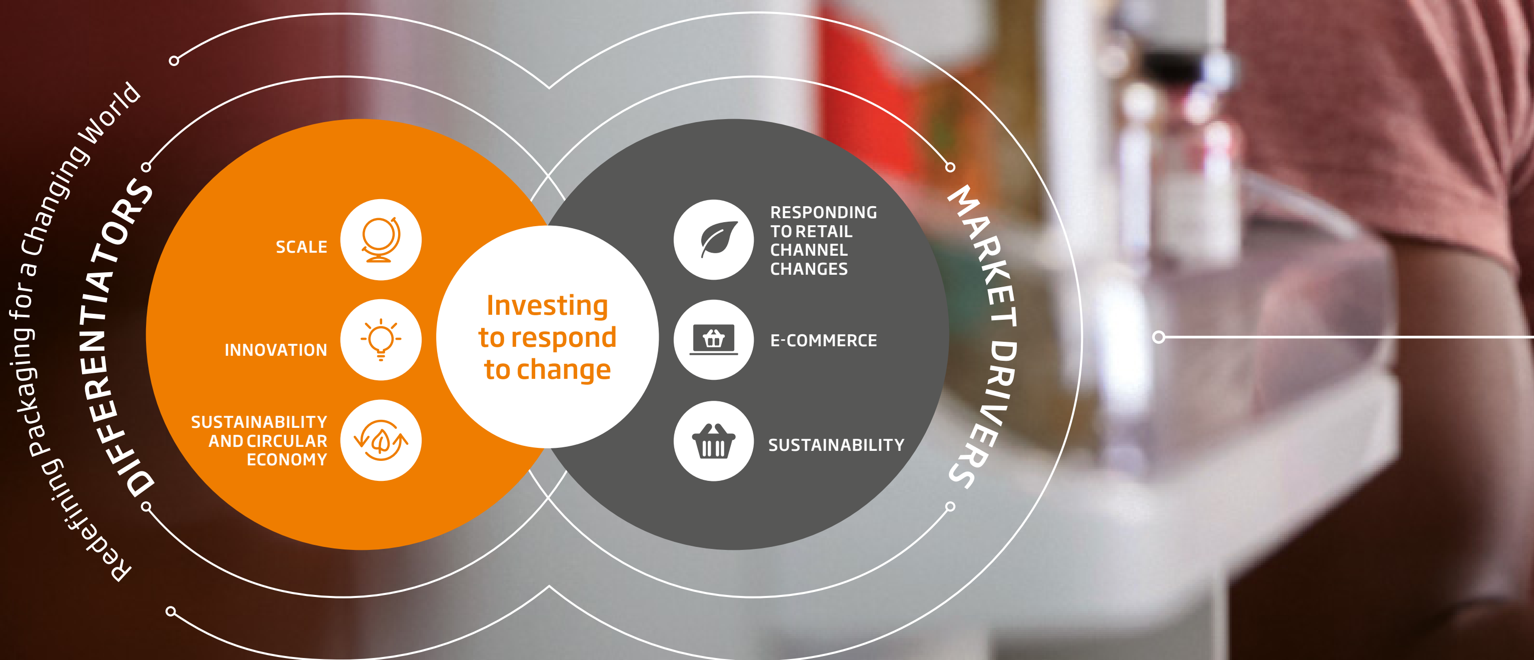
Alan Potts, Design & Innovation Director

A crucial part of making sure our packaging meets the evolving demands of the supply chain is ensuring that circularity is built in at the start.

We have embedded our pioneering Circular Design Metrics across all our packaging sites to ensure that we can measure the environmental impact of all our design solutions. An industry first, our metrics enable us to quantify the sustainability performance of each of our packaging designs across eight key different indicators: carbon footprint, design for reuse, supply chain optimisation, recyclability, planet safety, material utilisation, renewable sourcing and recycled content.

We are committed to ensuring that the performance of our packaging matches these needs and our industry-first science-based optimisation programme PACE™ (Performance, Assurance, Consistency & Environmental excellence) enables us to guarantee our boxes deliver the right specification, efficiency, carbon savings and cost for our customers.

Redefining Packaging for a Changing World



Every change brings innovation and with it significant opportunities

The past 12 months have seen the environment in which we operate continue to evolve at pace. Large scale events including Covid-19, climate change and macroeconomic factors have been a catalyst for consumers to consider the way they relate to packaging.

This changing landscape has resulted in consumers becoming increasingly aware of the world around them and their role within it. They see their purchasing choices as a way to have influence and will actively seek out companies offering more sustainable solutions.

> "Small steps made now can have the biggest impact. Our customers like to play their part and by offering to bring used packaging directly back to us to then recycle into new packaging with DS Smith again and again is a significant step towards a circular economy."
>
> **Jacquie Silvester, Head of Sustainability and Improvement at Cotswold Co.**

64%

of consumers actively reduced their use of plastic packaging last year (Euromonitor)

78%

of people are more likely to purchase a product that is clearly labelled as environmentally friendly

85%

agree that they 'want to buy products which use as little packaging as possible'

Collaborating with our customers to replace problem plastics

Globally, our design teams have been innovating to find solutions to our customers' single-use and hard to recycle packaging, with more than 1,000 recyclable, fibre-based solutions developed for products from wine boxes and ready meal trays to shrink wrap and fruit punnets.

See more online dssmith.com

Asda

As part of Asda's accelerated target to reduce own brand plastic by 15 per cent by the end of 2021, the retailer worked to make in-store displays more sustainable, cutting down on plastic and non-recyclable materials. We helped Asda find a sustainable alternative for shelf edge label holders that will replace one million pieces of unnecessary plastic from its displays this year.

"Removing unnecessary plastic is at the top of our minds and is very important to our customers. This project with DS Smith has enabled us to remove the plastic shelf edge label holder, making it easier for our shipper units to flow through our cardboard recycling stream."

Lisa Walker, Packaging and Print Specialist at Asda

With global e-commerce predicted to account for 21 per cent of total sales in 2022 and 24.5 per cent by 2025, there is mounting pressure on retailers and brands to live up to consumers' sustainability expectations, with consumers more likely to choose a clearly marked sustainable alternative and 64 per cent of consumers willing to pay more for sustainable packaging.

Sustainable packaging has also risen up the agenda for governments, with many implementing legislative changes, including introducing taxes, aimed at curbing the use of plastics and plastic packaging. Such legislation is driving innovation with a sizeable opportunity at stake.

Our research has demonstrated that 1.5 million tonnes of single-use plastic, or 70 billion units, could be removed from supermarket shelves across Europe each year and replaced with alternative renewable and recyclable materials.

We are at the forefront of this effort having already helped to remove 313 million pieces of problem plastic from supermarkets and online retailers globally since 2020. To achieve this, we have created more than 1,000 wholly recyclable fibre-based packaging solutions for both traditional and e-commerce retailers.

Not only are sustainable packaging and services impacting consumer preferences, how and where consumers choose their products have also been impacted by the changing world around us. Covid-19 accelerated developing consumer preferences for buying their products through a range of different channels, leading to increased growth of e-commerce shipments.

The customer 'unboxing experience' must not be forgotten and is a key driver for brands as they look to truly differentiate their engagement with consumers.

As the world continues to evolve and consumer preferences shift, we will remain agile, helping our customers to respond to these trends while meeting our shared sustainability ambitions.

Chair's statement

"Our Purpose of 'Redefining Packaging for a Changing World' has never been more relevant for our business and society at large. A number of the structural growth drivers have been accelerated by the pandemic and our assets, strategy and people position us well to benefit. As a fully fibre-based company, our circular model supports our vision to be the leading supplier of sustainable packaging solutions."

Geoff Drabble,
Chair

A year of momentum

2021/22 has been a year of strong momentum in the business despite continuing to operate within a Covid-19 environment for much of the year and more recently the uncertainty caused by the Russian invasion of Ukraine and the impact on the macroeconomic environment.

I am pleased with our performance, with record volume growth translating to 29 per cent profit growth through managing our supply chain and cost base and increasing packaging prices to recover the significantly increasing input costs. We saw good growth across all our customer base, with volumes from our bedrock of fast moving consumer goods customers growing particularly well.

We have seen particularly strong performances from regions where we have invested significantly recently, with the North America and Southern Europe regions delivering the highest margins of the Group. In the US, we are seeing the benefit of the Indiana site contributing to exceptional volume growth in the region, and in the Southern region, Europac has delivered a very strong operational and financial performance.

We are driving the transition to the circular economy with a fully circular business model which has delivered during the period, with excellent cash generation, despite increasing our investment in the business and an inflationary environment. We have reduced our leverage down to 1.6 times EBITDA versus our medium-term target of 2.0 times, and have made good progress in our return on sales and in particular return on average capital employed during the year.

Investing in our business

We have consistently invested to benefit from long-term growth drivers of a changing retail environment and sustainable solutions in anticipation of the growth which is now playing out, with e-commerce in particular accelerated by Covid-19. That investment has taken the form of designers, technicians and equipment, resulting in a range of innovative and sustainable solutions via our Circular Design Principles and e-commerce products and services, so that our packaging adds value, helping our customers in the transition to a more circular economy and achieve their own sustainability targets.

We have also invested in additional capacity with two new packaging sites in Italy and Poland. Our site in Italy is now operational, with the site in Poland currently being commissioned ready for production to commence in the next few weeks, all in line with customer driven demand for ever more sustainable packaging and we are confident in the returns these sites will deliver.

Health and safety

Our values and priorities remain unchanged. The primary areas of focus for the Board and management team are for the safety, health and wellbeing of our employees together with serving our customers in these challenging times.

Our people have responded magnificently, despite the ongoing impact of Covid-19, adapting ways of working where needed, enabling us to continue to serve our customers in a safe operating environment. Despite the many challenges we have faced, this is the 13th consecutive year we have seen an improvement in our health and safety KPIs.

Sustainability

Sustainability is at the heart of our business, both in how we operate our own business, but also how we help our customers solve their sustainability challenges. In the year, we announced our commitment to a science-based target in line with the 1.5°C trajectory which equates to a 46 per cent absolute reduction in CO_2 by 2030 versus 2019 and are committed to Net Zero carbon emissions by 2050. We saw a greater acceleration in our customers' aspirations for plastic replacement and we continue to take a leadership position in the debate with our presence at COP26 and our collaboration with the Ellen MacArthur Foundation. Our engagement with stakeholders on the topic of ESG has increased significantly as the interests and requirements of customers, investors and consumers continue to grow.

The Board

In January 2022 Rupert Soames informed the Company that he planned to retire from the Board at the conclusion of the Annual

General Meeting on 6 September 2022. Rupert handed over his Senior Independent Director duties to David Robbie from 28 February 2022. On behalf of the Board and the Company, I would like to thank Rupert for his great contribution and commitment to the Board and the Company and wish him continued success in the future. His tireless work in completion of the recent Chair succession process and his subsequent assistance in my integration into the role have been invaluable.

I am also pleased to welcome David's appointment as Senior Independent Director, a role in which I am sure he will excel given his already considerable contribution as Audit Committee Chair.

I am delighted that Alan Johnson has been appointed to the Board as a Non-Executive Director. He also joins the Audit, Nomination and Remuneration Committees of the Board. Alan has a strong financial background in consumer goods and retail, having held a number of senior finance positions at Unilever during a 30-year career, including Chief Audit Executive and Chief Financial Officer of the Global Foods Division.

Dividend

The Board considers the dividend to be a very important component of shareholder returns and it is integral to our capital allocation policy of delivering a return to shareholders while maintaining a robust balance sheet with the flexibility for reinvestment in projects expected to deliver returns in our return on capital range, in the medium term. We have a longstanding capital allocation and dividend policy of paying a dividend with cover of 2.0 – 2.5 times to adjusted EPS. In respect of 2021/22, we paid an interim dividend of 4.8 pence and propose a final dividend of 10.2 pence, together 15.0 pence, representing cover of 2.0 times, in line with our policy.

Outlook

On behalf of the Board, I would like to welcome colleagues who have joined DS Smith during the year and to thank everyone for their commitment and hard work.

We have seen real progress in the business during the year and our customer driven investment into research and development, people and new sites positions us well to continue that momentum into the future.

The new financial year has started well, building on the momentum from the previous year. Whilst there remains considerable uncertainty about the overall economic environment, our expectations remain unchanged. Strong customer demand reinforces our confidence to invest in the business, with capital expenditure expected to further increase in the current year. We currently expect to see 2-4 per cent growth in our volumes, aided by our focus on resilient end markets, a strong performance in the US and the opening of new sites in regions where demand is buoyant. This growth, combined with the benefits of ongoing pricing momentum and careful management of our cost base gives us confidence for the year ahead and is expected to result in a further substantial improvement in our performance.

Engaging with stakeholders: Section 172 statement

The Board aims to promote the success of the Company for the benefit of its shareholders as a whole, taking into account the long-term consequences of its decisions and looking at those decisions through a variety of lenses. This involves the Board and management considering in detail and discussing the interests of the Company's stakeholders including our customers, our people, our investors, our suppliers, local communities and non-governmental organisations; the importance of maintaining our reputation for high standards of business conduct; and the environment. More information about our stakeholders is set out on page 18 and 19. More information about the Board balancing stakeholder interests is set out on page 69. Examples of what that has looked like in practice over the past year are summarised below. Engagement with all our stakeholders is led by our executive teams, who in turn regularly update Board members, via presentations and briefings. In the governance section of this Annual Report we use s172 to highlight the examples referred to below:

Stakeholder	Strategic Report	Governance
Our customers	Pages 10 and 11 (collaboration), 18 (engagement)	Page 74 (engagement with our customers via updates from sales, marketing and innovation functions)
Our people	Pages 18 and 25 (engagement and feedback), 25 (decisions made in consultation with employees), 26 (engagement on health and safety), 28 (global recognition programme)	Pages 73 (engagement with our workforce), 73 (EWC meetings), 73 (EWC representative attending Remuneration Committee meeting and Remuneration Committee Chair attending EWC Executive meetings)
Our investors	Page 18 (engagement)	Pages 73 (engagement with our shareholders)
Our suppliers	Page 19 (engagement and supplier standards)	Page74 (engagement with our suppliers via updates from Group procurement)
The environment and communities	Pages 19 (engagement with stakeholders on environmental matters and charitable giving), 32 (engagement with ESG rating agencies)	Pages 73 (discussion of commitment to align to a 1.5°C scenario), 74 (engagement with other stakeholders including briefing on community engagement)
Governments and non-governmental organisations	Page 19 (engagement)	Page 73 (engagement with other stakeholders including briefing on COP26)

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

To be the leader in sustainable packaging solutions

Our relationships and resources

Our people and values

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

Manufacturing and other physical assets

We have an extensive network of packaging manufacturing sites, paper mills, recycling depots and innovation centres, supported by the infrastructure of the countries in which we operate.

Our relationships

We interact in a way consistent with our corporate values to build and maintain trusted relationships with our customers, suppliers and communities.

Intellectual capital

We have substantial customer understanding, innovation and patented designs.

Data and digital

Integration of data and digital will help increase manufacturing capacity, service levels, and deliver best in class customer experience.

Financial capital

We are funded by a combination of shareholder equity, debt and reinvested cash flow.

Natural capital

We operate a circular model through the recycling of natural material, in particular wood fibre.

1 CCM
Paper is converted into corrugated board and then into packaging

2 Boxes
Packaging is used by our customers, retailers and consumers

3 Used packaging
Used packaging is collected and brought to our recycling facilities

4 OCC and recovered fibre
OCC and recovered fibre are converted into paper again

CCM: corrugated case material, the paper used to form corrugated board
OCC: old corrugated cases, i.e. used corrugated board, a feedstock for recycled paper

How we create value

1. Insight

Our strong relationships with our customers in fast moving consumer goods (FMCG), retail and industrial sectors help us gain insights in changing consumer, retail and regulatory trends and how they impact use of packaging. We use this knowledge to inform our innovation.

2. Innovation

Innovation is at the heart of our business. We have a five-year, £100 million investment programme in research and development to accelerate our work in the circular economy and plastic replacement.

We collaborate with our customers to create sustainable packaging solutions in our impact centres and are able to test and pilot designs and then share best practice across all regions.

We are also innovators in the use of light-weight corrugated board. Our proprietary technology to test the strength of corrugated board as it is manufactured means we can use the optimum paper weight required.

3. Design

All of our designers use our Circular Design Principles to improve the sustainability of packaging. Through our network of designers and PackRight Centres, we create packaging that fulfils our customers' requirements for all stages of the primary product's journey, whether replacing plastic, improving protection in transit, ease of identification in the supply cycle, or presenting the primary product to maximise sales.

4. Manufacturing

Our paper mills manufacture CCM and our corrugated plants convert CCM into corrugated board, then print, cut and pre-glue the boxes, which are then shipped flat on pallets, ready for assembly and filling at our customers' factories. We maximise the efficiency of our manufacturing, for example, using light-weight papers where possible to reduce the cost and carbon impact of the packaging produced.

Our differentiators

- Scale
- Innovation
- Sustainability and circular economy

See more on page 10

Market drivers

- Responding to retail channel changes
- E-commerce
- Sustainability

The value we create

Satisfied customers

We develop packaging that helps our customers sell more, reduce costs, manage risks and become circular-ready.

Packaging that is sustainable

Our packaging is usually fully recyclable and made from largely recycled material. We recycle more packaging than we produce.

Replacing plastic

We have replaced 313 million units of plastic with alternative fibre-based solutions since 2020.

Returns to our capital providers

Investors benefit from strong operational and financial performance.

Safety and opportunity for our people

We aim to create equality of opportunity for people to grow and develop throughout their career in a safe working environment.

Leadership in sustainability

We are leading the transition on packaging sustainability through our engagement with major organisations such as the Ellen MacArthur Foundation.

Community involvement

We have an active programme of community involvement in addition to satisfying a societal need for recyclable packaging.

Q&A: Leading the transition to the circular economy

"Leading the transition to a circular economy is embedded at the very heart of how we operate and drives many of our innovative products and services from plastic replacement and closed loop solutions to our industry-first Circular Design Metrics."

Miles Roberts,
Group Chief Executive

At the time of writing this passage, we are of course trying to help where we can to support those affected by the Russian invasion of Ukraine. We have colleagues in the region and our thoughts are with them and their loved ones. This terrible shock to our society, along with the new world of living with Covid-19, reinforces to me more than ever the need to be a purposeful Company and for all of us at DS Smith to think about how we can be a positive force.

In these uncertain times, our long-term vision allows us to remain dynamic in response to these challenges, while driving us to realise the growth opportunity within the changing world in which we operate. We partner with our customers and stakeholders to meet these challenges, to ensure security of supply and to keep delivering innovative, sustainable solutions.

To realise growth, we are increasing our investment in innovation, developing value generating digital platforms and developing new products and services to meet the new packaging needs of our resilient FMCG and e-commerce customers.

We announced in 2021 a doubling of our R&D investment to £100 million by 2025 to explore new materials, design and innovation. We have added an additional 4 per cent capacity through new greenfield packaging sites in Italy and Poland. Our site in Italy is now operational, with the site in Poland currently being commissioned ready for production to commence in the next few weeks, all in line with customer driven demand for ever more sustainable packaging. We have also launched our Digital & Data Hub, allowing us to accelerate value creation and transform the way we work.

We are now approaching two years since we implemented our updated sustainability vision and strategy, which maps out ambitious commitments and goals for the next decade. Over the past year, we furthered our ambitions, committing to a 1.5°C science-based target, as well as committing to reach Net Zero greenhouse gas (GHG) emissions by 2050.

We also recognise that this changing world has placed increased demands on our employees and as well as a focus on wellbeing and diversity and inclusion, our 'development for all' programme aims to give everyone the chance to grow their skills and enjoy a career in our world leading, sustainable business. Importantly, our safety statistics have again improved, for the 13th year in a row.

We are well positioned to respond to continued macroeconomic and geopolitical challenges and the structural growth in demand for our products and services is stronger than ever. We have strategically positioned the business well to capture these drivers – from the surge in e-commerce to plastic replacement – while continuing to maintain our security of supply.

Ultimately, we are very proud of how we have responded over the past year to a number of different challenges. We continued to drive the way our customers see value in packaging; and when they expected more from us, we partnered with them to enable the transition to a more circular economy. Through this, we are delivering on our Purpose to Redefine Packaging for a Changing World.

Miles Roberts
Group Chief Executive

Q How are you supporting employees through the challenges of the past year?

I am extremely proud of the commitment, professionalism and flexibility of our employees in this extraordinary time. We invested significantly to ensure that we had the right procedures in place to ensure the wellbeing and safety of every one of our employees.

We always aim to delight our customers and that cannot be achieved without having the best people in our industry. We have a strong Purpose and values to underpin our culture and we aim to give every one of our colleagues the platform to realise their potential. We do this through a number of programmes including our Diversity & Inclusion initiatives and networks, development for all activities and wellbeing support.

Q The wider macroeconomic environment has been particularly challenging – how are you delivering security of supply and value to customers?

It is vital that we have, and continue to, manage the inflationary cost pressures experienced in the market through long-term paper and other supplier relationships, significant risk management and hedging and the excellent work that is happening within the procurement team.

As a result of this security of supply, alongside the excellent service, quality, and innovative, sustainable solutions we provide to our customers, we have been able to continue to deliver real value to our customers. This has meant we continue to grow volumes with our customers and further strengthen our long-term partnerships.

Q As you approach the two-year anniversary of Now and Next, what progress has been made?

Our Now and Next Sustainability Strategy positions DS Smith at the forefront of the packaging industry and sets a clear roadmap to address immediate challenges, while also working to meet the needs of the next generation. Leading the transition to a circular economy is embedded in our operating model and drives many of our innovative solutions including plastic replacement, recyclable closed-loop solutions and our Circular Design Metrics.

We have delivered excellent progress on our Now and Next Sustainability Strategy: achieving our targets to manufacture 100 per cent recyclable or reusable packaging and to fund 100 biodiversity projects across Europe and North America. We have also increased our ambition on CO_2 emissions, setting a 1.5°C science-based target, as set out in the Paris Climate Agreement and committing to reach Net Zero GHG emissions by 2050. Our target is to reduce our Scope 1, 2 and 3 GHG emissions 46% by 2030 compared to 2019. We are already seeing progress in improvements across five major ESG ratings – for CDP achieving an A- in climate change.

Q How are you working to influence the wider sustainability agenda for your industry?

DS Smith will be taking the lead in positively influencing all our stakeholders and society – we are doing this through our Now and Next Sustainability Strategy. We are taking leadership positions in the major trade associations at European and national level to drive advocacy on all the major issues that affect our business – critical areas such as decarbonisation of our supply chain, the debate on reuse and recycling, and the continuing evolution of extended producer responsibility for packaging in all our markets.

All of these industry efforts will be built on by our own DS Smith engagement with regulators, politicians and consumers to help people understand the special position of the fibre packaging supply chain in the circularity agenda.

Q Do you expect the momentum in the US to continue?

We are extremely pleased to see the continued strong performance in the US, reflecting the improved volumes across our packaging plants, the improved paper and packaging market pricing and the US export paper price. Packaging volumes in the region have seen significant increases within the Group, on the back of continued excellent customer traction as well as growth in a number of packaging sites as we continue to see excellent momentum in our new box plant in Indiana.

The recovery in the past year is testament to the support and confidence of many existing and new customers to our new products, production capacity and ways of working. It also reinforces the strategic rationale and allows us to serve our multinational customers in both the US and Europe.

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

Through the global pandemic, we have continued to grow our business, building on our existing customer relationships as well as winning new customers with a focus on the resilient FMCG and e-commerce markets. By leveraging our scale, our deep customer relationships and innovative solutions, we have a strong platform to grow our market share over the next year. The pandemic has accelerated our key growth drivers – changing retail channels including e-commerce, and demand for sustainability – and we are ideally placed to capitalise on this opportunity. As a business, we are focused on delivering for all our stakeholders including employees, customers, suppliers and shareholders to deliver real value for all.

Our strategy

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

To delight our customers
How we engage with customers
See more on pages 20 to 23

To realise the potential of our people
How we engage with our people
See more on pages 24 to 29

To lead the way in sustainability
How we engage with society
See more on pages 30 to 33

To double our size and profitability
How we engage with our investors
See more on pages 34 and 35

Our stakeholders

Our strategic goals are aligned with the requirements of all our stakeholders, so that we are delivering for all.

Our customers

Why this stakeholder is important to us

Our customers are largely fast moving consumer goods (FMCG) companies that produce goods typically sold in supermarkets and increasingly via e-commerce channels. We make corrugated packaging for some of the largest global food brands, online retailers and industrial customers and sell paper and recycling to third parties.

Their concerns

Customers are increasingly concerned about sustainability, both in terms of recyclable packaging materials and reducing overall lifecycle impact, including optimisation in the supply chain. They are interested in transparency in the supply chain, compliance with laws and regulation and competitive pricing. They are also focused on the quality of the product and security of the supply chain and meeting their own sustainability targets.

Our response

Our customers require an innovative and flexible partner with reliable world-class supply chains and scale. We continue to innovate with new sustainable solutions and provide more ways to work with customers than ever before. Our packaging is fully sustainable which means it helps our customers achieve their own sustainability targets.

Our people

Why this stakeholder is important to us

We are around 30,000 people across 34 countries worldwide, speaking 26 languages. We are inspired by our Purpose and are diverse in our thinking.

Their concerns

Our people are interested in a company they can be proud of and a strong supportive culture in which they feel safe, recognised, included and fairly rewarded and in which they can fulfil their potential.

Our response

By giving everyone a voice, we provide a meritocracy with development opportunities for all and recognition of personal achievement, regardless of gender, ethnicity, age or religion. We encourage feedback and have mechanisms through our employee works councils including the European Works Council, biennial employee survey and more regular pulse surveys, which inform local action plans and sharing of best practice.

We are committed to ensuring our employees work in a safe, fair and productive environment and invest in their development. We base our approach to, and expectation of, our employees on our five DS Smith values (see page 5).

Our investors

Why this stakeholder is important to us

Our shares are listed on the London Stock Exchange, and we raise our debt from banks and through listed bonds. Our equity and bonds are owned by a wide range of investors in the UK, Europe, the US and beyond.

Their concerns

Our investors are concerned about financial and operational performance, sustainability strategy and ESG scores, compliance with laws and industrial relations.

Our response

We engage with equity investors and analysts through regular meetings and conferences, and similarly engage with our banking syndicate, fixed income investors and ratings agencies periodically. We aim to provide long-term shareholder value creation.

Our customers
Read more on pages 20 to 23

Our people
Read more on pages 24 to 29

Our suppliers

Why this stakeholder is important to us

We have approximately 40,000 suppliers, ranging from small suppliers of goods and services to large paper manufacturers, from whom we source substantial volumes of paper for our corrugated board.

Their concerns

Our suppliers are also concerned with compliance with laws, competitive pricing and sustainability.

Our response

We engage with suppliers to enforce our established supplier standards and supplier Code of Conduct, which set out our ways of working, including for example, in relation to our obligations under anti-modern slavery laws.

The environment and communities

Why this stakeholder is important to us

Leading in sustainability and care for the environment is core to our Purpose and is one of our four strategic goals.

Their concerns

Reducing GHG (greenhouse gas) emissions, water consumption and waste to landfill are priorities as well as education on the importance of the circular economy and how everyone can help care for the environment and our communities.

Our response

In January 2022, we announced our ambitious commitment to align our global operations to a 1.5°C scenario as set out in the Paris Climate Agreement, by committing to reduce our Scope 1, 2 and 3 Green House Gas (GHG) emissions 46 per cent by 2030, compared to 2019 and to reach Net Zero GHG emissions by 2050.

Our Purpose also guides our community programmes and charitable foundation which supports local and larger initiatives, from sponsoring local educational projects to donations to environmental and education-focused charities, such as the Arkwright Foundation. Our DS Smith Charitable Foundation has donated over £350,000 to causes aligned with our Purpose in 2021/22.

The environment and communities

Read more on pages 30 to 33

Governments and non-governmental organisations

Why this stakeholder is important to us

We engage in detailed consultations with governments on the topics of recycling and reuse, extended producer responsibility and the decarbonisation of heat. We participate in industry organisations across the UK, EU and North America to combine our influence.

Their concerns

The circular economy, reducing CO_2 and energy usage, water usage and waste and landfill and focus on sustainability.

Our response

We take a leadership role with relevant non-governmental organisations, such as our global partnership with the Ellen MacArthur Foundation. We are engaging with leading ESG organisations such as the Science Based Targets initiative to set meaningful and ambitious goals around our carbon emissions

To delight our customers

“People are becoming more conscious of their impact on the world. We help our customers by designing sustainable packaging solutions, to help achieve their sustainability goals and meet growing demand for sustainable packaging solutions.”

Marc Chiron,
Sales, Marketing and Innovation Director, Packaging

We do this by:

- Delivering on our commitments for quality and service
- Providing value-adding packaging solutions
- Driving innovation

In 2021/22 we:

- Supported our customers throughout the pandemic by maintaining our continuity of service
- Strengthened our value proposition and helped customers better position themselves for a more circular economy
- Accelerated innovation programmes, including plastic replacement
- Flexibility and agility in our co-operation with customers

In 2022/23 we will:

- Drive circularity and continue to deliver market leading sustainable solutions
- Accelerate our leadership on e-commerce
- Continue to scale up innovations
- Drive improvement of service levels

Our KPI

On-time, in-full deliveries (OTIF)

Definition

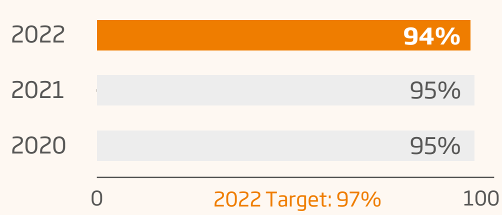
The proportion of our orders that are delivered on time, in full across our businesses.

Why this is a KPI

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

2021/22 performance

In the year 2021/22, our overall OTIF was 94 per cent. This is below our target of 97 per cent due to disruption caused to supply chains by Covid-19 and the Russian invasion of Ukraine. We continue to strive for higher service levels and have seen improvements in our underlying operations.



We work with many of the world's biggest and most iconic brands. We add value by enhancing their consumers' experience, ensuring they are available when shoppers look for them online or in-store and helping to create value recognition and maintain price-points. In addition, we focus on transforming the design of point-of-sale packaging and displays, to minimise supply chain complexities and enable speed to market.

Our end-to-end approach is adopted by many of our multinational customers and has been a real source of value growth in these relationships. By working in close partnership, we gain insight that allows us to develop packaging that supports the delivery of increased sales, lower costs, manages risks and allows for a circular ready approach.

Our packaging customers

We have a globally diverse customer base, with over 80 per cent of our customers being fast moving consumer goods (FMCG) and other consumer products. FMCG customers require high-quality, innovative, value-adding packaging. We invest in the insights and innovation needed to meet this demand; and deliver this on a multinational scale.

Our exposure to this market makes us more resilient and less cyclical as demand for these products remains consistent. Our multinational customers require a partner that has a geographic footprint which matches their own. DS Smith is exceptional in having the scale, expertise and innovative approaches to support our customers around the world. Over the past year, we have seen real growth in our US operations as we continue to partner with global customers and expand our operations at our Indiana site.

In the changing global landscape, our FMCG customers demand security of supply of packaging. We continue to support our customers by investing in our existing capability and in new sites to build capacity as their demand for our products and services grows. We are tracking well with the construction of our two new sites in Italy and Poland in line with customer driven demand for ever more sustainable packaging.

While consumers' relationships with packaging have undeniably changed, so too have the needs of our customers and the challenges they have faced. We have responded with tailor-made solutions that helped our customers respond to trends such as increased e-commerce demand or the need for more sustainable packaging. We continue to help new and existing customers navigate this period of uncertainty through security of supply, quality and innovation.

Through our ePack online platform, we have helped both small and large customers, and it has continued its expansion across Europe to operate in markets including Spain and Italy. The platform offers 100 per cent eco-friendly packaging to support e-retailers build on the transformations happening across e-commerce and boost growth in sectors like apparel and online groceries, while also offering plastic-free alternatives such as paper mailing bags or fully recyclable insulated fibre-based boxes for delivery.

We have worked hard to continue innovating with our customers to respond to these trends, transforming our sustainability and innovation workshops through new digital platforms.

Case study: Switch from polystyrene to fibre to reduce emissions and cost

We partnered with Fresco y del Mar, a Galician company selling fish and seafood from the region, to switch from expanded polystyrene to fibre-based packaging.

The cardboard solution aligns to Fresco y del Mar's commitment to respecting nature, marine environments and fair fishing. It keeps the product fresh while also reducing logistics emissions and cost, as 410 empty corrugated boxes can be transported per pallet, compared to 36 expanded polystyrene boxes of the same volume.

"It is motivating to work with a company sharing the same challenges constructively to find the best way forward to a more sustainable future. We share circularity in our DNA."

Pablo Sueiro,
Fresco y del Mar

Value proposition for customers

More sales
We help our customers generate more sales with the right packaging

Lower cost
We help our customers eliminate unnecessary cost

Risk managed
We help our customers address risk throughout the supply chain

Circular ready
We help our customers with circular packaging solutions

Circular Design Principles

Following the launch of our Circular Design Principles, we have developed Circular Design Metrics for packaging. With this pioneering tool we can give a clear identification of a packaging design's sustainability performance.

We have embedded our Circular Design Metrics across all our packaging sites, training over 700 designers to support the transition to the circular economy and help customers achieve their sustainability goals.

In an industry first, we can now measure and quantify the sustainability performance of each of our packaging designs across eight key different indicators: carbon footprint, design for reuse, supply chain optimised, recyclable, planet safe, material utilisation, renewable source, and recycled content.

We are the only packaging producer to offer this unique tool which gives its customers across a wide range of sectors such as FMCG, industrial, retail and e-commerce a clear view of their packaging designs' circularity performance.

As more than 70 per cent of a product's environmental impact is determined at the design stage, data from the Circular Design Metrics enables brands and retailers to compare different design solutions, helping them to reduce waste and pollution and keep materials and products in use for longer.

Through our Circular Design Principles, brands can keep materials in use, design out waste so that it is easier for consumers to reuse and recycle packaging, and regenerate natural systems.

Moreover, we have been working to reduce plastic packaging by innovating in sectors where sustainable fibre-based packaging can make a big difference in reducing plastic use. Through innovations, such as Ecobowl, we have extended our ability to tackle 'hard to recycle' plastics and we've developed over 1,000 designs focused specifically on plastic replacement – with over 300 million units of plastic replaced since 2020.

As companies and retailers embrace the transition to more sustainable packaging, there is an opportunity to make significant progress against their environmental and social responsibilities while also responding to changing consumer behaviours.

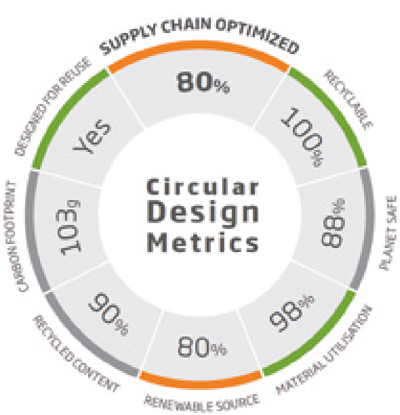
Our paper customers

Supplying customers across the globe, we are a leading manufacturer of sustainable packaging and speciality papers made from 100 per cent recycled or chain of custody certified fibre sources. Our mills in Europe and the US produce around 4.5 million tonnes of corrugated case materials and specialist industrial products annually.

The high performing packaging papers we produce, such as recycled corrugated case materials and kraftliners, are integral in allowing the Group's packaging division to produce sustainable paper-based packaging solutions. Our customers for speciality papers, such as plasterboard liners, come from a variety of industries including construction, printing, food manufacturing, stationery supplies and education.

Combining our expertise of 15 mills across Europe and North America, which are strategically located near raw material sources and our customers, with forward-thinking research and development focus, enables us to provide customers with the high performing quality papers they need for their onward manufacturing operations.

Through our stringent quality measurement systems and ability to track fibre through the complete papermaking process, we ensure delivery of high-quality finished papers to all our customers. Our commitment is to create sustainable, high performing papers, that deliver the packaging solutions needed in an ever-changing world.



Examples of fibre-based solutions to replace common sources of problem plastics

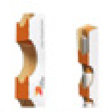
Removing single use plastics for fresh food (from plastic bags to ready meal mouldings.

Removing single use plastics for fruit & vegetables (from shrink wrap to trays and punnets

Swapping plastic 6 pack rings with corrugated tops for cans

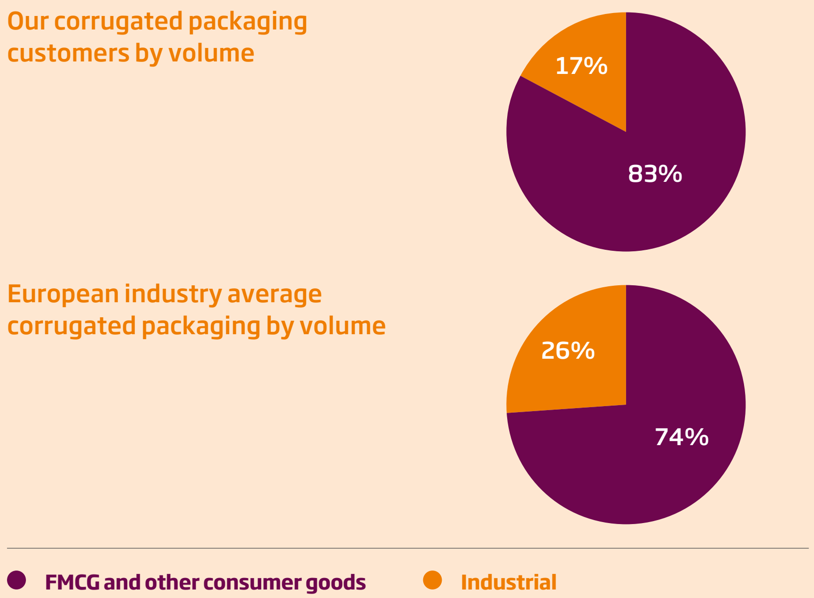
Printing directly on the cardboard instead of using plastic labels

Substituting plastics with 100% cardboard fillers to protect the packed products.



Replacing plastic for shelf ready display solutions.

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



Source: DS Smith analysis

Our recycling customers

We provide recycling and waste management services to companies of all sizes across a diverse range of sectors in both Europe and North America. From municipalities and waste management companies, to printers, manufacturers, wholesalers, and some of the best-known brands and retailers the world over, our customers benefit from our recycling expertise. We partner with organisations large and small to keep significant amounts of paper and cardboard out of landfill and incineration every year.

The paper and cardboard we collect for recycling serves our own paper mills as part of our closed loop recycling business model, while also being sold into our global network of third-party paper mills.

With a full recycling and waste management service, we work with our customers to reduce waste and recycle more. By innovating around collection infrastructures and working with customers to build recyclability into their supply chains, we are helping to provide solutions for our customers' and wider society's biggest recycling challenges.

Through our digitalisation of recycling systems, we are working with customers to create impactful data-led solutions for our customers to make the right decisions relating to their recycling.

We are currently working with IBM to explore the use of image recognition to better identify contaminates in recycling that can hinder the recycling process. We are also harnessing Near Infra-Red (NIR) scanners to tackle plastic contamination in recycling. First trialled in our mills in the UK and Italy, NIR scanners are now being rolled out across our European mill network and can identify quantities of plastic in paper and cardboard collected for recycling even before the paper is unloaded at our mills. This technology allows us to work with our customers to improve the quality of material they collect for recycling.

Case study: Contributing to Lidl Sustainability Vision

We are helping Lidl in France close the loop on its cardboard recycling and deliver on its commitments to recovering valuable resources and reducing its impact on the environment.

By partnering with DS Smith, Lidl is able to close the loop on its on-shelf packaging and, within a six month period, Lidl France recycled more than 95,000 tonnes of cardboard, including 22,621 tonnes of cardboard using our closed-loop model.

"At Lidl, we are convinced that the best waste is the one that is not produced. But we are also realistic as we know that every act of production and consumption involves waste. It is therefore our responsibility to manage it by first limiting it as much as possible, then by recycling it."

Camille Fossano, Logistics Environment Manager, Lidl France

To realise the potential of our people

"To realise our Purpose of 'Redefining Packaging for a Changing World' we need a modern, diverse, motivated and engaged workforce where everyone has the opportunity to realise their potential. We are passionate about working together and exploring new ways to innovate and delight our customers; it is fundamental to our business success. Our priority has been the health and wellbeing of our employees, continuing to serve our customers and to support our local communities. At the same time, we have not lost focus or momentum on building an inclusive, engaging workplace, recognising employees and providing development opportunities.

As we look forward, we are building on the learnings from the Covid-19 pandemic to shape new sustainable ways of working. We are developing a compelling proposition to attract and retain employees where they can thrive, and grow and sustain our business in a changing world by developing strategic capabilities (innovation, data & digital, sustainability and capital projects)."

Jacky Wearn,
Group Human Resources Director

We do this by:

- Ensuring the health, safety and wellbeing of all our employees and creating a working environment where they feel proud, engaged, included and developed to perform at their best

In 2021/22 we:

- Conducted a global engagement survey to understand what is working and areas to improve; to listen, respond and act
- Continued celebrating the contribution and success of employees with our second Smithies awards event held virtually
- Provided managers with a set of tools to drive high levels of health and safety and wellbeing engagement
- Continued to develop our leadership pipeline from early talent through to mid and senior leadership
- Provided more opportunities for employees to develop by offering new ways of accessing learning
- Accelerated our diversity and inclusion ambition by increasing diverse senior leadership hires, continuing to raise awareness and activating employee resource groups
- Implemented functional talent meetings with diversity data to support career coaching and accelerated development of diverse talents

In 2022/23 we will:

- Run listening groups to drive action as part of our engagement evolution with regular pulse surveys and feedback
- Continue to recognise the contribution of our employees through the Smithies recognition programme
- Consolidate our employee feedback to develop a compelling proposition that describes how people can thrive at DS Smith
- Embed the health and safety and wellbeing culture through our local site networks
- Continue to invest in the capability of our managers and leaders to support our employees
- Provide consistent training to develop our technical and operational capability using new immersive learning technology
- Review the ongoing success of widening opportunities for employees to access development
- Focus on embedding diversity and inclusion by expanding employee resource groups, local networks and roundtables
- Continue to scale functional and cross-divisional talent meetings and support the development of diverse talents through our leadership programmes

Engaging our employees

Employees increasingly want to work for organisations that align with their own values and bring meaning to their everyday lives. By engaging employees, we enable them to identify and feel ownership of our Purpose, which in turn drives productivity, innovation, retention and performance. Ensuring we fully understand what matters to employees, how we help them thrive and where we need to improve, continue to be fundamental to our engagement strategy.

Our global engagement survey enables us to monitor the engagement of our employees with our business, culture and Purpose. As well as traditional themes such as management practices, communication and personal development, our latest survey was designed to help us better understand areas that we did not ask about previously, such as ethics and inclusion. The survey enables us to understand how the different issues that drive positive engagement have changed as the world changes.

Alongside engagement, we measure and track employee enablement, which is the creation of a working environment in which everyone can do their best work and where their skills and abilities are fully utilised. When employees feel both engaged and enabled, we see higher levels of productivity.

Our 2021 survey results also show that the topics that are the core of our strategic ambition, such as health and safety, sustainability, diversity and inclusion and customer focus, are also shared by our employees, being the highest-ranking items in the survey. This survey highlighted increasing demand from employees for additional learning and development. In 2022/23 we will continue to focus on these areas with our learning and development offers, line manager capability development and The Smithies recognition awards.

Our KPI

Accident frequency rate (AFR)

Definition

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

Why this is a KPI

We believe all employees contribute to a safe working environment and culture and our focus is on individual ownership.

2021/22 performance

The effect of the Covid-19 pandemic has been felt throughout the organisation creating significant absenteeism challenges. Despite this, we have improved our health and safety performance, which is a significant achievement.

Health and safety key performance indicators	2021/22	2021/20		Variance vs. pro forma
		Reported	Pro forma[3]	
Total LTAs[1]	**96**	102	101	-5%
AFR[2]	**1.91**	2.06	2.04	-6%

1. LTA: number of accidents resulting in lost time of one shift or more.
2. AFR: number of LTAs per million hours worked.
3. Pro forma data adjusted for acquisitions and disposals.

We continue to discuss the themes of the survey findings with employees through listening groups and our European Works Council (see case study opposite) and will evolve our listening approach to ensure continuous feedback conversations happen and timely local action is taken. As well as challenges around development, we know the attraction and retention of employees will be critical to our future success. In 2022/23 we will also consolidate our employee feedback to progress our plans and develop a compelling proposition that describes how people can thrive.

European Works Council

A further opportunity for us to listen to and learn from the views of employees comes from the important partnership with our European Works Council (EWC). The EWC brings together employee representatives from across Europe, engaging them through an effective information and consultation process.

The full council of up to 50 representatives meets with the management team twice a year to share feedback, exchange views and discuss opportunities to improve; an event which is interpreted live to ensure everyone is included and can participate.

In addition the EWC Executive holds monthly meetings with their Regional representatives in order to ensure we have a regular two-way dialogue on employee matters across Europe.

Ensuring the health, safety and wellbeing of all

The Covid-19 pandemic continued to affect many aspects of our daily life but, despite these challenges, we progressed towards our Vision Zero ambition, developing our four strategic goals and providing a working environment where engaging in health and safety activities is integral to our business success.

Health and safety leadership

Leadership behaviours are critical to drive engagement; when our leaders engage in health and safety, we see a positive impact on our health and safety employee engagement index. This is the central theme of our health and safety onboarding programme, which continued this year and trains all new and promoted site managers on the behaviours and mindsets required as health and safety leaders. To further develop our safety culture, we introduced leadership focused safety programmes which helped create health and safety role models, whilst encouraging and recognising safe behaviours and their value, raising awareness and placing health and safety at the centre of everyday activities.

Key figures (rounded):

- Leadership delivered safety talks: 32,000
- Verification of critical controls performed by leadership: 36,000
- Safety observation tours performed by leadership: 85,000
- Leadership lead risk assessments: 133,000

We have seen a 25 per cent increase in leadership led health and safety activities and an increase in employee engagement. In 2022/23 we will continue embedding the health and safety leadership behaviours through our local site networks.

Health and safety engagement

Engaged employees who work proactively in identifying and eliminating risks are driving a resilient and interdependent health and safety culture. We consistently see that when employee engagement increases, the number of accidents decreases. Equally, when the workplace feels 'safe' to employees, we see their engagement and commitment increasing. The health and safety engagement index measures the participation rate of employees in risk identification and elimination activities. This index has increased by 50 per cent this year.

Key figures (rounded):

- Safety observations and near miss reporting: 360,000

Engagement with robust health and safety processes is essential to ensure safe working environments. In 2022/23 we will continue working through our local site networks to further increase health and safety engagement.

Health and safety processes

The easing of the travel restrictions worldwide allowed us to return to on-site health and safety auditing which aims to drive continuous improvements and accelerate the implementation of our global health and safety standards such as workplace transport (see case study), machine guarding or working at heights.

Workplace transport health and safety standards

The health and safety standards for workplace transport (forklifts) includes risk assessments, training and certification of drivers, and physical barriers where possible or well-marked pedestrian routes and aids. To provide pedestrians with further safety, we have introduced proximity technology which detects nearby pedestrians and automatically slows down forklifts. After a successful pilot in Italy, the implementation has been accelerated and is now being introduced across Europe and North America in 2022/23.

> "This is an important example of how technology can help us to better protect workers and employees in our dynamic work environment. Our commitment in seeking new smart solutions is an essential element to achieve our health and safety vision."
>
> **Luigi Marini, MD Italy**

Health and safety culture

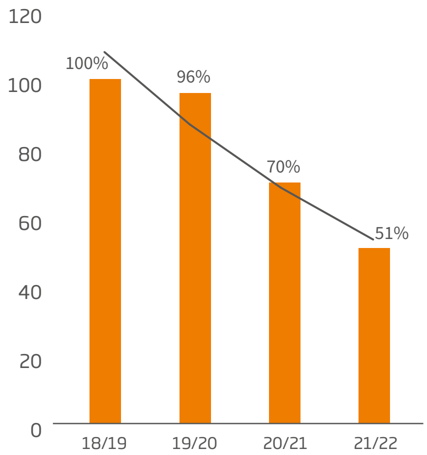
Our focus on leadership, engagement and processes is designed to develop and drive an interdependent safety culture in which every person in the organisation feels responsible for safety and acts proactively to identify and eliminate risks.

Key figures:

- Recycling: 83 per cent LTA reduction year-on-year
- Paper: 43 per cent LTA reduction year-on-year
- EU packaging: six per cent increase year-on-year
- North America packaging: 25 per cent LTA reduction year-on-year
- Sites with zero accidents: 266

We firmly believe that our drive towards Vision Zero has been key in having a safe and healthy working environment. Despite multiple external challenges, not only do we celebrate significant improvements across all divisions, but the overall number of employee accidents and accident frequency rate have reduced by 27 per cent year on year to a record low. In 2022/23 we will continue striving towards our Vision Zero ambition and ensure the health and safety culture is adopted across our site network.

Consistent reduction in employee accidents



Health and wellbeing

The health and wellbeing of our employees has long been our top priority and recently more so than ever. With the unprecedented scale of the pandemic, it has caused increased pressures and demands on our employees' physical and mental wellbeing. We have developed and promoted a broad set of tools and resource through our local site network as well as external partners to support employee health and wellbeing (see case study). These include toolkits, such as wellbeing ideas for remote employees, anxiety management and resilience hints and tips.

This year, we built on the Health and Wellbeing framework and launched initiatives across the business to build positive, healthy working environments, including a variety of wellbeing programmes to address the needs across the organisation. Leadership role modelling has encouraged and inspired employees to care for their own wellbeing across the organisation. This year we also introduced bitesize training building resilience and wellbeing eLearning such as mindfulness, physical and digital workspace, resilience and remote working. In 2022/23 we will continue working with our local site networks encouraging employees to access the resources available to strive towards a consistent approach to health and wellbeing.

Supporting wellbeing through massage in the Netherlands

As an outcome of listening to the feedback from employees at our site in Eerbeek, a pilot wellbeing programme was launched in May 2021. Given the physical and mental strain that work can cause, all employees can have a regular massage on a bi-weekly basis.

"In addition to an ergonomic workspace, the bi-weekly massage is a very welcome and helpful moment for me to relax. This reduces the tension, is well-appreciated and improves my focus."

Team Manager Maintenance, Eerbeek

Kemsley Mill development for all

The management team at Kemsley Mill have fully supported development for all opening a new learning centre and flexing shift patterns to ensure everyone could attend launch sessions where they explore opportunities for their professional and personal development.

"During the launch week, March 2022, one third of employees attended sessions, many downloaded the learning app to their mobiles, completed learning modules and enquired about qualifications on offer."

Steve Maxwell, HR Business Partner

DS Smith learning

The number of employees accessing online learning continued to increase this year. We invested in adding new earning paths including Sales, Marketing and Innovation, Finance, Diversity and Inclusion, Sustainability, Legal and Compliance. Extending access and the successful delivery of engaging and innovative learning content has made employees more curious about what learning is available.

Development for all

Our commitment to development for all continues to explore and test options which provide ease of access for employees who are not connected to our systems (see case study). We have done so by directing learning to specific employee groups, installing learning kiosks on sites and providing learning applications which can be used on mobile devices. This offers personal, professional and technical related development, encouraging our employees to embrace lifelong learning.

Leadership development

We continue to invest in leadership development to grow a strong, robust and diverse pipeline of talent. Partnering with Oxford Saïd Business School (OSBS) this year we have relaunched our two Group-wide programmes; Global Leadership Programme (GLP) which is our senior leadership offer, with 24 places; and Aspire which targets high performing and high potential future leaders, with 50 places. Both programmes have evolved to reflect our organic growth ambition, the changing context in which we operate and the world of business. In addition, we have added a new Continuous Professional Development webinar series led by thought leading Oxford faculty.

The Fundamentals of First Line Management programme implementation continues to cascade across the organisation and several new 90-minute virtual bitesize training sessions have been added this year. This provides an expanded learning resource which has seen 1,567 participants this year across 13 subjects and we will continue enhancing line manager capability in 2022/23.

Developing diverse leadership talent

This year, we launched our targeted development offer called Accelerate for high-potential, mid-level female talent who have the potential to progress to senior leadership positions. It is aimed at those transitioning into leadership roles, considering their next role and those consolidating their career decisions. As at April 2022, 30 women have completed the programme and recommended it as an impactful investment in their development. In 2022/23 we will continue Accelerate and have additional cohorts planned.

To support diverse talents deeper in the organisation, this year we are launching an inclusive development centre approach to inspire individuals who are not currently in management roles to self-nominate, explore their strengths and create development plans which will guide their future growth. Linking directly with our innovation agenda we create a space for participants to consider how they can directly influence the creation of new ideas, ways of working and product development.

Creating a modern, inclusive and diverse culture

A diverse workforce better reflects the communities we operate in and customers we serve, improving our response to local contexts and diverse customer needs. Our engagement survey feedback tells us that employees are more productive and more likely to succeed when they are part of an inclusive workplace, where everyone is valued, respected, engaged and feels safe to be themselves at work. This can lead to improved business performance, giving room for more creativity and innovation. Creating an inclusive culture where employees thrive is core to our Purpose and is key to our continued success. This year, we launched our diversity and inclusion strategy with three pillars. In the first year of this strategy, we are on a journey to embed our approach across the business.

Visible leadership

Leadership lead by example

Active networks

Engaging with our people in a different way to build a sense of inclusion and to drive action

People and processes

Policies and procedures that create an environment where people can do their best work

Visible leadership

Every employee has an important role to play in creating a diverse and inclusive workplace culture. By role modelling inclusive behaviours, leaders can help create a workplace where all employees can realise their potential. We launched our inclusive leadership workshop to help leaders take ownership and drive action (see case study). We have over 200 leaders who are part of a global, diverse alumni network supporting each other. In 2022/23 we will embed the inclusive leadership workshops throughout the organisation.

In October 2021 we launched our Diverse Voices campaign where everyone can share their perspective and experience to help raise awareness of events across the year, e.g., men's mental health awareness, Black History Month, and International Women's Day. These stories help raise awareness of cultural differences, celebrating diversity, and highlighting important issues faced by different groups.

As part of a healthy diet programme, baskets of fruit are available for employees in the Belgium office.

Developing an inclusive culture through reverse mentoring

After the inclusive leadership workshop, several leaders, including some senior leaders, were paired with reverse mentors of different backgrounds. Reverse mentoring is an opportunity to connect with our diversity and inclusion agenda on a personal level and drive action to create cultural transformation. It builds a bridge between different backgrounds, benefiting both parties.

- "It provided a great opportunity to have a trusted conversation about the diversity and inclusion agenda. We focused on how we can improve awareness and challenged what I can do as a leader to be more inclusive." **Socky Angel, North Sales Director (UK), Reverse Mentor.**
- "We talked about areas we can improve and will explore these in future conversations." **Adam Platts, Sales Director (UK), Mentee.**

Active networks

Everyone has a role to play to make the organisation a more diverse and inclusive environment. We recognise that real change comes from employees by treating others fairly with respect. We continue making good progress through our Global Diversity and Inclusion Forum, where individuals are committing to driving action personally in 2022/23. Our partnership with the European Works Council Diversity and Inclusion Committee is driving significant opportunities to help embed our ambition locally through our site networks.

To raise awareness, build a sense of inclusion and drive action, we mobilised and engaged employees through active networks. This year, we launched our first Employee Resource Groups (ERGs), LGBTQ+ and Allies Network, an Ethnic and Cultural Diversity Network and set up local site networks e.g., Kemsley Mill's diversity and inclusion network.

As a result of active networks, inclusion events have taken place such as our diversity and inclusion roundtables with external speakers, helping employees raise awareness, engage and hear how they can drive action. In 2022/23 we will continue exploring additional ERGs and run local roundtables across the business.

People processes

We recognise that policies turn the open conversations in our active networks into meaningful action to provide opportunities to address inequalities and create an environment where employees can thrive. This year, we made progress to build awareness and embed in the business practices of our global Equal Opportunities and Anti-Discrimination Policy. We also ensured that business language is non-discriminatory throughout the organisation. In 2022/23, we are working to ensure the policy and training are embedded throughout our site network supported by employee groups such as the European Works Council.

To attract diverse talents, we refreshed our career site and showcase diverse career journeys. We set targets for gender diverse pipelines in professional roles, senior search and our graduate programme. We track metrics throughout the hiring process which helps address under representation resulting in an improvement in female hiring for professional roles. We launched the Career Transition Partnership for veterans and in 2022/23 we will explore opportunities to support inclusive employability initiatives.

Diversity of our Executive team

In November 2021, the Department for Business, Energy & Industrial Strategy announced government support for a new five-year independent review, the FTSE Women Leaders Review. The purpose is to monitor the representation of women among leaders of FTSE 350 companies, focusing on both board membership (with a voluntary target increase to 40 per cent by 2025) and senior leadership roles.

We voluntarily take part and have adopted the review's definition of senior leadership to provide a consistent measure of progress year on year, which includes direct reports of our four Executive Committees: Group Operating Committee, Group Strategy Committee, Group Health, Safety, Environment and Sustainability Committee and the Group M&A Committee. For more information about these Committees, please see page 71. The 2021 report was published in January 2022 and represents our position as of 31 October 2021:

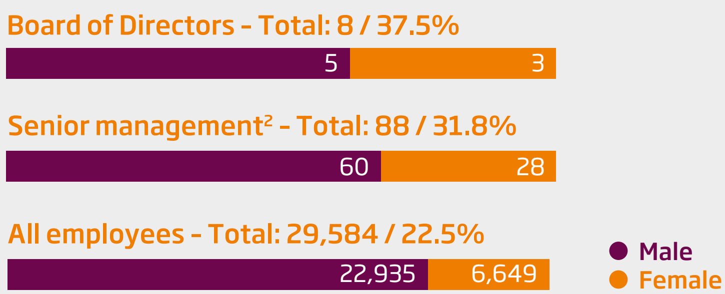
Overall FTSE ranking	41
Women on DS Smith Plc Board	37.5%[1]
Female Executive Committee and direct reports	32.9%[2]

1. Compared to FTSE 100 average of 39.1%.
2. Compared to FTSE 100 average of 32.5%.

We acknowledge diversity is broader than gender and we are making progress through our employee resource groups and recruitment searches. We recognise it continues to be a challenge to attract women into manufacturing, however we are making progress. Targeted recruitment actions resulted in increasing diverse senior leadership hires, with 38 per cent female hire ratio at the senior level and we exceeded gender parity of graduate offers for the second year in a row. We continue to support the acceleration of our female leadership pipeline with mentoring and executive coaching support, and ensuring representation of women in leadership programmes, with 32 female participants across cohorts. This year, we have implemented function talent meetings using gender diversity analytics to understand the diversity profile at every level of the talent pipeline, driving action to ensure transparent conversations and career coaching take place. In 2022/23 we will continue to scale the function and across division talent meetings and support the development of female talents through the leadership programmes.

For gender pay gap reporting we choose to report not only on the UK legal entities where headcount is above 250, but on the UK total figures to provide a comprehensive view. This year, the mean gender pay gap improved to 2.2 per cent (3.5 per cent in 2020). We are working hard to deepen our leadership pipeline, with 32 per cent of our global senior management positions occupied by women. We know that gaining exposure to strategy development is key for executive succession and three of our female leadership talents now sit on four of the Group Executive Committees. For more information search 'gender pay gap report' on dssmith.com. However, the UK only represents a small proportion of our total workforce and our policies and practices are applied globally.

Gender diversity[1]



1. As at 30 April 2022.
2. Definition of senior management: our four Group Executive Committees and their direct reports.

To lead the way in sustainability

Q&A with Wouter van Tol:

Head of Sustainability, Government and Community Affairs

Q How can the circular economy help the world to tackle climate change?

The circular economy rethinks how we all live our lives and run our businesses, challenging us to use our finite resources many times over. We can cut greenhouse gas emissions by evolving from a linear system to a circular system that eliminates waste and pollution, keeps products and materials in use and regenerates natural systems.

Q How significant is the commitment to a 1.5°C science-based target?

Our business has ambitious growth plans over the coming years as we lead the transition to a circular economy. Delivering our commitment will require cutting emissions as we grow through investment in next- generation engineering solutions, self-generated renewable energy sources and power purchasing agreements to replace grid electricity, which are significant steps to take in an energy intensive industry.

Q What were your highlights from being at COP26?

Arguably COP26 was the most significant global climate change conference since the Paris Agreement in 2015. Being surrounded by world leaders and other businesses reinforced the imperative to take serious action in this crucial decade to 2030. By building a common agenda together, businesses can be a part of the solution. This is why we joined the UN Race to Zero and the Get Nature Positive campaigns as collective platforms to accelerate change towards a low carbon and circular economy, protecting the natural world that we depend on.

We do this by:

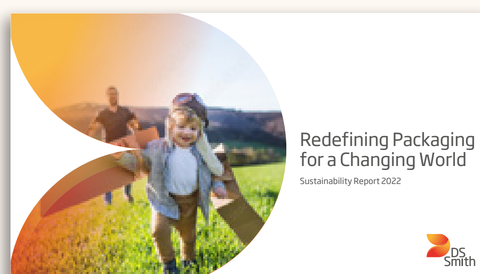
- Closing the loop through better design
- Reducing waste and pollution through circular solutions
- Equipping people to lead the transition to a circular economy
- Protecting natural resources by making the most of every fibre

In 2021/22 we:

- Set our 1.5°C science-based target to reduce Scope 1, 2 and 3 GHG emissions by 46 per cent by 2030 compared to 2019 and reach Net Zero emissions by 2050
- Delivered progress on our Now and Next Sustainability Strategy; achieving our targets to manufacture 100 per cent recyclable or reusable packaging and to fund 100 biodiversity projects across Europe and North America ahead of our plans
- Placed on the prestigious 'A List' for CDP Water Security, increased our CDP Climate Change score to A- and earned EcoVadis 'Platinum' rating
- Played our part at COP26, with a sustainable packaging installation at the Ellen MacArthur Foundation Café in the New York Times Climate Hub where we launched our Circular Economy Lesson Plan as part of our goal to engage five million people on the circular economy and circular lifestyles by 2030

In 2022/23 we will:

- Drive our circular design and innovation agenda to maintain that all of our packaging is reusable or recyclable, replace problem plastics and optimise solutions to ensure that we use no more natural resources than necessary
- Deliver further progress on our Now and Next Sustainability Strategy



See DS Smith Sustainability Report 2022 for more information about how we are leading the way in sustainability with our Now and Next Sustainability Strategy.

Additional non-financial metrics can be found in DS Smith ESG Databook 2022.

Highlights of 2021/22 Now and Next progress

Closing the loop through better design

In 2021/22, 99.6 per cent (2020/21: 99.2 per cent) of packaging manufactured met our 100 per cent reusable or recyclable standard. Our community of over 700 designers continues to apply our Circular Design Principles to ensure that new packaging solutions are fit for the circular economy and recyclable by design. We now consider this target 'achieved' because greater than 99.5 per cent of our packaging volume meets this standard, enabling recyclability in practice and at scale. For the remaining less than 0.5 per cent volume that is presently not either recyclable in practice or at scale, such as some barrier coatings and foam, we continue to push for circular alternatives. These hard-to-recycle materials are being targeted with action plans through research and development efforts and our Group-wide Recyclability Forum. These are significant steps on the journey for all our packaging to be recycled or reused by 2030.

Reducing waste and pollution

Our progress to replace one billion pieces of problem plastic by 2025 continued strongly, with 313 million units replaced with corrugated alternatives by the end of 2021/22. This equates to on average more than 3 million units per week, boosting recyclability and reducing waste and pollution, since May 2020 when this target was set. We continue to work tirelessly to find solutions for our customers' single-use and hard-to-recycle packaging, with more than 1,000 recyclable fibre-based solutions developed for hundreds of thousands of products, from wine boxes to ready-meal trays to shrink wrap and fresh fruit punnets. With our Circular Design Metrics, our customers are able to compare the performance of different solutions to make more sustainable choices, for example switching from a plastic to fibre-based punnet for cherry tomatoes, substituting plastic for corrugated material that is recyclable and planet safe.

Protecting natural resources

In 2021/22, we optimised fibre use for individual supply chains in 26 per cent (2020/21: 23 per cent) of new solutions, ensuring that fibre use is minimised as far as practicable by tailoring specifications to our customers' unique supply chain conditions and performance requirements. As we aim to optimise fibre for individual supply chains in 100 per cent of our new packaging solutions by 2025, we continue to find ways to deliver more for our customers but using fewer natural resources. This includes reducing fibre use, which in turn decreases energy and water consumption during manufacture, whilst reducing greenhouse gas (GHG) emissions in the supply chain. It has been challenging to increase fibre optimisation over the past year as supply chains have necessarily had to flex to meet changing customer needs in response to Covid-19. However, we continue to analyse our customers' supply chain data with our performance prediction tool to optimise circular solutions for storage, transit and operational conditions.

Driving carbon reduction

In 2021/22, the Group GHG emissions intensity was 194 kg CO_2e per tonne of net saleable production (2020/21: 205 kg CO_2e/t nsp), a reduction of 5 per cent compared to last year and 29 per cent compared to 2015 (274 kg CO_2e/t nsp), the base year for our old carbon target.

This year, we undertook a strategic assessment to achieve Net Zero by 2050, defining a series of scenarios with best cost estimates, optimising for the lowest cost to reach the most ambitious science-based target. This informed our decision to commit to a 1.5°C target, which aims to reduce Scope 1, 2 and 3 GHG emissions 46 per cent by 2030 compared to 2019 and to reach Net Zero GHG emissions by 2050. We will encourage 100 per cent of our strategic suppliers to adopt science-based targets by 2027. The target has been validated by the Science Based Targets initiative (SBTi). As this is an 'absolute' reduction target, from next year we will begin reporting carbon reduction progress in 'absolute' tonnes of CO_2e, across all three scopes.

During the year, Kemsley K4 Combined Heat and Power (CHP) plant started up, delivering steam and electricity to the Mill with a c. 7 per cent energy efficiency improvement compared to its predecessor, decreasing overall emissions. Further steam supply to the Mill from the neighbouring K3 waste-to-energy plant made c. 30,000 tonnes of saving compared to the natural gas powered solution it replaced. At Contoire-Hamel Mill, the biogas from the anaerobic wastewater treatment plant began delivery, removing c. 1,300 tonnes CO_2e. Our €7.5 million expansion of the anaerobic waste water treatment facility at Rouen Mill has boosted biogas production to deliver green electricity with an expected c. 2,600 tonnes CO_2e saving annually. At Alcolea Mill, stationary steam siphons are beginning to deliver thermal improvements of around 10 per cent and a vacuum system upgrade at Kemsley Mill is expected to save c. 4,800 tonnes CO_2e annually. Projects to increase energy efficiency through measures such as equipment upgrades were implemented at Dueñas Mill, Lucca Mill and Viana Mill. Our LED lighting rollout continued, with 37,587 lamps installed at 101 sites delivering over c. 14,000 tonne CO_2e saving per annum. A power purchasing agreement (PPA) was introduced to cover a portion of our electrical energy demand in Iberia, saving c. 17,000 tonnes CO_2e annually. At our Packaging plants, we are continuing to review opportunities for wind and solar, including electrical supply to charging stations for electric vehicles. We maintained ISO 50001:2018 certification at 100 per cent of our in-scope sites, which drives our Group-wide energy management programme.

Measuring and improving biodiversity

In 2021/22, we began a project with the the University of Georgia to baseline the biodiversity in our forests in Georgia, North America. This included developing an inventory of potential species through a Geographic Information System (GIS) review of all properties, field surveys and laboratory, computer and literature research. The findings will form the basis of our plans to measure and improve the biodiversity of the forest. We achieved our target to launch 100 (2020/21: 57) biodiversity projects in our local communities ahead of our 2025 deadline, improving local environments for plants and animals, protecting natural habitats and enhancing species diversity in the areas in which we operate. Alongside these projects, 12 (2020/21: three) of our mills have launched longer-term biodiversity programmes. For example, at Aschaffenburg Mill, wildflower meadows, native plants and shrubs and a landscaped area for lizards have been introduced. Aschaffenburg is the only paper mill to receive the 'Blossoming Company Award' from the German Ministry for the Environment and Consumer Protection. At Alcolea Mill, work has begun to protect the white stork, a local endangered species, with nesting poles, native tree planting and bat boxes.

Managing water responsibly

Throughout 2021/22, we maintained water stress mitigation plans at 100 per cent of sites at current or future risk of water stress, building water stress risk into business continuity planning. Given that in the long-term, competition for finite water resources could increase in the river basins from which we withdraw water, we set a new Now and Next sustainability target to decrease water withdrawal by 1 per cent per year, every year to 2030, compared to 2019 at our paper mills located in regions at high or extremely high risk of water stress. This was achieved for 2021/22, operating at 8.08m^3/t nsp (2020/21: 8.10 m^3/t nsp) and therefore lessening pressure on natural water systems through water reduction, reuse and recycle opportunities. Finally, we received notification of non-conformance with water discharge consents 10 times in 2021/22 (2020/21: 21), delivering progress on our journey to zero by 2025.

Sending zero waste to landfill

From glass to metals, we are collaborating with others to identify innovative circular solutions for the non-fibre waste that enters our circular business. In 2021/22, 255,920 tonnes of waste was sent to landfill (2020/21: 258,225 tonnes), a less than anticipated reduction owing to delays to a number of key landfill diversion projects. At Kemsley Mill, c. 8,000 tonnes of landfill waste will be diverted annually through the K3 waste-to-energy facility, producing steam for the mill in the process. At Alcolea Mill and Belisce Mill, landspread and sludge opportunities are set to divert c. 9,000 tonnes per year and at Dueñas Mill, an alternative use has been identified for c. 11,000 tonnes annually. At our Packaging plants, we maintained a recycling rate of 99 per cent and Aschaffenburg Mill, Coullons Mill, Kaysersberg Mill and Witzenhausen Mill sent zero waste to landfill in the period.

Sourcing sustainably

Throughout the year, we continued to roll out our Global Supplier Standard (GSS) to our suppliers. In 2021/22, 78 per cent (2020/21: 45 per cent) of our suppliers overall agreed to our GSS, reflecting progress towards our target of 100 per cent of suppliers agreeing by 2025. We continued our engagement programme with our strategic suppliers, encouraging suppliers to complete sustainability assessments and share best practice and learning, including on the circular economy.

We maintained our standard that 100 per cent of papers purchased are recycled or chain of custody certified.

Equipping people to lead the transition to the circular economy

We continued to immerse our people in circular economy learning and development opportunities, engaging 50 per cent (2020/21: nine per cent) of our people with targeted circular economy engagement campaigns. We rolled out bespoke circular economy eLearning modules and building on the success of last year, another cohort attended the Ellen MacArthur Foundation Circular Economy Masterclass. We are further embedding circular economy into our brand and Purpose campaign so that it remains front-and-centre of everything we do. Beyond our own people, we are reaching our industry, communities and the next generation to promote the circular economy and circular lifestyles. In 2021/22, we engaged over 2.3 million (2020/21: 519,000) people from all over the world

ESG ratings

We are delighted that over the past year, our leading ESG and sustainability performance was recognised by our ESG ratings, with improvements in CDP, DJSI (S&P Global Corporate Sustainability Assessment), EcoVadis, MSCI and Sustainalytics.

- **CDP -** 'A List' (Water Security), A- (Climate Change), B (Forests)
- **DJSI (S&P Global CSA) -** 67
- **EcoVadis -** Platinum
- **MSCI -** AA
- **Sustainalytics -** 'Low ESG Risk'
- **Circulytics -** A-
- **FTSE4Good -** Included since 2012
- **ISS -** 'Prime' B-
- **Support the Goals -** 4 of 5 stars
- **UN Global Compact -** Member since 2013

across various platforms. At COP26, we launched our circular economy lesson plan as a free resource for young people and their teachers to educate them about the circular economy and how we can all play a part in protecting our planet's natural resources. Outside of the classroom, we continue to reach the general public through engaging circular economy content, social media and video posts.

Contributing to our communities

In our local communities, 100 per cent of our in-scope sites contributed to their communities throughout 2021/22, with engagement focused on (but not limited to) our Community Programme themes of circular economy education and biodiversity. From engaging young people on the International Day of Education to improving local environments on World Cleanup day, our people contributed hundreds of hours to support community initiatives throughout the year.

Respecting and promoting human rights

We achieved our Now and Next sustainability target to undertake a human rights high-level risk and gap analysis, identifying potential human rights risks. This involved country and sector risk analysis, in addition to stakeholder interviews and engagement to highlight improvement opportunities. The findings set out areas of strong performance as well as opportunities to develop our roadmap to strengthen due diligence on human rights. As next steps, we developed a Human Rights policy and established a multi-disciplinary Modern Slavery and Human Rights Committee, which reports to our Group Operating Committee, thereby strengthening the governance of human rights due diligence.

Group greenhouse gas (GHG) emissions

Metric	Unit	2019/20 (base year)	2020/21	2021/22	Compared to last year	Compared to base year
Direct (Scope 1) GHG emissions	tonnes CO_2e	2,181,890	2,047,265	2,023,278*	-1%	-7%
Indirect (Scope 2) GHG emissions[1]	tonnes CO_2e	792,275	763,727	759,257*	-1%	-4%
Indirect (Scope 3) GHG emissions	tonnes CO_2e	5,671,258	5,562,318	5,468,167	-2%	-4%
Total GHG emissions	tonnes CO_2e	8,645,693	8,373,310	8,250,702	-1%	-5%
GHG emissions from energy export	tonnes CO_2e	791,810	666,283	647,258*	-3%	-18%
Total GHG emissions (net)[2]	tonnes CO_2e	2,182,355	2,144,709	2,135,278*	0%	-2%
Energy consumption[3]	MWh	15,707,667	15,446,255	15,324,120*	-1%	-2%
Energy exported	MWh	1,977,616	1,739,114	1,774,539*	2%	-10%
Total production	tonnes	10,222,065	10,445,145	11,014,256*	5%	8%
GHG emissions per tonne production	kg CO_2e / t nsp[4]	213	205	194*	-5%	-9%
Out of scope GHG emissions	tonnes CO_2e	37,850	36,762	33,517	-5%	-9%

1. Calculated using the market-based approach. Both market-based and location-based figures are provided in DS Smith ESG Databook 2022.
2. Calculated as ('Scope 1' + 'Scope 2 (market-based)') – 'GHG emissions from energy exports'. 19 per cent generated by UK-based operations in 2021/22.
3. 14 per cent of energy consumption by UK-based operations in 2021/22.
4. t nsp – metric tonnes net saleable production.

* Independent Assurance has been obtained for these metrics – see assurance statement below.

Methodology

Greenhouse gas emissions are reported in accordance with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (Revised) under a financial control boundary. All figures are reported on a like-for-like basis, including in the base year, to provide a meaningful comparison over time. See DS Smith ESG Databook 2022, which can be downloaded from the DS Smith ESG Reporting Hub, which contains the basis of preparation, including definitions and methodology notes.

Additional non-financial metrics can be found in DS Smith Sustainability Report 2022.

Independent Assurance Statement

Deloitte have provided independent third-party limited assurance in accordance with the International Standard for Assurance Engagements 3000 (ISAE 3000) and Assurance Engagements on Greenhouse Gas Statements (ISAE 3410) issued by the International Auditing and Assurance Standards Board (IAASB) over the 2021/22 selected information, identified with * in the above table, and other selected information relating to carbon, energy, water, waste and production identified with * within DS Smith Annual Report 2022 and DS Smith Sustainability Report 2022. Deloitte's full unqualified assurance opinion, which includes details of the selected information assured, can be found on our website at https://www.dssmith.com/sustainability/reporting-hub.

Independent verification to a limited level of assurance for the 2019/20 base year was provided by Bureau Veritas.

To double our size and profitability

Q&A with Adrian Marsh

Group Finance Director

Q How have you performed against your financial KPIs?

We have made good progress in the year against our medium term target metrics. We saw record corrugated box volume growth during the year in the first half of the year, with growth slowing in the second half as we hit stronger comparators. Despite the growth, we were behind our GDP +1 per cent target, reflecting the large fluctuations in GDP as the economy bounced back very strongly after a period of decline during the pandemic. This has meant the comparison to GDP +1 per cent has been hard to achieve (following our outperformance of 9 per cent in our last financial year). While behind our KPIs for the year, we grew both our return on sales and return on average capital employed (ROACE) compared to the prior year and during the period and we exit the year with ROACE for the six month period in the second half in our medium-term target range.

Cash flow has been a continued focus for the business and we are delighted to have delivered another strong cash flow conversion in line with our target and significant reduction to our net debt ratio (net debt: EBITDA), down to 1.6 times from 2.2 times a year ago, principally due to strong free cash flow generation of £519 million.

We do this by:

- Being well positioned in developed markets
- Work with major global FMCG brands
- Driving market share gains
- Investing behind fundamental growth drivers

In 2021/22 we:

- 5.4 per cent like-for-like corrugated box volume growth
- 29 per cent growth in adjusted EBITA
- 7 per cent growth in free cash flow, with net debt: EBITDA at 1.6 times

In 2022/23 we will:

- Continue to drive volume growth of 2-4 per cent
- Continue to manage costs in an inflationary environment
- Invest in growth, innovation and environmental efficiency

Our KPIs

Like-for-like corrugated box volume growth

Definition

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

Why this is a KPI

We target volume growth of at least GDP +1 per cent because we expect to win market share by delivering value to our customers across their supply chain on a multinational basis.

2022 Performance

Corrugated box volumes grew strongly by a record 5.4 per cent. Despite the growth, it is behind our target of GDP +1 per cent of +9.0 per cent, which was particularly volatile due to Covid-19 with major declines seen in the comparative period and hence a stronger bounce back post pandemic. Over the two-year period the average of GDP +1 per cent was 1.6 per cent and our compound average box volume growth over the same period was 4 per cent.

2022	5.4%
2021	3.5%
2020	0.6%

2022 Target: GDP +1%

Further information on the calculation of financial KPIs and other non-GAAP performance measures is given in note 32 to the consolidated financial statements.

Return on sales

Definition

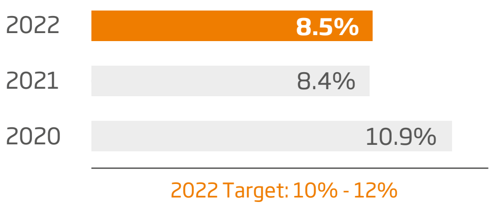
Earnings before interest, tax, amortisation and adjusting items as a percentage of revenue.

Why this is a KPI

The margin we achieve reflects the value we deliver to our customers and our ability to charge for that value. It is also driven by our scale. A higher return on sales makes the profit more resilient to adverse effects.

2022 Performance

Return on sales (RoS) grew 10 basis points to 8.5 per cent due to the 23 per cent improvement in adjusted operating profit more than offsetting the dilutive impact on RoS of the significant cost inflation pricing.



Net debt/EBITDA

Definition

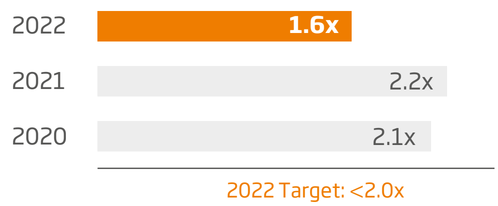
Net debt (calculated at average FX rates and after deducting IFRS 16 lease liabilities) over earnings before interest, tax, depreciation, amortisation, and adjusting items for the preceding 12 month period (adjusted for acquisitions and disposals made during the financial year, and to remove the income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

Why this is a KPI

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

2022 Performance

Net debt as at 30 April 2022 was £1,484 million and 1.6 times EBITDA with the reduction principally due to excellent cash management.



Cash conversion

Definition

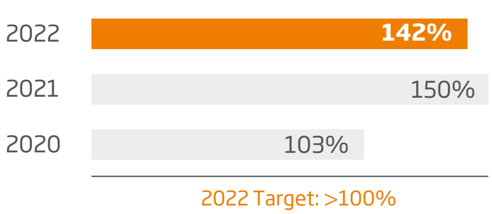
Free cash flow before tax, net interest, growth capex, pension payments and adjusting items as a percentage of earnings before interest, tax, amortisation and adjusting items. Free cash flow is the net movement on debt before cash outflow for adjusting items, dividends paid, acquisition and disposal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

Why this is a KPI

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

2022 Performance

Cash conversion was 142 per cent, in line with our target, driven by higher cash inflows from operating activities.



Adjusted return on average capital employed

Definition

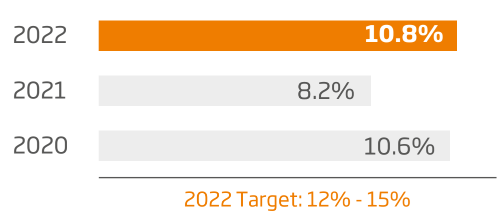
Earnings before interest, tax, amortisation and adjusting items as a percentage of average capital employed, including goodwill, over the prior 12 month period.

Why this is a KPI

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

2022 Performance

Adjusted ROACE progressed significantly during the year, by 260 basis points to 10.8 per cent , reflecting the improvement in adjusted operating profit. The improving trend in profitability combined with the improving returns from recent acquisitions and investments means ROACE was 12.1 per cent for the second six months of the year.



Operating review

A year of growth and momentum

Organic corrugated box volumes have shown record growth of 5.4 per cent across the year, reflecting continued growth in the resilient fast moving consumer goods (FMCG) and other consumer related sectors, which represent over 80 per cent of our volumes, together with a recovery in the industrial sector following the impact of the pandemic in the prior year. In a challenging supply chain environment, our large scale, security of supply and high service levels have driven ongoing gains with our customers including large multinational companies. Regionally, we have seen particularly good performances in the US, Southern and Eastern Europe.

The structural market drivers of plastic replacement, consumer and retail channel evolution and e-commerce continue to help accelerate growth. We have continued to invest in innovation and have embedded our pioneering Circular Design Metrics across all our packaging sites. We are the only packaging producer to offer this unique tool, which gives our customers across a wide range of sectors such as FMCG, industrial, retail and e-commerce a clear view of their packaging designs' circularity performance and helps them achieve their sustainability goals.

Looking forward, customer demand remains strong and we expect to see continued volume growth of 2-4 per cent in the current financial year.

For the full year, revenue grew by £1.5 billion (26 per cent) on a constant currency basis and 21 per cent on a reported basis, driven by corrugated box volume growth (£203 million) and higher selling prices (£1,279 million) across the Group. External paper, recycling, and other packaging revenues increased (£23 million) as higher pricing more than offset reduced volumes sold externally as the organic growth of our packaging volumes meant we utilised a greater proportion of our paper production internally.

Raw material, energy and transportation input costs all rose significantly over the comparative period. However, these were mitigated by effective supplier arrangements, long-term hedging positions and rising packaging selling prices.

Volume growth combined with increased packaging selling prices, partly offset by the increased input costs, resulted in adjusted operating profit growing by 29 per cent on a constant currency basis and 23 per cent on a reported basis to £616 million. Corrugated box volume growth contributed £65 million and the effect of an increase in the average sales price and mix was £1,279 million versus the comparable period. £714 million of this increase was due to an increase in packaging prices with the remainder of £565 million due to increases in price of external sales of paper, recycling material and energy. These increases reflect the recovery through increased sales pricing (with a lag) of the significant increases in input costs during 2021 and 2022. Compared to the comparative period, input costs increased by £1,207 million with rises in raw material costs of £720 million, energy costs of £297 million and other costs of £190 million. The net energy cost increase, after the price benefit of energy sales, was £174 million. The energy impact, while significant, was mitigated by the Group's three-year rolling hedging programme. Group return on sales grew during the year to 8.5 per cent (2020/21: 8.4 per cent) with the second half at 8.8 per cent, reflecting the significant growth in profitability more than offsetting the dilutive effect of higher cost and selling prices.

Adjusted basic earnings per share from continuing operations grew 35 per cent on a constant currency basis to 30.7 pence (2020/21: 24.2 pence). Basic earnings per share of 20.4 pence grew by 61 per cent compared to the prior year on a constant currency basis (2020/21: 13.3 pence), reflecting the growth in operating profit.

Cash generation during the year was strong, with £519 million of free cash flow (2021: £486 million) driving a reduction in net debt to £1,484 million (2021: £1,795 million). The free cash flow was driven by increased profitability and a positive working capital inflow of £215 million, more than offsetting the increased capital expenditure. £109 million of working capital inflow relates to margin calls to manage our energy hedging counter-party risk and this is expected to reverse in the financial year 2022/23.

The continued reduction in net debt, together with the increasing profitability, improved our leverage ratio of net debt/EBITDA to 1.6 times, compared to 2.2 times as at 30 April 2021, and within our medium-term target of at or less than 2 times.

The increased profitability of the Group, together with tight capital management, drove a 260 basis point increase in return on average capital employed (ROACE) to 10.8 per cent, with excellent momentum throughout the year, reflected in a ROACE in the second half of the year of 12.1 per cent, within our medium-term target range.

Investing for growth

Within our financial metric priorities of maintaining our investment grade credit rating and a net debt/EBITDA ratio of below 2 times, our capital allocation priorities remain focused on disciplined investment to support growth with our customers and drive shareholder returns.

With strong structural market drivers and growth with our customers, we continue to see attractive opportunities to invest organically in our business via focused innovation, expansion of current and new sites and improving efficiency.

Our new site in Italy is now operational, with the site in Poland currently being commissioned ready for production to commence in the next few weeks, all in line with customer driven demand for ever more sustainable packaging. Together they represent approximately an additional 3 to 4 per cent packaging capacity at full utilisation and are 80 per cent pre-sold. These are expected to make a 15 to 20 per cent return on capital once operating at full capacity, which is anticipated to be in the third year of operation.

While the Board recognises the current macroeconomic uncertainties, strong customer pull underpins our confidence in the organic growth opportunities and accordingly capital expenditure for 2022/23 is expected to increase by approximately 20 per cent to around £500 million. This will be allocated across three main areas: investing for growth by systematically enhancing the capability and efficiency at existing packaging plants; further aligning our paper capacity with our packaging customers; and replacing assets with more environmentally efficient options as part of the usual capital replacement cycle. All the growth projects undertaken have estimated returns on capital in excess of the Group target ROACE range of 12 to 15 per cent.

Innovation

Many of our customers are multinational industry-leading brands who require a pan-continental, consistent approach to their packaging, and they are increasingly looking for closer partnerships to grow and innovate with them.

As part of the commitment we announced in 2021 to invest £100 million in research and development (R&D) over five years, we have opened a state-of-the-art laboratory at Kemsley Mill, one of the largest paper mills in Europe, to advance our research into alternative fibre sources for paper and packaging products.

We have also announced a new flagship innovation centre for ideation, design, testing, piloting and collaboration near Birmingham, UK. This facility will allow us to install and test pilot product and service lines to enable customers to visualise the value that we can bring to them.

Packaging innovation is the lifeblood of our organisation and is vital in keeping global supply chains running as they become more integrated, demanding and focused on sustainability.

Leading the way in sustainability

Sustainability has been at the heart of our business for many years as we have developed and grown into a solely fibre-based corrugated packaging business. We continue to work actively with our customers to help them address their sustainability challenges. Our Circular Design Principles combined with our carbon reduction programme and focus on plastic replacement are allowing us to meet our customers' increasing sustainability requirements. Momentum in plastic replacement is accelerating and we have replaced 313 million units of plastic since 2020.

We continue to make good progress in delivering against our sustainability targets. We have reduced our CO_2 per tonne of production by 29 per cent from 2015, achieved a 5 per cent reduction in water abstraction within paper mills in areas at risk of water stress, achieved our target of 100 per cent reusable or recyclable packaging and launched 100 biodiversity projects.

We are delighted that this progress has been recognised with an improvement in rating by a number of external indices including MSCI ACWI Index, Dow Jones Sustainability Index, EcoVadis, Sustainalytics and CDP.

Looking forward, we have the most ambitious carbon reduction targets in our industry with a Science Based Targets initiative approved CO_2 reduction target of 46 per cent from 2019 to 2030 and a commitment to achieving net zero carbon emissions by 2050.

Dividend

The Board considers the dividend to be a very important component of shareholder returns. Our policy is that dividends will be progressive and that, in the medium term, dividend cover should be on average 2.0 to 2.5 times (relative to adjusted earnings per share), through the cycle. Accordingly, and reflecting the strong growth in the business and our confidence in the outlook, we are announcing a final dividend for this year of 10.2 pence, taking the total dividend for the year to 15.0 pence per share (2020/21: 12.1 pence), in line with our policy and an increase of 24 per cent over the prior period.

Subject to approval of shareholders at the AGM to be held on 6 September 2022, the final dividend will be paid on 1 November 2022 to shareholders on the register at the close of business on 7 October 2022.

Our medium-term targets and key performance indicators

We measure our performance according to both our financial and non-financial medium-term targets and key performance indicators. We have seen an improvement in our performance for all measures.

As set out above, like-for-like corrugated box volumes grew by a record 5.4 per cent driven by growth with our FMCG and consumer-focused customers. Although volume growth was behind our target of GDP +1 per cent, GDP has been particularly impacted by Covid-19 with major declines seen in the comparative period in the prior year, when we exceeded our target by 9.0 per cent, followed by a strong recovery in the financial year 2021/22. Over the two-year period the average of GDP +1 per cent was 1.6 per cent and our compound average box volume growth over the same period was 4.0 per cent.

Return on sales grew 10 basis points to 8.5 per cent. Despite the 29 per cent improvement in adjusted operating profit, the dilutive impact of the significant cost and selling price inflation limited the annual improvement in return on sales, which was below our target range of 10 to 12 per cent. The margin progressively improved during the period, with the margin in the second half being 8.8 per cent, underpinning our confidence in achieving our medium-term target.

Adjusted ROACE grew 260 basis points 10.8 per cent (2020/21: 8.2 per cent), reflecting the significant growth in adjusted operating profit. The improving trend in profitability through the year combined with the improving returns from recent acquisitions and investments means ROACE was within our medium-term target range of 12 to 15 per cent at 12.1 per cent for the second half of the year.

Net debt as at 30 April 2022 was £1,484 million (30 April 2021: £1,795 million), with the reduction principally due to free cash flow of £519 million. Working capital performance was extremely good with both a strong focus in the business and the benefit of rising input costs such as paper and OCC on our payables. It also benefitted from £109 million of working capital inflow which relates to margin calls to manage our energy hedging counterparty risk which is expected to reverse in the financial year 2022/23. Cash generated from operations before adjusting cash items of £1,092 million was used to invest in net capex of £415 million, which increased by 28 per cent on the prior year, principally reflecting the investment in two new packaging plants in Italy and Poland. Net debt/EBITDA (calculated in accordance with our banking covenant requirements) is 1.6 times (2020/21: 2.2 times), substantially below our banking covenant of 3.75 times. The Group remains fully committed to maintaining its investment grade credit rating.

During the year, the Group generated free cash flow of £519 million (2020/21: £486 million), reflecting increased profitability and strong cash and working capital management. Cash conversion, as defined in our financial KPIs (note 32), was 142 per cent, well ahead of our target of being at or above 100 per cent.

DS Smith is committed to providing all employees with a safe and productive working environment. We are pleased, once again, to report improvements in our safety record, with our accident frequency rate (defined as the number of lost time accidents per million hours worked) reducing by a further 6 per cent to 1.9, reflecting our ongoing commitment to best practice in health and safety. We are proud that 266 out of a total of 325 reporting sites achieved our target of zero accidents this year and we continue to strive for zero accidents for the Group as a whole.

The Group has an industry leading target for customer service of 97 per cent on-time, in-full deliveries. In the year we achieved a good performance at 94 per cent, despite the impact on supply chains of the pandemic and latterly the Russian invasion of Ukraine. Management remains fully committed to the target and the highest standards of service, quality and innovation to all our customers and we will continue to strive to meet the demanding standards our customers expect. Other markers of quality such as our defects rate (measured in parts-per-million) have improved significantly, having reduced 13 per cent.

Operating review

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

Group

£m	**Year ended 30 April 2022**	Year ended 30 April 2021	Change – reported	Change – constant currency
Revenue	**£7,241m**	£5,976m	+21%	+26%
Adjusted operating profit[1]	**£616m**	£502m	+23%	+29%
Operating profit	**£443m**	£311m	+42%	+49%

1. Operating profit before amortisation and adjusting items (refer to note 4 of the financial statements).

Revenue grew 26 per cent driven by packaging volume growth and higher selling prices across the Group. Operating profit grew 29 per cent with growth in corrugated box volume and increased sales price partly offset by increased input costs.

Northern Europe

£m	**Year ended 30 April 2022**	Year ended 30 April 2021	Change – reported	Change – constant currency
Revenue	**£2,790m**	£2,370m	+18%	+21%
Adjusted operating profit[1]	**£139m**	£138m	+1%	+5%
Return on sales[1]	**5.0%**	5.8%	(80bps)	(80bps)

1. Operating profit before amortisation and adjusting items (refer to note 4 of the financial statements).

The Northern Europe division has seen good corrugated box volume growth in Germany and Benelux offset by declines in the UK where there was a particularly strong comparator following the exceptional e-commerce related growth during the pandemic.

Revenues have increased by 21 per cent in the region due to a combination of the increases in corrugated box volumes and pricing and the increased sales prices for externally sold paper, recycled fibre and energy. Adjusted operating profit grew 5 per cent, reflecting the increased pricing in packaging, recycling and external paper sales more than offsetting increased input costs, principally OCC and energy. Return on sales reduced by 80 basis points, reflecting the greater impact of lower margin external recycled fibre sales, together with greater cost inflation than other regions.

Southern Europe

£m	**Year ended 30 April 2022**	Year ended 30 April 2021	Change - reported	Change - constant currency
Revenue	**£2,736m**	£2,156m	+27%	+33%
Adjusted operating profit[1]	**£324m**	£223m	+45%	+53%
Return on sales[1]	**11.8%**	10.3%	+150bps	+150bps

1. Operating profit before amortisation and adjusting items (refer to note 4 of the financial statements).

Southern Europe saw very strong growth in volumes driven by Iberia in particular, which had been significantly impacted by reduced tourism in the financial year 2020/21.

Revenue grew by 33 per cent, due to the impact of higher box volumes and increases in both box and paper pricing. Adjusted operating profit grew by 53 per cent compared to the prior period, with the packaging operations benefitting from the pass through of higher paper prices, together with a very positive impact from paper sold externally. Return on sales improved by 150 basis points reflecting the strong improvement in operating profit.

Since the acquisition of Europac in 2019, the region has grown its profitability significantly, with Europac contributing not only to the improved profit and margin growth in the region but also the overall strength of the Group's security of supply of paper. In 2021/22, the return on invested capital from the acquisition was 12 per cent, in line with our target of being in our ROACE target range of 12 to 15 per cent in the third full year of ownership.

Eastern Europe

£m	**Year ended 30 April 2022**	Year ended 30 April 2021	Change - reported	Change - constant currency
Revenue	**£1,118m**	£909m	+23%	+30%
Adjusted operating profit[1]	**£73m**	£78m	(6%)	0%
Return on sales[1]	**6.5%**	8.6%	(210bps)	(200bps)

1. Operating profit before amortisation and adjusting items (refer to note 4 of the financial statements).

Organic corrugated box volumes in Eastern Europe have grown the fastest within Europe and well across the whole region, reflecting the business mix and comparative performance in the prior year.

Revenues grew 30 per cent, principally reflecting increases in corrugated box volumes and pricing. Adjusted operating profits were flat, reflecting the timing lag in the recovery of higher paper prices through increased packaging pricing. The region has the lowest proportion of paper capacity relative to packaging production within the regions in the Group, which impacts margin in the short term via the increased paper costs.

North America

£m	**Year ended 30 April 2022**	Year ended 30 April 2021	Change - reported	Change - constant currency
Revenue	**£597m**	£541m	+10%	+14%
Adjusted operating profit[1]	**£80m**	£63m	+27%	+31%
Return on sales[1]	**13.4%**	11.6%	+180bps	+180bps

1. Operating profit before amortisation and adjusting items (refer to note 4 of the financial statements).

Packaging volumes in the region have continued to see the strongest increases within the Group, reflecting continued excellent customer traction with growth across a number of packaging sites and the increasing utilisation of the box plant in Indiana. Full utilisation is expected to be completed on plan in the financial year 2022/23.

Revenues increased by 14 per cent, principally reflecting the packaging volume and pricing growth and the increase in export paper prices more than offsetting reduced volumes in external paper sales as we utilised, as planned, more of our paper production. Adjusted operating profit grew by 31 per cent, reflecting the improvement in paper and packaging pricing, resulting in a 180 basis point increase in return on sales to 13.4 per cent, the highest region within the Group.

Outlook

The new financial year has started well, building on the momentum from the previous year. Whilst there remains considerable uncertainty about the overall economic environment, our expectations remain unchanged. Strong customer demand reinforces our confidence to invest in the business, with capital expenditure expected to further increase in the current year. We currently expect to see 2-4 per cent growth in our volumes, aided by our focus on resilient end markets, a strong performance in the US and the opening of new sites in regions where demand is buoyant. This growth, combined with the benefits of ongoing pricing momentum and careful management of our cost base gives us confidence for the year ahead and is expected to result in a further substantial improvement in our performance.

Pricing power in a highly volatile environment

"Significantly improved profitability and returns, good volume growth and robust cash performance were delivered through our agile business model, which responded to a fast changing and highly volatile market environment while continuing to meet our customers evolving needs through our supply of sustainable, innovative fibre-based packaging solutions."

Adrian Marsh,
Group Finance Director

Overview

2021/22 has seen the Group continue to demonstrate the strength of its business model in the face of significant macro-economic volatility as the global economy emerged from the impact of Covid-19. The benefits of the rising demand for fibre based packaging in general and the security of supply that DS Smith offers its customers in particular have more than offset sharply rising prices of key raw materials and energy prices. This environment has been further hardened by the current conflict in the Ukraine.

Box volume growth, year-on-year, of 5.4 per cent was again extremely good and recognised the Covid-specific dynamics of the various markets we operate in. The growth drivers of the business particularly around single use plastic replacement have continued to gather momentum and the opportunity to grow further in the US, with the greenfield plant in Lebanon, Indiana, remaining extremely positive. Customers are clearly recognising the strength and scale of DS Smith and with security of supply, quality and service major issues for them, it has been pleasing to see this reflected in the Group's strong volume growth.

The business has experienced unprecedented rises in its input costs, with our net energy and recyclate costs increasing year-on-year by 81 per cent and 49 per cent respectively on a constant currency basis. These increases have been mitigated through the size, scale, and expertise of our procurement operations, long-term buying relationships for both recyclate and paper, and our long-running three year rolling energy hedging programme which we believe has been a real competitive advantage during this highly volatile period.

The second half of the year saw the Group continue to improve its profitability and cash performance, consolidating the good performance of the first half, with further box price rises reflecting the level of inflation in the markets we serve. During the first half of the year, the Group disposed of its non-core Dutch paper mill operations, consistent with the Group's paper strategy and track record of recycling capital from non-core operations to higher returning packaging assets.

During this significant period of macroeconomic uncertainty, the Group remains committed to achieving its medium-term financial measures and key performance indicators, as established by the Board, together with maintaining its investment grade credit rating. The principal measure of return on average capital employed (ROACE) for the year was 10.8 per cent (2020/21: 8.2 per cent), with the second half year at approximately 12.1 per cent, which was within the target of 12 to 15 per cent. The results are described below:

- Organic corrugated box volume growth of 5.4 per cent (2020/21: 3.5 per cent)
- Revenue increased 26 per cent on a constant currency and 21 per cent on a reported basis to £7,241 million (2020/21: £5,976 million)
- Adjusted operating profit of £616 million, an increase of 29 per cent on a constant currency basis and 23 per cent on a reported basis (2020/21: £502 million)
- 42 per cent increase in operating profit to £443 million on a reported basis; 49 per cent increase on a constant currency basis (2020/21: £311 million)

- 71 per cent increase in statutory profit before tax to £378 million on a constant currency basis and 64 per cent increase on a reported basis (2020/21: £231 million)
- Adjusted return on sales at 8.5 per cent (2020/21: 8.4 per cent)
- Adjusted return on average capital employed of 10.8 per cent (2020/21: 8.2 per cent)
- Net debt to EBITDA ratio of 1.6 times (2020/21: 2.2 times)
- Cash conversion 142 per cent (2020/21: 150 per cent).

Unless otherwise stated, the commentary below references the continuing operations of the Group.

Non-GAAP performance measures

The Group presents non-GAAP measures alongside reported measures, in order to provide a balanced and comparable view of the Group's overall performance and position. Non-GAAP performance measures eliminate amortisation and unusual or non-operational items that may obscure understanding of the key trends and performance. These measures are used both internally and externally to evaluate business performance, as a key constituent of the Group's planning process, they are applied in the Group's financial and debt covenants, as well as comprising targets against which compensation is determined. Amortisation relates primarily to customer contracts and relationships arising from business combinations. Unusual or non-operational items include business disposals, restructuring, acquisition related and integration costs and impairments, and are referred to as adjusting items.

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

Note 32 explains further the use of non-GAAP performance measures and provides reconciliations as appropriate to information derived directly from the financial statements. Where a non-GAAP measure is referred to in the review, the equivalent measure stemming directly from the financial statements (if available and appropriate) is also referred to.

Trading results

Revenue increased by 21 per cent on a reported basis to £7,241 million (2020/21: £5,976 million). Strong demand throughout the year saw volume growth of 5.4 per cent and this was coupled with higher selling prices of packaging, paper and recyclate to mitigate the unprecedented price rises of raw materials and key input costs. Volumes rose in all European regions and were noticeably higher in North America as a result of the continued growth at the greenfield packaging site at Lebanon, Indiana.

Reported revenues are subject to foreign currency translation effects. In the year, the euro accounted for 61 per cent of Group revenue. As such, the movements of the euro against sterling during the year constituted the majority of the £240 million of negative foreign exchange translation impact. On a constant currency basis, revenues increased by 26 per cent.

Corrugated box volume growth of 5.4 per cent (2020/21: 3.5 per cent growth) reflects the momentum seen in the Group's core markets and segments, with both new and existing customers.

The Group's current year volume growth should be set against a backdrop of exceptionally distorted Covid related GDP data. As a Group, c. 83 per cent of corrugated box volumes are sold to consumer goods customers, substantially ahead of the industry average, an indicator that our continued development of tailored and innovative packaging solutions is regarded as a differentiated offering in the market. Annualised growth over the past two years is estimated at 4.0 per cent, compared to a GDP +1 figure of 1.6 per cent.

Adjusted operating profit of £616 million on a reported basis is an increase of 23 per cent (2020/21: £502 million). This is largely attributable to volume growth of (£65 million) consolidated by price rises of £1,279 million exceeding input cost increases of £1,207 million and FX and other impacts (£23 million).

Operating profit at £443 million, is an increase of 49 per cent on a constant currency and 42 per cent on a reported basis (2020/21: £311 million). The Group benefitted from a strong performance across its whole business responding to a fast changing economic environment. Costs are proactively managed, of which the largest, energy, is predominantly managed and hedged on a 3 year rolling basis. As at the year end the Group has £714 million of net "in the money" commodity derivatives recognised as assets on the balance sheet, the benefits of which will flow through in future accounting periods.

On a reported basis, depreciation declined to £290 million (2020/21: £304 million) as the underlying increase was offset by the effects of exchange and the disposal of the non-core De Hoop paper mill in the Netherlands. Amortisation decreased marginally to £138 million.

The key measure of return on average capital employed (ROACE) improved to 10.8 per cent (2020/21: 8.2 per cent). This performance, as expected, was below the Group's medium-term target of 12 to 15 per cent for the year. However, the strong momentum in the second half of the year delivered an estimated return within this target range and the Board is confident this will be repeated for the full year 2022/23.

The Group has continued to focus on margin recovery through commercial disciplines and ongoing cost management and efficiency programmes. Adjusted return on sales increased by 10 basis points to 8.5 per cent (2020/21: 8.4 per cent) – whilst this is still below the medium term target of 10 to 12 per cent, the Board remains confident that target will progressively be achieved over the next couple of years.

Income statement – from continuing operations (unless otherwise stated)	**2021/22 £m**	2020/21 £m
Revenue	7,241	5,976
Adjusted operating profit[1]	616	502
Operating profit	443	311
Adjusted return on sales[1]	8.5%	8.4%
Adjusted net financing costs[1]	(70)	(78)
Share of profit of equity-accounted investments, net of tax	7	5
Profit before income tax	**378**	**231**
Adjusted profit before income tax[1]	**553**	**429**
Adjusted income tax expense[1]	(131)	(97)
Adjusted earnings[1]	**422**	**332**
Profit from discontinued operations, net of tax	–	12
Adjusted basic earnings per share[1]	30.7p	24.2p
Profit for the year attributable to owners of the parent (including discontinued operations)	**280**	**194**
Basic earnings per share from continuing and discontinued operations	20.4p	14.2p
Basic earnings per share from continuing operations	20.4p	13.3p

1. Adjusted to exclude amortisation and adjusting items (see note 4).

Adjusting items

Adjusting items before tax and financing costs were £35 million (2020/21: £49 million) which includes £29 million in relation to an investment in an associate in Ukraine. Without the impairment linked to the catastrophic Russian invasion of Ukraine, adjusting items would have been £6 million (2020/21: £49 million), in line with guidance.

The £29 million consisted of the full impairment of the Group's 49.6 per cent investment in the Ukrainian associate, RKTK. The Group has provided support to RKTK and its employees following the invasion of Ukraine by Russia. However, the invasion has caused significant damage to the assets of RKTK and impacted its ability to trade. Accordingly, an impairment of the entire investment has been recognised, together with amounts in connection with the trading activities conducted by the Group with the associate. There was no cash impact from this impairment.

Within restructuring costs, £8 million (2020/21: £27 million) principally relates to the completion of the major restructuring programme in Germany and the structured review of the underlying, indirect cost base of the European Packaging business.

Merger and acquisition-related costs of £1 million (2020/21: £2 million) were incurred, being predominantly professional advisory fees and purchase of minority interests.

On 12 October 2021 the Group sold its non-core Dutch paper mill operations. Cash consideration, net of cash and cash equivalents and transaction costs, was £35 million and net assets divested were £28 million, resulting in a net gain of £7 million. In addition, there were £4 million of other site disposal costs.

Non-acquisition and disposal adjusting items in 2022/23 are expected to be £nil.

Interest, tax and earnings per share

Net finance costs were £72 million (2020/21: £85 million). The decrease of £13 million on last year is primarily a result of lower levels of debt throughout the year. The employment benefit net finance expense of £3 million has remained at a similar level to the prior year.

Adjusting financing costs of £2 million (2020/21: £7 million) relate to the final unwind of the Interstate Resources put option.

The share of profits of equity-accounted investments was £7 million (2020/21: £5 million).

Profit before tax increased by 64 per cent on a reported basis to £378 million (2020/21: £231 million), driven by the increase in operating profit and a reduction in financing costs. Adjusted profit before tax of £553 million (2020/21: £429 million) increased by 29 per cent on a reported basis, again due to the increase in the underlying adjusted operating profit.

The tax charge of £98 million (2020/21: £49 million) reflects the impact of higher profits. The Group's effective tax rate on adjusted profit, excluding amortisation, adjusting items and associates, was 24.0 per cent (2020/21: 23.0 per cent). The tax credit through adjusting items was £2 million (2020/21: £16 million).

Reported profit after tax, amortisation and adjusting items for continuing and discontinued operations was £280 million (2020/21: £194 million). The increase in operating profit led to an increase of 53 per cent in basic earnings per share from continuing operations on a reported basis to 20.4 pence (2020/21: 13.3 pence), with adjusted earnings per share from continuing operations 27 per cent higher at 30.7 pence (2020/21: 24.2 pence) on a reported basis, 35 per cent higher on a constant currency basis.

Acquisitions and disposals

In recent years, the Group's strategy has focused on organic growth in order to support growth with our major customers.

During 2019/20, the Group agreed to the purchase of a further 10 per cent holding in Interstate Resources for £106 million, following the exercise of part of the pre-existing put option by the former owners of that business. A cash settlement of £82 million was made in June 2020 with the balance paid in October 2021. The final 10 per cent stake remains subject to the put option conditions, which will crystalise in the 2022/23 financial year.

In the first half of 2021/22, the Group disposed of its non-core Dutch paper mill operations for a consideration net of transaction costs of £35 million.

Cash flow

Reported net debt of £1,484 million (30 April 2021: £1,795 million) has decreased from the prior year, driven by higher cash inflows from operating activities. The rise in EBITDA from the strong business performance was combined with a net working capital inflow of £215 million, partly due to the ongoing focus on cash management, in particular cash collection and inventory management but also in no small part from higher commodity prices, most notably paper and energy, leading to increases in trade payables at the year-end compared to the prior year. The Group's energy and carbon hedges increased significantly in value during the year and in order to manage our counterparty risk there were margin calls made, of which £109 million relating to positions maturing after the year end. This £109 million is reflected within the cash flow statement as a working capital inflow which will reverse in 2022/23 and should, therefore, not be considered as an underlying working capital improvement.

Trade receivables factoring is £26 million lower than April 2021 at £381 million. Going forward the Group expects to continue to sell high credit quality receivables under this programme within the range £350-400 million outstanding at any one time. This is a reduction of some 30 per cent from the peak balance of £559 million in 2018.

Net capital expenditure increased by £92 million to £415 million in the year. The Group continued to focus on growth and efficiency capital projects, which represented 56 per cent of the reported spend in the year. Major investments in greenfield packaging plants in Italy and Poland were a significant portion of this, with operations in Italy starting up at the very end of the year and meaningful production at both sites expected during 2022/23. Proceeds from the disposal of property, plant and equipment were £16 million (2020/21: £8 million).

Tax paid of £96 million is £30 million higher than the prior year, which benefitted from tax receipts of £20 million in North America.

Net interest payments of £62 million decreased by £6 million over the prior year driven by the maturity of debt bearing higher interest rates and a lower net debt position throughout the year. The remainder of interest principally comprises interest on the Euro medium-term notes and US private placements, with amortisation of debt issuance and other finance costs accounting for the majority of the difference between cash interest paid and finance costs reported in the income statement.

Cash outflows associated with adjusting items decreased by £35 million to £13 million, and include restructuring and integration costs. The current year reduction is driven by a further decrease in merger and acquisition costs incurred in prior years. The impairment of the investment in RKTK had no cash flow effect.

Acquisitions and disposals of £13 million in the year (including leases divested of £1 million) include the settlement of £23 million of payments relating primarily to the October 2021 payment to the former owners of Interstate Resources and £35 million of inflows relating to the disposal of businesses, predominantly the Group's non-core Dutch paper mill.

Cash generated from operations before adjusting cash items increased by £149 million to £1,092 million. Net cash inflow was £333 million, a £33 million decrease on the prior year, following the resumption of the dividend payments (£166 million in 2021/22, nil in 2020/21).

Cash flow	**2021/22 £m**	2020/21 £m
Cash generated from operations before adjusting cash items	1,092	943
Capital expenditure (net of disposal of fixed assets)	(415)	(323)
Tax paid	(96)	(66)
Net interest paid	(62)	(68)
Free cash flow	**519**	**486**
Cash outflow for adjusting items	(13)	(48)
Dividends	(166)	–
Acquisitions and disposals of businesses, net of cash and cash equivalents	12	(74)
Other	(19)	2
Net cash flow	**333**	**366**
Issue of share capital	7	3
Loans, borrowings and finance leases divested	1	3
Foreign exchange, fair value and other movements	(30)	(56)
Net debt movement - continuing operations	**311**	**316**
Net debt movement – discontinued operations	–	(10)
Opening net debt	(1,795)	(2,101)
Closing net debt	**(1,484)**	**(1,795)**

Statement of financial position

At 30 April 2022, shareholder funds increased to £4,232 million, from £3,533 million in the prior year. Profit attributable to shareholders of £280 million contributed to the increase (2020/21: £194 million), together with a net increase in the cash flow hedge reserve of £712 million (2020/21: £112 million gain), and an actuarial gain on employee benefits of £68 million (2020/21: £5 million loss) offset by foreign currency translation losses of £40 million (2020/21: loss of £95 million). Dividends paid in the year were £166 million (2020/21: nil). Equity attributable to non-controlling interests was £2 million (2020/21: £2 million).

The Group's bank and private placement debt covenants stipulate the methodology upon which the net debt to adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) ratio is to be calculated. The effects of IFRS 16 *Leases*, adopted since 1 May 2019, are excluded by the banks from the ratio's determination. The ratio has reduced to 1.6 times, with an increase in adjusted EBITDA and a reduction in adjusted net debt. This represents an improvement from the H1 position of 1.9 times. The ratio remains compliant with the covenant requirements, which across all banking debt is 3.75 times. We retain a 3.25 times level in the remaining US Private Placement loan notes ($268 million) which will mature during the 2022/23 financial year. As the exercise of the second tranche of the Interstate Resources put option is still outstanding at 30 April 2022, this has not been factored in to the calculated ratio. If the exercise of the remaining 10 per cent stake subject to the put option was included, the ratio would increase to c. 1.7 times. The Group's publicly traded euro and sterling bonds are not subject to any financial covenants. The bonds are, however, subject to a coupon step up of 125 basis points for any period the Group falls below an investment grade credit rating.

The Group is also compliant with a second financial covenant in the remaining US Private Placement loan notes, requiring an adjusted EBITDA to net interest payable ratio of not less than 4.50 times. The covenant will fall away when the US Private Placement loan notes mature in August 2022.

The covenant calculations also exclude income statement items identified as adjusting by the Group and any interest arising from the defined benefit pension schemes. At 30 April 2022, the Group has substantial headroom under its covenants, with the future outlook assessed as part of the annual going concern review. The Group's investment grade credit rating from Standard and Poor's remains stable at BBB-, which takes into account all the items excluded from covenant calculations and working capital.

Statement of financial position	**30 April 2022 £m**	30 April 2021 £m
Intangible assets	2,906	2,995
Property, plant and equipment	3,128	3,050
Right-of-use assets	199	226
Inventories	703	537
Trade and other receivables	1,229	819
Cash and cash equivalents	819	813
Derivative financial instruments	811	115
Other	91	145
Total assets	**9,886**	**8,700**
Bank overdrafts	(73)	(94)
Borrowings	(2,072)	(2,301)
Trade and other payables	(2,540)	(1,849)
Provisions	(55)	(56)
Employee benefits	(86)	(175)
Lease liabilities	(203)	(230)
Derivative financial instruments	(84)	(56)
Other	(539)	(404)
Total liabilities	**(5,652)**	**(5,165)**
Net assets	**4,234**	**3,535**
Net debt	**1,484**	**1,795**
Net debt to EBITDA ratio	**1.6x**	**2.2x**

Energy costs

Production facilities, in particular paper mills, are energy intensive which results in energy being a significant cost for the Group. In 2021/22, costs for gas, electricity and other fuels, net of periodic local incentives, were £609 million (2020/21: £325 million). The year saw significant increases from the first to the second half, in addition to the previous year increases, with energy costs for the first half year of £240 million increasing to £369 million in the second half year (2020/21: H1 £146 million, H2 £179 million). The net impact on the Group was mitigated by an increase in energy sales revenue of £119 million. The energy impact was also mitigated by the Group's three-year rolling hedging programme and the benefits of free allowances following the introduction of phase 4 of the EU Emissions Trading Scheme. The Group's energy and carbon hedges increased significantly in value during the year and in order to manage our counterparty risk there were margin calls made, of which £109 million relates to derivatives that mature after the year end. There was no impact on income from these margin calls. The Group continues to invest in energy efficiency projects and limits the exposure to volatile energy pricing by hedging energy costs with suppliers and financial institutions, managed by the Group's Energy Procurement team.

Capital structure and treasury management

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

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

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

In November 2018, the Group signed a £1.4 billion five-year committed syndicated revolving credit facility (RCF) with its core banks. The second extension option was exercised in November 2020. £1.1 billion of the facility now matures in 2025 with the remaining £0.3 billion maturing in 2024.

Available cash and debt facilities are reviewed regularly to ensure sufficient funds are available to support the Group's activities. At 30 April 2022, the Group's committed facilities totalled £3.5 billion, of which £1.5 billion remained undrawn and £2.8 billion matures beyond one year or more. Undrawn committed borrowing facilities are maintained to provide protection against refinancing risk.

At 30 April 2022, the committed borrowing facilities had a weighted average maturity of 3.0 years (30 April 2021: 3.9 years). Additional detail on these facilities is provided below. Total gross borrowings at 30 April 2022 were £2,072 million (30 April 2021: £2,301 million). The committed borrowing facilities described do not include the £420 million of three-year committed factoring facilities, which allow the sale of receivables without recourse. Given the three-year committed nature of these facilities, they fully protect the Group from any short-term liquidity risks which may arise from volatility in financial markets.

The Group continues to sell trade receivables without recourse, a process by which the trade receivables balance sold is de-recognised, with proceeds then presented within operating cash flows. Such arrangements enable the Group to optimise its working capital position and reduces the quantum of early payment discounts given. The balance of trade receivables sold as part of the factoring programme decreased by £26 million to £381 million at 30 April 2022 (30 April 2021: £407 million).

In November 2019, the Group established a €1 billion Euro Commercial Paper Programme. At 30 April 2022, the programme was undrawn due to the positive cash position in the Group.

Facilities	Currency	Maturity Date	£m equivalent
Syndicated RCF 2018	Various	2024-25	1,400
Euro medium-term notes	EUR	2022-26	1,552
Euro RCF 2020	EUR	2024	50
Sterling bond medium-term note	GBP	2029	250
US dollar private placement	USD	2022	213
Euro term loan	EUR	2025	23
Committed facilities at 30 April 2022			**3,488**

Impairment

The net book value of goodwill and other intangibles at 30 April 2022 was £2,906 million (30 April 2021: £2,995 million).

IAS 36 Impairment of Assets requires annual testing of goodwill and other intangible assets, as well as an assessment of any other assets for which there may be indicators of impairment. As part of this testing, the Group compares the carrying amount of the assets subject to testing with the higher of their net realisable value and value-in-use to identify whether any impairment exists. The asset or group of assets, value-in-use is determined by discounting the future cash flows they expect to generate from the basis of the Group's weighted average cost of capital (WACC) of 9.5 per cent (2020/21: 9.5 per cent), plus a blended country risk premium for each group of assets. Asset values were tested as at 30 April 2022, with no impairment identified as a result of the testing performed.

Presented within the adjusting items summary is the outcome of the decision to impair the investment in our Ukrainian associate, RKTK.

Pensions

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

The assumptions applied are subject to periodic review. A summary of the balance sheet position as at 30 April is as follows:

	30 April 2022 £m	30 April 2021 £m
Aggregate gross assets of schemes	1,113	1,178
Aggregate gross liabilities of schemes	(1,199)	(1,353)
Gross balance sheet deficit	(86)	(175)
Deferred tax assets	21	40
Net balance sheet deficit	(65)	(135)

The net deficit has decreased versus prior year driven by significant increase in discount rate assumptions at 30 April 2022 and a less than corresponding fall in the asset valuations.

The 2019 triennial valuation of the main UK scheme incorporated updates to underlying scheme assumptions, including demographic and life expectancy rates, which, along with updates surrounding mortality and proportion married assumptions and future improvements, resulted in a net c. 1 per cent increase in the valuation of the scheme liabilities. No changes were made to the previously approved funding plan following the triennial valuation.

Total cash contributions paid into the Group pension schemes, reported within cash generated from operations in the cash flow, were £21 million in 2021/22 (2020/21: £32 million), which primarily constitute the agreed contributions under the UK defined benefit scheme deficit recovery plan.

Turning risk into resilience

Our Group risk policy

Our Group risk policy provides the framework to ensure there is a common understanding of risk management practices across all parts of the Group and is fully integrated with our annual corporate planning process. We use these practices to evaluate and accept those risks that we believe we have the capacity, know-how and experience to manage, or to understand and tolerate those risks that we cannot influence, in order to realise the potential opportunities for growth and development.

Risk activities in 2021/22

We recognise that risks are evolving rapidly in our changing world and that requires new ways of thinking and working to identify, assess, manage and take risks effectively. We continue to build on the solid foundation that we have already established and which has proven effective to maintain resilience during events such as the Covid-19 pandemic, supply chain shocks and geopolitical turmoil from the Russian invasion of Ukraine. Our aim is to continuously review and improve the risk process to obtain better quality output from the corporate planning process and year-end risk assessments. Areas of focus during the past year include:

- Updating and maturing our business continuity plans across the business to adhere to our Group policy, whilst providing the training and tools and raising awareness of the importance of preparedness amongst our people
- Energy management, where our dynamic hedging strategy has minimised short-term pricing risk
- Supply chain management, such as identifying critical supplies to our operations with single source suppliers and/or with connections to Ukraine and Russia
- Updating and enhancing scenario analysis specifically on cyber and climate risks.

Risk governance

Our governance framework remains robust and largely unchanged in the past year. In summary:

- The Board sets out the Group's risk appetite annually, based on the level of risk it is willing to accept in pursuit of corporate targets
- The risk strategy and setting of objectives is executed by the Group Operations Committee (GOC) with oversight from the Audit Committee and Board
- Our GOC, management committees and specialist Group functions provide guidance to the businesses on how to better integrate risk management processes into day-to-day activities.

The Group's risk policy sets out how this governance framework translates into the annual risk reporting cycle (see page 81), which links with our Internal Audit cycle, and informs our management and governance processes specifically for climate-related risks (see pages 56-60).

Report on our principal risks

Like many businesses we are subject to general external risks and the impact of macro factors such as changes in social, political, financial, regulatory and legislative environments, which can play alongside and/or amplify internal risks in operational and strategic categories for example. Our principal risks and uncertainties are those that may have the greatest impact on our key priorities when considering our current controls and mitigation plans on a net risk basis within a three-year horizon. These risks have been discussed at Audit Committee meetings during 2021/22. They are summarised with details of our key mitigating activities on pages 52 to 55.

Risks identified and assessed

The 12 principal risks disclosed in our 2021 Annual Report remain the most relevant to the Group according to our latest assessment, including risks across strategic, market, operational, financial, geopolitical and technological risk categories. The same top three risks are considered to be the most disruptive to our plans. These have been placed in the highest priority category:

- **Eurozone and macroeconomic impacts** continue to have an increasingly negative outlook, especially when considering trends such as cost inflation, energy prices, supply chain shortages and logistics challenges, many of which are amplified by the war in Ukraine, with the Group potentially left vulnerable given the international nature of our supply chain, the competitiveness of our markets, and the performance of major economies impacting the level of consumer spend and demand for our packaging products.
- **Paper/fibre price volatility** continues to put pressure on our integrated paper and packaging business model and our ability to ensure packaging prices appropriately reflect this volatility.
- **Cyber attacks** targeting businesses' informational and operational technologies are seemingly becoming increasingly common and sophisticated, requiring significant investment in technological and human defences to keep pace.

The risk of our sustainability commitments not meeting the expectations placed on the Group, both in terms of speed and scale of change, has been assessed to have reduced in severity since the 2021 Annual Report and so is no longer in the highest priority category. This reflects the positive performance against our current sustainability targets and the setting of our new 1.5°C science-based target for carbon reduction and Net Zero emissions commitment by 2050.

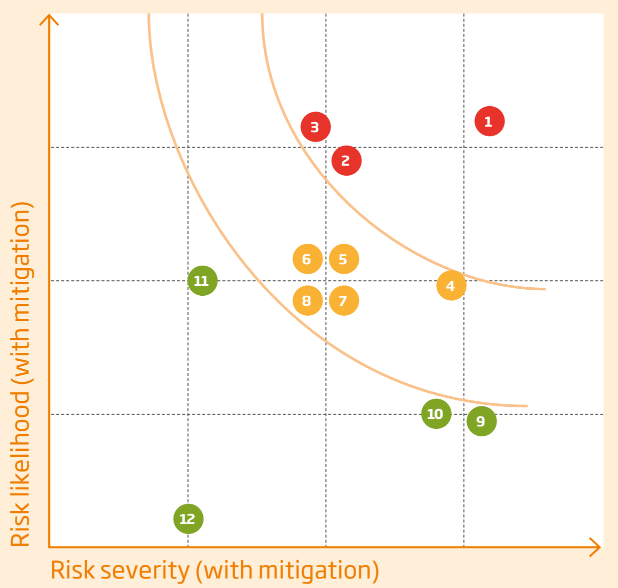
Covid-19

The evolving impacts arising from the ongoing Covid-19 pandemic continued to be considered in our assessment of each of the principal risks. Whilst the associated impacts from the Covid-19 disease are reducing, our assessments recognise that new or repeating waves may still arise. We continue to learn to live with pandemic risks and to build operational resilience and adapt our ways of working.

Prioritising our risk management efforts

Mitigating and/or preventing the effect of risk on our Corporate Plan remains a cornerstone of our Executive and operational management team efforts. Our risk heat map provides a summary of how we assess and evaluate the relationship between the likelihood and severity of our principal risks and uncertainties, taking into account the effectiveness of current mitigations, and informs where the Group should prioritise investments to manage them.

Net (mitigated) risk heat map results



List of risks

1. Eurozone and macroeconomic impacts
2. Paper/fibre price volatility
3. Cyber attacks
4. Regulation and governance
5. Sustainability commitments
6. Security of paper/fibre supply
7. Packaging capacity limits to growth
8. Organisation capability
9. Disruptive market players
10. Substitution of fibre packaging
11. Digital enablement
12. Shopping habits

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

Emerging risks

Our risk management programme includes a formal review of emerging risks. We define emerging risks as those which are not meaningfully impacting the Group today but are highly uncertain because their evolution is rapid, indirect or both, and have the potential for significant impact. These risks will typically have longer-term impacts which may fall outside of our Corporate Plan horizon but warrant attention now to avoid the worst effects.

Emerging risks require regular monitoring of external trends and insights, which, when combined with our existing knowledge and expertise, identifies the risks that could become relevant to the Group in the future. Collating information from both internal and external sources builds our list of key emerging risks to watch or act upon, which is formally reviewed at least twice per year with the GOC alongside our principal risks. In 2021/22, we completed our first internal emerging risk surveys with sample employee populations to support the assessment.

Of the emerging risks identified and assessed, three risks were considered to have the highest impact on the Group and detailed in the table below. The assessment concluded that there is no single emerging risk identified where there is disproportionate impact to the Group's plans considering the mitigation/investments.

Emerging risks	Summary mitigations
New information security risks (cyber-physical convergence): The risk that a mass integration of previously unconnected physical devices/assets with the internet increases the Group's vulnerability to current and new forms of cyber attacks, especially if security procedures for Internet of Things (IoT) devices, smart buildings and other operational technologies lag behind.	Our Operational Technology Steering Committee operates to improve operational technology security and facilitate digital initiative preparedness and effective change management to drive performance and reliability improvements across operations.
Inflationary pressures: The risk that significantly increased prices of goods and services over a prolonged period of time will raise the cost of doing business and/or reduce customer/consumer buying power.	The Group is deploying a multitude of tools to mitigate or offset inflation, including: • Focused hedging strategy on energy-traded commodities • Continuous cost improvement throughout our operations • Major programmes with suppliers and customers on value/price parameters.
Reusable packaging regulation: The risk of an introduction of stricter EU legislation on the sustainability of products (e.g. reusability vs recyclability) or consumer sentiment turning against single-use packaging of any form.	• Our dedicated Government Affairs team tracks/monitors relevant legislation with the Group actively involved in trade associations to build the reputation of fibre-based materials • Increased level and focused investments in innovative packaging solutions to drive and support the circular economy agenda.

Viability Statement

Context

The Group's strategy and key differentiators are detailed on page 5 and pages 8 to 11, and our risk management framework is described on pages 79 to 81. Understanding of our business model, our strategy and our principal risks is a key element in the assessment of the Group's prospects, as well as the formal consideration of viability.

The Group's Corporate Plan cycle is the primary annual strategic and financial planning activity through which the Board assesses the prospects of the Group, extending for the three successive financial years that follow beyond the year ending after the assessment date. The planning process involves modelling under a series of assumptions surrounding both internal and external parameters, with key assumptions including economic growth projections, input pricing (including paper, fibre, energy and labour), foreign exchange rates and packaging volume growth; combined with the effects of major capital initiatives. The robust Corporate Plan process is led by the Group Chief Executive, the Group Finance Director and the Group Head of Strategy, in conjunction with divisional management. The Board undertakes a detailed review of the Corporate Plan during its December Board meeting.

The most recent Corporate Plan process was undertaken against the backdrop of the return to pre-Covid-19 levels of activity/profitability in 2022/23. The budget process for 2022/23, conducted subsequent to the Corporate Planning process, reflected different dynamics, particularly with regard to fibre, energy and paper prices, but validated the overall Group profitability as set out in the Corporate Plan in the first financial year. Similarly, the going concern exercise which builds on the budget validated the overall Group profitability as set out in the Corporate Plan for the second year. On that basis, the Directors are satisfied that the Corporate Plan provides a suitable basis for the viability assessment.

Although the Directors have no reason to believe that the Group will not be viable over a longer period, the three-year period was chosen for this assessment, having considered the speed and degree of change possible in the key assumptions influencing the Group, as well as the speed of evolution in the footprint of the Group, which limits the Directors' ability to predict beyond this period reliably. Indeed, given the pace of change in the primary sectors in which the Group operates, particularly FMCG and e-commerce, as illustrated by the recent moves away from plastic packaging and the acceleration into e-commerce driven by the Covid-19 pandemic, the Directors believe that three years represents the most realistic and appropriate timescale over which to assess the Group's viability.

Assessment of longer-term viability

In accordance with the UK Corporate Governance Code, the Directors have assessed the viability of the Group over a three-year period to 30 April 2025, which is a longer period than the 12-month outlook required in adopting the going concern basis of accounting. This assessment period remains appropriate given the timescale of the Group's planning and investment cycle.

The Directors confirm that they have performed a robust assessment of the principal risks facing the Group as detailed on page 47, including those that will threaten its business model, future performance and solvency or liquidity.

The assessment of the Group's viability considers a pessimistic but plausible scenario aligned to the principal risks and uncertainties set out on pages 53 to 55 where the realisation of these risks is considered remote, considering the effectiveness of the Group's risk management and control systems and current risk appetite. The degree of severity applied in this scenario was based on management's experience and knowledge of the industry to determine plausible movements in assumptions. The Directors note that the Group enjoyed a large degree of resilience to the consequential downturns from the Covid-19 pandemic and through the increased economic volatility in the post-pandemic period.

The Group has significant financial resources including committed and uncommitted banking and debt facilities, detailed in note 20. In assessing the Group's viability, the Directors have assumed that the existing banking and debt facilities will remain in place or mature as intended.

The Directors have also considered mitigating actions available to the Group to respond to the stress scenarios such as restrictions on capital investment, further cost reduction opportunities, and dividend suspension or restriction on dividend levels. The Directors have assumed that these mitigating actions can be applied on a timely basis and at insignificant or no cost.

Confirmation of viability

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

Going concern

The Board has reviewed a detailed consideration of going concern, based on the Group's recent trading and forecasts, and including scenario analysis. This takes into account reasonably foreseeable changes in trading performance, including the continued uncertainty of the long-term impacts on the economic landscape presented by an inflationary economic environment and the ongoing war in Ukraine. More detail of the assessment performed is included in note 1 to the financial statements.

At 30 April 2022 there was significant headroom on the Group's committed debt facilities at a level of c. £1.9 billion. The going concern assessment covered a forecast period of 12 months from the date of approval of this financial report. Based on the resilience of the Group's operations to both Covid-19 and the high-cost environment experienced throughout the financial year, as well as the current and forecast liquidity available, the Board believes that the Group is well placed to manage its business risks successfully despite the uncertainties inherent in the current economic outlook, and to operate within its current debt facilities.

The Group's current committed bank facility headroom, its forecast liquidity headroom over the going concern period of assessment and potential mitigating activities available to management have been considered by the Directors in forming their view that it is appropriate to conclude that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the going concern basis has been adopted in preparing the financial statements.

The financial statements have been prepared on the going concern basis with no material uncertainty identified, after a detailed assessment, this year.

Further details, including the analysis performed and conclusion reached, are set out below.

Liquidity and financing position

The total drawn debt facilities at 30 April 2022 were £2.0 billion, of which, £1.8 billion is publicly listed debt with no attached covenants and £0.2 billion carries a covenant of net debt:EBITDA of less than 3.25 times. In addition, the Group has access to c. £1.5 billion committed bank facilities, which were undrawn at 30 April 2022, which provide liquidity to the Group and carry the same covenant of net debt:EBITDA of less than 3.75 times. The Group is not forecast to increase net debt in the going concern analysis. There is significant liquidity/financing headroom across the going concern forecast period. For this reason, the going concern review has focused more on forecast covenant compliance.

Overview

In determining the going concern basis for preparing the financial statements, the Directors consider the Company's objectives and strategy, its principal risks and uncertainties in achieving its objectives and its review of business performance and financial position. The economic environment reflected in this Going Concern assessment is based on the 2022/23 budget which anticipates robust organic box volume growth across each of our regions, consistent with the prevailing rates of growth in 2021/22 recognising the inflationary pressures in the Group's raw materials, energy and overhead cost bases. In preparing the financial statements, the Group has modelled two scenarios in its assessment of going concern. These are:

- The base case is derived from the 2022/23 full year budget. The key inputs and assumptions include: Packaging volume growth at moderate levels across the future periods considered by the modelling, driven by continued FMCG and e-commerce demand, together with a conservative recovery in industrial volumes. Both paper sales price and input fibre price are consistent with those anticipated in the budget.
- The downside case assumes European packaging volumes largely stagnating at 2021/22 levels, reflecting no future growth and a continued spike in energy prices not mitigated by a commensurate increase in paper prices. With a significant portion of the Group's packaging contracts being either directly linked/referenced to a paper index this would result in higher input costs for the Group that are more difficult to pass through to end customers. A significant cash outflow from working capital is incorporated into 2023/24, providing an additional headwind to the Group's net debt and covenant ratios.

Mitigating actions

The outturns of the above scenario modelling, combined with the strong performance operating throughout 2021/22, provide the Group a level of comfort that no significant cost/cash flow mitigations need to be built in to the going concern modelling. However, a range of options remain at the Group's disposal should they be required which provide the opportunity to support EBITDA, cash flow and net debt, including:

- Action in respect of variable and controllable costs such as discretionary bonuses, pay rises, recruitment freezes and wider labour force actions in response to higher levels of volume reductions
- Limiting capital expenditure to minimum maintenance levels by pausing growth spend (including greenfield sites and other expansionary spend)
- Satisfaction of the outstanding Interstate put option for shares instead of cash
- Strategic actions in respect of the Group's asset base could be considered in respect of disposals, mothballing and closures
- A reduction or temporary suspension of the Group's dividend

The Group could also consider actions to assist covenant compliance, such as increased utilisation of debt factoring facilities and optimising working capital by negotiating longer payment terms whilst continuing to pay suppliers in full and in line with contractual terms.

At a high level, it is estimated that the Group EBITA would have to fall by about 45 per cent from 2021/22 levels for a breach of the net debt:EBITDA covenant to occur.

Going concern basis

Based on the forecast and the scenarios modelled, together with the performance of the Group in the current year, the Directors consider that the Group has significant covenant and liquidity headroom in its borrowing facilities to continue in operational existence for the foreseeable future. Accordingly, at the June 2022 Board meeting, the Directors concluded from this analysis it was appropriate to continue to adopt the going concern basis in preparing the financial statements.

Risk priority classification	1	1	1
Risk	**1. Eurozone and macroeconomic impacts** Multiple political/economic factors from Brexit, foreign exchange/interest rates, to weakening major economies significantly impact the level of consumer spend and customer demand for our packaging products.	**2. Paper/fibre price volatility** Volatile commodity pricing for recovered paper (including old corrugated cases (OCC)) and containerboard grades can create significant short-term challenges to capture appropriate returns by aligning raw material costs to packaging sales revenues.	**3. Cyber attacks** A major cyber incident on our information or operational technology (e.g. ransomware) and/or a failure to stop/identify sophisticated malicious cyber intruders on our IT infrastructure (i.e. phishing attacks) resulting in short-term trading impacts, financial losses and reputational harm – impacting us, our suppliers and customers.
Inherent risk expected change	↗	↗	↗
Key mitigating actions	• A robust corporate planning process where macroeconomic trends are evaluated alongside investments to improve production cost base, efficiency and deliver other initiatives such as sustainable growth priorities to strengthen resilience • Focus remains on supplying packaging to fast moving consumer goods (FMCG) customers with a constant focus on quality, service and volume growth, as these customers tend to show greatest resilience against GDP volatility • Our dynamic energy hedging strategy over two to five-year horizons smooths pricing volatility, and other developments in our procurement and logistics flows (e.g. due to Brexit) are helping to evolve our operating model and maintain resilience.	• Maximise our commercial credentials, services and contract management to build up box prices and sell the added value of our products, services, innovations, sustainability credentials, and customer brand benefits • Focus on providing sufficient paper from internal manufacturing operations to support our Packaging division, whilst determining the optimal integration level, to ensure that we balance the external effects of paper availability over the long term • Initiatives to implement productivity improvements, demand forecasting improvements and the development of skills and tools in our sales and paper sourcing teams.	• Regular awareness training and testing to better equip our employees with the knowledge to identify potential phishing/other social engineering techniques, led by our Chief Information Security Officer and expanding internal IT resourcing as well as external partner support • Investments in IT security controls to improve our capability to detect, respond to and prevent malicious cyber activity, including network segregation between/within IT and operational technology environments • Regular improvements in, and testing of, IT disaster recovery planning, policies and procedures, including penetration/vulnerability testing, to inform and ensure the Group's ability to progress towards cyber resilience.
Net risk expected change	↗	↗	↗
Key Risk Indicator	Eurozone GDP growth rate	Paper/recovered fibre market price and box selling price	IT security training effectiveness and phishing campaign statistics
Risk tolerance to Corporate Plan priorities			
Opportunity examples	Ability to reposition our business model outside of our traditional geographic markets and sources of supply.	Accelerate improvements in commercial awareness and expertise of pricing fluctuations and strengthen the effectiveness of fibre and efficiency programmes.	Accelerated investments to strengthen our technology infrastructure and operational resilience to prevent losses and enhance business continuity credentials.
Alignment with strategic priority	To double our size and profitability	To double our size and profitability	To double our size and profitability
Governance oversight	Group Chief Executive and Group Finance Director present reviews and forecasts on the impact of the macroeconomic environment at each Board meeting.	The Group Chief Executive and Group Finance Director present regular updates on paper and OCC prices to the Board.	Cyber security assessment reports, IT network management and external advisory guidance are reviewed by the Executive Directors and Audit Committee.

Net risk tolerance key

Unacceptable | Re-assess | Acceptable

Risk change key

Increasing | Stable | Decreasing

2	2	2
4. Regulation and governance Our governance model fails to support the way we are organised and our geographical spread, resulting in unauthorised, illegal, unethical or inappropriate actions (including breach of anti-bribery, data privacy, etc.).	**5. Sustainability commitments** Our efforts to decarbonise and transition our supply chain to a circular, low carbon economy are not enough or are too slow against the growing expectations of the Group to play a positive role in society and address global climate change and related environmental, social and business challenges.	**6. Security of paper/fibre supply** Large fluctuations in the availability of recovered paper (including OCC) and containerboard could adversely affect our performance, as the Group remains a net purchaser of specific grades of paper and faces recycling collection/segregation challenges.
Increasing	Increasing	Increasing
• The Group continues to maintain detailed and extensive arrangements for the management of standards, domestic and international compliance rules and new regulations, with regular business unit legal compliance and control reviews including health, safety, environment, supply chain and product integrity/safety • Training employees on a variety of compliance modules including antitrust, anti-bribery and corruption, and modern slavery to ensure full understanding of the applicable laws and high standards expected • The Group operates a workplace malpractice helpline ('Speak Up!'), providing a confidential route for employees to report perceived malpractice of any type.	• Focused on deploying our roadmap of carbon reduction investments towards Net Zero, focused on energy efficiency, plant upgrades and switching to alternative energy sources, whilst monitoring and adapting to regulatory changes such as in carbon taxes and resource extraction • Ensuring we meet the growing consumer, customer and investor demand for sustainable packaging, through a focus on packaging and related supply chain designed for a circular economy • Regular reviews of, and governance and reporting on, our sustainability priorities to ensure they align with the expectations of stakeholders, wider society and scientific climate projections, as well as implementing TCFD recommendations and submission to ESG ratings, such as CDP.	• Our Paper Sourcing division's capability (knowledge, experience and buying strength) to optimise the make, buy, sell decision across the Group, ensuring the Group sources key paper grades from external suppliers to deliver and flex to paper volume needs • A clearly defined fibre strategy based on performance packaging, and a 'best fit' footprint alignment between internal paper production, quality fibre sourcing and the capacity needs of our Packaging division • The Group has the skills and experience to mitigate short-term paper scarcities, such as through using different papers, improved stock management, and better forecasting and communication with customers and across divisions.
Stable	Stable	Stable
Group and divisional compliance training and reviews	Reduction of CO_2e per tonne of production	Paper/recovered fibre supply volumes
Acceptable	Acceptable	Acceptable
Ability to demonstrate a standard of ethics and behaviours beyond the standards requested of us and potentially influence how the regulatory landscape changes.	Capitalise on efficiencies in energy upgrade projects and meet the growing societal demand for sustainable products in a circular economy.	Our closed loop model and paper sourcing strategy offer significant customer opportunities and ability to generate a 'best fit' cost and quality solution.
To delight our customers	To lead the way in sustainability	To double our size and profitability
Results of internal control reports and internal corporate governance, ethics and compliance updates are regularly reviewed by the Audit Committee and Board.	The Board receives regular updates on the Group's sustainability performance and strategy.	Paper sourcing opportunities are discussed with the Board, with specific focus on critical papers.

Risk priority classification	2	2	3
Risk	**7. Packaging capacity limits to growth** Our performance and volume growth expectations, and an increasing demand for packaging, is limited by our production capacity and ability to grow organically at the pace required.	**8. Organisation capability** Our management approach to our people and assets, including succession and workforce planning, talent retention and development, hybrid working models, and strategy for ageing assets, fails to identify and resource for future capability needs, resulting in critical gaps in skills, knowledge and equipment, limiting productivity gains across key business areas.	**9. Disruptive market players** Disruptive behaviours in our key markets, should significant suppliers or competitors combine, reduce our capability to purchase paper or restrict our ability to compete more effectively, and these larger combined groups could also dispose of assets leading to new market entrants, increasing competition and causing loss in market share.
Inherent risk expected change	↗	↗	↔
Key mitigating actions	• Targeted organic growth in our existing key markets from strategic investments in new greenfield packaging manufacturing sites, including our new builds in Poland and Italy coming online in 2022 • Further expansions/developments of our current packaging and paper sites through multi-year capital plans, enhancing equipment utilisation and efficiency, whilst improving the customer-production footprint alignment • Developing clusters of production sites to improve capacity loading, implementing new shift patterns and sales and operational performance programmes to optimise a full system of supply/demand loading, inventory and logistics planning.	• People performance, potential and succession management is formally reviewed and subject to calibration by senior management, and core skills gaps are identified to inform clear action plans and address key talent retention or attraction risks, including an increasing focus on diversity and inclusion actions • Annual senior talent reviews address strategic workforce questions, and evaluate the capability profile of the senior leadership population and the talent bench strength • Our HR and operational leaders collaborate to prioritise key business transformation activities aimed at new and foreseeable work realities, run in-house learning academies to build the necessary skills and reduce reliance on external labour markets, and review operating models to improve organisation flexibility and productivity.	• A strong corporate planning ethos focused on growth and reputation in order to be a market leader, and an evolving approach by introducing concepts such as agility, adaptability, and responsiveness to emerging threats in the key areas of innovation, sustainability and digitalisation • Continuous improvement of our procurement and supply chain processes for all paper grades and critical raw materials, including enhanced contingency plans if critical suppliers were to be disrupted • Focused on strong, long-standing relationships with all of our existing customers, across large FMCG, regional and local customers, whilst incubating areas of potential breakthrough innovations to stand out from competitors and attract new business.
Net risk expected change	↔	↔	↔
Key Risk Indicator	Packaging demand and production volume metrics	Employee turnover including external/internal hiring ratios and diversity and inclusion metrics	Proportion of market share
Risk tolerance to Corporate Plan priorities			
Opportunity examples	Develop and grow our own business in line with our customers' growth, working together to serve the changing consumer demand, whilst maintaining high quality and service offering.	Our HR and operational priorities focused on improving processes, productivity and ways of working to capture and enhance people and equipment capabilities.	Strengthen our differentiation and reputation, and capture additional market share during times of disruption amongst key competitors.
Alignment with strategic priority	To delight our customers	To realise the potential of our people	To double our size and profitability
Governance oversight	Demand and production metrics are reported through monthly divisional trading update meetings, and multi-year demand forecasts reviewed by the Group Strategy Committee.	The Nomination Committee regularly reviews Board succession planning and receives updates on senior talent management programmes.	The Group Finance Director provides the Board with regular updates on the market.

Net risk tolerance key

Unacceptable | Re-assess | Acceptable

Risk change key

Increasing | Stable | Decreasing

3

10. Substitution of fibre packaging

Fibre-based packaging loses its credentials as a sustainable product of choice against developments in plastic packaging or other materials that can be reused and recycled, resulting in our products being substituted and/or replaced by competitor products.

- Collaboration between our Paper and Packaging divisions, innovation and research and development teams to deliver innovative papers and corrugated products, and develop new materials with our suppliers and partners for barrier/lamination concepts and plastic replacements
- Our Recycling division uses commercial insights and works to create pan-European alignment in our services, including providing our key packaging customers with closed loop opportunities
- Our Government Affairs team tracks proposed government legislation, the potential impact on DS Smith, and sets/drives focused and proactive communication strategies, including involvement in related industry trade associations to maintain and build the reputation of fibre-based materials in terms of recyclability, circularity, quality standards and innovation potential.

Fibre packaging volume and market share growth and level of legislative protection

Accelerated research, development and investment into new and enhanced fibre-based products to serve the sustainable packaging demand and grow our reputation.

To lead the way in sustainability

The GOC and Board receive regular product innovation and government affairs updates.

3

11. Digital enablement

Digital transformation initiatives, from point-of-sale through to manufacture and delivery to customers, are too slow or the investments required too high to adequately adapt our ways of working or we miss the opportunity to meet the demand for smart products, including customer ease of access to our products and services.

- A new Group-wide focus to identify/leverage digital revenue opportunities as part of a key priority in the Corporate Plan, supported by developing a clearly defined digital operating model and governance framework to enable faster decision-making and strong delivery
- Delivering digital customer experiences, such as customer and investor online events, and the continued expansion of the DS Smith ePack webshop model to provide online ordering to meet small and medium sized business's packaging needs
- Investments to digitalise and optimise our manufacturing assets and supply chain management, such as advancements in operational technology and logistics management, with a focus on digital security.

Customer satisfaction surveys and website visitor traffic

Capitalise on digital investments which build our reputation as an easy and accessible business to work with and buy from.

To delight our customers

The GOC and Board are provided with updates on digital initiatives and customer experience.

3

12. Shopping habits

We fail to match or adapt our offer to the pace and direction of change in consumer spending across the full retail FMCG spectrum, from the mega-large brands, micro-brands and omni-channel distribution networks of the big box superstores and discounters, to the rise in e-commerce and importance of consumers' values.

- A Corporate Plan focused on growing e-commerce, packaging volumes and through incremental and breakthrough innovations (including new materials, partnerships and business models) with our FMCG customers and continuing to explore business opportunities such as plastic replacements, point-of-sale packaging and end-to-end services
- Applying a differentiated service offering to different customer categories, including the digitalisation of our customer experience, our Impact Centres, and through training our designers and sales teams on circularity principles
- Trend and insights teams working on understanding customer and consumer habits, needs and behavioural changes to inform research and development options and operational capabilities.

Revenue and production growth for FMCG sector

Changes in consumer needs and behaviours lead to new opportunities to actively engage customers on cardboard packaging solutions.

To double our size and profitability

Trading, customer and consumer trends and the innovation pipeline are regularly discussed with the Board.

Adapting to a changing climate

In our circular business, materials are kept in use for longer as we turn waste into recyclable paper-based packaging solutions. Although this reduces pressure on natural systems, including forests, and prevents waste from entering landfills and oceans, we use energy-intensive processes to transform materials as they move through our circular system, which generates greenhouse gas (GHG) emissions, contributing to climate change.

Our greatest opportunity is to harness the benefits of operating a circular business, whilst adopting resource efficiency measures and renewable technologies to reduce the GHG emissions that contribute to climate change. We are committed to decarbonising our circular business by achieving our 1.5°C science-based target, to reduce Scope 1, 2 and 3 GHG emissions 46 per cent by 2030 compared to 2019, and to reach Net Zero GHG emissions by 2050.

Compliance statement

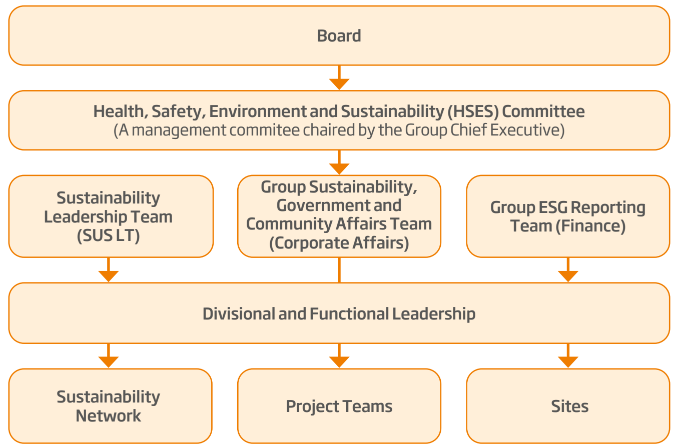
DS Smith Plc has complied with the requirements of Listing Rule 9.8.6R(8) by including climate-related financial disclosures consistent with the TCFD recommendations in this Annual Report. Scope 1, 2 and 3 greenhouse gas emission information can be found on page 33. DS Smith ESG Databook 2022, which can be downloaded from the DS Smith ESG Reporting Hub, contains the basis of preparation, including definitions and methodology notes.

Governance

Members of the Board and Audit Committee maintain oversight of climate-related risks and opportunities. The Board and Audit Committee receive regular updates on risk assessments, mitigation methods and progress, and are involved in significant strategic decisions, for example, the adoption of a science-based target. The Board and related committees, members of whom have relevant ESG and sustainability experience, receive frequent updates on goals and targets for addressing climate-related issues alongside wider ESG and sustainability performance, including the delivery of our Now and Next Sustainability Strategy.

Members of the Health, Safety, Environment and Sustainability (HSES) Committee, chaired by the Group Chief Executive, assess and manage climate-related risks and opportunities. This group met 12 times during 2021/22. Climate-related risks are monitored as part of our standard operating processes to ensure that appropriate mitigations are in place and are regularly reviewed by management. Management is supported by the Sustainability Leadership Team (SUS LT) when developing strategies and policies. These committees draw on specialist insight from Group Risk and Insurance, Group Strategy, Group Sustainability, Group Finance and external expertise. They report to executive management on an ongoing basis, providing updates on the delivery of plans. Performance on climate-related issues, such as energy and water, is reviewed at least monthly by management teams. Within-year and longer-term progress against our targets, challenges, trends and opportunities for addressing climate issues are discussed by senior management on a monthly basis and monitored by the HSES Committee quarterly and long-term progress is presented to the Board annually.

There is divisional and functional leadership responsibility and a Sustainability Network, supported by specialist networks and project teams which cascade ESG and sustainability, including climate-related matters, throughout the business.



Strategy

Climate-related risks and opportunities could impact the Group's business, strategy and financial planning over the short term (0-3 years), medium term (3-10 years) and long term (10+ years). The Board, Group Operating Committee and its management commitees consider climate-related issues when reviewing and setting strategy, developing policies and for financial planning.

In the short term, using fossil fuels to power our circular business generates GHG emissions, bringing exposure to policy and legal transition risks related to increasing the cost of emissions, e.g. carbon taxes. In a transition scenario, as renewable energy sources and new technologies become readily available at the scale needed to meet our energy demands, we have an opportunity to decrease our reliance on fossil fuels.

Our decarbonisation investments will fundamentally reduce our fossil fuels dependence, providing clean energy as initiatives are delivered. Implementing this plan will reduce our exposure to future fossil fuel price increases and regulatory or other costs designed to reduce GHG emissions. It will reduce the carbon footprint of our packaging solutions, responding to customer pressure to decrease their supply chain emissions and exploit consumer preference for sustainable packaging.

In a business-as-usual scenario, where society fails to transition to a low emissions economy, there could be greater risk of increased raw material costs or threat to supply (e.g. pulp, recyclate or starch), which could be linked either directly or indirectly to climate change. In the medium to long term, it is possible that without climate action, greater disruptive physical risks such as water stress could take hold, within our operations and supply chain. This invites opportunities to reduce reliance on key resources through resource efficiency and technological measures that decrease operating costs and increase supply chain resilience and our ability to operate under various conditions.

In summary, short-term climate-related risks include increasing spend on carbon taxes (policy and legal transition risk) and medium to long-term risks include increasing cost of raw materials or threat to supply (market transition and acute or chronic physical risk) and increased likelihood of water stress (physical risk). Short-term climate-related opportunities include growth in demand for sustainable packaging (products and services), increasing resource efficiency (resource efficiency) and use of emerging renewable technologies (energy source). The following sections describe the approach taken to climate scenario analysis and conclude with summary comments on the resiliency of our strategy.

Climate scenario analysis

Building on our climate scenario analysis conducted last year, in 2021/22, we have:

- Utilised scenario analysis as part of our strategic assessment to achieve Net Zero by 2050, modelling multiple trajectories to compare investment requirements and define our roadmap
- Extended our scenario analysis to include the new IEA (International Energy Agency) Pulp and Paper Net Zero Scenario (November 2021), updated our analysis with our latest data to better reflect the business we have today and enhanced our methodologies to increase the quality of the analysis
- Continued to use forecasts relating to climate issues to inform planning, from carbon market analysis and projections to exposure to water stress risk over a range of time horizons.

Methodology

We selected the reference scenarios recommended by the TCFD guidance that are most relevant to our business to evaluate the potential effect of various future conditions. The scenarios reflect a range of trajectories, based on different assumptions, that lead to worlds in which the increase in global temperature varies from 1.5°C to 6°C by 2100 compared to pre-industrial levels. In each scenario, we assumed that we have the same activities as today.

IEA Sustainable Development Scenario (SDS) 1.5°C Pulp & Paper: In this scenario, growth in production and energy consumption are decoupled to achieve decarbonisation to the extent required to be on track with the Sustainable Development Scenario by 2030.

IEA Net Zero Emissions by 2050 Pulp & Paper: In this scenario, annual production expands, necessitating greater recycling. Using a higher share of bioenergy is important to align with the Net Zero Emissions by 2050 trajectory.

IEA ETP SDS 2°C: In this scenario, mitigation measures are applied to carbon intensive industries, alongside technological advancements to the extent required to limit global warming to within 2°C by 2100 versus pre-industrial levels.

IPCC RCP 8.5 6°C: In this scenario, a 'business as usual' state of no policy changes leads to growth in emissions, causing some of the physical effects of climate change to be felt with greater severity.

We combined quantitative and qualitative analysis, alongside knowledge of our business and operating environment, which enhances the scenario evaluations. Financial implications are calculated as illustrative estimates, given within the context set out by each scenario. Some of these evaluations changed compared to last year because of the application of the new Net Zero Emissions by 2050 scenario or adjustments to the parameters of our model to reflect our business more closely. Therefore, where illustrative estimates are incomparable to those previously reported, no comparison figure is given. The estimated impacts should be considered in the context of 2021/22 performance and the future implications will vary according to prevailing future costs and pricing. There are ways that we can increase the sophistication of our climate scenario analysis. For example, we have not considered the financial implications of secondary impacts, such as reputational damage that may occur under some of the scenarios. As new high-quality data becomes available (for example, long-term projections of future raw material supply under various conditions), we will continue to use climate scenario analysis to assess the effects climate change may have on our business and ensure we have appropriate mitigations in place to remain competitive in the future environment in which we will operate.

Quantifying our climate risks

Increasing spend on carbon taxes

Our European paper mills must purchase allowances to cover their emissions under the EU Emissions Trading System (EU ETS) and in the United Kingdom, the UK Emissions Trading System (UK ETS). In 2021/22, we paid c. £26 million (2020/21: £33 million) to these schemes. Under EU ETS, the free-issued allowances are reducing as the price of additional allowances is increasing, therefore increasing our operating costs. If, for example, by 2030 the cost increased to €110 per tonne of carbon (based on reputable analyst views), the estimated additional annual cost could be c. €122 million, depending on the future allocation of free allowances. It is possible that the scheme could be extended, or new carbon taxes could be introduced in other parts of the world. For example, the IEA ETP 2°C scenario describes the introduction of a North American carbon tax rising to $210 per tonne by 2050. Although this tax does not exist today, if this tax were applied to all of our projected future emissions in North America, this could result in a new cost of c. £15 million in 2030. Delivering our GHG reduction roadmap will reduce emissions and therefore costs associated with them. For example, this cost reduces to c. £12.8 million if identified projects within our roadmap were implemented at one of our North American sites, including switching from natural gas to biomethane. This would increase renewable energy consumption of that asset by c. one third, reducing exposure to the cost of carbon, although costs would be incurred to achieve this transition. We continue to factor the cost of carbon into our roadmap analysis and optimisation, alongside the availability of biofuels and future growth and strategy.

Increasing cost of raw materials or threat to supply

Raw materials (e.g. pulp, recyclate or starch) could become more expensive or difficult to acquire because of extreme weather events related to climate change. This could be due to chronic physical reasons (e.g. extreme variability in weather patterns leading to crop failure), regulatory change (e.g. caps on resource extraction) or market disincentives (e.g. licences for extraction). Aspects of climate change are likely to affect forest growth and productivity, impacting the virgin fibre market. Although our exposure to this market is limited as our packaging is primarily manufactured from recycled fibres (c. 80 per cent of the papers used by our Packaging division are from 100 per cent recycled content), potential future yield losses could drive up the price of virgin fibre and changing input prices may be passed on to us by suppliers and have a subsequent impact on papers for recycling. Using data from the Global Forest Products Model to assume, for example, that average virgin paper price increases by five per cent by 2030 owing to climate-related challenges, this could result in an additional cost which would likely have to be recovered through increased pricing to our end customers. Paper and fibre price volatility and security of supply are considered principal risks for the Group and are balanced over the long term by optimising the best fit between paper production, fibre sourcing and packaging demand.

Increasing likelihood of water stress

In the long term, competition for finite water resources could increase in the river basins from which we withdraw water. Refreshing our annual analysis using the WRI Aqueduct tool, we identified 26 sites (2020/21: 25 sites) at risk of future water stress, based on the latest datasets obtained from the WRI. In the IPCC RCP 8.5 6°C scenario, the worst-case scenario suggests that c. 31 per cent (2020/21: c. 36 per cent) of the Group's total water withdrawal is in regions that could be at high or extremely high risk of water stress by 2030. This has decreased compared to last year having removed our non-core Dutch paper mill from the analysis, following its disposal. In our most pessimistic scenario, were our highest value site identified as at risk of water stress to suffer business interruption due to water use limitations for 14 days, this could present a business interruption incident valued at c. £3.3 million in 2030. As a mitigation, we continue to maintain water stress mitigation plans at 100 per cent of sites identified as at current or future risk. This involves an annual check on business continuity planning, regular contact with relevant stakeholders (e.g. the water authority and local community) and monthly performance management review, which is reported to the Group Operating Committee (GOC).

Quantifying our climate opportunities

Growth in demand for sustainable packaging

As society transitions to a low emissions economy, we see an opportunity for circular packaging to play a powerful role in helping brands and consumers reduce their carbon footprint and replace plastic with recyclable fibre-based packaging. There is an opportunity to grow market share and value by demonstrating the benefits of widely recycled packaging and as part of our packaging value proposition that can help our customers to reduce cost, whilst driving circular economy principles into our customers' business models. In the IEA Net Zero Emissions by 2050 scenario, annual paper production is described as growing by 1.5 per cent annually over the decade to 2030, with greater need for packaging and paper as a result of population and economic growth, necessitating greater recycling. This could be estimated as a growth opportunity which, within the context of the reference scenario, could be valued at c. £25 million increase in EBITDA by 2030 compared to 2021. We are driving the replacement of plastic with widely recycled fibre-based alternatives, having set a Now and Next sustainability target to remove 1 billion pieces of problem plastics from supermarket shelves by 2025. We have replaced 313 million plastic units with our recyclable fibre-based alternatives to the end of 2021/22, helping our customers meet consumer demand for recyclable packaging. Our designers have already created over 1,000 designs for millions of products geared towards reducing the use of problem plastic and even small changes, such as replacing plastic sealing tape with self-locking flaps or plastic labels with print direct onto cardboard, can help capitalise on the growth in demand for sustainable packaging.

Increasing resource efficiency

There are multiple ways at various stages of the circular product lifecycle in which we can achieve greater efficiency of the resources we use. In our packaging, the efficient use of materials that are regenerative and recyclable and the avoidance of over-specification helps remove unnecessary waste and save natural resources. This not only results in a leaner finished product but also less impact overall, as transporting fewer fibres through the production process requires less water and energy use. In 2021/22, we optimised the fibre used in 26 per cent (2020/21: 23 per cent) of new packaging solutions for unique supply chains, progressing closer to our Now and Next sustainability target to optimise fibre use for individual supply chains in 100 per cent of our new packaging solutions by 2025. Minimising fibre consumption also decreases use of natural resources throughout the value chain. In 2021/22 we set a new Now and Next sustainability target to decrease water withdrawal by 1 per cent per year, every year, to 2030 compared to 2019 at our paper mills located in regions at high or extremely high risk of water stress by 2030. This was achieved for 2021/22, operating at 8.08m^3 per tonne of net saleable production (2020/21: 8.10 m^3/t nsp) compared to 8.48m^3/t nsp in the base year (2019/20). Our actions have lowered pressure on natural water systems through water reduction, reuse and recycle opportunities, which reduce operating costs. For example at Lucca

Mill, in a circular water system withdrawn water is recirculated before it is returned to the natural environment.

Once the packaging is used and ready to be collected for recycling, we can achieve greater resource efficiency by encouraging markets to invest in improved recycling infrastructure, including increasing waste segregation to create raw material streams that are cleaner and require less processing. Access to high quality wastepaper for recycling means less processing and less volume of recyclate needed overall, which reduces water and energy consumption, generating cost savings for our papermaking operations. We continue to advocate for separate collection of recyclables to improve quality of material by reducing contamination, increasing recycling rates, lowering environmental impact and cost for local authorities as part of our engagement with policymakers to contribute to realising this opportunity, as well as engaging with our customers on integrated closed-loop solutions and appropriately specified performance packaging for individual supply chains.

Use of emerging renewable technologies

In order to avoid the most catastrophic consequences of climate change, the global energy system must radically transform, with the rapid deployment of low carbon fuel sources to displace fossil fuels. The recycled paper production process predominantly utilises natural gas as a fuel source. Therefore, delivering our commitment to Net Zero emissions by 2050 will require our operations to transition from fossil fuels to renewable fuels, such as biomass, biomethane and hydrogen. As energy systems and technologies evolve, there is an opportunity to be at the forefront of adoption of increased efficiency measures, alongside new technologies. As an example, in the IEA SDS 1.5°C scenario, energy use in the Pulp and Paper sector is assumed to decline by 0.6 per cent per year to be on track with the Sustainable Development Scenario (SDS) by 2030. This reduction in energy consumption in our operations would result in a lower cost, an opportunity estimated in our analysis that could be valued at c. £12 million in 2030 compared to 2021, although costs would be incurred in realising these benefits. In the IEA Net Zero Emissions scenario, a 0.5 per cent increase per year to 2030 is assumed as strong paper production growth necessitates greater recycling and a resulting increased energy cost of c. £10 million in 2030 compared to 2021. This emphasises the opportunity to grow without generating additional GHG emissions if growth in new production is powered by renewable fuels. Our carbon reduction roadmap sets out initiatives that allow our business to grow whilst realising the benefits of harnessing emerging renewable technologies. Energy performance is managed using our Group-wide ISO 50001:2018 energy management system, driven by our Now and Next target to maintain certification at 100 per cent of relevant sites. Our objective is to maintain continuous improvement in energy performance, cost and therefore greenhouse gas emissions.

Summary of our scenario analysis

The climate scenario analysis suggests that our strategies are resilient to climate-related risks and opportunities. There is low financial risk by 2030, predominantly due to increased costs which would need to be managed. We would not have to make fundamental changes to our business model. By committing to a 1.5°C science-based target for 2030, we are responding to climate-related risks and opportunities in accordance with the latest climate science. As we decarbonise alongside the entire industry, we see opportunities to be at the forefront of leading the transition to a circular economy, which, compared to the linear economy, is a better system for tackling climate change, pollution and biodiversity loss.

Risk management

We undertake regular materiality analysis to ensure our sustainability priorities remain aligned to those of our stakeholders. In our latest analysis, we consulted stakeholders on a range of climate issues, asking them about their perception of each issue as a risk or opportunity to our sustainability strategy. This assessment, combined with a range of other credible sources (such as CDP, CEPI and the TCFD recommendations), is used to grade these risks using the likelihood of the risk occurring and an estimate of the severity of resulting financial or strategic impact over various time horizons. Based on this risk grading, the highest graded risks are evaluated in greater depth, considering our operations, supply chain, stakeholder expectations and regulation. Transition risks are assessed by Group strategy and Group sustainability teams, working across functions to develop responses to the financial and strategic implications. Physical risks are assessed by each division, supported by the Group Risk and Insurance team, drawing on expertise from specialist organisations.

Whether to avoid, transfer, mitigate or accept a risk is influenced by a range of factors, such as site location, investment needed and projected volume demand. Our risk management processes require that our principal business risks, including climate risks, are graded on a scale from negligible to critical using specific impact criteria such as a financial value range. By way of example, a financial impact between 2.5 per cent and 10 per cent of operating income or net profit is graded of moderate strategic or financial risk.

Climate risks are evaluated using the Group's common risk language and are integrated into our principal risk assessments where such risks could significantly affect the business during our Corporate Plan time horizon. All divisions and Group functions produce formal principal risk assessment reports twice per year, and undertake frequent risk reviews, considering the grading, trends and controls. The most critical climate risks and opportunities are selected for climate scenario analysis, prioritising those for which high-quality data is available.

Metrics and targets

We use a range of metrics and targets to assess and manage climate-related risks and opportunities in line with our Now and Next Sustainability Strategy and risk management process. A range of targets in our Now and Next Sustainability Strategy relate to climate risks and opportunities, and the most relevant ones are presented below. We report progress to external audiences annually and review performance internally on a monthly basis. Scope 1, 2 and 3 greenhouse gas emission information can be found on page 33. DS Smith ESG Databook 2022 contains the basis of preparation, which includes methodology notes. Independent assurance is obtained for selected metrics relating to carbon, energy, waste, water and production, indicated in the table below with asterisks.

Climate-related remuneration

Our Now and Next Sustainability Strategy, including our commitment to reach Net Zero GHG emissions by 2050, helps us to differentiate as a circular economy leader. This drives ongoing profitability and cash flow, which are the current performance measures for our incentive plans. The underlying importance of ESG and sustainability, including our response to climate change, continues to be emphasised by the use of a variety of ESG considerations as an underpin to the annual bonus. In 2021/22, the three elements of the ESG underpin were met, including the commitment to carbon reduction in the business, based on science-based targets. For 2022/23, the Remuneration Committee will continue to take into account and report on, amongst other ESG factors, the development of initial plans to achieve the longer-term science-based targets for carbon reduction in the business. For more information, see page 102.

Summary of metrics and targets

The following table summarises the metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Climate-related risk or opportunity – metrics and targets	Unit	2019/20	2020/21	2021/22	Trend
Risk: Increasing spend on carbon taxes					
Gross global Scope 1 emissions	tonnes CO_2e	2,181,890	2,047,265	2,023,278*	↓
Percentage covered under emissions-limiting regulations	%	81	80	79	↓
Target: Reduce Scope 1, 2 and 3 GHG emissions by 46% by 2030 compared to 2019 and reach Net Zero GHG emissions by 2050					
Risk: Increasing cost of raw material or threat to supply					
Percentage of fibre use optimised for individual supply chains	%	–	23	26	↑
Target: Optimise fibre use for individual supply chains in 100% of new packaging solutions by 2025					
Risk: Increasing likelihood of water stress					
Total water withdrawn	m^3	57,451,994	55,237,583	54,644,995*	↓
Total water consumed	m^3	12,908,260	14,150,530	13,604,030*	↓
Percentage of water withdrawn from areas at risk of water stress	%	36	36	31	↓
Percentage of sites with water stress mitigation plan in place	%	70	100	100	→
Target: Maintain water stress mitigation plans at 100% of our sites in current or future water stressed areas					
Opportunity: Growth in demand for sustainable packaging					
Number of pieces of problem plastics replaced	million units	–		313	since 1st May 2020
Target: Replace 1 billion pieces of problem plastics by 2025					
Opportunity: Use of renewable energy technologies					
Total energy consumption	MWh	15,707,667	15,446,255	15,324,120*	↓
Percentage of energy consumption from renewable sources	%	17	17	21	↑
Opportunity: Increasing resource efficiency					
Water withdrawal at mills in areas at risk of water stress	m^3/t nsp[1]	8.48	8.10	8.08	↓
Target: Decrease water withdrawal by 1% per year to 2030 compared to 2019 at our paper mills in current or future water stressed areas					

* Independent Assurance has been obtained for these metrics – see assurance statement on page 33.
Independent verification to a limited level of assurance for the 2019/20 base year was provided by Bureau Veritas.

1. tnsp – metric tonne net saleable production

EU Taxonomy

The EU Taxonomy is a classification system that identifies certain economic activities as 'environmentally sustainable'. It aims to meet the objectives of the European green deal by scaling up sustainable investment. It introduces mandatory disclosure obligations on certain companies, requiring disclosure of the proportion of EU Taxonomy-aligned activities. An economic activity qualifies as 'environmentally sustainable' if:

- It contributes substantially to one or more environmental objectives or is an enabling activity,
- It does not significantly harm any environmental objectives,
- It is carried out in compliance with minimum safeguards, and
- It complies with technical screening criteria.

The EU Taxonomy Regulation requires disclosure of turnover derived from products or services associated with economic activities that qualify as environmentally sustainable and capital expenditure and operational expenditure related to assets or processes associated with economic activities that qualify as environmentally sustainable.

Although our industry is not presently identified within the scope of EU Taxonomy Regulation, we acknowledge the proposals made and have identified that some of our activities are taxonomy-eligible environmentally sustainable activities, predominantly the economic activities associated with our Recycling operations.

Based on our mapping of our activities to the EU Taxonomy-eligible business activities, we have identified turnover, capital expenditure and operating expenditure relating to EU taxonomy-eligible activities. In 2021/22, c. four per cent of turnover, c. two per cent of capital expenditure and c. one per cent of operating expenditure related to taxonomy-eligible activities.

As the delegated acts continue to be approved by the European Commission, we expect that more of our economic activities will be classified as environmentally sustainable. Given our position as a leading provider of sustainable packaging solutions, operating a circular business model focused on recycled cardboard and with 100 per cent of our papers either recycled or chain of custody certified, we expect to be well-positioned for the vast majority of our economic activities to be considered environmentally sustainable.

We will monitor the development of this emerging legislation and evolve our disclosure accordingly.

Non-financial information statement

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

Reporting requirements	Some of the relevant policies	Where to read more in this report about our impact, including the principal risks relating to these matters	Page(s)
Environmental matters	• Group Sustainability policy[1]	• Our sustainability approach, strategy, focus and targets • Our sustainability performance • Our differentiators • Risk – sustainability	6 30 10 53
Employees	• Code of Conduct[2] • Speak Up![2] • Group Health and Safety policy[1] • Equal Opportunities and Anti-Discrimination policy[2] • Personal Data Protection policy[1] • Document Retention policy[1] • Confidential Information policy[1] • Conflicts of Interest policy[1]	• What we create for our people • Diversity and Inclusion • To realise the potential of our people – performance • Health, safety and wellbeing • Risk – organisation capability • Gender pay gap reporting • Our Purpose	24 28 24 26 54 29 5
Human rights	• Code of Conduct[2] • Anti-Slavery and Human Trafficking policy[2]	• Sustainable governance • Risk – governance	53 53
Social matters	• Code of Conduct[2] • Gifts and Hospitality policy[2]	• Contributing to our communities	33
Compliance	• Corporate Criminal Offence (Anti-Facilitation of Tax Evasion) policy[1] • Anti-Bribery and Corruption policy[2] • Competition Law Compliance policy[1] • Commercial Agents policy[1] • Conflicts of Interest policy[1]	• Risk – governance	53
Business model		• Our business model	14
Non-financial KPIs		• Employees: accident frequency rate • Sustainability: CO_2 equivalent emissions • Customers: on-time in-full deliveries	25 33 20

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

Our policies

A combination of online and in person training on all the key policies is carried out across the Group and there is also a system of bi-annual certification for senior managers, certifying that they have read and understood the policies, have cascaded down to their direct reports and that they are not aware of any breach of such policies. All employees, contractors and third parties are encouraged to report any circumstances where there is a suspected or actual breach of any of the DS Smith policies, applicable laws, or the high standards as set out in the Code of Conduct, either through their managers, the confidential 'Speak Up!' helpline or directly to the Group General Counsel and Company Secretary. All reported incidences of actual or suspected breach of any of the policies are promptly and thoroughly investigated. The Compliance Committee and the Audit Committee also consider any high-risk areas identified by the Internal Audit function, the legal team or the divisional compliance teams.

Policy	Description
Code of Conduct	DS Smith Plc (DS Smith), its subsidiaries and affiliates (Group) are committed to the highest ethical standards in the way in which we engage with each other, our customers, employees, shareholders, suppliers, contractors and other stakeholders. Our Code of Conduct sets out what these commitments mean and the behaviours which are expected of all our employees, consultants and officers. This includes our expectations on health and safety, business practice, human rights, compliance, prevention of tax evasion, and employee relations among other key areas for the business. Alongside the Code of Conduct we have an Employee Charter drawn up in partnership with the European Works Council which builds on our Code of Conduct and reinforces our standing commitment to comply with applicable legislation and regulatory requirements. We also have other key Group policies outlined below, which serve to further expand upon the provisions in the Code of Conduct.
Community engagement and charitable donations policy	DS Smith has an ambitious, Group-wide community programme which supports our Group Sustainability Strategy 'Now and Next'. Now and Next includes engagement in community programmes at all of our sites (with 50 or more full time employees) each year. We believe that as a responsible and sustainable business, investing in the communities where we operate and can make a positive difference is the right approach. We have developed parts of this policy in line with both the B4SI Framework (global standard in measuring and managing a company's social impact) and DS Smith Anti-Bribery and Corruption policy. This policy outlines the importance of community engagement, the focus of our community programme, allocation of funds, and processes for community engagement and charitable donations.
Conflicts of Interest policy	Conflicts of interest, whether actual, potential or perceived, may impair our ability to act in accordance with our ethical standards and values. It is therefore important for all of us to be aware of, and adhere to, the policies and procedures that we have in place to manage such conflicts. This policy outlines the requirements and processes in respect of conflicts of interest and advises employees of their obligations. It also includes a self-assessment tool to assist in determining whether there may be a conflict.
Confidential Information policy	DS Smith keeps certain types of information confidential for important business reasons, including to comply with legal requirements (such as data protection and competition law), and to maintain a competitive edge. Confidential Information is information that is not generally known or publicly available and is only available to employees or workers as a result of their employment/engagement with DS Smith. It is information that may harm DS Smith if disclosed and, as such, it must be protected. This policy sets out how Confidential Information should be handled and outlines the procedures that safeguard it.
Anti-Bribery and Corruption policy	DS Smith has zero tolerance for any form of bribery or corruption and is committed to complying with all applicable anti-bribery and corruption laws. In addition to ensuring that our employees and contractors are compliant with the Group's Anti-Bribery and Corruption policy, we require that all third parties engaging with any DS Smith entity comply with these policies in order to ensure compliance with applicable anti-bribery and corruption laws and preserve our own and our customers' reputations.
Anti-Slavery and Human Trafficking policy	DS Smith does not tolerate any form of modern slavery both within the Group and within its supply chain. DS Smith respects fundamental human rights and is committed to the principles set out in the United Nations Universal Declaration of Human Rights and this is documented in our Code of Conduct, Employee Charter and Anti-Slavery and Human Trafficking policy. Our progress in the area of modern slavery is set out in our annual Modern Slavery statement. The ultimate responsibility for prevention of modern slavery rests with the Group's leadership with the Board of Directors having overall responsibility for ensuring this policy is implemented across the Group.
Commercial Agents policy	It is important to our ongoing success that DS Smith avoids damage to its reputation due to an act carried out by an agent in our name. The Commercial Agents policy outlines the rules that we expect to be followed across the Group when engaging and monitoring our relationships with agents. This policy also offers guidance to our agents on what is expected of them as an agent of DS Smith. Such guidance is supplemented by additional e-learning compliance training where appropriate. This ensures that agents are properly vetted and monitored.
Competition Law Compliance policy	DS Smith is committed to ensuring that its activities within the European Union (EU) and outside the EU are conducted in compliance with the principles of the EU competition rules as well as all applicable national rules that apply to the Group. This policy provides guidance on competition laws, information exchanges, SWAPS, trade associations and dawn raids. Additional e-learning training is available to support this policy.
Corporate Criminal Offence (Anti-Facilitation of Tax Evasion) policy	DS Smith's Corporate Criminal Offence (CCO) (Anti-Facilitation of Tax Evasion) policy must be communicated to all suppliers and customers and is part of due diligence when considering new acquisitions. Training on this policy takes place virtually and where possible face to face with relevant personnel across the Group encompassing all new acquisitions as well as all new joiners.
Document Retention policy	In the course of carrying out its various business activities, DS Smith collects information from individuals and external organisations and generates a wide range of data and information which is recorded and stored. DS Smith is therefore committed to ensuring that it continues to ensure the accuracy of any data stored and ensuring that data (especially personal data) is only retained for as long as is necessary.

Policy	Description
Equal Opportunities and Anti-Discrimination policy	DS Smith is committed to promoting equal opportunities in employment. Job applicants, employees and contingent workers will receive equal treatment regardless of age, disability, race, religion or belief, sex, sexual orientation, gender reassignment, marriage and civil partnership, pregnancy and maternity or any other characteristic protected by applicable law. For DS Smith it is imperative to provide a respectful work environment and we have a zero tolerance approach to discrimination. All parties are encouraged to raise concerns if they find conduct within DS Smith that is offensive or a violation of this policy, through their line manager, local human resources (HR) or use of the 'Speak Up!' process so the Group can investigate and take appropriate remedial measures to end any conduct that violates this policy. The Group Operations Committee (GOC) has overall responsibility for the effective operation of this policy and for ensuring compliance with anti-discrimination laws. The HR team has responsibility for implementation, management and ensuring compliance. All managers must set an appropriate standard of behaviour, lead by example and promote the Company's policies and standards on this matter.
Gifts and Hospitality policy	We recognise that the act of giving and accepting gifts and hospitality can be part of building normal business relationships. However, our Gifts and Hospitality policy aims to ensure that our employees and contractors never accept gifts or hospitality which could break the law, compromise their judgement, conflict with their duty to DS Smith or our customers, or which could appear to others that their business judgement has been improperly influenced. Equally, our employees and contractors must never offer a gift or hospitality which could have this effect on the recipient. In order to monitor compliance with these principles, each division is required to maintain a gifts and hospitality register in accordance with the policy.
Group Health and Safety policy	Health and safety is the top priority and DS Smith actively strives for the continuous improvement of health and safety in the workplace. We aim to provide a healthy and safe working environment for all our employees and to ensure the safety of our contractors, site visitors, the public and all others affected by our operations. The ultimate responsibility for health and safety rests with the Group Chief Executive, the Board members and the executive management team. This responsibility is cascaded through the organisation via divisional/regional Chief Executive Officers and their leadership teams, enabling us to comply with local health and safety laws and regulations in addition to our own standards and guidelines.
Group Sustainability policy	Our sustainability strategy is supported by policies which align the management of sustainability issues across our organisation. Risks arising from sustainability issues are considered as being among the key risks to the Group's operations. To manage and mitigate such risks we have policies for existing and emerging sustainability issues. Our policies include Conflict Minerals, Carbon and Energy Efficiency, Community Engagement, Global Supplier Standards, Water Stewardship, Zero Waste to Landfill and Sustainable Forest Management and Fibre Sourcing. These policies are periodically reviewed and updated, with action plans communicated to the heads of each business unit. The Board receives regular reports on performance and the Group Chief Executive is responsible for addressing sustainability-related issues. The Health, Safety, Environment and Sustainability Committee meets monthly and the Sustainability Steering Group oversees the process for addressing sustainability-related issues and sets and monitors internal targets and strategies to ensure sustainability-related risks and opportunities are appropriately managed.
Personal Data Protection policy	DS Smith takes the issue of the protection of individuals' personal data very seriously. Compliance with data protection laws is critical to the success of our business. Compliance with statutory data protection is the basis of the relationship with our employees, customers, suppliers and business partners. The management of the relevant DS Smith company is responsible for cascading this policy and each site is responsible for confirming compliance with this policy. The Divisional Heads of Privacy will send an annual confirmation form to check that each site is compliant with these policies.
'Speak Up!' policy	All DS Smith employees, those providing services to DS Smith (contingent workers), shareholders, and Non-Executive Directors are expected to conduct Company business in a legal and ethical manner as detailed in our Code of Conduct. They have a responsibility not only to be aware of the Code of Conduct but to bring to the attention of management any activity which may be in violation of Company policy, local law or does not meet the standards set out in the Code of Conduct. Employees are encouraged in the first instance to report any concerns to their line manager, local HR or employee representative. If not comfortable to do so, then there are three 'Speak Up!' options available, where a report can be made through a dedicated free phone line or a website (both maintained by an independent third party that is under a duty of confidentiality). The phone and website support a majority of languages spoken across DS Smith. Alternatively the Group General Counsel and Company Secretary can be contacted via email or letter. All options are available 24 hours a day seven days a week. All 'Speak Up!' reports are treated in the strictest confidence and are investigated. Findings from the investigations may include corrective actions and lessons to be learned. Twice a year, a summary of reports made and findings from the investigations is shared with the Audit Committee and the EWC Executive. It is DS Smith's policy to build a climate of support if concerns are raised, including suspected breach of our Code of Conduct, and where there is an avenue to report concerns which will be confidentially investigated.

Statement of approval

This Strategic Report, including pages 1 to 65, was approved by the Board of Directors on 20 June 2022 and is signed on its behalf by

Miles Roberts
Group Chief Executive